



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

ECONOMIC REFORM PROGRAMME (ERP)

2022-2024

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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 2022- 2024 drafting process was led by Minister of Finance, Labour and Transfers as the National Coordinator, in coordination with 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 2022 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 2022 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.

Considering the current economic structure of Kosovo and numerous obstacles to economic growth, it is necessary to orient the structural reforms aimed at a functioning market economy and boosting competitiveness, which are also reflected as the main fundamentals in the Government Program 2021- 2025.

On this line, the Government remains committed to supporting economic recovery and improving employment prospects. The overall ERP policy framework is a combination of: (1) economic recovery program which aims to support post-pandemic economic recovery; (2) a rules-based fiscal policy oriented towards stability of public finances and, within the available fiscal space, supporting economic growth through capital investments and increased funding for priority development areas; and (3) 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.

2. IMPLEMENTATION OF POLICY GUIDANCE

[1.A] Provide well-targeted and temporary pandemic-related fiscal support to vulnerable households and businesses; [1.B] Provided the economic recovery is well entrenched, foresee in the 2022 budget and medium-term expenditure framework a gradual return to the 2% deficit ceiling, according to the fiscal rule definition, by 2023. [1.C] With a view to ensuring efficient, fair and sustainable public spending, revise the law on public salaries and prepare a review of the social security system, including war veteran pensions. [1.D] Undertake a review of tax expenditure quantifying the size of the revenue forgone from exemptions and reduced rates.

[1.A] In order to create an equal society and to increase the welfare of the citizens, we have allocated EUR 50 million to vulnerable social groups. This support aims to alleviate the burden that these social strata have had to bear as a result of the pandemic. Some of the measures undertaken – most of them still ongoing – so far with regard to households' support are as in the following:

- A GoK decision in April 2021 increasing social assistance payments by 30% and increasing monthly pensions lower 100 Euros to 100 Euros;

- 1,500 Euro support for families that have lost a family member;
- 170 Euro for unemployed (6 months) and employed new mothers (3 months);
- On top of the regular pension, 100 Euro for one month for pensioners;
- Families on social assistance scheme received double payments for the last two months of 2021;
- Support for household liquidity by subsidizing 10% of consumer loans, up to a maximum of 300 Euros;
- Financial support amounting to 1 million Euros for NGOs/community kitchens which distribute food for poor people and marginalized groups.

The recent increases in social spending targeting those most in need will be entrenched starting from 2022, where a permanent increase of basic, special needs, family, and work invalidity monthly pensions to 100 Euro (previously between 75 and 90 Euro) will ensure that there are no monthly pensions lower than 100 Euro being paid for these vulnerable groups.

Given that the first priority of the government is employment, several measures have been undertaken aiming to directly support job seekers, as in the following:

- **Support for those who lost the job:** aims to support businesses that have reinstated persons who lost their jobs during the pandemic. Support for this measure consist of salary subsidy up to 50% of gross monthly salary for three months, where the subsidy cannot exceed the amount of 170 euros;
- **Employment formalization:** aims to support businesses that have formalized employees, by subsidizing the pension contribution of employees in the amount of 10% of gross monthly salary, up to 12 months, where the subsidy cannot exceed the amount of 100 euros.
- **Women employment support:** aims to support businesses that have employed women, subsidizing up to 50% of the gross monthly salary for three months, where the subsidy cannot exceed the amount of 170 euros. After the end of the 3-month period, the support under this measure will continue for another 9 months, in the form of subsidizing the pension contribution of employees in the amount of 10% of gross monthly salary, where the subsidy cannot exceed the amount of 100 euros.

Support for businesses, which were hardest hit by the pandemic, was provided by subsidizing 50% of their monthly rent for one month, to cover the month (April 2021) during which government restrictive measures were in place and businesses could not operate. Other measures, enacted during the last quarter of 2021, were a 20% investment loan subsidy for producers and manufacturers (up to 400,000 Euro), a 20% investment loan subsidy for women-owned businesses (up to 400,000 Euro), a 10% liquidity loan subsidy (up to 30,000 Euro), and direct subsidies for exporters for capacity building, professional certifications, and marketing.

[1.B] In the 2022 Budget Law, a gradual return to the fiscal rule is projected over the medium-term. More specifically, the budget deficit is expected to reach 3% of GDP in 2022, and to remain within the 2% fiscal rule in the subsequent two years.

[1.C] The Draft Law on Wages is currently being drafted by the working group appointed by the government. The working group is led by legal officials of the Ministry of Interior Affairs.

According to the legislative program of the Government of Republic of Kosovo, the deadline for approval of this draft law by the Government is in March 2022.

In the beginning of 2021, Ministry of Finance, Labour and Transfer received technical assistance from IMF's Fiscal Affairs Department on assessing the performance of the pension system. The focus of the assistance was on long-term pension policies and the compatibility of existing and planned schemes with Kosovo's macroeconomic, demographic, labour market and administrative constraints. The primary objective of the assistance was to inform the establishment of the country's overarching social policy framework and the ongoing pension modelling effort of the World Bank. A notable exception from the assessment is the system of war-related benefits which offer benefits that are typically above standard social benefits payable in cases of similar risk events and conditioned on more relaxed eligibility criteria.

[1.D] The Ministry of Finance, Labour, and Transfers has conducted an initial assessment of foregone revenue from the 2019 Corporate Income Tax exemption of up to 30% and 20% to sponsor sports and arts associations respectively. The law entered into force in the latter half of 2019, and GoK restrictions on sports and arts events in 2020, so a low utilization rate was observed (1% in 2019 and 3% of total CIT revenue in 2020). Due to unexpected economic activity and overall revenue performance, the results of the assessment were not fed into the 2022-2024 macro fiscal framework, but it can easily be updated once the 2021 tax filing period is final and post-COVID-19 effects have subsided, and will be incorporated into the upcoming round of projections. Once the pandemic effects subside and the MFLT is able to return its focus from managing economic recovery, MFLT will continuously conduct assessments of other existing tax expenditures.

[2.A] Improve the execution of capital spending by implementing the administrative instructions on the planning, selection, execution and monitoring of capital projects and advancing multi-annual project planning. [2.B] To reduce the risk of contingent liabilities, improve the financial oversight and accountability of publicly owned enterprises, including their regular quarterly reporting. [2.C] Take next steps towards establishing an independent body for fiscal oversight, based on the recommendations of an options paper.

[2.A] The Administrative Instruction on Selection Criteria of Capital projects is in force and is implemented for the second year in row now. Most of the capital projects included in the budget are multiyear projects. Furthermore, at the beginning of next year, the module of cash management will be effective as a result of the reform undertaken with the support of the World Bank. In addition, a Memorandum of Understanding has been signed between Treasury/MoFLT and Public Procurement Regulatory Commission of Kosovo (PPRC) with regard to the implementation of interface between two systems (KFMIS and e-procurement) to make sure that funds are reserved (committed) to ensure budget allocation for implementation of the contracts.

[2.B] Ministry of Economy has already proposed a draft-law for POEs to be incorporated in the Legislative Plan for 2022. The need for changing this new law has occurred due to some caveats which prevented full enforcement of the current law even after its amendments. One of the main arguments in favour of the draft law is that the old law contains ambiguity on the procedures for regulating POEs. The draft law intends to clearly address the issue of financial reporting according to international principles.

The Unit for Policies and POE Monitoring, since 2020, has been reporting on quarterly basis at the Treasury Department in the Ministry of Finance, Labour and Transfers with regard to the POE

debt data. In addition, quarterly financial reports, according to a previously agreed template, are shared with the Division of Macroeconomic Policies at the MFLT, enabling them to conduct the POE-related fiscal risk analysis. These quarterly financial reports are being published on the website of the MFLT¹, as stipulated by the EU Macro Financial Assistance.

[2.C] During the last quarter of 2020 and the first quarter of 2021, MFLT received technical assistance from IMF's FAD with regard to assessing options to develop independent fiscal oversight in light of Kosovo's legal and institutional frameworks and available capacity. The attached options paper is the initial step for the decision and implementation of an independent fiscal institution. The paper lists actions to be taken under the identified options.

[3.A] Maintain a strong financial sector regulatory framework in line with international best and EU practices, ensure sound credit risk management, a transparent display of asset quality, adequate provisioning, and develop a more integrated framework for measuring household indebtedness. [3.B] Further reduce the remaining institutional and legal obstacles to swift and effective NPL resolution. [3.C] Ensure the central bank's effective functioning by undertaking an in-depth analysis of the staffing requirements in its key policy areas, especially financial stability and financial sector supervision and filling the vacant positions in the board needed to restore its quorum.

[3.A] During the amendment of existing regulations as well as when new regulations are to be introduced, the benchmark used by CBK refers to EU Directives and Basel Framework.

- i. The Regulation on Capital Adequacy of Banks is based on Basel Framework as follows:
 - Definition of capital according to Basel III
 - Credit Risk weights – Basel II Standardized Approach
 - Market Risk according to Basel II Standardized Approach
 - Operational Risk according to Basel II Standardized Approach
- ii. Regulation on Leverage ratio is based on the Basel III document
- iii. From January 2020 CBK is in line with IFRS 9 Standard
- iv. Currently, CBK has have finalized drafts on Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) based on EU Directives
- v. CBK is in process of amendment of the Regulation on Liquidity Risk Management according to Basel Framework Furthermore, new draft Law on Banks has been finalized and proceeded to the CBK decision-making bodies for the further approval. The new Draft Law on Banks includes the Recovery and Resolution Framework that is harmonised with the Directive 2014/59/EU.

CBK is in the process of drafting the final report on over-indebtedness of household borrowers. The study uses data from the Credit Registry as well as from financial institutions. Nine banks and nine micro-finance institutions have provided the data as requested, and the study is expected to be published shortly.

¹ <https://mf.rks-gov.net/page.aspx?id=1,187>

[3.B] The banking sector in the Kosovo continues to be stable even during the Covid-19 pandemic period. Banks have established a good credit risk management system, creating adequate credit risk oversight mechanisms, especially with increased attention during the Covid-19 pandemic situation. On a continuous basis, banks monitored closely the performance of borrowers and based on the CBK Guide to loan restructuring due to Covid-19, applied loan restructuring to borrowers who had problems in their businesses due to the Covid-19 pandemic situation.

Regarding the transparency in presenting the quality of assets, banks on a regular basis are reporting the financial statements to the CBK, presenting the quality of assets, as well. The quality of the assets is assessed also during the examinations of the banks, which confirmed what banks reported in their financial reports submitted to the CBK. The quality of assets is reported in accordance with IFRS 9, and is divided into three pillars according to the model for Expected Credit Losses (ECL). Regarding the adequacy of provisions, banks report also on a regular basis the financial statements to the CBK, which includes the provision of loans. The provision is being applied in accordance with the requirements of IFRS 9, where banks, based on the forecasted credit loss models, apply provisions and classifications within one of the three IFRS 9 stages. During the examinations, it is assessed that banks have sufficient reserves according to their IFRS 9 models.

[3.C] The role and function of Financial Stability Department has extended with the adoption of Macro prudential policy framework in 2016 by Central Bank of the Republic of Kosovo, since the main responsibility for the department is systemic risk monitoring. This has pressed the need for deepening the skills of the current employees and extending the team to cover the breadth and depth of the matter.

Banking Supervision Department's (BSD) staff is categorized into three levels, namely, senior examiners, examiners, and junior examiners – all equipped with economic background. However, anticipating the developments in the banking industry, more specifically those related to the IFRS 9 models and based on the internal analysis on staff requirements, the CBK is at the final stage of announcing vacancies for new BSD staff with various background, such as mathematics, financial mathematics, and data engineering.

On the 22nd November 2021, the Assembly of Kosovo elected two non-executive members of the Board of the CBK. These two non-executive members elected by the Assembly of Kosovo are awaiting a decree by the President of the Republic of Kosovo, as required by the Law on the CBK. In the next sessions of the Assembly, voting is expected for another non-executive member of the CBK.

[4.A] Adopt a coherent long-term energy and climate strategy for lowering carbon emissions, including plans for a phase-out of coal and fossil fuels subsidies as committed under the Sofia Declaration. [4.B] In line with the commitments of the Green Agenda for the Western Balkans: increase energy efficiency incentives for the private sector and households and [4.C] Improve the support schemes for renewable energy projects with the introduction of competitive bidding/auctions; [4.D] Adopt an action plan for the gradual adjustment of energy tariffs reflecting actual costs and providing mitigation measures for vulnerable consumers.

[4.A] The working group responsible for drafting long term *Energy Strategy* is focused on identifying requirements for implementation of the Green Agenda for the Western Balkans. A comprehensive workshop as well as private sector and CSOs consultations were held,

The inter-institutional working group, in charge for drafting the Energy Strategy 2022-2031 was established on 18th of October 2021, and has established the following sub-working groups:

- Sub-working group for Generation and Flexibility;
- Sub-working group for RES and EE;
- Sub-working group for Regulatory and International Cooperation.

The Sub-working Group for Generation and Flexibility is working on designing the scenarios based on decarbonisation, security of supply, affordability and diversification criteria.

Moreover, the Energy and Climate Plan is being drafted through the GIZ support. The results of the analysis of the process of drafting the Energy Strategy will serve to determine the policies and measures of the dimensions for the Energy and Climate Plan.

[4.B] Administrative Instruction on Energy Services (ESCO) for the private and household sector was approved in December 2021. Furthermore, with regard to energy efficiency incentives for the private sector and households and renewable energy, the drafting of the energy efficiency incentives for both sectors, is at the initial phase with the support from the MCC project. In addition to this, the Kosovo Energy Efficiency Agency is supported through the REEPLUS Project in drafting the Terms of References of the project for the capacity building at the local and central levels for energy efficiency data submission. GIZ is also supporting stakeholders in developing options for financial mechanisms that increase implementation rates of EE and RE measures in the residential sector / private sector

[4.C] To address the new support scheme for renewable energy, Ministry of Economy established a working group to draft the new support scheme for RES based on the competitive process - bidding/ auctions. The initial concept document is developed with the support of EBRD. In this regard, WB also has shown interest to provide further support. As a result, the scheme will be developed in parallel with the draft law on RES during the upcoming year.

[4.D] The Energy Regulatory Office (ERO), in line with its legal responsibilities, continuously tackles the issue of fairly reflecting the cost for all consumer categories. For this purpose, ERO has presented studies that deal with the trend of retail prices, including the impact from gradual de-regulation of consumers. The ERO is in the process of extraordinary review of tariffs for activities in the electricity sector, due to unprecedented price increases in European electricity markets, which were influenced by gas demand in Asia and due to economic recovery following initial COVID-19 restrictions. To cover the additional increased costs of the system and to fairly reflect costs on consumer categories, the ERO has proposed changes in the tariff structure and in retail electricity tariffs for consumers with the right to Universal Service Supply, starting from February 2022. It has been proposed that additional costs of the system shall be covered through progressive block tariff for households consuming more than 600 KWh. While the proposed tariffs for businesses and households consuming under 600KWh will remain the same. According to the ERO's proposal, the cross-subsidy of regulated- tariff consumer categories will be eliminated, where each category of consumers will pay their reflective costs to the system. Although, the process of tariff review has been initiated by ERO including the above mentioned proposals, it should be noted that any potential changes in the actual tariffs will be decided by the ERO only after the public consultation process, which may result in a different outcome.

Vulnerable consumers are currently supported by a direct payment scheme by the Government of the Republic of Kosovo, which is worth 4.5 million euros per year.

[5.A] Update the action plan of the 2019–2023 National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes, and ensure its implementation. [5.B] Implement incentive measures with an aim to formalise informal employment and businesses; and [5.C] address tax evasion in identified high risk sectors in line with the strategy and the action plan. [5.D] With an aim to prevent evasion of property income tax, improve transparency by publishing all sales prices of real estate property.

[5.A] The new Action Plan of the National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes (2019- 2023) is being drafted by the Secretariat of this Strategy with the assistance of an external expert contracted by the LuxDev project. This action plan foresees numerous activities which address the Strategy’s main objectives.

[5.B] To reduce costs and administrative burden for smaller companies with limited access to legal expertise, the MFLT has drafted and published 3 types of work contract templates (long term, short, term, and specific duty), which can be used or adapted by a wide range of employers, with the aim of increasing employee registration². The Tax Administration is currently undertaking a broad campaign aimed at increasing employee registration, among others, by enabling an online form where employees can check whether they are listed in their employer’s payroll³. Further, the Action Plan foresees several core activities aiming to tackle this issue, such as:

- Conducting information campaigns for the broader public regarding the benefits and consequences of informal employment and informing employers about the consequences of informal employment. Statistics will also be presented in these campaigns to highlight the risk of identifying employers having informal employees;
- Organizing joint activities with social partners, with the aim of addressing informal employment; and
- Drafting of a Manual/Operating procedures for the work inspection.

[5.C] Activities in the National Strategy and Action Plan that address that address tax evasion in identified high-risk sectors in line with the strategy and the action plan are:

- Creation of joint Kosovo Customs and TAK groups with the purpose of controlling goods categorized by high risk of tax evasion.
- Increasing the number of visits and audits carried out by TAK, based on risk assessment in combating informal economy and tax evasion.

[5.D] In order to prevent evasion of property income tax, improve transparency by publishing all sales prices of real estate property, a memorandum of cooperation will be established between the Ministry of Justice and TAK or MFLT to provide data exchange from notaries on transactions in real estates, which would contribute in preventing evasion of property income tax.

[6.A] Thoroughly apply existing quality assurance mechanisms at all levels of education through increased school inspections and effectiveness of quality coordinators, as well as

² <https://mf.rks-gov.net/Page.aspx?id=1%2C190>

³ <https://apps.atk-ks.org/regemployer>

monitoring of study programmes by the Accreditation Agency. [6.B] Develop a system to monitor and forecast the skills needs in the labour market to facilitate the alignment of the education and training systems and of reskilling and upskilling provision to labour market needs. [6.C] Establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan.

[6.A] The Education Inspectorate has started the process of improving the performance of school directors and deputy directors. In March 2021, 49 school directors and 3 deputy directors have been trained. Due to the Covid-19, there are several postponed processes such as: school performance process; teachers' performance evaluation, constrained as a result of physical presence in schools;

The Education Inspectorate is prepared to continue with these processes, as soon as the situation with the pandemic allows. Further, currently the Education Inspectorate is in the process of hiring new staff, which will work as education inspectors.

All schools in Kosovo have quality control coordinators. Roughly, 300 schools' coordinators are trained during the past years, as well as a quality coordinator at the municipality departments' level. After drafting the new Administrative Guidance on this matter, there will be trainings for newly appointed quality control coordinators.

The Kosovo Accreditation Agency has already finalized the Administrative Guidance (AG) for quality monitoring. This AG is currently in the public discussion stage, where feedback will be received from all stakeholders in higher education. After receiving the feedback, the questionnaires will be finalized and approved by the Civil Servant Commission. With the approval of this AG, it will be possible to start the monitoring procedures of all higher education institutions. With the current dynamics, we expect the guidelines to be approved in Q1 or Q2 of 2022. Monitoring of higher education institutions is expected to begin in September 2022.

[6.B] LuxDev projects in Kosovo are promoting education in general and developing skills for the adults. Direct beneficiary entity of these projects is the Ministry of Education, which through the Agency for Vocational Education and Training implement the projects. EdGuard Institute for Education Studies is responsible for implementing the project for training and education of the adult people, while Global CT will be in charge of technical implementation. Currently, this company is drafting questionnaires which aim to capture information regarding the labour market needs. Questionnaire's findings will be incorporated into the Information System of Managing Employment (SIMP).

[6.C] In October 2020, the European Commission (EC) announced a comprehensive Economic and Investment Plan for the Western Balkans (EIP), with a focus on long-term economic recovery, a green and digital transition, regional integration, and convergence with the European Union. The EIP introduced Flagship initiative #10, suggesting that WB-6 governments should establish a youth guarantee in line with the EU Youth Guarantee.

On 8 July 2021, at the second EU-Western Balkans Ministerial Meeting on Employment and Social Affairs, the Minister of Finance, Labour, and Transfers endorsed a Declaration on ensuring sustainable labour market integration of young people. The Declaration recognizes the disproportionate impact of the ongoing crisis on young people and spells out the commitment to gradually implement and enhance youth guarantee schemes in the region, taking inspiration from the EU Council Recommendation of 30 October 2020 on A Bridge to Jobs – Reinforcing the Youth

Guarantee. In July 2021, the EC/ILO Technical Assistance Facility (TAF) on the youth guarantee in the WB-6 was launched, offering participating economies, including Kosovo, technical assistance in the preparation of the Youth Guarantee Implementation Plan. Training Foundation (ETF) also joined TAF.

Following the guidelines on YG prepared by EC/ILO, on 13th October 2021 the Government issued the decision on establishing the inter-ministerial group (at political level) on youth guarantee. On 29th October 2021, the Minister of Finance, Labour and Transfers also issued the decision on establishing the YG inter-ministerial technical team (hereafter, the YGTT) led by the YG Coordinator. On 14th October, the YG Coordinator attended the launch meeting for Stage 1 – drafting of Youth Guarantee Implementation Plans in Western Balkans.

The Youth Guarantee Working Group (YGTT) is drafting the Youth Guarantee Implementation Plan (YGIP), and system delivery is in process. The process is being supported by the ILO and ETF. By March/April of 2022, the draft YGIP will be shared with EC/ILO/ETF for technical feedback. By August 2022, the YGIP will be finalized and submitted. As part of this process, preparation of the statistical profile of young NEETs in Kosovo based on available data produced by the Agency of Statistics has already been initiated. Also, the review of youth employment policies is in pipeline.

3. MACROECONOMIC FRAMEWORK

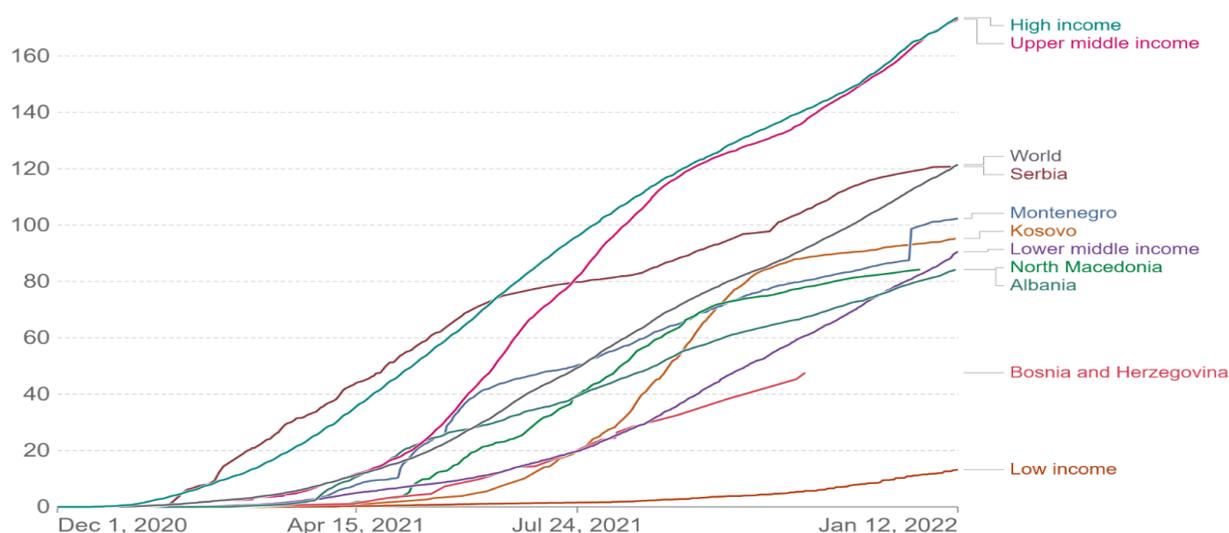
3.1. External Economic Environment

The recovery of the global economy is ongoing, albeit with major differences between countries and regions. These divergences are explained by fiscal sustainability, the level of government spending in support of the private sector and marginalized groups; and the number of new cases with Covid-19 infection. In almost all countries, public debt has increased significantly beyond the level of the Financial Crisis 2007-2009. However, the world economy in the first half of 2021 performed better than expected.

Vaccines against the COVID-19 virus have been proven to be successful in fighting the pandemic, but their distribution across countries worldwide is profoundly unequal. Developed countries, mainly, were the first to vaccinate a significant portion of the population. As of early January 2022, an average of about 122 vaccines per 100 people were administered worldwide⁴. The leading countries in the number of vaccinated persons were the United Arab Emirates with about 228 doses per 100 inhabitants, then Uruguay and Israel, with about 200 and 185 doses, respectively.

⁴ Number of people vaccinated per 100 inhabitants can be found at: <https://ourworldindata.org/grapher/covid-vaccinationdosesper-capita>

Figure 1. Number of doses administered per 100 inhabitants, by neighbouring and income countries (IC)



Source: Our World in Data

Recent data show that Kosovo is very close to the lower middle-income countries average. Although Kosovo started vaccination relatively later than other Balkan countries, it has picked up the pace quickly. According to Covid-19 data on ‘OurWorldInData.org’, as of January 25, 2022, Kosovo ranks highest in the region with 53% of people vaccinated (fully and partly), followed closely by Serbia (48%), and Montenegro (46%)⁵.

Despite the increase in the vaccination rate, the Delta version has again caused uncertainty in the market, forcing various countries to re-introduce partial lockdown measures. These measures slowed the recovery trend. Chances for new versions of the virus to emerge in the coming months make it difficult to predict the end of the pandemic and how it will impact recovery compared to pre-crisis levels. Assistance in vaccinating the population for poor countries is believed to be necessary in ending the pandemic. So far, these countries are far from the world average, and rapid intervention is needed to increase vaccination intensity. Thus, the recovery of the world economy towards the pre-pandemic level is difficult to predict in circumstances of risks stemming from the emergence of new virus variants and high uncertainties in the market.

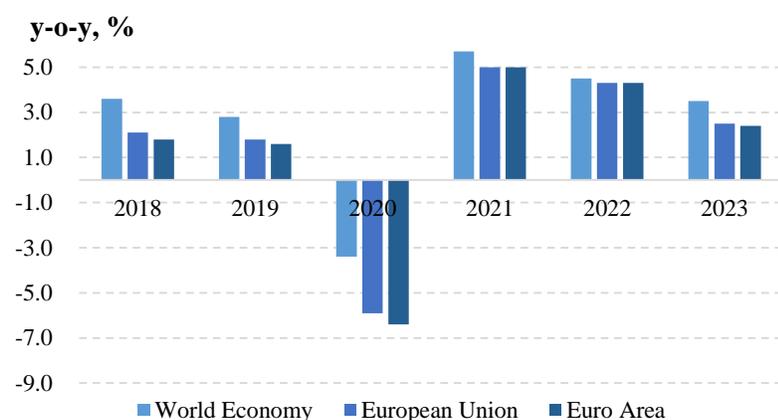
In the first two quarters of 2021, the economy performed better than forecasted by international financial institutions. Almost all countries experienced an increase in economic activity, driven by increased demand due to the reopening of businesses and fiscal stimulus packages - especially in developed countries. The IMF released its GDP growth forecast for April and revised it again in July and October. Recent forecasts suggest world economy growth of 5.9% in 2021, and 4.9% in 2022⁶. The updated forecast, which pushed GDP growth rate down by 0.1 p.p, came as a result of supply-side disruptions - mainly in developed countries, vaccine distribution, and government support for sectors affected by the health crisis. Developed countries are expected to grow by 5.2% in 2021, and 4.5% next year. Relatively similar growth is expected in the Eurozone countries, where a significant number of Kosovar emigrants live. On the other hand, developing European

⁵ <https://ourworldindata.org/covid-vaccinations>

⁶ World Economic Outlook publication: <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

countries are expected to grow 6% this year and 3.6% in 2022. These forecasts were higher than the July and April estimates, by 1.1 and 1.6 pp, respectively.

Figure 2. GDP Growth Outlook - European Commission⁷



European Commission Autumn Forecast, presented in Figure 2, suggests similar projections to those of the IMF. European Union and Euro Area are expected to grow approximately with similar rate over the next two years. Further, projected economic growth of the world economy is set at 5.7% for 2021, and 4.5% and 3.5% for the next two coming years, which is slightly lower than

the IMF forecasts.

The energy crisis facing much of Europe remains a serious threat to the positive trend of economic growth. Mitigating the effects of this crisis remains a major challenge for the governments of the affected countries. There are several causes for this threat⁸. First, Europe's largest gas extraction field, Groningen in the Netherlands, has begun to deplete slowly. This depletion has caused minor earthquakes in the surrounding area, damaging homes and businesses. As a result, the largest European supplier has reduced production. Second, China and other Asian countries are moving away from coal, thus using natural gas as a substitute or transitory energy source. It is estimated that every year about 15 million homes in China are connected to the gas network. This equates to the gas demand of the Netherlands and Belgium combined. Apart from China, other Asian countries are also pursuing such strategies. Finally, the Russian state-owned monopoly company Gazprom is pursuing state policies, increasing the state's influence on the European continent. The exponential increase in the price of gas has raised production costs. Although the energy crisis does not directly affect the Kosovo market, indirect impacts through import prices can be felt in our country.

Inflation remains one of the main threats to a speedy recovery. Finally, the IMF has revised upwards its inflation forecast for 2021, going to 2.9% for developed countries and 4.9% for developing countries. The IMF has also warned central banks worldwide to be very careful with their policies and to closely monitor price increases. According to them, inflation stabilization is expected to take place around mid-2022. Economists, on the other side, warn that even if the prices rises are seeing to be transitory, they risk becoming permanent⁹. They argue that main central banks are still largely locked into measures imposed in March 2020, when the panic and uncertainties were at the peak. Market is experiencing a supply, not demand shock. Looking more closely, one could notice that durable goods is the category with the highest inflation. This is explained, perhaps, by the post-lockdown surge in demand for such goods.

⁷European Commission Autumn Forecast; can be found in: https://ec.europa.eu/info/sites/default/files/economy-finance/ip160_en_0.pdf

⁸ Energy crisis analysis; can be found in: <https://www.ft.com/content/72d0ec90-29e3-4e95-9280-6a4ad6b481a3>

⁹ Inflation analysis; can be found in: <https://www.ft.com/content/dc3bedc7-5694-4868-8b86-f9a215966f52>

Table 1. Prices in international markets

	2019 Avg	2020				2021		
		Q1	Q2	Q3	Q4	Q1	Q2	Q3
Price index of all basic goods IMF prices of basic goods) ¹⁰	117.6	108.1	91.7	106.7	117.1	139.7	154.1	167.5
Price index of IMF Food and beverage, commodity prices)	98.2	100.2	95.5	97.9	106.1	117.2	130.1	129.7
Crude oil price, Brent (BB Pink Sheet) ¹¹	64	50.5	31.4	42.7	44.5	60.6	68.6	73.0
Nickel, \$ per metric ton (BB Pink Sheet)	13,914	12,690	12,237	14,266	15,957	17,618	17,359	19,112

Table 1 reflects the increasing trend of prices for all products, which is reflected in each category. Oil prices in the last quarter of 2021, compared to the same period of the previous year, are projected to increase by over 50%, while prices of other products are expected to increase by an average of 16%. The prices of other commodities are also expected to increase during this year.

3.2. Recent Economic Developments in Kosovo and Outlook for 2021

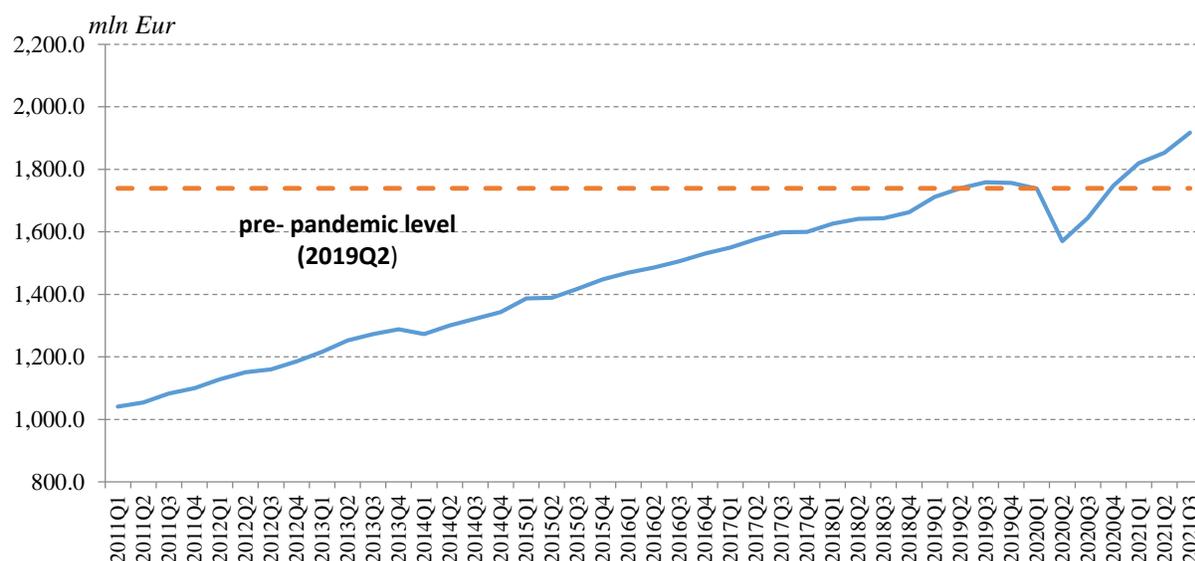
3.2.1 Real Sector

According to the latest KAS publication regarding national accounts, **Gross Domestic Product for the first quarter of 2021 marked a real annual growth of 4.12% to be followed by a double-digit growth in the next two quarters (Q2 and Q3) at around 16.77% and 14.53%, respectively.** As a result, real GDP grew on average 12.1% in annual terms during January- September period, following a sharp contraction by 5.3% in 2020. This increase is in line with our expectations for a significant economic recovery after the easing of restrictive measures taken in the context of the Covid-19 pandemic and reflects not only the basic effect of the significant decline in the second and third quarter of last year, but also the intensity of factors that fuelled growth during this period. However, the magnitude of economic growth has been higher than the initial expectations of the MFLT.

¹⁰ IMF commodity prices portal: <https://www.imf.org/en/Research/commodity-prices>

¹¹ World Bank commodity prices portal: <https://www.worldbank.org/en/research/commodity-markets>

Figure 3. GDP with prices of previous year - seasonally adjusted



In terms of aggregate demand, economic growth reflected the expansion of all its components by expenditure approach, especially of private consumption and export of services.

According to KAS preliminary data on national accounts, **total consumption** marked an average increase of 7.5% in real terms (private by about 6.9% and public by 11.0%). Such increase in private consumption was supported by the increase in import of consumer goods by 30.5% (y-o-y); the increase in new loans for consumer purposes by 69.8% (y-o-y); the increase in remittances by 18.0%; and the increase in VAT collection by 35.8% and government support through providing lifelines for households and firms, wage bonuses for essential workers, employment support, and child and maternity allowances for vulnerable households. In addition, **total investments** (private and public) during the first three quarters of 2021 **recovered considerably**, marking a real growth of 15.5% on average, mainly as a result of increased private investment. The **trade deficit** in real terms narrowed by only about 0.5% compared to the January-September of the previous year, as the significant increase in import of goods and services almost fully offset the increase in exports, especially those of services.

Table 2. Leading and Coincidence Indicators for Aggregate Demand Components

Indicator	Proxy Variable	Indicator Type	2019 (Avg.)	2020 (Avg.)	2021 (Avg.)
Remittance Inflows	Private Consumption	Leading	7.9%	15.4%	18.1%
Turnover (TAK)	Private Consumption and Investment	Coincidence	6.6%	-6.8%	33.2%
VAT Collection	Total Consumption	Leading	5.8%	-8.9%	34.80%
New consumer loans	Private Consumption	Leading	-4.1%	-4.0%	138.30%
Import of consumer goods	Private Consumption	Leading	5.6%	-2.9%	29.80%
Government Consumption	-	Coincidence	8.2%	5.3%	3.70%

Government Investment	-	<i>Coincidence</i>	0.2%	-28.5%	10.70%
Total Import of goods (CBK & Customs)		<i>Coincidence</i>	3.8%	-5.7%	42.70%
Total Export of goods (CBK & Customs)		<i>Coincidence</i>	4.4%	20.8%	62.30%
Imports of Services	-	<i>Coincidence</i>	6.1%	-19.5%	44.9%
Exports of Services	-	<i>Coincidence</i>	7.3%	-40.6%	106.8%
Imports of Capital Goods	<i>Investment</i>	<i>Leading</i>	3.7%	0.04%	33.70%
New investment loans	<i>Private Investment</i>	<i>Leading</i>	0.9%	13.4%	-6.60%
Foreign Direct Investment	<i>Private Investment</i>	<i>Coincidence</i>	-6.4%	35.8%	57.9%
Energy Consumption		<i>Coincidence</i>	11.8%	2.2%	20.2%

In sectorial terms, economic growth during the first three quarters of 2021 reflected the simultaneous expansion of almost all activities, especially trade (wholesale and retail), manufacturing transport, and construction.

According to MFLT estimates, **Kosovo's economy is expected to grow by about 9.7% in real terms and 12.2% in nominal terms during 2021, marking the largest historical growth.** The annual increase of 16.8% and 14.5% in the second and third quarter of 2021, respectively, confirms that the economy of Kosovo has almost completely recovered losses caused by the pandemic in economic activity.

Indirect data analysis (Table 2) suggests that real GDP in the fourth quarter of 2021 will also register accelerated growth rate, albeit slower than that in the previous two quarters, mainly because of the baseline effect and the re-imposition of restrictive measures at the end of August, which partly continued in the remaining of the year.

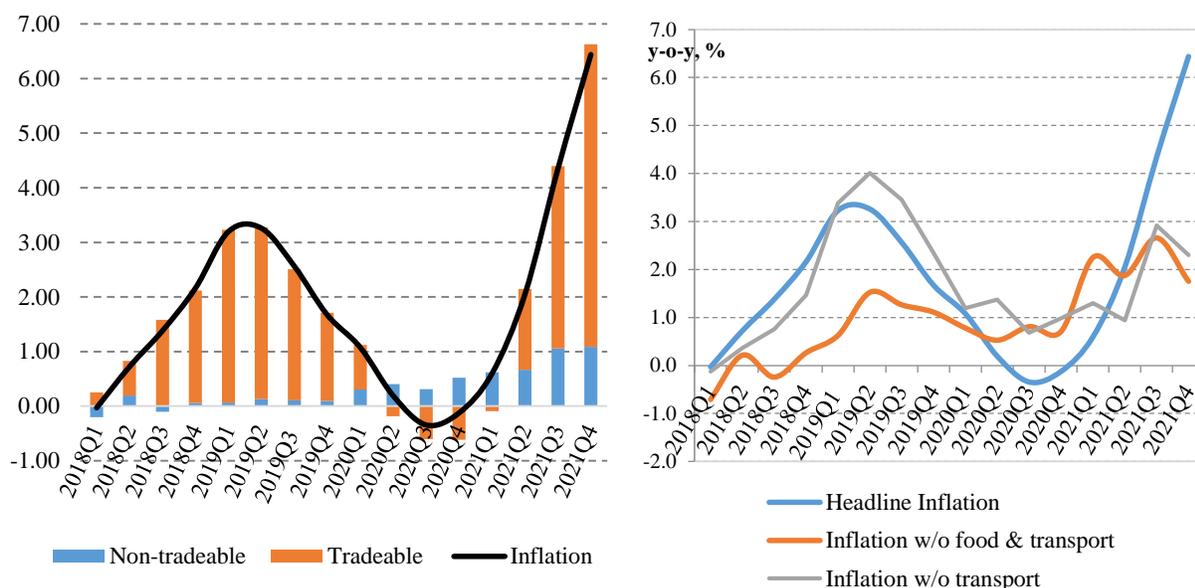
Real economic growth of 9.7% in 2021 represents an upward revision by about 3.4 percentage points compared to the previous round of projections realized in June 2021 (in the framework of Budget Revision 2021), mainly as a result of the upward revision of the private consumption contribution (from 1.3 p.p to 5.3 p.p) supported by the strong growth of bank lending and remittances, and sizeable government support; and also as a result of the upward revision of the exports of goods and services contribution (from 9.8 p.p to 15.6 p.p) supported by a faster rebound of diaspora visits than initially expected.

Consumer Price Inflation has increased on average by 3.4% in during 2021, with a strong upward trend, mostly due to the increase in the prices of “food” category with a contribution of 0.9 percentage points; the price of the “transport” category with a contribution of 1.2 p.p; and prices of “communication” with a contribution of 0.6 p.p; while the inflation of other categories of the consumers’ basket did not undergo significant changes.

An inflation rate of 3.4% in 2021, is significantly higher than the level recorded in 2020 (0.2%). Temporary supply and demand imbalances in international markets have brought additional shocks to inflation, beyond those naturally dictated by economic recovery, globally and in the domestic economy.

The core inflation¹² in 2021, measured excluding the categories "food and non-alcoholic beverages" and "transport", marked an average annual increase of 2.1% during January- December 2021, whereas when excluding only the "transport" category, core inflation is estimated at around 1.9%. Both core inflation measures are lower than the headline inflation (on average 3.4%), the latter being fuelled by the considerable increase in commodities prices, especially from the second quarter of year 2021 onwards. Also, during 2021, the contribution of the non-tradable component has increased compared to the previous year, fluctuating at around 0.9 percentage points, which is mostly due to the increase of prices of the telephone and telefax services ((Figure 4 and 5).

Figure 4. Contribution of tradable and non-tradable inflation **Figure 5. Headline Inflation vs. Core Inflation**



Information Box 1. Differences between actuals and projections, 2019 and 2020

2020 actuals vs. 2020 projections

Decline in real GDP growth rate in 2020, based on the latest publication of the KAS, resulted to be lower than our projections presented in the previous submission of the ERP (for year 2020). According to KAS, the decline in real GDP growth rate for year 2020 is – 5.3% while it was projected to fluctuate around -6.7%. Whereas the actual nominal GDP decline rate resulted to be -4.0%, which is slightly lower than the projected decline, at around -6.2%.

The difference between actuals and projected values of GDP in 2020 are mostly due to lower expectations for consumption and investments. Due to increased remittances inflows, government social transfers and the withdrawal of the 10% of KPST savings, private consumption resulted to be higher than expected. Decline in total investment resulted to be lower than expected due to surprisingly good performance of private investment, which overcompensated the low implementation of public investment. As expected, export of goods performed satisfactorily, while export of services performed much more poorly than anticipated.

¹² The core inflation measures the change in prices of consumer basket products, excluding temporary and transitional volatility, which mainly characterizes the food or energy category.

The inflation projection for 2020 turned out to be accurate, as the actual annual inflation resulted to be at 0.2%.

2021 previous projections vs. 2021 updated projections

For year 2021, forecasted real GDP growth rate is revised upwards to 9.7%, which is around 4.5 p.p higher than the previous projected rate in the previous submission of ERP. This significant upward revision was primarily because of the situation brought up by the COVID-19 pandemic. In the previous round of projections, which was realized in the fourth quarter of 2020, there was high uncertainty on the level of the recovery, namely on the visits of diaspora, potential restrictive measures, and the progress on vaccine rollout.

Private consumption is expected to have an annual increase of 6.3%, which is significantly different from the value in the previous ERP, which foresaw a growth of 1.4%. Total investment is expected to increase at a lower rate when compared to the previous projection, due to lower than initially expected public investment execution. However, exports of goods have been revised upwards, as a result of a significantly better performance shown during Jan-Oct 2021 period. Similarly, exports of services are expected to increase significantly (83.9%), given that diaspora visits this year were unexpectedly high. Import of goods and services, on the other hand, are expected to increase as well, but at a lower rate than exports of services (46.9%). In the previous ERP, they were projected to increase by 12.2%, while export of services was projected to increase by 20.0%.

Inflation in 2021 (on average 3.4%) is higher than the inflation forecasted in the previous round of projections (on average 2.0%). The difference is mainly due to the recent and much higher than expected increase in international prices (especially of food and fuel), and the base effect.

Main differences between actuals and projections for year 2020 and main differences between previous and actual round of projections for year 2021

Macroeconomic Indicators, <i>annual growth rates in real terms in %, unless otherwise stated</i>	2020 projections	2020 actual	2021 previous projection	2021 updated projection
Real GDP	-6.7	-5.3	5.2	9.7
Nominal GDP	-6.2	-4.0	7.1	12.2
Consumer Price Index	0.2	0.2	2.0	3.1
Private Consumption	-0.4	2.5	1.4	6.3
Public Consumption	1.3	2.1	1.5	0.6
Total Investment	-19.2	-7.1	16.0	10.5
Total Exports	-16.8	-29.1	14.5	72.0
Export of Goods	21.3	21.7	-1.2	47.2
Export of Services	-25.8	-41.0	20.0	83.9
Total Imports	-7.2	-6.1	7.2	27.6
Import of Goods	-3.8	-3.7	6.3	23.8
Import of Services	-21.7	-16.2	12.2	46.9

3.2.2 Main labour market indicators

Labour force participation improved by 0.7 p.p, reaching 39.5%. Whereas the unemployment rate increased by 0.8 p.p. in annual terms reaching 25.8%. It should be noted that general elections were held in February 2021, which might have contributed to a temporary improvement of labor market indicators.

The sectors with the highest employment continue to be: trade with a share of 16.8% to total employment; manufacturing by 12.4%, education by 11.1% and construction by 9.4%. Male employment was higher in the sectors of trade, construction, and manufacturing, while female employment was higher in education, trade and healthcare sectors.

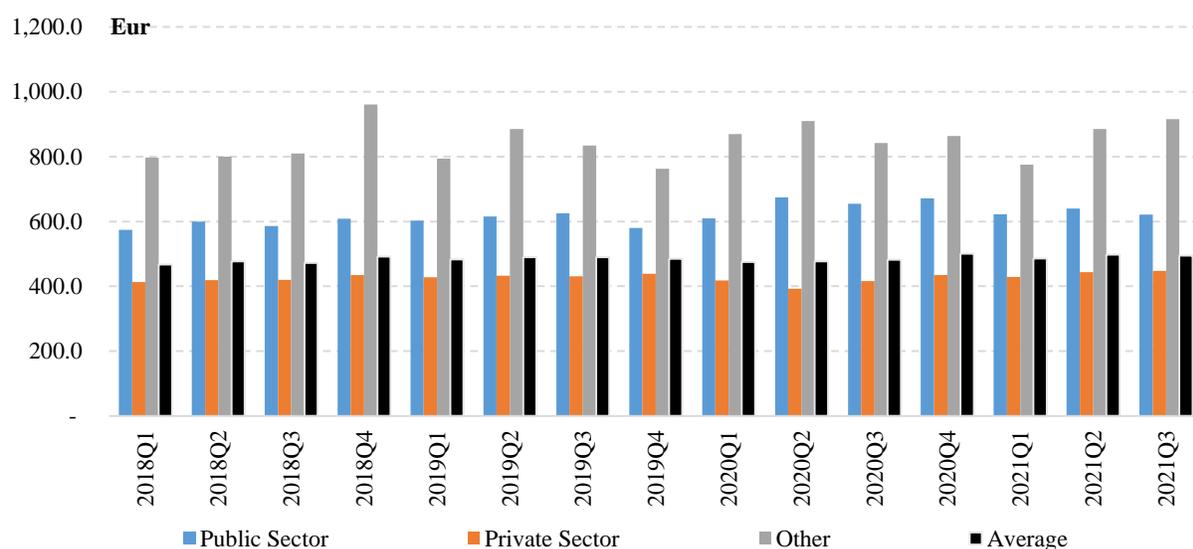
Table 3. Main labour market indicators

Indicator	2018	2019	2020	Q1 2020	Q1 2021
Total population	1,793,467	1,796,376	1,795,666	1,795,666	1,798,188
<i>Female</i>	889,508	892,946	894,972	887,232	891,381
<i>Male</i>	903,959	903,430	900,694	908,434	906,807
Working age population	1,190,272	1,206,806	1,222,104	1,218,112	1,225,729
<i>Female</i>	590,180	600,929	613,219	606,601	616,023
<i>Male</i>	600,092	605,877	608,885	611,511	609,706
Labour force	490,103	488,485	468,450	472,669	483,823
<i>Female</i>	110,340	126,971	127,686	123,350	139,584
<i>Male</i>	379,763	361,514	340,764	349,319	344,239
Employed	345,131	363,180	347,071	354,672	359,167
<i>Female</i>	73,508	83,242	86,480	85,601	98,069
<i>Male</i>	271,623	279,938	260,591	269,071	261,098
Labour Force Participation Rate (LFPR)	40.9%	40.5%	38.3%	38.8%	39.5%
<i>Female</i>	18.4%	21.1%	20.8%	20.3%	22.7%
<i>Male</i>	63.3%	59.7%	56.0%	57.1%	56.5%
Employment Rate	28.8%	30.1%	28.4%	29.1%	29.3%
<i>Female</i>	12.3%	13.9%	14.1%	14.1%	15.9%
<i>Male</i>	45.3%	46.2%	42.8%	44.0%	42.8%
Unemployment Rate	29.6%	25.7%	25.9%	25.0%	25.8%
<i>Female</i>	33.4%	34.4%	32.3%	30.6%	29.7%
<i>Male</i>	28.5%	22.6%	23.5%	23.0%	24.2%

Source: KAS Labour Force Survey annual and quarterly publications

In absence of the data published by the KAS Labour Force Survey for the remaining quarters of 2021, administrative data from TAK are used to provide a more complete picture employment in 2021 (up to Q3). The latter show an increase in employment by 10.5% compared to the same period of the previous year, in line with the satisfactory performance of the economic activity and government measures with regard to formalization.

Figure 6. Gross average wages TAK, in Euro



According to administrative data from TAK, during the period Q1-Q3/2021 average gross monthly wage increased by 3.0% in 2021. The upward dynamics of average wage by sectors remain slightly faster in the private sector. The average wage in the private sector during this period of 2021 increased by 7.7%, which can be mainly attributed to mismatches in labour supply- demand, triggered by the strong recovery in 2021. Meanwhile, the base effect in 2020 during which additional allowances for health sector workers and police were applied in the public sector, caused the average wage in the public sector to appear to decreased by 2.8% (no public sector salaries were actually reduced). However, it should be noted that the available data on wages from both institutions KAS and TAK do not allow for an analysis which considers changes in skill sets, offsetting private sector performance or potential under-reporting of earnings in the private sector.

3.3. Medium-term macroeconomic scenario

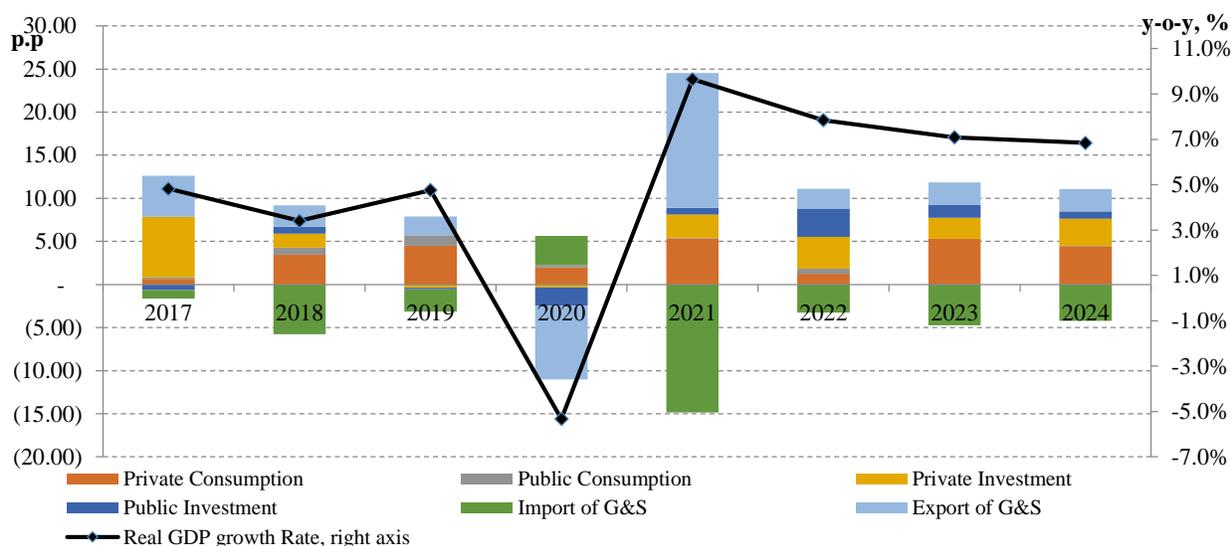
3.3.1. Real sector projections

The rapid economic recovery is expected to continue in 2022, as well, by growing 7.8% in real terms and 10.6% in nominal terms.

Unlike 2021, the main contribution to economic growth during 2022 is expected to come from private investment, supported by the country's uncertainty reduction, a series of fiscal stimulus policies targeting the private sector, and the improvement of private sector balance sheets. Public investments are expected to have a highly accelerated dynamic of executions in 2022. Exports of goods and services will continue their positive contribution, but to a lesser extent than the previous year, mainly due to the base effect but also the stabilization of commodity prices in international markets. Continuation of the growing trend of remittances (albeit at a slower pace than in 2020 and 2021), bank lending and the continuation of a series of social transfers in the framework of

family support provided in the 'Economic Revival Package'¹³ will continue to support the growth of private consumption in 2022, but to slower growth rate than in the previous year, as a result of declining savings accumulated during the pandemic. In line with consumption and investment developments, imports are also expected to increase in 2022, but at lower rates than in previous year. Beyond 2021 and 2022, Kosovo's economy is expected to continue increasing at a level which stands higher than the average historical growth rate.

Figure 7. Real GDP and main contributors



The supply shocks which determined the inflation performance in the last months of 2021 are considered to be temporary and are expected to normalize in the middle of 2022. **Inflation in 2022 is expected to fluctuate around 2.7% and is expected to stabilize at an average of 2.0% in the medium term.**

However, the baseline inflation projection is significantly conditioned by the prolongation of supply and demand imbalances caused by the Covid-19 pandemic, rising commodity prices in international markets, and the direction or intensity of monetary policy stance in other countries, especially in the Eurozone. Initially, the energy crisis that affected European countries was not expected to generate inflationary pressures on energy prices in Kosovo. The energy market in Kosovo is regulated and electricity supply is mainly provided by domestic production and slightly from imports. Moreover, the component of 'supply of electric energy, gas and other fuels' has a low share in the consumer basket, estimated at about 5%. However, the long duration of the energy crisis in Europe, which led to unprecedented high energy import prices, combined with the unexpected interruption of domestic energy generation at a time of high consumption (due to cold weather) have been generating upward pressures on energy tariffs for some time. As a consequence, the Energy Regulatory Office recently had an extraordinary review of electricity tariffs and proposed changes in the tariff structure and in retail electricity tariffs for consumers, starting from February 2022. Such decision, yet to be taken, will have a significant impact on 2022 prices and other economic developments.

¹³ <https://mf.rks-gov.net/desk/inc/media/7EB4F774-43C5-4471-9942-09197BC03E4F.pdf>

3.3.2. Monetary and exchange rate policy and inflation

In 1999, Kosovo unilaterally adopted the Deutsche Mark and later (in early 2002) the Euro currency as its official currency. Consequently, the country is restricted in the availability of traditional monetary policy instruments to control inflation developments in its economy or to signal changes in current consumption behavior towards future consumption. However, this does not mean that the Central Bank of Kosovo (CBK) has no means of influencing the economy.

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

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

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

During the pandemics, the Central Bank, despite lacking monetary policy, successfully contributed towards the mitigation of the impact of Covid-19 shock on borrowers and banks through postponement of loan repayments and allowing for up to 1- year loan reprogramming.

Despite monetary policy constraints, over time inflation in Kosovo has been relatively stable. In terms of exchange rate developments, Kosovo is not much exposed to exchange rate fluctuations. This is due to the fact that the majority of trading partners are from the Eurozone countries and a significant portion of other sources of financing are in Euro currency (e.g. bank lending or remittances). During 2021 (January- October), the euro was valued at around 0.9% compared to the currency basket of the leading international trading partners (NEER). This appreciation is mainly due to the appreciation of the Euro against the Turkish Lira (about 26.1%) and the American Dollar (about 5.6%). Lastly, the real effective exchange rate appreciated by 1.9% compared to January- October of last year.

3.3.3. The external sector and its medium-term sustainability

3.3.3.1. Current Account

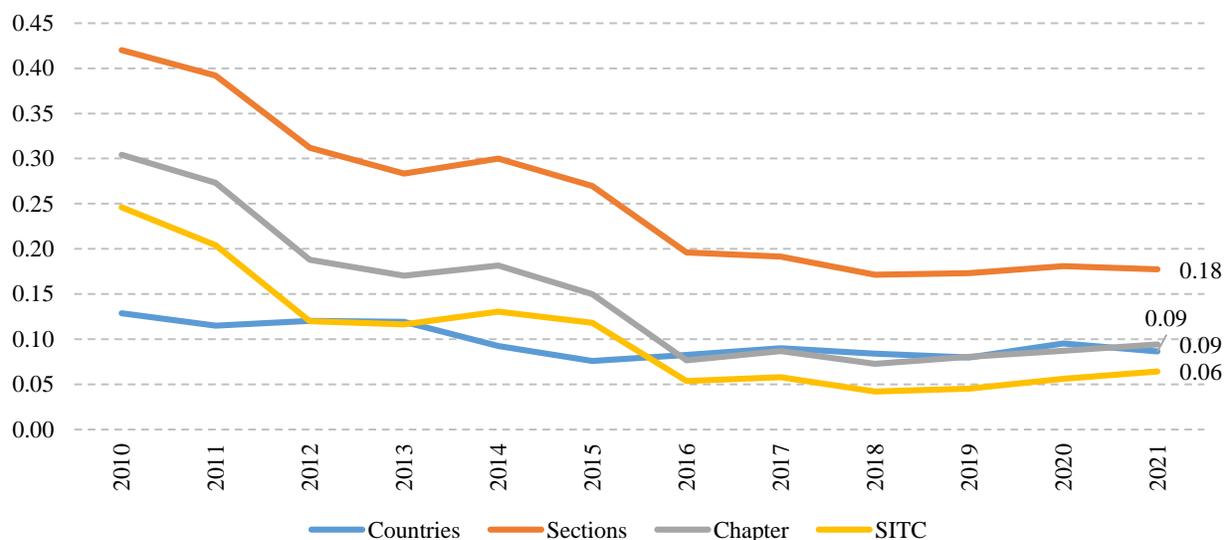
The current account deficit balance during the period January- October 2021 amounted to -424.4 million euros and represents a significant widening of the current account deficit compared to the same period of the last year.

Exports of goods increased by about 60.9% while exports of services marked a significant annual increase of 106.8%. Kosovo's export structure currently remains concentrated on the export of base metals, which account for about 34.1% of all exports of goods. Other important sectors continue to be the category of miscellaneous manufactured articles with a share of 19.4% to total

exports, followed by plastic products with a share of 10.3%, the prepared food sector with 7.4%; and mineral products with a share of 5.9% to total exports.

It is encouraging to note that the country has experienced changes in the structure of export of goods throughout the recent years. Diversification is a positive development for an economy such as Kosovo because changes in the primary export mix help build buffers in the economy that will reduce the effect of the variability of world commodity prices. This reduces the dependency on a few sectors and potential vulnerabilities related to those.

Figure 8. Herfindahl-Hirschman Index



To measure export diversification, the Hirschman Herfindahl Index¹⁴ has been used. Kosovo has experienced export diversification in the past few years. Stabilization Association Agreement and policy measures to incentivize the manufacturing sector have played a role in this process. Such positive effect is expected to continue. Nonetheless, in 2021 the diversification has lowered in terms of sections and chapters, while it has increased in terms of countries. Kosovo's export structure is still weighed toward the export of base metals, which during the January-October 2021 constituted of 34.1% of total exports, lower than the share registered in 2020 and 2019 (35.8% and 36.9%, respectively). Categories of goods that have increased their share in total exports are miscellaneous manufactured articles. On the other hand, geographical composition of exports of goods, focusing on countries and country groups that make up more than 80% of Kosovo's total export destinations also reflects changes throughout years. The share of exports of goods to the EU and CEFTA countries has decreased during 2021, while exports to other countries as a share of total exports has increased, especially towards the USA. It is expected that overall diversification of the export structure will benefit the local economy in the medium to long term by making exports more sustainable.

Export of services for January-October period was 106.8% higher compared to the same period of 2020, mainly due to higher travel services. Travel services contributed with 78.2 pp and had an

¹⁴ The **Herfindahl Hirschman Index** is calculated as the sum of squared shares of each product in total export. A country with a perfectly diversified export portfolio will have an index close to zero, whereas a country with a concentrated portfolio will have a value of 1 (least diversified).

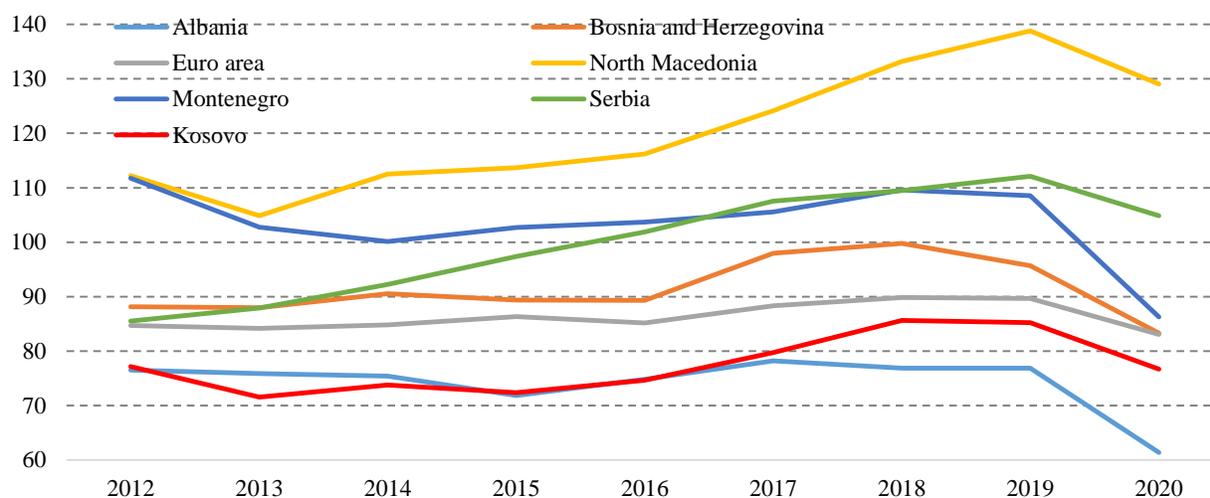
annual increase of 152.4%; transportation contributed with 3.7 pp and increased by 71.6% y-o-y. Export of services for 2021 is expected to reach Eur 1,884 million and to register an annual increase of 89.5%. During the medium term, export of services is expected to increase by 9.2%. This increase, which follows the pre-pandemic historical trend of export of services, is mainly due to the export of travel, information and communications technology (ICT) services.

Import of goods during the period January-October 2021 increased by 42.7% in annual terms, with highest contribution from mineral products by 13.2 percentage points (an annual increase of 74.6%); followed by the category of ‘machinery, appliances, electrical’ with a contribution of 12.5 percentage points (an annual increase of 39.4%) The structure of import of goods from different countries and groups of countries has been relatively constant throughout the years with main partners being the EU and CEFTA member states. Nonetheless, the share of import of goods from EU countries has remained almost constant in the recent years. These developments are partly due to the SAA effect. Import of goods in 2021 is expected to register an annual growth rate of 33.2%, while in the medium- term import of goods is expected to increase by 10%

During the period January- October, **import of services** was 44.9% higher in the same period of 2020. Imports of travel services contributed 42.1 p.p. and had an annual increase of 67.1%; import of transport services increased by 57.0% in annual terms with a contribution of 23.5 p.p. Import of services in 2021 is expected to register an annual increase of 48.4%, while over medium- term it is expected to increase by 7.3%.

The deficit of goods during the period January-October 2021 increased by about 39.7%, while the surplus of services during this period marked an increase of 198.6%.

Figure 9. Trade Openness Index



Overall, despite being a small (land-locked) open economy with a liberal trade regime, Kosovo is characterized by lower **trade openness**¹⁵ relative to most of the neighbouring countries, mainly due to the low export base, which represents one of the main structural challenges that the economy of Kosovo is facing. However, during the past three years, Kosovo’s economy has experienced an

¹⁵ The **Openness Index** is an economic metric calculated as the ratio of country's total **trade**, the sum of exports plus imports, to the country's gross domestic product. = (Exports + Imports)/(Gross Domestic Product). “The higher the index, the more influence trade has in that country's domestic activity.”

increasing level of trade openness, except last year when the economy was affected by the situation created by COVID-19. GoK measures aimed at stimulating domestic production, already incorporated in the 2022 Budget Law, and further implementation of the SAA are expected to increase exports and further remove trade barriers. Nonetheless, **in the medium term**, imports are expected to return to their historical levels in line with external developments -especially stabilization of prices, and aggregate demand projections, while exports are expected to increase above their historical level due to government support for domestic producers. The projections are surrounded by uncertainty stemming from the future evolution of the pandemic and its potential impact on supply chains and global prices. However, a return to normality is foreseen in the medium term.

Table 4. Export and Import of goods and services

% change, unless stated otherwise	2019 Actual	2020 Actual	2021 Estimation	2022 Projections	2023 Projections	2024 Projections
Exports (nominal in million Euro)	2,068	1,469	2,644	2,906	3,204	3,524
Exports	6.7	-29.0	80.0	9.9	10.3	10.0
Goods	4.4	20.8	60.0	15.9	10.9	10.0
Services	7.3	-40.7	89.5	7.5	10.0	10.0
Imports (nominal in million Euro)	3,983	3,651	4,953	5,408	5,948	6,492
Imports	4.2	-8.3	35.7	9.2	10.0	9.1
Goods	3.8	-5.7	33.2	10.0	10.4	9.4
Services	6.1	-19.6	48.4	5.5	8.1	8.1

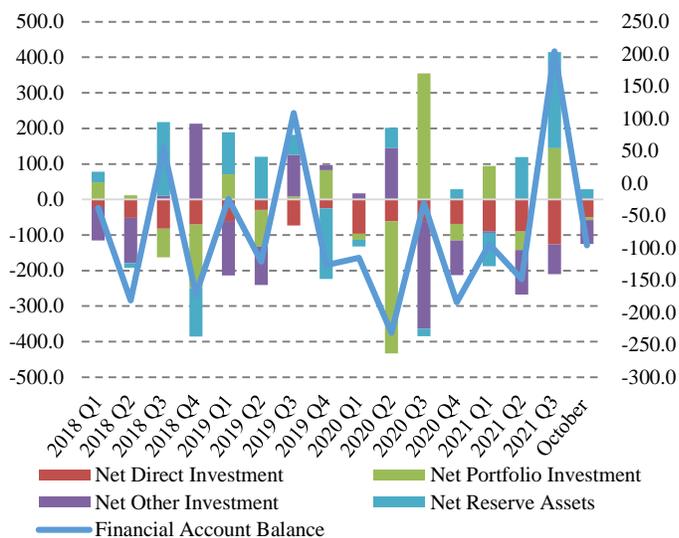
Primary income balance during the period January-October 2021 marked a decrease of 21.7% compared with the same period last year, mainly coming from compensation of employees. By then end of 2021, the primary income balance is expected to register an annual decrease of 4%. **The secondary income** balance had an annual increase of 11.1% during this period, with main contribution derived from net remittances which marked an annual increase of 20.1%. The increase was more pronounced during the first quarter, during which the majority of remittances were sent through formal channels, while in the second quarter it is likely that the diaspora may have channeled a portion of these into the GoK ‘Diaspora Bonds’¹⁶. Remittances increased during this period and mainly because remittances to Kosovo come from the diaspora living in major European countries, who despite being hit by the pandemics, have benefited from government support through fiscal measures. Remittances are expected to continue to be a significant financing sources for the whole year. In 2021, secondary income balance is expected to increase around 17%.

For the medium term (2022- 2024), primary income balance is expected to increase by 4% on average, mainly driven by the category of compensation of employees. This category has been stable as a share of total primary income balance and is expected to be a sustainable component even in the medium term. **Secondary income balance for the medium term** is expected to increase by 4.6% on average, driven mainly by remittances. These two components (primary and secondary income) are most stable sources of current account financing, with their share to GDP expected to maintain a similar level in the medium term.

¹⁶ <https://mf.rks-gov.net/page.aspx?id=1,2,1100>

3.3.3.2. Financial Account

Figure 10. Financial account components, mln Eur

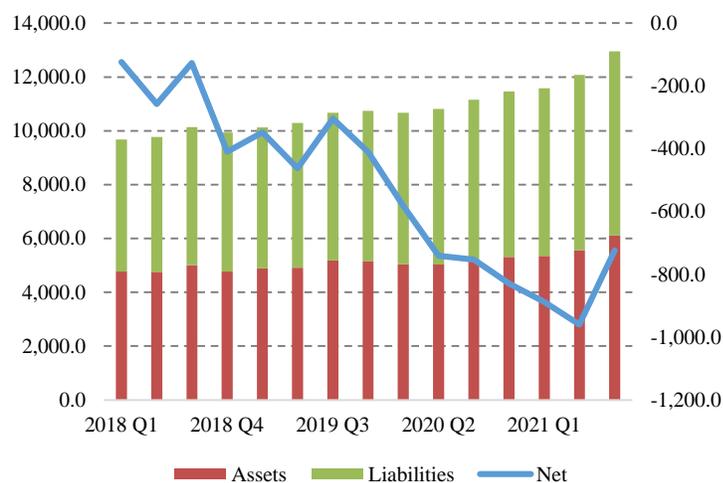


By October 2021, total FDI inflows amounted to around Eur 439.3 million registering an annual increase of 58%. This was mainly driven by the increase in FDI in the real estate’s activities, which may be explained by the higher number of diaspora visiting Kosovo this year and investing in real estate. Direct investment abroad increased by Eur 32.7 million in this period. Portfolio investment in foreign assets increased by Eur 206 million during January-October 2021, while portfolio investment in Kosovo remains at around Eur 6.4 million. Other investment assets increased by Eur 74.5million and other investment liabilities increased by Eur

177.6 million in the same period of 2021. Foreign Direct Investment continues to constitute the largest share in financial account liabilities, at around 53.3% during January- October 2021.

As such, FDI is seen as a sustainable financing source since it has better risk sharing capabilities and it is more amenable to macro stability. Nonetheless, it should be noted that around 68.3% of total FDI during the period of January-October 2021 was directed to real estate and renting activities. Financial and insurance services follow as the second largest absorber of FDI, constituting 21.8% of total FDI. Generally, capital inflows into the non-tradable sector (such as real estate and renting activities, and financial intermediation) are more prone to creating financial fragility through balance of payments’ mismatches since such sectors are difficult to generate revenue. Nonetheless, FDI as the largest component of the financial account liabilities is non-debt generating and thus is less vulnerable.

Figure 11. Net International Investment Position, mln Eur



The International Investment Position (IIP) reflects the stock of assets and liabilities) reaching Eur -723.6 million in the third quarter of 2021. The structure of assets is dominated by other investment that composes 36.8% of the assets, followed by portfolio investments, with around 33.9% of the assets, reserve assets with 20.1% and direct investment with 9.2%. On the other hand, foreign direct investment continues to be the largest category within liabilities, comprising around 67.6% of total liabilities by the end of

the third quarter 2021. Whereas, 32.3% of total liabilities consists of other investment, more specifically of general government debt and other sectors' liabilities.

3.4. Financial sector

Kosovo will continue efforts toward providing quantitative and qualitative information on the development of the financial sector, including on its intermediary role between investors and savers and how it was affected by the implications of the Covid-19 pandemic and mitigating policy measures.

Kosovo's financial sector marked a period of expansion and robust growth during 2021, concealing the negative impacts that the pandemic outbreak had on economic agents of the economy. From September 2020, Kosovo had three waves of Covid-19 outbreaks, with the most severe through August and September 2021, which put a toll on the health system, triggering restrictive measures of citizens' movement and discontinuation of the regular operation of certain economic sectors, service sector mainly. Supporting measures, taken by the CBK such as moratorium and loan restructuring and the suspension of banks' dividend payment since 2020 to counteract the imposed restrictions, as well as the government relief measures, have mitigated the transmission of the immediate effect of the pandemic on the financial system. However, the rebound of the economy is accompanied with persistent uncertainties related to the duration of the pandemic and the extent of future preventive measures, particularly in a time where Covid-19 cases are on the rise in Europe and in the region.

An imminent macro risk since second quarter 2021 is inflation. While energy and food prices are expected to stabilize in the first half of 2022, persisting inflation could negatively affect consumption and spending behavior of both segments, HH and enterprises, with implications in financial stability.

The financial sector proved to be resilient during 2021, underpinned by GoK direct support measures subsidizing both consumption and investment loans. It experienced a strong credit and deposit growth, with main financial health indicators suggesting a sound sector in spite of the continued impact of Covid-19 crisis.

Total assets of the financial system as of September 2021, excluding Central Bank of the Republic of Kosovo (CBK), marked an annual growth rate of 12.1%, standing at 8.59 billion euro (110.7% of GDP), compared to the average growth rate of last two years¹⁷ of 11.0%. Banks remain the dominant sector with 67.1% of the total financial system assets, followed by Pension Funds and Microfinance Institutions with 25.9% and 4.0%, respectively. Financial system continues to be dominated by foreign banks, accounting for 85.9% of total banking sector assets (as of September 2021). Nevertheless, the degree of bank market concentration continued to decline slowly.

Due to easing of travel restrictions during the second and especially the third quarter of 2021, economic activity was strongly supported by higher diaspora visits that fuelled Kosovo's service exports and remittances and translated into accelerated lending dynamics and higher deposits in the banking sector. Further extension of restructured loans measures early in 2021, combined with improved market outlook, led to an increased credit growth, a dynamic that is expected to continue according to BLS expectations for favourable credit supply and an increase in credit demand, as well as banks' projections for 2021 (projecting 12.4 percent credit growth increase).

¹⁷ Average of September 2020/ September 2019 (applied also to other comparisons in text)

Lending remained an important factor ensuring growth in private investment and consumption. The volume of bank lending increased until September 2021 at an accelerated growth rate of 12.2%, up from 7.6% in September 2020. Bank lending towards non-financial corporations increased annually by 10.2% (7.9% in previous year), while lending to households more than doubled its growth pace, increasing annually by 15.8% (7.6% in September 2020).

Financial depth, measured by the level of domestic loans¹⁸ to GDP¹⁹, remains low (48.9 % as of September 2021), suggesting room for further deepening of financial intermediation (figure 12).

Figure 12. Private sector lending growth



From financial stability perspective, a striking development this year is the increase of new loans to the household sector from banking sector, nearly reaching the value of new loans for non-financial corporations. New loans to household during January-September 2021 increased by 51.4% (for 197.2 million euro), reaching the value of 581.1 million euro - of which 401.8 million euro are for consumption purposes (almost 70% of total household new loans). On the other hand, new mortgage lending also accelerated by 75.8% annual

increase (for 62.5 million euro). The evaluation of potential risks from the credit portfolio expansion in the segment of household is challenging.

According to Bank Lending Survey, lending dynamics in 2021 were driven by positive changes in both credit supply and demand. However, in a larger extent, dynamics in the credit market were mostly dictated by higher demand from the private sector, especially during the second quarter of 2021. Whereas, banks kept relatively eased credit standards, albeit constant, throughout these three quarters. Support of KCGF for enterprises and rising competition pressures contributed to a favorable credit supply. For the last quarter of 2021, credit demand is expected to influence private sector credit dynamics (non-financial corporations and households). Consumption loans and loans for SMEs are anticipated to lead the growth of the private sector in the upcoming quarter.

Moratorium and loan restructuring measures contributed to the containment of potential increase of non-performing loans (NPLs). Ratio of non-performing loans remains low between 2.5% and 2.4% percent from January to September 2021, with loan-loss provisions to NPLs remaining substantial at 144.4% (137.8% in September 2020 and 161.3% in September 2019). Higher growth rate of lending activity contributed to a lower NPL ratio, while NPL value increased by 1.9%. Loans categorized in Stage 2 decreased by volume and they accounted for 8.8% of total loans (10.9% as of September 2020). The full impact of the pandemic on the quality of loan portfolio is yet to be assessed when loan moratorium measures expires. In February 2021, the CBK issued the last guideline on loan restructuring under Covid-19 measures. The share of loans under restructuring measures stands at 0.6% of total banking loans in September, of which restructured

¹⁸ Lending from banks and micro financial institutions

¹⁹ CBK GDP projections for 2021

loans for households comprise 0.1% and those of non-financial corporations comprise 0.8% of total loans. Most of the restructured loans have matured in October, whereas until February 2022, the remaining restructured loans are expected to mature.

The system exhibits robust capital and liquidity buffers, with regulatory capital to risk-weighted assets standing at 17.9% in September 2021 (well above the minimum required ratio of 12%). Liquidity position of the sector improved further in September 2021, reaching 39.8% (37.7% in September 2020), while profit was at a record high at 90.1 million euros. Faster growth of liquid assets (cash and balance with CBK, balance at banks and investment in securities) compared to the growth of short-term liabilities (mostly transferable deposits) contributed to a higher liquidity ratio. In addition, the liquid assets to total asset ratio stood at 30.6% as of September 2021 (28.3% the average of the last two years). Average return on equity ratio stood at 20.6% in September, while return on average assets at 2.5%.

Funding Risk remains moderate for banking sector since banks mainly rely on domestic deposits. Deposits in September 2021 reached the value of 4.67 billion euro (3.89 billion euro the average of the last two years), with an annual increase of 15.1% (12.5% the average increase in the last two years). Household deposits, which represent the largest category of deposits (68.5%), marked an annual increase of 18.3%, compared to the average increase in the last two years of 9.2%. Nonfinancial corporation deposits increased by 28.4% compared to the average increase of 13.8% in the past two years. According to BLS, the strong deposit growth was mainly attributed to a lesser propensity to spend (uncertainties due to the pandemic crisis dynamics), high remittances inflows (23.5% Jan-Sept 2021/2020), as well as large diaspora influx during the third quarter (informal remittances). Interest rates, both in credit and deposits did not change significantly compared to previous periods, decreasing marginally.

Pension funds' assets reached a value of 2.23 billion euro as of September 2021, representing 25.9% of total systems' assets. Total assets increased annually by 7.1%, as a result of stable revenues from pension contributions, as well as return on investments. Pension contributions as of September 2021 stood at 157.0 million euro (135.1 in previous year), while return on investment reached a value of 133.5 million euro (12.5 in previous year – the effect of disruption due to Covid-19).

Insurance sector represents 2.7% of total systems' assets, amounting 235.7 million euro. Compared to previous year, assets increased by 10.0% (9.3% previous period). Insurance sector recorded a faster increase in revenues (gross written premiums), as a result of eased Covid-19 restrictions, which as of September 2021 reached the value of 86.9 million euro (72.3 in previous year). On the other hand, claims paid²⁰ reached 48.7 million euro (36.9 million euro in previous year). As a result of a faster growth of claims paid compared to gross premiums written, the ratio of claims to written premiums increased to 56.1% (51.1% in September 2020). Sector operated with net profit of 5.9 million euro (4.4 million euro in previous year) due to an increase in gross written premiums and other sources of revenues, surpassing the increase of claims paid.

Microfinancial institutions represent 4.0% of total assets, amounting to 342.2 million euro. Credit activity of this sector rebounded this year with an annual rate of increase at 12.4% from a decline in last year by 4.2%. Lending increased for both segments, household and non-financial corporations. Leasing activity continued to expand, even though at a slower pace compared to last

²⁰ Kosovo Insurance Bureau included

three years. Microfinancial sector continued to be profitable, with low level of NPLs standing at 2.9% and adequate NPL coverage with provisions at 136.5%.

3.5. Alternative Scenarios and Risks

During year 2022, fiscal risks are expected to be lower compared to year 2021 and with lower probability of materialization for some of them. The key reason for this change from year 2021 to year 2022 is the reduction of uncertainty caused by the COVID-19 pandemic. Continuous vaccination, immunization of a large portion of the population, and increased economic activity during year 2021 have restored the confidence of all economic agents in Kosovo. Consequently, the potential risks, which surround the baseline macro-fiscal scenario, generally originate from external environment. In this regard, caution should be used due to many interlinkages of our economy with the foreign economy, especially through two main channels: trade and remittances.

A list of internal and external risks is provided in more details in the following.

Domestic risks

1st Risk: Restrictions on slowing the spread of Covid-19 virus

During year 2021, we have experienced such restrictions several times. The possibility of their recurrence exists given the possibility of the spread of new variants of the virus, as happened recently with the Delta and Omicron variant. Also, in some countries the measures have been restored despite the high level of vaccination. The effects of the new variants may be moderate compared to the beginning of the pandemic but may delay the recovery of the economy towards its pre-pandemic level.

2nd Risk: Pressure to increase spending on new schemes

The good fiscal performance during 2021 offers new opportunities for additional spending, the pressure on new subsidies or social support initiatives. Extra caution is needed in analysing each scheme, focusing on two specific issues: economic return or social issues that the scheme addresses, as well as developing criteria in order to improve targeting.

Nevertheless, despite the pressure for increasing current expenditure, capital expenditure execution requires significant focus. Due to the fact that, in large part, the economic crisis of 2020 has passed, and considering that based on preliminary data the losses from the crisis have been recovered, the execution of capital expenditure is key to achieving long term sustainable growth.

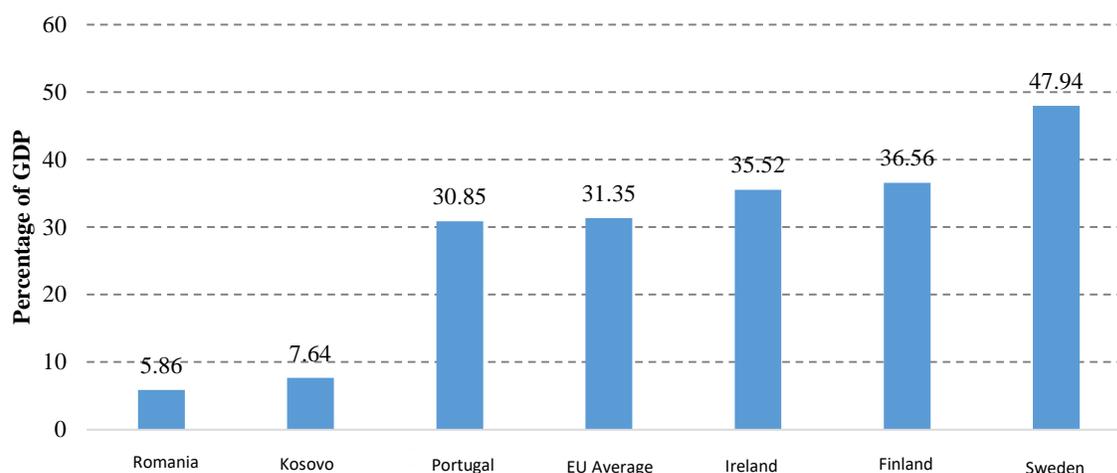
3rd Risk: Fiscal risks from Public Enterprises

Overview of Public Enterprises Structure

In the Republic of Kosovo, there are two types of publicly owned enterprises (POEs); those owned by the central government and those owned by local governments. At the central government level, the POE sector includes 19 enterprises. The Ministry of Economy supervises 17; The Assembly oversees the System, Transmission, and Market Operator (KOSTT); while Gjakova Airport is overseen by the Kosovo Security Force (KSF). The state owns 80 per cent of Trepça shares, whereas the staff owns the remaining 20 per cent. The rest of the POEs are owned entirely by the government. POEs operate in several sectors, including electricity, transport, water supply, telecommunications and mining. The following analysis was conducted based on the financial data belonging to 17 POEs supervised by the Ministry of Economy.

The POE sector is relatively small compared to countries in the European Union (see figure 13 for more details).

Figure 13. Liabilities of public non-financial corporations (POEs) as a percentage of GDP (2019) (Eurostat, 2021)



At the end of year 2020, the assets of POEs amounted to 18.7 percent of GDP, an increase of 2.1 percentage points from 2019 (16.6 percent of GDP in 2019), whereas their liabilities were 7.9 percent of GDP (from 7.6 percent in 2019). Their total revenues are equivalent to 4.9 percent of GDP (from 4.6 percent in 2019) or 16.1 percent of total budget revenues.

In general, the POE sector generated a profit of 13.2 million euros in 2020, an improvement from the total loss of 8.4 million euros in 2019. More than half of the POEs generated a profit. Despite the fact that this sector was profitable during 2020, the overall return from the sector is low – a return on equity of 1.8 percent in year 2020. The liquidity of this sector is weakening, but POEs still have sufficient short-term assets to fulfill short-term obligations. On average, about 42 percent of POE funding comes from debt. However, poor financial performance (loss in almost half of POEs), means that this level of debt is high compared to the revenue generated by the sector.

Table 5. Summarized financial statements for the POEs sector (thousands of euros)

	2016	2017	2018	2019	2020
Total revenues	307,029.1	286,537.9	298,658.3	326,597.4	329,535.3
<i>GDP percentage</i>	5.06	4.47	4.48	4.63	4.87
EBITDA	73,484.3	76,663.2	98,356.8	99,562.7	102,148.8
<i>GDP percentage</i>	1.21	1.20	1.47	1.41	1.51
Net profit or Loss	29,324.2	(33,435.1)	7,292.5	(8,370.8)	13,222.2
<i>GDP percentage</i>	0.48	-0.52	0.11	-0.12	0.20
Total assets	1,005,846.8	996,931.6	978,517.0	1,169,390.1	1,267,340.8
<i>GDP percentage</i>	16.57	15.54	14.67	16.6	18.7
Short-term assets	271,389.5	256,818.9	226,132.7	238,911.1	264,902.7
<i>GDP percentage</i>	4.47	4.00	3.39	3.39	3.91
Total liabilities	527,894.9	517,011.8	513,086.6	538,757.9	534,153.2
<i>GDP percentage</i>	8.70	8.06	7.63	7.56	7.77
Short-term liabilities	115,697.5	116,831.9	123,462.7	173,216.8	200,869.6
<i>GDP percentage</i>	1.91	1.82	1.85	2.45	2.97
Equity	478,836.8	480,786.8	464,047.2	630,632.6	733,187.7
<i>GDP percentage</i>	7.89	7.50	6.96	8.94	10.83

POEs fiscal risk assessment

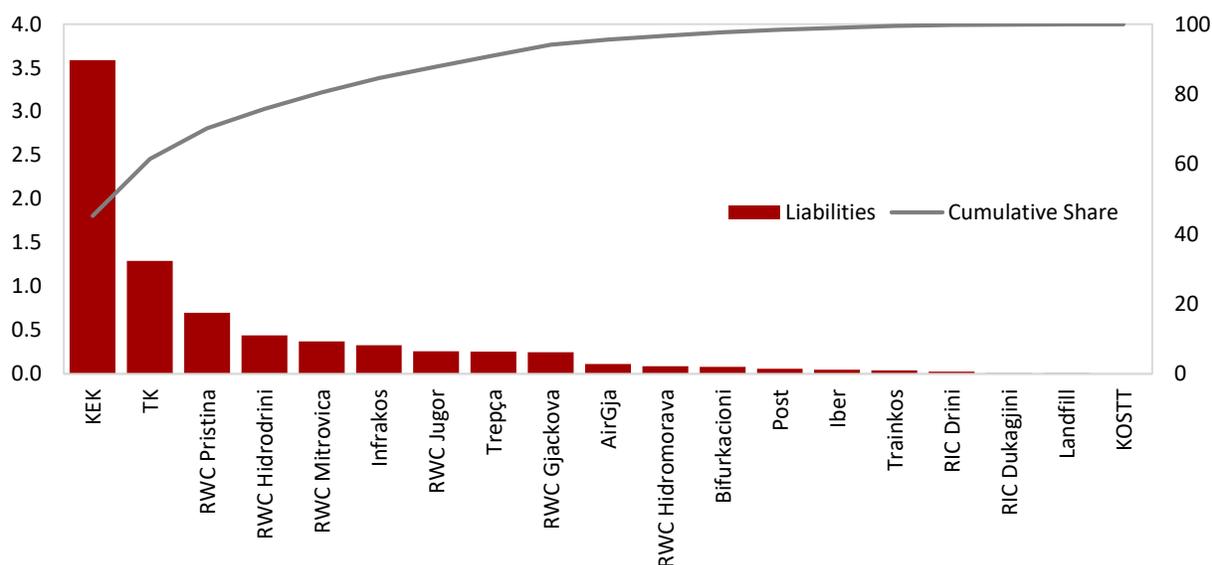
POEs may directly impact fiscal indicators, for example, when higher-than-expected subsidies, loans or capital (equity) injections are provided; there is a crystallization of contingent (potential) liabilities; or tax and dividend income lower than expected. POEs may also have an indirect impact on fiscal indicators through the impact of their activities on economic growth. Materialization of risks at the company level is more likely to cause fiscal risks when POEs are not sufficiently capitalized, are at a loss and have low liquidity levels.

In addition to the emergency response fiscal support provided to POEs during the pandemic period (approximately 11.7 million euros), other POE-related fiscal risks have been materialized. Unpaid tax debts of POEs have accumulated. The infrastructure and equipment of POEs are becoming obsolete and depreciating excessively. They need to be replaced, however POEs are unable to afford these investments. For POEs such as railway companies and Post of Kosovo, among others, the tariffs they charge, which are regulated, are insufficient to cover their costs. Some POEs, especially Telecom of Kosovo, are experiencing such severe financial difficulties that government support may be needed to ensure their survival.

A fiscal risk assessment of 17 POEs has been compiled. The fiscal risk assessment was based on the audited annual results (audited financial statements) for 2020. For each company, six key financial indicators were calculated: i) cost recovery ratio; ii) return on equity; iii) the current ratio, iv) accounts receivable days; v) debt to assets ratio; and vi) the debt-to-EBITDA ratio (income before interest, taxes, depreciation and amortization). These indicators are selected as they provide a good overall indicator of the profitability, liquidity and solvency of each POE. Each report was assigned a risk assessment, based on international norms. The overall risk assessment was calculated as the arithmetic mean of the risk assessments for the individual reports. This methodology, however, will continue to be improved and/or changed based on context and availability of data.

Out of 17 POEs, six were classified as “high risk” or “very high risk” (during 2019 there were ten in total). Together, the outstanding liabilities of these companies amount to 2.5 percent of GDP. The risk assessment shows that, in general, most POEs have a sound liquidity position, but some of the companies are experiencing difficulties in collecting debts from their debtors. Many POEs have high levels of liability when taking into consideration their (insufficient) ability to generate revenue to subsequently cover those liabilities.

Figure 14. Share of total liabilities by POE/s (percentage of GDP)



To address some of the above problems, the Government is in the process of amending the Law on POEs, which creates the framework for the functioning of the POE sector, in order to adapt the corporate governance of POEs with internationally recognized standards, improve the performance of POEs, increase the value of their assets and provide qualitative services to the public. There are also a number of measures that need to be discussed in the near future to address the existing problems of POEs, such as: stabilizing the boards and management for remaining POEs through a transparent and merit-based process, restructuring, privatization, or even liquidation, among others.

Risk from contingent liabilities arising from sub-borrowed loans and state guarantees

In Kosovo's public debt portfolio, a potential source of this risk are guaranteed public sector loans and international loans sub-borrowed to the companies providing essential public services. Guaranteed loans at the end of the fourth quarter of year 2021 amounted 30.63 million euros and account 1.8% of the total debt. The portion of the portfolio that may require closer monitoring are the state guarantee to Urban Traffic and sub-borrowed loans to the companies providing public services. Financial and economic risk analysis have raised concerns about the poor performance of public companies. A deeper deviation of the financial results of these companies may cause a burden on the Government in the medium term both for subsidizing the services they provide and for assuming financial obligations to external creditors. To limit the impact of risk from contingent liabilities, a number of measures will continue to be implemented, such as: (a) monitoring the financial position of beneficiaries (b) initial assessment of the possibility of materialization of existing contingent liabilities. Depending on the assessments for the alleged losses, the applicable guarantee fees according to the Law on Public Debt will be determined. As a measure for the management of these risks also serves the inclusion of guarantees in the amount of total debt, in the calculation of the debt limit to GDP. In the medium term, an additional measure that should be taken in order to manage these risks is the inclusion of a position in the Law on Budget as a budget allocation for losses from guarantees and sub-borrowed loans in case of failure to repay them by the main borrower.

External risks

Increase of electricity prices in Europe

Currently, this is the key risk coming from the external economy. Due to a rapid global recovery, the demand for gas, as one of the sources of electricity has also increased. This year the price of gas in Europe has risen by up to 600 percent. This development can have negative consequences for our economy. As mentioned earlier, the interconnections of our economy with the external one is numerous, especially through two channels: trade and remittances.

In addition, a recent negative development as a result of rising gas prices is the halt of production of one of the key exporters in Kosovo, such as NewCo Ferronikeli, which is also the employer of about 1,000 employees.

Measures to address high inflation in the Eurozone

In addition to the rapid recovery in our country, the topic of rising prices has been discussed a lot during this year. This topic has been present in almost all countries of the world, where there were similar developments.

It is possible that during year 2022, within the Eurozone countries (where a large part of our trading partners are located), monetary policy will tighten (increase in interest rates) to address the increasing trend in prices. These policies might negatively affect the economic activity of these countries, which could potentially be transmitted to our economy.

4. FISCAL FRAMEWORK

4.1. Budget implementation in 2021 (Preliminary Data)

The increase in revenues, reflected in all categories, is supported by the rapid recovery of economic activity supported by strong rebound in consumption, measures undertaken in the framework of increasing voluntary compliance, restored trust in institutions and high inflation driven mainly by high import prices

The data for the period January-December 2021 show a higher realization of revenues as well as lower expenditures than those planned in the Revised Budget for 2021²¹.

Revenues from indirect taxes have marked a significant increase as they directly reflect the increase in imports of goods, not only because of higher volume of imports but also higher import prices. Indirect revenues during this period increased by 30.8% in annual terms compared to 2020, and 17.6% compared to 2019. Revenues from customs duties in this period marked an annual increase of 22.7%. Border VAT revenues marked an annual increase of 34.8% in 2021. Also, excise revenues, as one of the highest contributors to total budget revenues, marked an increase of 25.9% by the end of December. This increase is mainly attributed to the economic growth in the country that directly affects the growth of aggregate demand, which was reflected in the continuous growth of regular imports of oil and gasoline during this period. In addition, import of cigarettes

²¹ This section is based on preliminary end-2021 data, which may be subject to slight differences once financial statements for 2021 are finalized and published

and alcoholic beverages increased during this period, in line with the re-opening of the economy and especially the hospitality sector.

On the other hand, **revenues from direct taxes** increased by 28.0% in annual terms for the period January-December, due to the pick-up in the economic activity, and 17.1% compared to 2019. Revenues from personal income tax by 19.9% compared to last year; corporate income tax increased by 33.6%; and property tax increased by 59.7%.

Non-tax revenues during this period reached the value of 235.75 million euros, registering an increase by 30.2% in annual terms, and 9.8% compared to 2019. During this period, the dividend income amounts to 10 million euros, which was paid by the Kosovo Energy Corporation J.S.C. (KEK).

On the other hand, **total budget expenditures** in January-December 2021 marked an increase of 2.5% compared to the previous year (2020). Expenditures in the category of "**wages and allowances**" marked an annual increase of 1.0% compared to last year which came mainly from pandemic related measures. Expenditures of "**goods and services**" marked an increase of 9.6%, partly as a result of the accelerated activity of the public administration but also due to the purchase of vaccines. In addition, MFLT has also paid several outstanding payments for goods and services, going back several years. Expenditures of "**subsidies and transfers**" was about 2.9% lower in annual terms, mainly due to the base effect in last year (2020), coupled with better targeting of social spending.

Total capital expenditures during January-December 2021 marked an increase by 10.8%. The structure of capital expenditures according to funding sources is dominated by the regular budget with about 82.8%; followed by own-source revenues (11.0%); external borrowing financed by investment clause (4.8%); and from regular external borrowing (1.4%)

Interest expenditures during this period amounted to 32.2 million euros, which increased by 17.0% compared to last year.

Until of the end of 2021, **expenditure related to the Covid-19 pandemic foreseen in the "Economic Revival Program"** amounts to 234.2 million Euros (3.2% of GDP), out of which 22.8 million of euros for wages and salaries, 20.8 million of euros for goods and services and 190.1 million of euros for subsidies and transfers. The 2021 Covid-19 spending remains below the level registered in the previous year, which is estimated at around 4.2% of GDP).

Table 6. General Government Operations, in millions of Euros

	2020	2021 Revised Budget	2021 Jan-Dec, Actual/Preliminary
1. Total Revenue	1,722.00	2,043.30	2,183.71
1.1 Tax Revenue	1,507.00	1,791.40	1,947.96
Direct Taxes	267.30	326.40	342.17
Tax on Corporate Income	85.30	110.20	113.95
Tax on Personal Income	158.00	176.30	189.52
Tax on Immovable Property	22.70	35.00	36.26
Other	1.30	4.90	2.44
Indirect Taxes	1,272.70	1,513.00	1,664.70
Value Added Tax:	770.10	929.10	1,038.22
Domestic:	222.40	264.50	291.67
Border:	547.80	664.50	746.55
Customs Duty	101.60	126.30	124.61
Excise	398.10	454.10	501.30

Other indirect	2.90	3.50	0.57
Tax Refunds	-33.00	-48.00	-58.91
1.2 Non-tax revenue	181.00	241.40	235.75
Fees, charges, and other - Central Level	103.50	119.70	129.20
Fees, charges, and other - Local Level	42.70	49.00	57.27
Concessionary fee	2.70	19.00	16.97
Royalties	29.40	20.00	19.24
Dividend Income	0.00	30.00	10.00
Interest income (KEC loan)	2.70	3.70	3.07
1.3 Budget support and grants	34.00	10.50	0.00
1.4 DDG - Donor designated grants	9.00	12.00	16.80
2. Total Expenditure	2,235.00	2,484.10	2,290.86
2.1 Recurrent Expenditure	1,827.80	1,894.80	1,837.87
Wages and Salaries	660.80	646.20	667.33
<i>out of which Covid-19</i>	<i>34.00</i>	<i>n/a</i>	<i>22.80</i>
Goods and Services	299.20	384.30	327.86
<i>out of which Covid-19</i>	<i>24.00</i>	<i>n/a</i>	<i>20.80</i>
Subsidies and Transfers	867.80	864.30	842.68
<i>out of which Covid-19</i>	<i>228.70</i>	<i>n/a</i>	<i>190.10</i>
2.2 Capital Expenditure	379.70	554.60	420.79
Regular budget financing	283.10	443.60	402.30
Debt financing through the investment clause	42.60	111.00	18.49
Liquidation proceeds (PAK)	54.00	0.00	0.00
2.3 Public Debt Interest	27.50	34.70	32.20
DDG - Donor designated grants	9.00	12.00	9.71
Budget deficit (fiscal rule def.) as % of GDP	-5.40%	-4.60%	-0.84%
Available bank balance as % of GDP	3.50%	3.90%	3.97%
Total Covid-19 expenditure, mln Eur	287.3	<i>n/a</i>	234.2
Total Covid-19 expenditure, mln Eur, % of GDP	4.20%	<i>n/a</i>	3.2%

4.2. Overview of fiscal implications of the Covid-19 crisis

Similarly, to the previous year, Government of Kosovo in 2021 continued to adopt both restrictive measures in order to prevent the spread of new variants of the Covid-19 virus and to provide fiscal support to most vulnerable groups and businesses, while stimulating economic recovery. Covid-19 support measures introduced during the 2021 Revised Budget, and the Economic Revival Package, are budgeted at around Eur 440 million. However, based on the preliminary data on the execution of such package, Covid-19 related expenditures are estimated to be around 234 million Euros by end-2021, or around 3.2% of GDP.

Besides direct assistance measures, the government has also provided businesses with tax payment deferrals but most of them had to be paid within 2021. In addition to that, the Economic Recovery Law approved by the Assembly by the end of 2020 foresaw two measures which affected budget revenues during the current year (2021). One of the measures consisted in exempting entities from paying the mining royalties from 1st January 2021 till 31st May 2021, with an estimated loss in budget revenues at about 14.5 million Euros. The second measure consisted in the VAT reduction from 18% to 8% for hotel supplies, restaurant and catering services, with an estimated fiscal cost of about 5- 7 million Euros. However, an ex-post estimation on the tax expenditure of this policy using actual data will be realised soon. Altogether, these measures contributed to a loss in budget revenues of about 19.5- 21.5 million Euros, or around 0.2% of GDP.

Nonetheless, revenues have been impacted by the strong recovery of economic activity, despite the pandemic still going on during 2021. When removing the cyclical component from the budget revenues, the impact of this recovery on budget revenues is estimated at about 1.2% of GDP.

The Covid-19 pandemic has brought the need for additional financing. The government has received additional financing in the amount of 78 million Euros in 2021, of which 50 million Euros from the EU Macro Financial Assistance (second tranche); 17 million Euros from Covid-19 Emergency Response Public Sector Financing (CEB); 3.51 million Euros from IDA Health Project and 7.54 million Euros from IDA Kosovo Emergency Covid-19 Project, all of which disbursed. This has contributed to an additional increase in public debt of around 1.0% of GDP. In addition, Kosovo has received more than 7 million Euros in grants from World Health Organization, Slovakia, EU, UNDP and Kosovo Bank Association.

Table 7. Estimated Fiscal Impact of the COVID 19 Crisis in 2021

	Due to one-off discretionary measures (in % of GDP)	Due to the recovery of economic activity (in % of GDP)
On budget expenditure	+ 3.0%	
On budget revenue	- 0.2%	+1.2%
Total budget impact	+ 1.8%	+1.2%
On public debt	+ 1.0%	
On contingent liabilities		

4.3. Budget Plans for 2022 and mid-term period

Budget revenues for the medium term are expected to increase above their historical trend of the pre-pandemic period. According to latest forecasts, total budget revenues are expected to increase on average by 10.5% over the medium term. The projected increase is most pronounced in 2022, with an increase of 15.0%, mainly as a result of the continued recovery of the economy after the pandemic.

Revenues from indirect tax will continue to have the highest share in total revenues, by about 74.6% in 2022 and are expected to increase by about 16.5% compared to the Revised Budget of 2021. VAT is expected to increase by 18.7%, driven by increased imports of goods and consumption, but also from continuous high inflationary pressures until mid-2022. It is also worth noting, that exports of travel services have a positive effect on the increase of local VAT revenues. Excise revenues are projected to increase by 17.1% during 2022, whereas revenues from customs duties are expected to decrease by 0.6% compared to the revised budget of 2021.

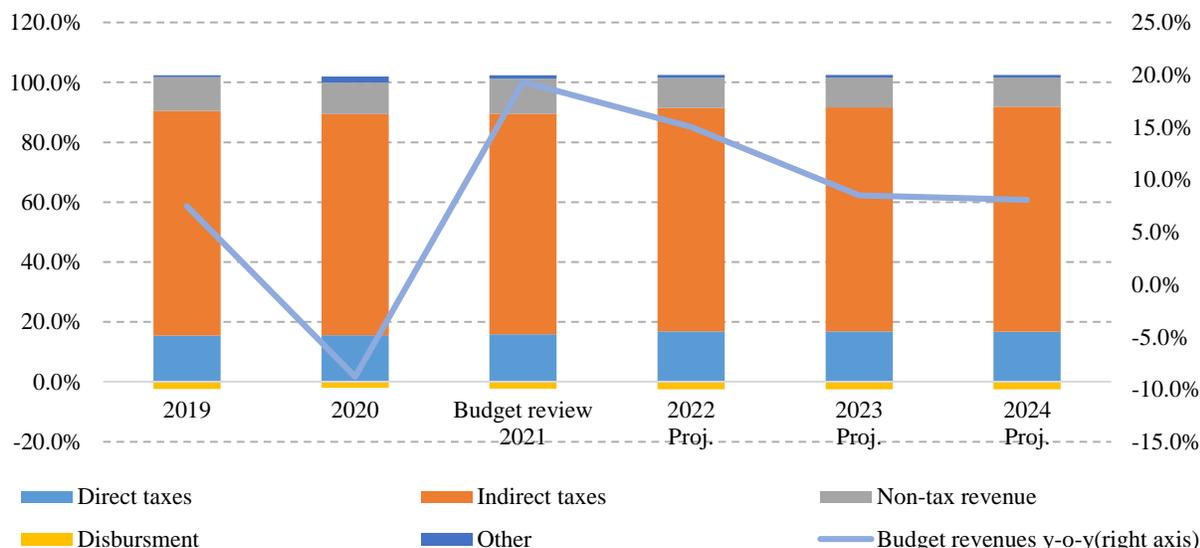
Revenues from direct tax during 2022 are expected to increase by about 22.2% compared to the Revised Budget of 2021, comprising 16.9% of total revenues.

Non-tax revenues during 2022 are projected to decrease comparing to the budgeted amount in the revised Law on Budget 2021 and are expected to reach 239.1 million euros. This decline comes as a consequence the base effect in 2021, during which dividend income in the amount of Eur 10 million to be received from KEK.

In the next two years (2023-2024), total budget revenues are expected to increase by 8.3%, on average. Direct taxes in the period 2023-2024 are expected to have an average increase of 8.0%. Revenue from corporate income tax is expected to increase 8.1%, on average. Similarly, revenue from personal income tax is expected to increase by 8.1%, whereas property tax is expected to

mark a more highlighted average increase by 7.4%. Indirect taxes are expected to increase by 8.7% in 2023-2024. VAT is projected to increase by 9.4%; customs duty by 8.9% and excise by 7.0%. The increase is mainly driven by the increase of the tax bases of each type of tax, but also taking into account the negative effect of the free trade agreement with Turkey and the SAA. Non-tax revenues are expected to follow their historical trend and have an increase by 6.9% in the period 2023-2024.

Figure 15. Revenue structure in total revenues



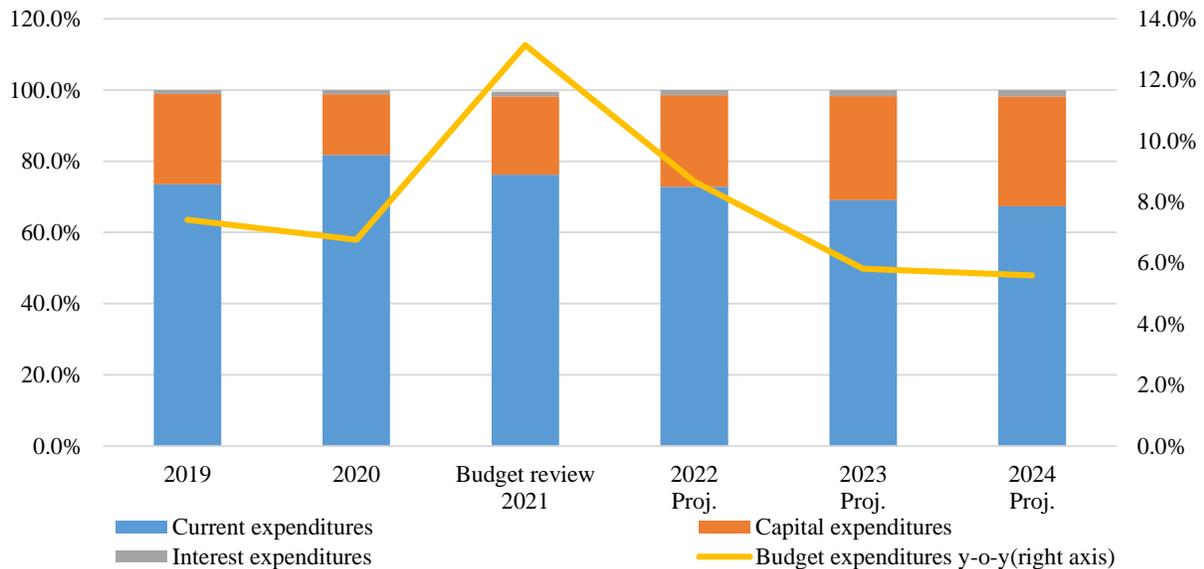
4.4. Expenditure forecast for the 2022 and the medium-term period

Total budget expenditures in 2022 are expected to increase by 8.7% in annual terms, compared to Revised Budget 2021.

Total Current Expenditures during 2022 are planned to increase by 3.2% compared to the Revised Budget for 2021, amounting to 1,966.8 million Euros. Expenditures under the category of wages and allowances amount to 670.9 million euro, marking an increase by 3.8%. Expenditures of goods and services are budgeted to increase by 5.1% compared to the Revised Budget for year 2021, whereas subsidies and transfers during year 2022 are expected to increase by 3.3% mainly due to increased spending for vulnerable groups (basic and select pensions), social assistance, maternity leave payments, child allowances and other pandemic-related expenditures. Capital expenditures constitute a significant part of total expenditures, amounting to 25.7% of total expenditures in 2022. During this period, the implementation of capital projects is expected based on a list of priorities containing projects with an impact on improving the transport network, improving the electricity network, and improving conditions in education, the social and health system. Most of the capital investments are expected to be financed from the regular budget, but a large number of projects in various sectors are planned to be financed by external borrowing through the investment clause. Lastly, around 25.7 million euro are allocated for the under the category of current reserve.

During following years 2023 and 2024, total expenditures are planned to increase at an average rate of 5.7%. Current expenditures during 2023 and 2024 are planned to increase on average by 1.3% while capital expenditures are planned to increase by 16.7%.

Figure 16. Structure of Budget Expenditure



4.5. 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, budget revenues, especially those stemming from income and consumption, decrease, and at the same time government spending increases mainly due to higher expenditure on unemployment benefits.²² These developments in fiscal indicators, which occur without any discretionary government intervention, help alleviate economic fluctuations and are therefore known as "automatic stabilisers". The structural fiscal balance (adjusted for business cycle) aims to measure the fiscal position "free" of these stabilisers, with the aim of better understanding the scale and intensity of discretionary fiscal policy.

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

²² Literature suggests that usually unemployment benefits are the only cyclical component of expenditures that should be taken into account when calculating structural fiscal balance.

the same time the structural balance. Assessment of the structural balance presented in this section, should be interpreted with considerable caution, considering the limited availability of the annual GDP data and uncertainties surrounding the calculation of potential output. In this updated version of ERP, structural balance is estimated using annual data covering the period 2007-2024 (in total 18 observations, out of which 4 are projections).

The variables used in estimating the fiscal structural balance are: real GDP, potential GDP (calculated using the HP filter), output gap, budget revenues in real terms (more specifically tax revenues, non-tax revenues and grants), expenditure in real terms, and the output elasticity of tax revenues.²³ In order to remove the cyclical component, or to 'adjust' the variables needed for this calculation, the following specification was used:

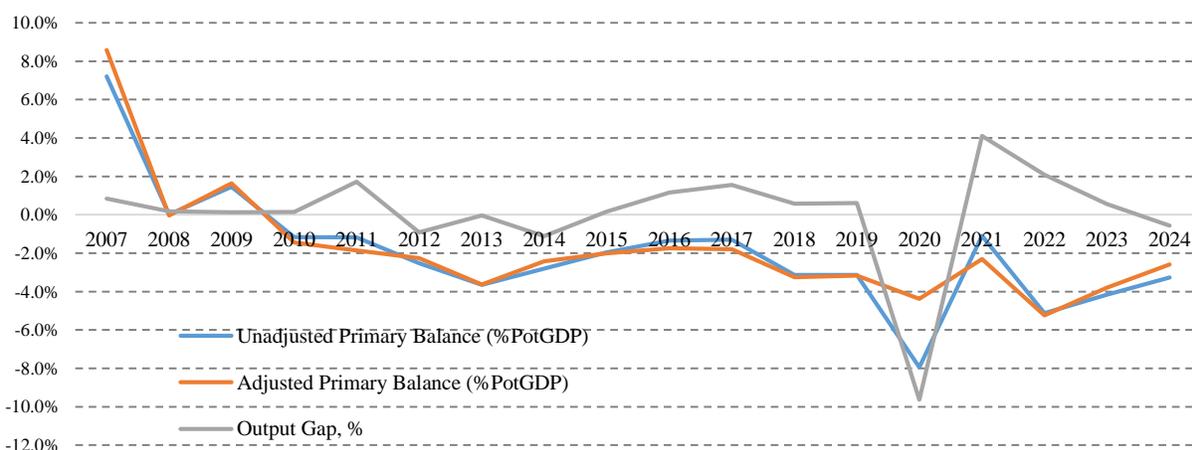
$$\text{Adjusted fiscal variable} = \text{Unadjusted fiscal variable} * \left(\frac{\text{GDP potential}}{\text{GDP actual}} \right)^{\text{Elasticity}}$$

Tax revenues were adjusted using the output elasticity of tax revenues, estimated at around 1.12. This elasticity implies that tax revenues disproportionately grow more than GDP grows, which can be explained by several factors. One can be that the tax revenue series are not adjusted or corrected for discretionary policy changes. Another reason can be attributed to distortions brought by the informal sector, which affect tax buoyancy and elasticity. As for the elasticity used to 'adjust' non-tax revenues, the value 1.00 was used. The rationale for the use of this value is based on the theoretical explanation that non-tax revenues usually move in line with GDP. Also, taking into account the fact that Kosovo does not have automatic stabilisers (such as unemployment benefits), implying that expenditures do not depend on the cyclical state of the economy, no adjustment was applied to any expenditure category. The same applies to grants.

After the above-mentioned variables were 'adjusted', the primary structural balance was calculated as in the following:

$$\text{Primary Structural Balance} = \text{Tax Revenues} + \text{Non-tax Revenues} + \text{Grants} - \text{Expenditure}$$

Figure 17. Unadjusted Primary Balance, Primary Structural Balance and the Output Gap (2007-2024)

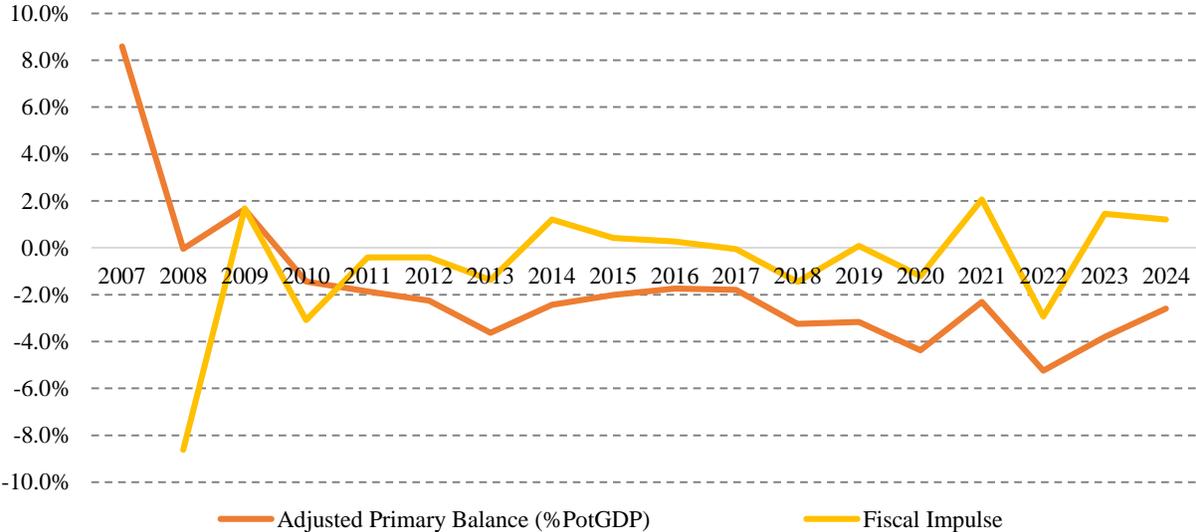


²³ The Consumer Price Index is used to transform nominal variables in real terms, namely the tax-, non-tax revenues, grants, and expenditures.

Figure 17 shows the performance of the relationship between the unadjusted primary balance, structural primary balance, and the output gap. The primary structural balance shows what the primary balance would be like if the current GDP were equal to the potential GDP (or shortly, if the cyclical component is subtracted from the primary balance). Additionally, it shows that during periods when the economy operates below potential (or when output gap has negative value), the primary structural balance is higher than the unadjusted primary balance, and vice versa. Based on these results, the periods during which the economy was operating below potential are year 2014 and 2020 onwards. During the other periods, the economy on average operated slightly above potential. The fiscal stance variable, measured by the structural primary fiscal balance, indicates whether the fiscal position of the government has been expansionary or contractionary over time. Based on the results shown both in Figure 17, it can be seen that Kosovo from 2010 onwards (even in the projected years 2022- 2024) has pursued and is expected to pursue an expansionary fiscal policy.

Lastly, the variable 'Fiscal Impulse', calculated as the first difference of the fiscal stance (the structural primary balance), measures the direction and extent of the change in fiscal policy, with negative values indicating an increase in fiscal momentum, and positive ones indicating a withdrawal of fiscal momentum in aggregate demand. From the estimations shown in Figure 18, it can be noticed that the measures taken by the Government in 2020 in response to the pandemic have contributed to an expansionary fiscal impulse. In 2021, the fiscal impulse continued to be expansionary thanks to sizeable government support foreseen in the “Economic Revival Package” in 2021. Over the forecasted horizon (2022-2024), the fiscal stance is estimated to remain supportive, with expansionary fiscal impulse registered in 2022 due to a higher execution of capital expenditures and continued government measures to address post- pandemics economic recovery.

Figure 18. Primary Structural Balance, Fiscal Stance and Fiscal Impulse (2007-2024)



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

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

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

With regard to other restriction on public debt, an amendment was added to the Law on Public Finance Management and Accountability (LPFMA) which limits the annual budget deficit to no more than 2% of forecasted GDP. Another amendment to the LPFMA was added in 2015 which allows the government to contract debt in excess of the 2% rule, given that the financing is provided by international financial institutions and is dedicated for capital projects (investment clause).

The Ministry of Finance has issued regulations on international debt and domestic debt, which contribute to an efficient public debt management. Based on the Regulation on Issuance and Administration of State Debt, State Guarantees and Municipal Debt, international loans are negotiated by an official team consisting of members from different departments: Debt Management Division (DMB), Legal Department, Department for Macroeconomic Policy and Financial Cooperation, Budget Department and relevant Budget Organizations. The issuance of domestic government securities is authorized by the Law on Public Debt, and it is regulated by the Regulation on Primary and Secondary Market for Government Securities Nr. 02-2021. The regulation has been signed by MFLT and provides, for the first time, a clear framework for on-lending for GoK.

The current practices of state debt management are in full compliance with the requirements arising from the primary and secondary legislation. The Draft Law on Debt has passed the public consultation phase and is scheduled for its first reading in January 2022.

In order to advance and align the legal infrastructure with European Union standards and international best practices, the primary and secondary legislation has undergone a review process and by the end of 2021 primary legislation is expected to be approved while the secondary legislation is expected to be completed and approved during 2022.

The table below shows debt levels throughout the years.

Table 8. Total Government Debt, in million euro (unless otherwise indicated)

Description	2018	2019	2020	2021 Revised budget	P.2022	P.2023	P.2024
International Debt	416.43	409.10	525.80	569.66	878.83	1,111.08	1,345.07
Domestic Debt	676.62	791.94	961.90	1,106.14	1,226.14	1,356.14	1,486.14
Total Government Debt	1,093.05	1,201.05	1,487.69	1,675.8	2,104.98	2,467.22	2,831.21
State Guarantees	44.00	42.68	31.65	30.63	29.61	28.59	27.57
Debt/GDP	17.04%	17.63%	22.44%	22.45%	25.40%	27.16%	28.58%

Contingent Liabilities

By the end of 2021 the state guarantee portfolio comprised of two state guarantees:

1. 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. The loan was fully disbursed and its repayment started by 2018.
2. The third guarantee was issued in 2016 in the amount of Eur 24 million to guarantee the second credit line of DIFK. The credit line is not withdrawn yet, and its last availability date is December 2023.

As shown in the table below, the amount of state guarantees is decreasing. During 2021 the Government has not entered into new state guarantee agreements.

Table 9. State Guarantees

	2018	2019	2020	2021	P.2022	P.2023	P.2024
State Guarantees	44.00	42.68	31.65	30.63	29.61	28.59	27.57
Guarantee for Credit Line of DIFK	10.00	10.00	-	-	-	-	-
Guarantee for Urban Traffic Pristina	9.70	8.68	7.65	6.63	5.61	4.59	3.57
Guarantee for Second Credit Line to DIFK	24.00	24.00	24.00	24.00	24.00	24.00	24.00
State Guarantee (% of GDP)	0.66	0.60	0.47	0.43	0.39	0.36	0.35

4.7. Sensitivity analysis and comparison with the previous programme

4.7.1. Comparison with the previous programme

Due to the situation caused by the COVID-19 pandemic, the Government priorities are oriented towards overcoming the crisis and economic recovery. Therefore, the main objectives set in the ERP 2022-2024 are: i) the battle to defeat the pandemic, and ii) post pandemic economic recovery. The impact on the economy of the pandemic and the measures taken by the government have changed macro-fiscal projections for this year compared to the ERP 2021- 2023 projections, which explain the main part of the deviations with the previous programme.

Compared with the previous ERP, in the ERP 2022, regarding to preliminary data revenues for 2021 are higher by 15.7% (16.1% tax revenues and 18.0% non-tax revenues), whereas for 2022 revenues are higher by 18.1% (19.0% tax revenues and 6.3% non-tax revenues), and for 2023, revenues are 22.3% lower (23.66% tax revenues and 7.5% non-tax revenues).

On the other hand, overall expenditures have been revised downwards by 6.7% in 2021 (2.7% current expenditures, -32.8% capital expenditures). However, for the next two years' expenditures are revised upwards for 15.7% and 19.4%, respectively.

The fiscal deficit, according to the fiscal rule, in 2021 is – 0.8% GDP (€-63.5million), while the usable bank balance is about 4.0% GDP (€301.7 million). In the following years (2022, 2023 and 2024), the budget deficit is expected to gradually increase to -2.9%, -1.8% and -0.8%, respectively. The usable bank balance is expected to be 4.9% of GDP in 2022, 4.4% of GDP in 2023 and 4.6% of GDP in 2024 (*based on Budget 2022 projections*).

4.8. Fiscal governance and budget frameworks

In 2020 there have been some changes regarding the fiscal governance and budgetary frameworks due to the situation caused by the COVID-19 pandemic. In order to create the necessary fiscal space to address the issues caused by the COVID-19 crisis (declining tax revenues and increased spending), the following fiscal rules were temporarily amended on June 16, 2020:

- The fiscal deficit has been temporarily allowed to reach 6.5 percent of GDP, from what was 2 percent of GDP previously; and
- The bank balance has been temporarily allowed to reach 3 percent of GDP, from what was 4.5 percent of GDP previously.

Even though latest budget projections foresee a reinstatement of fiscal rules toward their pre-pandemic levels in 2023, preliminary data on budget implementation for 2021 shows that fiscal rules have already been reinstated and are expected to be maintained in 2022 (based on historical execution rates of capital expenditure).

As per activity 1.1.1 of the Government's Strategic and Operational Plan, the Ministry of Finance, Labour, and Transfers (MFLT) plans to draft a Strategy for Public Financial Management Reform 2022-2026, which has prompted a series of workshops organized by the MFLT and supported by the EU. These workshops aim to discuss issues related to PFM in general and on the implementation of the Law on Public Financial Management and Accountability (LPFMA) in Kosovo. With regard to this, a concept document is being drafted which would guide the strategy and will be published for consultation with external partners.

4.9. Sustainability of Public Finances

After the economic shrunk of 5.3% in 2020, recovery experienced in 2021 was faster than expected. This performance, combined with pandemic-induced formalization, higher trust in institutions and high import prices, which led to a higher revenues collection than expected allowed a replenishment of fiscal buffers in 2021. Consequently, the primary deficit, as per fiscal rule, improved from approximately -5.4% in 2020 to -0.8% in 2021, while the bank balance level increased from 3.5% to 40% of GDP.

After relaxing the fiscal rules of deficit limit and bank balance temporarily in 2020 (increasing fiscal deficit from 2% to 6.5% of GDP, and reducing the floor on bank balance from 4.5% to 3% of GDP), recent actual data on budget implementation for 2021 show already a reinstatement of these rules earlier than anticipated by authorities.

4.9.1. Debt Sustainability

Public debt to GDP ratio is within stable levels, but with an upward trend driven mainly by projects financed by International Financial Institutions. Nonetheless, in 2020, another factor that has started to impact the growth of public debt is due to additional funding aimed to address the economic crisis caused by COVID-19. However, the fiscal rules in force that limit public debt levels and the deficit level are an important anchor to maintain fiscal stability in the long run.

The Public Debt Law was adopted in 2010, which limits debt to 40% of GDP, where any external borrowing is subject to ratification by parliament. The other fiscal rule was introduced in 2013; and limits the overall budget deficit to 2% of GDP. In 2015, the fiscal rule was changed by introducing an investment clause, which includes financing for projects aimed at improving infrastructure and meeting development needs. In addition, in 2018 the wage increase rule was strengthened which limits the increase of the wage bill with the last available annual increase of nominal GDP. From 2015 until now, Kosovo has respected these fiscal rules.

At the end of 2021, public debt reached 22.5% of GDP, where domestic debt account for 14.6% of GDP and foreign debt for 7.5%.

The Republic of Kosovo started issuing securities in January 2012. Market development has been very successful in terms of investor interest and borrowing costs. Kosovo has started working to extend the maturity of domestic debt in order to reduce the risk of refinancing. On that line, from 2018, Kosovo started issuing 10-year bonds. In 2021, Kosovo introduced ‘diaspora bonds’, which aim to attract capital from abroad, but residents are also entitled to the opportunity of investing. The total amount issued is 20 million of Euros, and majority of them are 5-year bonds, while the rest are 3-year bonds. The interest rate for the first and later bonds are 2.2% and 1.2%, respectively.

On the other hand, international debt, which accounts for about 7.5% of GDP at the end of 2021 consists mainly of concessional loans from International Financial Institutions, such as the EBRD and the IMF.

Key Assumptions of the Debt Sustainability Analysis

- Debt Sustainability Analysis (DSA) takes into account the macroeconomic forecasts for growth in the medium term. Nominal growth is projected to average 9.6% for the period 2022-2024, and then fluctuate around 4.5% in 2025-2035. The deficit, excluding projects financed by IFIs and projects financed by privatization proceeds, is projected to remain within the deficit limit under the fiscal rule after 2022, throughout the period covered by this analysis.
- Public debt in the analysis does not include the debt of POEs, but only government debt and guarantees.
- In the analysis period, short-term debt is assumed to decrease as the government increases the average amortization of securities. The Ministry of Finance, Labour and Transfers after 2017 focused on extending the average maturity time and issuing instruments with a maturity of 5, 7 and 10 years. International debt from IFIs reflects the terms of the debt

agreements for the forecast period. Disbursements from the investment clause are projected to continue until 2025, while liquidation funds are expected to be finalized in 2022, with a roughly 21million euro contribution.

- Maintaining a bank balance of 4.5% of GDP is also considered in the period after 2024, although this level is not mandatory in years when liquidation funds finance no capital expenditures.
- The debt structure is divided between commercial debt, concessional debt and government securities. The shares of each type of debt are given based on some assumptions by the Debt Department of the Ministry of Finance, Labour and Transfers for four time periods 2022-2032; 2033-2043; 2044-2054; and 2055-2065, with the share of commercial debt increasing over the years given that infrastructure projects and development needs will be gradually met by IFI-funded projects. This analysis will focus on the period up to 2035 as for this period there are more detailed data regarding the amortization of project loans and the performance of securities

The baseline scenario shows that the stock of public debt will be stable. The debt to GDP ratio shows an upward trend over the period and exceeds the level of 30% of GDP in 2034. Compared to the debt analysis in ERP 2021-2023, long-term debt levels are expected to grow in lower levels. In last year's DSA, the increase of public debt was projected to grow faster due to revenue collection underestimation for 2021-2024. Hence, in the current year's DSA the public debt exceeding 30% of GDP has been postponed for a few years.

The share of interest expenditures in the overall balance sheet (deficit) structure remains low in the first few years – similarly with last year projections. Also, the demand for financing (including financing over the 2% deficit through the investment clause by 2025), is expected to be alike.

However, current projections show the contribution of the primary balance (excluding interest expenses) to the total financing need to be significantly lower than the debt servicing costs, only after 2028.

The need for financing remains below the level of 10% of GDP, which is below the threshold of 10% of GDP for developing economies within the DSA. The need for financing in 2022-2024 is 3.8% of GDP. The lack of investments financed by liquidation funds and the gradual reduction of the investment clause have led to the need for financing to gradually decreasing in order to reflect the overall fiscal deficit. In 2022 alone, the need for financing is projected to be around 5% of GDP, which is gradually stabilized after the pandemic shock.

Figure 19. Debt as % of GDP- Baseline Scenario

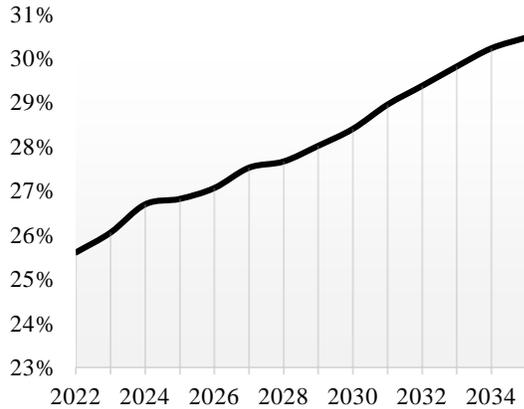


Figure 20. Financing need as % of GDP – Baseline Scenario

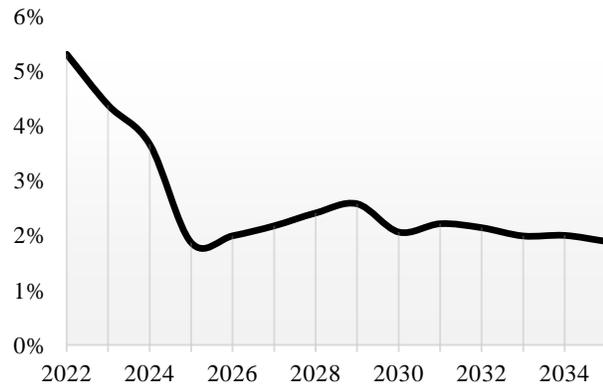
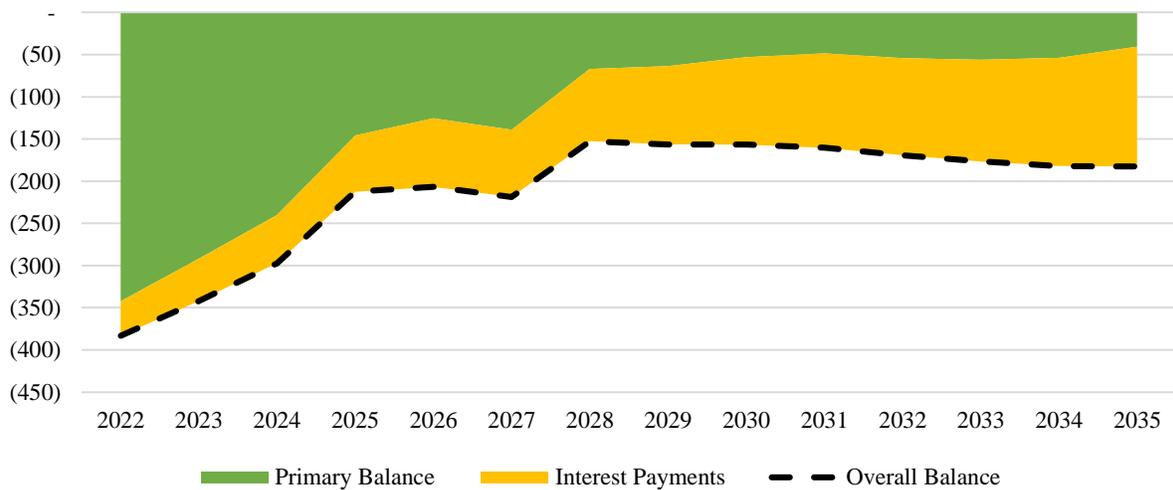


Figure 21. Overall Balance Structure – Baseline Scenario (mil Eur)



Alternative Scenario

Shocks under different scenarios affect the level of debt as a percentage of GDP, but the need for financing is expected to be at stable levels. This is mainly due to the compliance with the fiscal rule for a deficit of 2% in the two of the alternative scenarios which abide the rule.

Scenario 1- Shock to GDP growth

A negative shock to GDP growth of 2 p.p. in the period 2025-2035 brings the debt-to-GDP ratio to 30.8% at the end of the period, or an increase of 1.6 percentage points compared to the baseline scenario. A negative shock in the economic activity is expected to have a negative effect on budget revenues. However, it is assumed that the fiscal rule is assumed to be adhered in this scenario and this serves as a buffer to the debt level. As a result, regular expenditures are reduced in order to accommodate the decline in revenues and to comply with the fiscal rule of 2% of GDP.

Scenario 2- Shocks to Budget Expenditures

A shock to the primary balance by increasing spending by 2% of GDP over the period 2025-2035 would increase the debt-to-GDP ratio to 53% at the end of 2035. This scenario is built on the assumption that fiscal rules is not adhered throughout this period. Consequently, the level of debt marks a significant increase of about 23.8 percentage points compared to the level of debt projected in the baseline scenario. This scenario highlights the importance of complying with the fiscal rules.

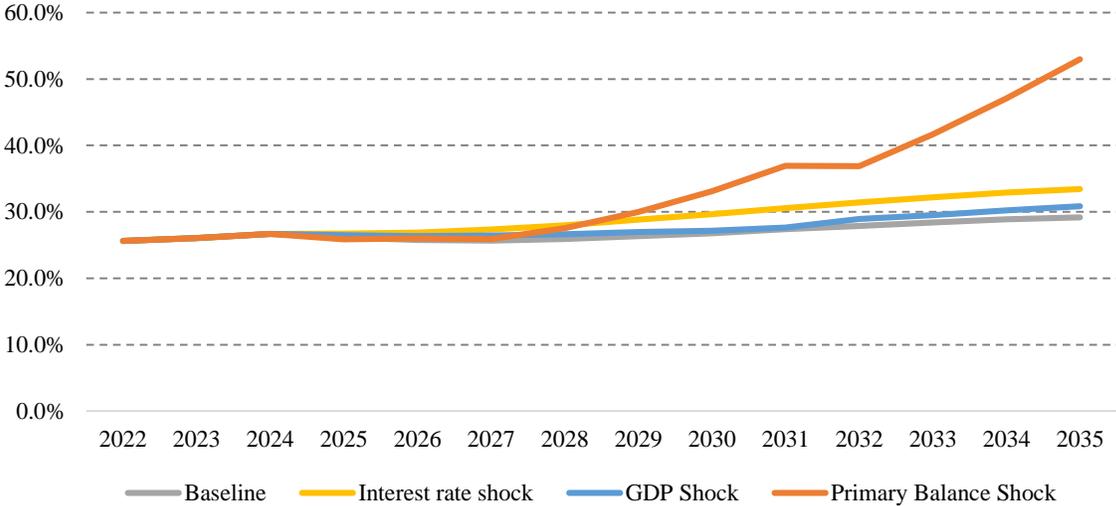
Scenario 3- Shock in interest rates

The third scenario presents an increase in 1 p.p. in interest rates on loans (both commercial and concessionary). However, the risks to debt levels arising from the public debt interest are within “tolerable limits” because they are regulated in the debt strategy and the fiscal deficit rule. More than sixty percent of total debt is at a fixed rate, and the share of variable interest debt is relatively small. At the same time, if the fiscal rule is complied with, the impact of an increase of 1 p.p. in interest rates on the overall debt stock as a ratio to GDP is negligible. The overall debt stock does not change significantly as a result of rising interest rates. However, assuming an interest shock of 1 p.p. in a scenario of not adhering the budget deficit rule, debt stock would rise significantly. Debt stock in this scenario at the end of 2035 is forecasted at 33.4% of GDP, or 4.3 percentage higher than the level in the baseline scenario.

In the end, Kosovo's public debt is expected to increase, but in the baseline scenario it will remain within stable levels. The fiscal rules in force, especially the one that limits the deficit to 2% of GDP, serve as a stabilizer of the debt level. Also, considering that there is no expected financing from liquidation funds, it is necessary to have more control over current expenditures in order to save fiscal space for capital expenditures.

The following figure summarizes discussion on the baseline and three alternative scenarios regarding the long-term dynamics of public debt in Kosovo.

Figure 22. Debt Stock According Baseline and Alternative Scenarios



THE INVESTMENT CLAUSE

In 2012, as part of the Program with the International Monetary Fund (IMF), the Assembly approved the amendments in LPFMA, including the adoption of the so-called fiscal rule. Among other things, this means a yearly restriction of maximum fiscal deficit of 2% of Gross Domestic Product (GDP), despite the Government's capacity to obtain more financing for 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, the negotiations for a third IMF programme were launched, 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.

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

It is important to note that the Covid-19 pandemic has had a significant impact on the slow-down of the implementation of projects planned for 2020. Measures taken to manage the effect of the pandemic on public health, have caused a slowdown in economic activity that has been brought about numerous problems for most businesses in the country and the vulnerable groups of our society. To address the economic damage caused by the pandemic, the Government of Kosovo has drafted a Plan for Economic Recovery, parts of each of which will be financed through the Investment Clause.

The situation created by the pandemic has also created a need for additional financing in order to manage the economic and health situation.

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

1. Financing for the recapitalization of the Kosovo Credit Guarantee Fund - In order to facilitate access to financing for businesses, part of the program for economic recovery from the crisis caused by the covid-19 pandemic, is the increase in capitalization of the Kosovo Credit Guarantee Fund (KCGF) with EUR 40 million through a financing agreement with the European Investment Bank (EIB). The agreement has been signed and ratified.

2. COVID-19 Emergency Response Public Sector Financing Facility - This project is part of the economic recovery program for the health sector with the Council of Europe Development Bank. The total value of the loan is 35 million euros, while the interest rate is subsidized by the Council of Europe Development Bank (CEB) up to 1 million euros. The financial agreement has been ratified by the Kosovo Assembly and has entered into force. This agreement has been amended in 2021 to include an additional 25 million euros. The amendment is already in force and it is being used for financing the purchase of COVID-19 vaccines, and other expenses related to this virus.

3. COVID-19 Emergency Project for Kosovo - This project has been negotiated and ratified in 2020. The main purpose of the project is to support the Kosovo Government in the fight against the covid-19 pandemic. The main components of the project are related to coverage of social transfer expenditures that have happened in 2020, as well as the medical equipment

component. The total amount of the base project is 46 million euro, as well as 2 million euro grant from the World Bank. The amendment agreement for additional financing, signed in 2021, has increased the cost of the project for an additional 15 million euros. A part of the procurement of medical equipment is being handled while the procurement of medical equipment is being done by UNOPS.

4. Vital Infrastructure Emergency Liquidity Loan (VISP) - Due to the COVID-19 pandemic, vital infrastructure service providers in the Republic of Kosovo have consistently faced revenue losses. In the absence of liquidity or any additional government support, these enterprises are under significant financial difficulties. In order to avoid this risk, the Government of Kosovo has negotiated this emergency loan agreement to support the vital infrastructure with the European Bank for Reconstruction and Development. The value of the loan is EUR 30,000,000 with a duration of 3 years. The financial agreement has been ratified at the end of 2020. The first disbursement of 10 million euro has been executed in the first trimester of 2021, while the remaining portion is expected to be disbursed by the end of 2021 or the beginning of 2022 in the form of a sub-loan.

5. Financial Sector Strengthening Project - The implementing institution for this project is the Kosovo Credit Guarantee Fund (KCGF), and the objective of the project is to improve access to finance for micro, small, and medium enterprises by strengthening the financial and technical capacity of KCGF. The financing/legal agreement with IDA/World Bank has been ratified by the Kosovo Assembly and completely disbursed. As a result of the approval of the Law on Economic Recovery, the KCGF can cover more than 50% of the guarantees for specific investments and cover the respective fees for businesses. The Technical Assistance of the project is working continually with KCGF in order to achieve the goals set by the project.

6. Rehabilitation of the Railway Line 10 - The implementing institution for this project is the Public Enterprise "Infrakos" Prishtina. Initially, the total cost of the project was estimated to be around 194.5 million euros, with the EBRD and the EIB financing half while the European Union the other half of this project. The financial agreements with the EBRD and the EIB have been signed and ratified. In terms of EU contribution, the first and second grant agreements have already been signed and ratified. However, recent developments, the total value of the project is expected to be revised. As a high priority project for the EU, parity with international financial institutions (EBRD and EIB) will be maintained to seek additional funding for this project. A grant application will be submitted to WBIF in parallel. Civil works for Phase 1 have started at the beginning of 2019, while for Phase 2 they have started in 2021. Detailed design for Phase 3 is expected to start in 2022. The first disbursement from the loans and the donation agreement was realized during 2019, and due to delays in implementation the amendment of the loan agreement with EIB has been signed in November 2020, whereby the loan availability date has been extended until 2022.

7. Rehabilitation of the Iber-Lepenc - The implementing institution for this project is the Public Enterprise of "Iber Lepenc" and the assessment of the total cost is EUR 25 million. The agreement between the Republic of Kosovo and the World Bank was ratified during 2017 and the first disbursement was made in January 2018. By November 2021, 21% of the total loan amount has been disbursed. The Ministry of Economy together with the World Bank are currently restructuring the project.

8. Rehabilitation of regional roads - The implementing institution for this project is the Ministry of Infrastructure. The Financing Agreement was signed and ratified, and the project is worth EUR 29 million with EBRD financing. Civil works have commenced in May 2019, and all contracts are signed. The agreement for an extension of the grant to cover additional consultant services to support the project implementation unit up to the amount of 450,000 EUR has been signed at the end of 2020.

9. Construction of the Highway N9 Prishtina - Peja (SEETO Route 6 A) segment Kiev - Kline to Zahaq - The implementing institution for this project is the Ministry of Infrastructure. The cost of the project is 193 million EUR. The Loan Agreement with the EBRD was signed in 2017 and with EIB in the second half of 2018. In January 2019, and a 1 million EUR agreement was signed between the Republic of Kosovo and the EIB as part of the ERI Initiative for support during implementation. It is expected that during this year we will receive a grant of 100,000 euros from the EBRD for road financing and institutional study. The process for the selection of the works supervisor has been completed and the tender for works has been launched. . In 2021, following official audit findings, an expropriation request related to this segment has been suspended and is currently with the Special Prosecutor²⁴

10. Competitiveness and Export Readiness - The implementing institution for this project is the Ministry of Trade and Industry (MIET). The project of EUR 14.3 million is financed by the World Bank and the first disbursement was made in July 2019 for the implementation of the project. Contracts with the grantees are expected to be signed soon and the drafting of the technical specifications for the e-inspection system is expected to take place once the Inspection Law is approved in the Assembly.

11. Agriculture 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 Assembly. The estimated cost of the project is EUR 20.8 million and the first disbursement was made in March 2019. Main activities under the component for transferring knowledge to the rural sector have been completed, rural and horticulture development grants programs are ongoing, and the works for the rehabilitation of the Radoniqi-Dukagjini irrigation scheme are proceeding according to schedule. The project closing date is June 2022.

12. Wastewater Treatment in Prishtina (Construction of Wastewater Treatment Plant in the Prishtina region) - The Ministry of Environment and Spatial Planning and Infrastructure is the implementing institution of this project. The financing of the project is provided through the framework agreement between the Government of the Republic of Kosovo and the Government of the Republic of France, which was ratified during 2017. Based on the agreement, the project is worth 86 million EUR. Implementation started in the second half of 2020, where the design tender has been launched and is pending.

13. Kosovo Digital Economy (KODE) - The Ministry of Economy is the implementing institution for this project. The estimated cost of the project is USD 25 million and the legal/financing agreement was signed in 2018 with IDA/World Bank. The first disbursement was made in November 2019 and 23.3% of the amount has been disbursed so far. The

²⁴ <https://mf.rks-gov.net/page.aspx?id=1,2,1117>

implementation of the project is continuing at a at a normal pace following some delays in early 2021 due to Covid-19

14. Construction of Wastewater Treatment Plants in Mitrovica - Mitrovica Regional Water Company is the implementing institution for this project. The project is being evaluated by the EBRD (as the main financial institution) and the EIB, which will co-finance the project, and will be supported by a grant from the Western Balkans Investment Framework (WBIF). Agreements with these institutions were signed and sent to Assembly for ratification in 2021.

15. Gjilan Wastewater Treatment Development Project - The Gjilan regional water company is the implementing institution for this project, which has an estimated value of EUR 23 million, to be financed by the EBRD and the EIB. The EUR 10 million financial agreement with the EBRD was signed in May 2020 and ratified in parliament on 23 July 2020, while the EUR 11 million agreement with the EIB was signed in May 2020 and has been ratified in the end of 2020. The project is expected to start implementation during 2022.

16. Wastewater Treatment Project in the Municipality of Podujeva - The Municipality of Podujeva is the implementing institution of this project. The loan agreement in the amount of 5.35 million euros was signed with UniCredit Bank Austria AG, on behalf of the Government of Austria, in 2018. The first disbursement for the project was made in 2019 and 94% of the amount has been disbursed so far, expected to be finalized by mid-2022.

17. Construction of Water Supply System in the Municipality of Ferizaj - The Municipality of Ferizaj is the implementing institution of this project. The loan agreement in the amount of 5.125 million euros was signed in November 2018 with Raiffeisen Bank International, which operates on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and by September 2021 95.8% of the amount has been disbursed.

18. Construction of Water Supply Scheme in the Municipality of Istog - Municipality of Istog is the implementing institution for this project, which is financed through a loan in the amount of 5,094 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and so far (September 2021) 95% of the loan amount has been disbursed.

19. Wastewater Treatment Project in the Municipality of Shtime - The Municipality of Shtime is the implementing institution for this project, which is financed through a loan in the amount of 2,385 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and so far, (September 2021) 72% of the loan amount has been disbursed.

20. Construction of Water Supply System in the Municipality of Gracanica - The Municipality of Gracanica is the implementing institution for this project, which is financed through a loan in the amount of 5.115 million euros. The financial agreement was signed in November 2018 with UniCredit Bank Austria AG, which acts on behalf of the Government of Austria. The first disbursement for this project was made in 2019 and so far, (September 2021) 95% of the loan amount has been disbursed.

21. Real Estate Cadaster and Spatial Infrastructure Project (REGIP) - The implementing institution for this project is the MESPI/Kosovo Cadastre Agency. The financial agreement in the amount of 14.6 million euros with IDA was signed in February 2019. The agreement was ratified in August 2020 and up until now 0.9% of the funds have been disbursed, while the implementation is expected to proceed at a faster rate in 2022.

22. The Public Transportation Project, Municipality of Prishtina - Prishtina's Public Enterprise 'Trafiku Urban' is the implementing institution for this project, which has an estimated total cost of EUR 10 million. The project is financed by EBRD and its implementation started in 2016. After the completion of the project, now the loan is being repaid, with 3.37 million Euro repaid by end-2021.

23. Tied Aid Loan Agreement Framework with the Government of Hungary - These projects are currently under review. By 2022 a re-evaluation will be completed and consequently a decision - on which projects will be financed through this loan - will be made. The projects below constitute an indicative list, which will be subject to review:

- **Replacement of Asbestos – Cement Pipes in Gjakova Municipality** - Replacement of the water supply pipe lines of asbestos - cement material, which were installed 55 years ago, in the town of Gjakova. Through this investment, the need to support the supply of drinking/tap water for the next 30 years will be fulfilled. The implementation agency is the Municipality of Gjakova. The project has been approved by National Investment Committee (NIC) and will be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
- **Waste Water Treatment Plant in Ferizaj Municipality** - This project includes the design, construction and maintenance of collecting systems (Wastewater Treatment Plant) in Ferizaj Municipality. This project will be implemented by Municipality of Ferizaj. Project has been approved by National Investment Committee (NIC) to be financed through The Agreement between the Government of Republic of Kosovo and Government of Hungary for the Establishment of a Framework Program for Financial Cooperation (Law No.05/L-153). Negotiations of the Financing Agreement are subject to the procedures as per the Law No.05/L-153.
- **Sewage System in Deçan Municipality** - Zone 1: Sewage system for Strelc villages. Zone 2: Sewage system for Dubovik villages and part of 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.
- **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.

24. Project for the Construction of Besi-Merdare Highway (Peace Highway) - This project is financed by the European Bank for Reconstruction and Development and the European Investment Bank, with total amount of the project around 200 million euro. The project is part of the Western Balkans Investment Plan drafted by the EU, and up to date it has benefited around 45 million euro of investment and technical assistance grant. The project qualifies for 40% grant support, hence an application for a 40% grant support has been sent. The Western Balkans Investment Framework is expected to decide in the coming weeks. The financing agreements are expected to be concluded in 2022.

25. Fostering and Leveraging Opportunities for Water Security Program (FLOWS) - It is a project which aims to increase the capacity of local authorities to manage and improve water safety in the Morava e Binçina basin. The amount of the project is 25.1 million euros. The financial agreement was signed in 2020 and has been ratified in the Assembly in 2022. The Ministry of Finance, Labour and Transfers has requested support from the European Union and the Swiss government, to finance a part of the technical assistance provided by the project so that the loan funds are more focused on capital investments.

26. Kosovo Social Assistance System Reform Project - This project aims to strengthen the social protection delivery systems and improve the performance of the social assistance system. The project will be financed by IDA/World Bank with a total amount of 47 million euros, the financing agreement for which was negotiated and signed in 2021. The agreement has been signed, and is expected to be ratified. The majority of the loan proceeds are dedicated to the Subvention and Transfers budget line, however investments in the delivery systems depend on developments in the Assembly.

27. Energy Efficiency Project for Prishtina and Prizren- The project aims to develop a reliable and sustainable energy renovation programme in municipal public buildings. The project is expected to cost 11 million euro and will be financed by EBRD. The agreement between EBRD and the Government of Kosovo is expected to be signed in early 2022. The loan will be a sovereign loan, which will be transferred as a sub-loan to the municipalities. The municipalities will budget this as a capital investment for 2023, when the project is prepared and implementation can commence.

28. Social Housing Project - The project aims to provide affordable and sustainable housing for specific categories of citizens. The project is being developed with the support of UN-Habitat which are doing the feasibility study and the concept document for the program. The project is expected to cost around EUR 50 million and CEB will finance a part of the project, while the modalities of structuring the project and implementation shall be defined by the feasibility study. The financing agreement with CEB is expected to be negotiated and signed in the first half of 2022.

29. Solar District Heating Project - The main aim of the project is to contribute to an efficient, reliable and climate-friendly heat supply of households, public institutions and businesses in Pristina. The project will be financed by KfW and EBRD, and is expected to cost around 64 million euro, out of which around 26 million euro is grant. The Agreements are expected to be negotiated and signed during 2022.

5. STRUCTURAL REFORMS 2022-2024

5.1. Update on the three main obstacles to comprehensive competition and growth and reform-related measures

a. Analysis of the main obstacles

This section reports on developments with respect to the identified key growth constraints since last ERP submission and presents three main obstacles to competitiveness and inclusive growth, including respective measures identified to address them.

Over the past decade Kosovo, outperformed other Western Balkan countries in terms of real GDP, recording an average rate of 4.3%. However, the outbreak of the pandemic Covid-19 in 2020 led to a contraction of Kosovo's real GDP by 5.3% in 2020. The country is now recovering from the pandemic-induced recession; the real GDP growth is estimated to be 9.7 in 2021. This is due to a stronger-than expected rebound in diaspora visits, restored consumer confidence, and higher consumer lending.²⁵

Kosovo's unemployment rate is the highest in Europe, standing at 24.6%. It is worth noting, however, that unemployment has marked a gradual decline over the past years. Inflation (measured by CPI) and public debt (as % of GDP), on the other hand, have been under control, though recently these indicators showed notable growth. This is primarily attributable to interventions undertaken to cope with the situation created by the Covid-19 pandemic.

Despite the positive performance in terms of income, there are concerns about the sustainability of the growth model. The current growth model, mainly fuelled private consumption, investment in public infrastructure projects with little return, private investment in non-tradable low-productivity activities, and donor assistance, is unsustainable in the long run. The COVID 19 shock confirmed the need for a resilient recovery that tackles long-standing structural impediments, but also showed the significant role remittances play during these times.²⁶

In addition to recent economic developments, Kosovo faces various structural challenges to competitiveness and inclusive growth. The European Commission through in its regular ERP assessment has identified three most significant challenges. While there are several obstacles to inclusive growth and competitiveness, as the result of area specific diagnostics and recent developments, the following are identified as main obstacles to competitiveness and inclusive growth:

- ***Key challenge #1: Fostering sustainable employment through improvement of quality education and linkage with labour market needs***
- ***Key challenge #2: Reorganization of the health sector in order to provide adequate and accessible health services for all citizens***
- ***Key challenge #3: Creating conditions for sustainable energy supply***

²⁵ World Bank "Western Balkans Regular Economic Report, fall 2021: <https://documents1.worldbank.org/curated/en/468651634677081582/pdf/Greening-the-Recovery-Country-Notes.pdf>

²⁶ World Bank "Western Balkans Regular Economic Report", Fall 2020. <https://openknowledge.worldbank.org/bitstream/handle/10986/34644/153774.pdf>

Key challenge #1: Promoting sustainable employment by improving quality education and connecting it to labour market needs

Kosovo faces significant challenges in education sector due to significant gaps in student learning outcomes and the education system's compliance so that it responds better to the labour market compared to other benchmark countries, regionally and globally. Improvement of the quality of education outcomes have been challenged by the resources of reform efforts, accountability mechanisms and professional capacity for teaching, quality management, and institutional coordination. Although expenditures on education have increased in recent years there is a persisting skills mismatch which will be addressed with direct measures in the upcoming medium-term period. In Q1 2021, the unemployment rate among persons without education was 55.4% (males 61.2%, females 33.0%); 35.0% unemployed among those with primary education (males 34.7; females 35.9%), 26.5% unemployed in vocational secondary education (males 25%, females 33.2%); high school-gymnasium 27.5% (males 24.4%, females 35.3%) and 19.2% among those with tertiary education (males 15.8%, females 23.7%).

Labour force participation in the labour market in Kosovo remains low. The short- and medium-term impact of COVID-19 has increased job vulnerability and risks deepening socio-economic divisions. The economic and health crisis surrounding COVID-19 increases uncertainty regarding employment. However, the latest available labour market data published by Kosovo Agency of Statistics (KAS) show that the **employment rate** in the first quarter of 2021 marked a slight improvement in annual terms, reaching 29.3%. Labour force participation improved by 0.7 p.p, reaching 39.5%. Whereas the **unemployment rate** increased by 0.8 p.p. in annual terms reaching 25.8%.

Unemployment rate among young people aged 15-24 has decreased from 49.1% in 2020 to 48.6% in Q1 2021. About 45.7% of youth aged 15-19 were long-term unemployed (more than 12 months). Among young men the unemployment is 46.1%, while among women the unemployment is 53.5%. According to LFS Q1 2021, the percentage of youth in the NEET category marked 29.8% (compared to 33.6% in 2020).

Skills mismatch with the needs of the labour market remains a major obstacle. On the employer side, among about 50% of firms report that general education does not adequately prepare students for the job - either in terms of up-to-date knowledge or soft skills (World Bank, 2019). According to the STEP survey, 75% of companies have encountered difficulties in hiring managers, professionals and technicians.

Undeclared work remains a chronic feature of the labour market, thus exposing workers to a range of risks and negatively affecting their rights, hinders fair competition and undermines macroeconomic stability, public finances, social protection and broad social cohesion. Kosovo is working on creating a national employment database/register. There is an increase of the number of jobseekers registered in the Employment Offices (EO), an increase that has come due to the measures of the emergency package, where one of the criteria to benefit from the measures has been the registration as unemployed and jobseekers in the EO.

Main structural obstacles: Skills mismatch with the needs of the labour market is the main obstacle, followed with informal employment, insufficient budget in expanding and increasing the quality of employment services and vocational training in the labour market.

Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market

Description of the measure: This measure aims to complement the VET system with formal qualifications and lifelong learning qualifications, including the Recognition of Prior Learning (RPL) based on labour market demands, in order to increase employability for the country's economic development. The measure aims to strengthen on-the-job learning, strengthen the Kosovo Practice Enterprise Centre, create preconditions for the implementation of dual learning, where this can be achieved, digitalization, counselling and career guidance, autonomy of VETIs with emphasis on financial component and review of legislation.

The measure is in line with the Government Program 2021-2025, the Government Strategic Operational Plan and policies of MESTI, is part of the NDS, will be in line with the new Education Strategic Plan 2022-2026, is part of the Strategy for local economic development while with SDGs it is correlated with objective 4, indicators 4.3, 4.4, 4.5, 4.6, and 4b.

a. Activities planned for 2022:

1. Defining of professional qualifications according to the needs of the labour market and quality assurance in order to implement dual learning; (MESTI)
2. Identification of needs for increasing professional resources in VET; (MESTI)
3. Drafting of legislation for the implementation of dual learning; (MESTI)
4. Standardization of Career Centres at the level of vocational schools; (MESTI)
5. Drafting of regulations of the Kosovo Practice Enterprise Centre; (MESTI)
6. Feasibility study related to the Autonomy of VETIs, including the financial component; (MESTI)
7. Development and review of secondary legislation for the National Qualifications Authority and development of accreditation processes for institutions that will implement Recognition of Prior Learning. (MESTI)

b. Activities planned for 2023:

1. Development of programs for the implementation of dual learning after the identification of sectors and enterprises in line with the labour market; (MESTI)
2. Design of training programs and delivery of training for increasing professional resources in VETIs; (MESTI)
3. Drafting of the necessary documents for the implementation of dual learning, standardization of Career Centres and practice enterprises; (MESTI)
4. Defining of the functions and roles of the responsible institutions in the field of VET; (MESTI)
5. Defining of the criteria and parameters that regulate the autonomy of VETIs, including the financial component, with bylaws and accompanying documents that regulate this field; (MESTI)
6. Accreditation of institutions that apply Recognition of Prior Learning. (MESTI)

c. Activities planned for 2024:

1. Design of training programs and delivery of training for increasing professional resources in VET; (MESTI)
2. Functioning of Career Centres and Practice Enterprises according to standards; (MESTI)
3. Capacity building of VET institutions for the implementation of dual learning through training of teachers and instructors; (MESTI)
4. Capacity building of responsible VET institutions. (MESTI)

Result indicators:	Baseline 2021	Target 2023	Target 2024
Dual learning implemented in IAAP (profiles)	1	3	5
Programs designed in collaboration with the labour market for dual learning	1	3	6
Career Centres functioning	15	20	25

Achieving the indicators under this measure is generally in line with the Government Program "Harmonization of vocational education and training with the demands of the labour market".

Expected impact on competitiveness: The implementation of the dual system in the field of VET is expected to increase the compatibility of skills development with the needs of the economy and increase the employment of trainees in vocational education and training institutions. Autonomy of VETIs also directly affects competitiveness in the provision of lifelong services and quality assurance.

Estimated cost of activities and sources of funding: The total cost for the implementation of this measure during the years 2022-2024 is estimated to be €4.2 million. From this amount, €1.4 million is the estimated cost for 2022, of which €104,410.00 will be financed by the Kosovo Budget and the rest of €1,295,590.00 from other sources (ALLED2, GIZ, LUX Development, EYE, OeAD, DVV). For 2023, the cost is estimated to be €1.4 million, of which €110,174.00 is expected to be financed by the Kosovo budget and €1,289,826.00 from other sources (ALLED2, GIZ, LUX Development, EYE, OeAD, DVV). While the estimated cost for 2024 is €1.4 million, of which €125,070.00 will be financed by the Kosovo budget and the rest of €1,274,930.00 from other sources (ALLED2, GIZ, LUX Development, EYE, OeAD, DVV).

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Harmonization of skills with the needs of the labour market, as well as the adoption of bylaws regulating this field, will result in qualified workers based on the needs/demands of businesses. Thus, employment growth is expected, especially among young people.

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

Potential risks:

Risk	Probability	Planned mitigation action
Delays in drafting and approving legislation, functional staff, internal regulations and further capacity building of VET institutions.	Medium	Inter-institutional coordination and support with professional staff and necessary expertise
Failure of central and local institutions to facilitate administrative procedures	Medium	Training of staff by domestic institutions and strategic partners to exercise new responsibilities

Inadequate budget allocation at the level of VETIs	High	Specification of the budget as a separate category for vocational education in the budget law.
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Reform measure #2: Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions

Description of the measure: The measure follows from last year's ERP and aims to increase the quality of higher education through improved legislation and capacity building of mechanisms that ensure the quality provided by higher education institutions (HEIs). Two draft laws which will have an impact on reforming the entire higher education in Kosovo, the Draft Law on Higher Education and that on the Kosovo Accreditation Agency, are being prepared. The draft law on KAA addresses all the recommendations of ENQA, such as institutional and financial independence, the establishment of mechanisms for increasing and monitoring quality in higher education, etc. Based on the Draft Law on Higher Education, the statutes of HEIs will be harmonized, while bylaws will be drafted and approved, among other things. The Kosovo Accreditation Agency will be strengthened through the drafting of legal acts which define its institutional nature and responsibilities and also guarantee its independent status. After the approval of the law on this agency, KAA will expand its activity in the field of quality assurance. This will initially be made possible through the increase of its competencies and responsibilities, which will be made possible by the entry into force of the Law on KAA. Consequently, KAA will start the monitoring process, through which it will be ensured that HEIs continuously meet the quality criteria and standards. The KAA will also establish teams of local (internal) monitors, thus starting a new phase of delegating responsibilities to its officials. The STAND (Erasmus+) project will support the modernization of university managements through the development and functionalization of a management system. The measure is related to the NDS and will be included in the Education Strategic Plan 2022-2026, while with the SDGs the measure is related to objective 4, indicators 4.3, 4.4, 4.5 and 4b.

a. Activities planned for 2022:

1. Approval of the draft law on higher education; (Assembly)
2. Approval of bylaws arising from the Law on KAA; (MESTI)
3. Restructuring of the KAA in line with the new Law on the KAA; (MESTI/KAA)
4. Drafting of a manual for areas of expertise; (MESTI/KAA)
5. Drafting of the regulation for the involvement of students in quality assurance processes; (MESTI/KAA)
6. Capacity building of KAA through the recruitment of 15 new officials; (MESTI/KAA);
7. Review of standards at the bachelor and master level to promote quality assurance in higher education. (MESTI/KAA)

b. Activities planned for 2023:

1. Harmonization of HEI statutes with the new law on higher education; (MESTI)
2. Approval of bylaws based on the draft law on higher education; (MESTI)

3. Drafting of Special Standards for all HEIs for the programs of Engineering, Applied Sciences, Arts and Medicine; (MESTI/KAA)
4. Establishment of a national employment; (MFLT)
5. Capacity building of KAA through the recruitment of 8 new officials; (KAA/MESTI)
6. Development and functionalization of the University management system; (Erasmus+ STAND project)

c. Activities planned for 2024:

1. Harmonization of bylaws based on the draft law on higher education; (MESTI)
2. Review of standards in line with European Standards and Guidelines; (ESG 2015). (MESTI/KAA)

<i>Result indicators:</i>	Baseline year 2021	Target 2022	Target 2023
Capacity building of KAA (recruitment of officials for currently vacant positions)	9	24	32

Expected impact on competitiveness: Capacity building and ensuring the autonomy of the Kosovo Accreditation Agency is expected to install the implementation of European quality assurance practices in the field of higher education. Meanwhile, the support from MESTI in the process of reviewing programs in the field of higher education in line with market demands is expected to address the gap between skills needed and staff currently produced by the higher education system. The expected impact on competitiveness is expected through: reduction of the unemployment rate and improvement of the competitiveness of the private sector based on the creation of relevant skills by the education sector.

Estimated cost of activities and sources of funding: Estimated cost of activities and sources of funding: The total cost for the implementation of this measure during the years 2022-2024 from the category of salaries as well as the category of goods and services is estimated to be €683,155.00. The total value for 2022 is €343,121.00, of which €107,121.00 will be financed by the Kosovo budget, while €236,000.00 from donors. For 2023, the total value is €325,034.00, of which €163,034.00 will be financed by the Kosovo budget, while €162,000.00 will be financed by donors. The total value for 2024 is €15,000, to be funded by donors.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: The measure aims to improve the quality of higher education. It ensures the deepening of the reform in higher education by improving the quality standards of higher education programs and increasing compliance with the needs of the labour market and the economy. Monitoring of HEIs is foreseen as well in order to promote the interconnection of the education system with the labour market and increase the quality in Education.

Thus, the impact is expected to be significant especially in terms of employment and employability growth, given that skills mismatch with the labour market has been identified as a key factor in maintaining structural unemployment. Educational attainment is a key factor in finding a job. Furthermore, given the demographic structure in Kosovo, the reform is expected to particularly affect the education of young people, in whom unemployment is at an alarming rate of over 55% for the 15-24 age group. This measure will also contribute to gender equality, as more HEI programs can and will be identified, through tailoring them to the needs of women in the labour market.

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

Potential risks:

Risk	Probability	Planned mitigation action
Non-implementation of quality standards in the field of higher education	Low	Adoption of the KAA Law and completion of KAA staff for the full and effective exercise of responsibilities.
Resistance from HEIs regarding the readjustment of higher education programs in accordance with the demands of the economy	High	Completion of appropriate analyses to identify higher education profiles which are deficient or which need to be readjusted. Establishment of institutional channels of dialogue and cooperation with HEIs regarding the steps for the gradual improvement of the compliance of higher education programs with the demands of the labour market.

Reform measure #3: Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups.

Description of the measure: The measure, whose primary focus is employment, is aimed at reduction of inactivity, at formalization, increase in the professional skills of the labour force, with special emphasis on strengthening the role of women and youth, and targets the long-term unemployed and other vulnerable groups. The measure also results in the improvement of public employment and vocational training services through the review of employment policies in order to increase the effectiveness of active labour market measures, pilot the outsourcing of vocational training programs through private providers, and open profiles of reviewing existing and new curricula in line with labour market demands. Furthermore, the measure aims to review employment and vocational training policies. The measure is based on several strategic documents, such as the Government Program, the Economic Recovery Package, the National Development Strategy, the Sector Strategy for Social Welfare and Employment, ERA II and NPISAA. The measure was formulated in response to labour market demands, the consequences of COVID-19, the limited capacity of public employment and vocational training services and the mismatch of labour force skills with labour market demands.

The measure is not only in response to the challenges posed by COVID-19, but is also a continuation of the reform in public employment services with the aim of expanding and providing public employment and vocational training services. Through this, it aims to provide quantitative and qualitative services for the labour force, such as: employment counselling, coaching and career guidance, opening of new profiles, validation and re-validation of profiles, professional standards, curricula and learning packages.

a. Activities planned for 2022:

1. Drafting and approval of the Plan for the implementation of the Youth Guarantee Scheme;
2. Expansion of Active Labour Market Measures for the long-term unemployed, young people, women, people with disabilities;
3. Drafting and approval of the concept document for regulating the field of provision of

employment services and measures;

4. Drafting of Employment Strategy;
5. Drafting of a Guide for categorization of jobseekers and provision of services by categories by the public employment services;
6. Review and development of 4 Curricula, learning packages based on the standards of the profession, publication of textbooks for 4 Qualifications and validation of 4 vocational training profiles;
7. Opening of a VTC profile for vocational training based on labour market demands;
8. Piloting through outsourcing for a minimum of two deficient vocational training profiles.
9. Advancement of the standard of Classification of Professions for Kosovo and integration of professions with skills/competencies and qualifications.
10. Feasibility study for Labour Market Barometer;
11. Feasibility study for the quality of employment and vocational training services through the development of monitoring and evaluation system.
12. Approval of the Draft Law on Labour;
13. Development of the Concept of Employee Registry, bearer institution;
14. Development of an awareness campaign for innovations arising from the Draft Law on Labour in the context of addressing undeclared work.

b. Activities planned for 2023:

1. Implementation of the Youth Guarantee Scheme;
2. Expansion of Active Labour Market Measures for the long-term unemployed, young people, women, people with disabilities;
3. Drafting and approval of the law regulating the provision of employment services and active labour market measures;
4. Drafting and approval of bylaws on employment and vocational training policies;
5. Review and development of 5 Curricula, learning packages based on the standards of the profession, publication of textbooks for 5 Qualifications and validation of 5 vocational training profiles;
6. Opening of a profile in VTC for vocational training based on the labour market demands.
7. Outsourcing after piloting for a minimum of two deficient vocational training profiles.
8. Advancement and development of the Labour Market Barometer with new modules such as sector skills, professional skills/competencies and qualifications, the current and future skills gap.

c. Activities planned for 2024:

1. Drafting and approval of bylaws on employment and vocational training policies;
2. Review and development of 6 Curricula, learning packages based on the standards of the

profession, publication of textbooks for 6 Qualifications and validation of 6 vocational training profiles;

3. Opening of a VTC profile for vocational training based on labour market demands.
4. Outsourcing for a minimum of two deficient vocational training profiles.

Result indicators:	Baseline 2021	Target 2023	Target 2024
% of young people who benefit from participation in active labour market measures from the total number of ALMMs provided in the calendar year.	34%	36%	38%
% of women who benefit from participation in active labour market measures from the total number of ALMMs provided in the calendar year.	34%	36%	38%
% of NEET youth in the youth population aged 15 - 24	31.7%	30.7%	29.7%

Expected impact on competitiveness: Increasing the capacity of public employment and vocational training services is expected to have positive effects on increasing competitiveness by improving the quality of jobseekers' skills services. In the medium and long term, the measure is expected to increase competitiveness by improving employment and vocational training services.

Estimated cost of activities and sources of funding: The total cost for the implementation of this measure is estimated to be €95,791,727.00 for 3 years. In 2022, it will be €32,081,149.00, for 2023 it will be €31,852,789.00 and for 2024 it will be €31,857,789.00. From the total amount, €398,360.00 will be financed by ALLED, GIZ, DVV, EYE and Lux Development and the rest by Kosovo budget.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: This measure aims to improve the efficiency of public employment and vocational training services based on capacity building according to the process of institutional review and better targeting of ALMMs to the long-term unemployed, certain groups, with a focus on youth, women, people with disabilities and vulnerable groups. The measure also aims to create skills in deficient profiles by starting to implement the model of outsourcing vocational training programs to private providers. Overall, the measure coupled with ALMM for youth is expected to reduce the high percentage of NEETs among young people aged 15 - 24. The measure also aims to increase affirmative action targeting people from rural areas, aiming to reduce social inequalities.

Expected impact on the environment: The measure will be neutral to the environment.

Potential risks:

Risk	Probability	Planned mitigation action
1. The applicability of ALMMs planned for the coming years depends on the epidemiological situation with the COVID-19 virus.	High	Measures taken by the Government to overcome the obstacles arising from the epidemiological situation with the COVID-19 virus.
2. Reduction of EARK staff due to retirement.	Medium	To be filled with new staff, in any employment office where this is needed and digitalisation of services provided from EARK

Key Challenge #2: Reorganizing the health sector in order to provide adequate and accessible health services for all citizens

Kosovo's health care system faces serious challenges, both in terms of the need for investment and infrastructure, but also in terms of focus on prevention of disease rather than treatment. Kosovo has stagnated in having a comprehensive information system for health. Kosovo has the lowest life expectancy in the region, at only 73 years, compared to the average of 77 years in the region, and 81 in the EU 27 countries. Overall, the health care outcomes for the whole population and especially for children are not good.

Healthcare expenditure amounts for 2.83% of GDP, lower than most countries in the region and covers only 40% of the annual public health care needs. Investment in human capital in the health sector and fighting brain drain are crucial in preventing a collapse of the health care system due to lack of medical professionals.

While the health care system is public, access to health care displays inequalities in Kosovo. Without publicly available health insurance and with only 6.8% of the population privately insured, citizens bear around 40% of total health care costs compared to an average 13% in the OECD countries.

Primary health care centres have the objective of treating 80-90% of problems presented, while at the same time playing the role of gatekeepers for other levels of care. Secondary care is offered through referrals, apart from emergency cases, mostly in the six hospitals in the six regions, apart from Prishtina. Overall, Kosovo's hospital capacity utilization is less than 60% suggesting that there may be too many hospitals in the country given the shortage of medical staff. This suggests that there is a shortage of medical professionals, given a high migration rate of youth, especially doctors and other medical professionals. This continuous trend has the potential to have major repercussions in the future, following the retirement of the current medical professionals.

Moreover, external factors, especially air pollution have severe implications for Kosovo's health outcomes. It is reported that PM2.5 concentrations levels in Kosovo fall significantly above the WHO guideline value, with urban areas exceeding it by a factor of 3–4, especially during the high winter peaks when inefficient heating significantly contributes to AAP.

Structural barriers: 18% of the population does not have access to health services, and the insufficient funding in the health sector cannot address the problem of access for these categories of the population, while non-implementation of the law on health insurance and unfair allocation of current resources will continue with the fail to improve financial protection, which will deepen barriers to access for vulnerable groups, low access to health services and the inability of families to afford the costs of these services with a family budget.

Reform measure #4: Improving health services

Description of the measure: The measure will generally be repeated from previous years as the activities related to the establishment of a sustainable financing system have not been carried out in the absence of the necessary changes to the legal framework and administrative capacity to initiate compulsory health insurance, such as non-extension of the health information system that is expected to undergo an evaluation process with the funds from the World Bank loan. The proposed measure is one of the most important priorities in the health system, the amendment of the Law on Health Insurance and the strengthening of human and infrastructural capacities in the

Health Insurance Fund, as preconditions for the start of the collection of contributions. This process will take place at the same time as the completion of the Health Information System. Also, for this purpose, the secondary legislation for the implementation of exemption from payment of contributions, co-payments and co-financing for health services, outpatient medicine scheme, contracting of pharmacies and medical treatment outside public health institutions will be completed. This measure aims to ensure equal access to health services for all citizens.

The measure is in full compliance with the Health Sector Strategy 2017-2021 and its strategic objectives. The measure is also in line with the Government Program 2021-2025 and with the obligations arising from the European agenda including the National Program for the Implementation of the SAA and ERA.

a. Activities planned for 2022

1. Amendment and supplement of the Law on Health Insurance;
2. Drafting of the Administrative Instruction for the outpatient medicine scheme;
3. Feasibility study for HIS;
4. Drafting of the Administrative Instruction for contracting pharmacies;
5. Amendment and supplement of the Administrative Instruction for medical treatment outside public health institutions;

b. Activities planned for 2023

1. Compilation of list and prices of health services;
2. Drafting of the Administrative Instruction for the implementation of the exemption from the payment of the contribution, and co-payment for health services;
3. Commencement of the implementation of a poverty test for social categories, to serve the exemption from the payment of health insurance contributions;
4. Strengthening of the administrative capacity of the Health Insurance Fund with the employment of about **48** officials;

c. Activities planned for 2024

1. Outpatient medicine compensation scheme;

Result indicators:	Baseline year 2021	Target 2023	Target 2024
Contributions collected from all employees in public institutions	0%	0%	100%
Contributions collected for compulsory health insurance in the private sector	0%	0%	65%
Citizens who do not have access to basic health services for economic reasons	18%	12%	<5%

Expected impact on competitiveness: The implementation of the measure will affect the reduction of inequalities in health and ensure equal access as well as economic growth and development. The measure will improve health indicators and provide financial protection from impoverishment due to high health care expenditures.

Estimated cost of activities and sources of funding: The total estimated cost for the implementation of this measure (2022-2024) is expected to be around €1,389,400. The source for funding the activities for 2022 and 2023 is the Kosovo budget and the World Bank loan. While the budget for 2024 includes € 300,000 for medicine compensation scheme. In 2022 from Kosovo budget is € 25.000 whereas € 500.000 from WB loan. In 2023 is estimated to be € 264.400 from Kosovo budget and € 300.000 from WB loan.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Overall, the measure is expected to have a positive impact on social welfare as well as in the improvement of labour market performance and competitiveness. This measure will affect the comprehensive approach through the coverage of services from the list of health care services for all categories, social and gender, at an affordable cost. Improvements in health also affect the improvement of social outcomes especially for marginalized groups, as well as people with special needs, minorities and women.

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

Potential risks:

Risk	Probability	Planned mitigation action
Possible delays in the adoption of amendments to the Law on Health Insurance and bylaws.	Secondary	Timely signing of programs and publication of calls for timely application as well as approval of Laws which will regulate many issues of importance for the sector;
Inability to employ staff in the health insurance fund due to restrictive measures by the MFLT	High	Establishment of measures for the employment of staff in the health insurance fund.

Key Challenge #3: Creating conditions for sustainable energy supply

Energy consumption in Kosovo is highly dependent on fossil fuels, as electricity generation capacity is mainly from coal-based thermal power plants, which account for about 94.5% of domestic production, while the rest of the supply of 5.5% is RES-based, consisting of hydropower plants, wind farms and photovoltaic panels. Domestic generation is not enough to cover the maximum load in the Kosovo power system, so part of the national demand for electricity is based on imports. As countries in Europe are facing rocketing gas and power prices, has made worse in Kosovo where due to low domestic production, technical faults and cold weather, forced responsible authorities to import much more energy than normal. Overall, the long-lasting need to invest in production capacities, especially in renewable energy sources, lacked a proper vision.

The electricity market in Kosovo started gradual liberalization in 2017 with the issuance of guidelines for the liberalization of the electricity market in Kosovo by ERO. The wholesale electricity market faces a lack of day-ahead market, a lack of sufficiently active suppliers, a lack of full implementation of the market liberalization guidelines, and obligations arising from the Wholesale Supply Agreement between KEK and KESCO/KEDS.

Energy prosumers have limitations in terms of their own generating capacity and the level of voltage where they can be connected. Affected consumers are currently supported by a direct payment scheme to cover part of the energy cost. Kosovo continues to lack access to some municipalities in northern Kosovo. The energy market also faces the challenge of deregulating

retail prices, where the cross-subsidization of consumers of different categories continues to be a challenge, along with low prices which do not reflect the cost of energy production. Companies generating electricity from RES which have invested through the FiT scheme have guaranteed the sale of electricity produced by them for a period of 10-12 years at fixed prices.

Technical losses in the electricity distribution network in 2020 were 12.56% of demand in distribution, while unauthorized energy consumption accounted for 12.84% of demand in distribution, of which unbilled energy in the four northern municipalities of Kosovo accounts for 6.8% (335 GWh). On infrastructure, insufficient and unreliable electricity supply is still a major constraint, although progress has been made in the area of regional market integration, where the Albanian Power Exchange (ALPEX) will have its branch in Kosovo.

In Kosovo, 60% of total electricity consumption is from buildings, where the latter are also considered to have the greatest potential for reducing energy consumption. Although there are several initiatives towards the process of improving energy efficiency in buildings, certification and qualification remain challenging, both for existing and new buildings.

Structural barriers: lack of investment to increase the flexibility of the System; low diversity of energy sources; technical and commercial losses in the electricity distribution system; inefficient use of energy, especially in the residential sector; transition from support schemes to competitive schemes for RES; full implementation of the market liberalization guideline; non-reflection of costs in electricity prices; limited competition in the wholesale and retail market; limited cross-border cooperation and with countries in the region.

Reform measure #5: Developing EE and RES policies in view of the green transition

State of play: This measure aims to prioritize energy efficiency and improve it in all sectors, especially in the residential one. The residential sector is one of the largest consumers of energy. Given this challenge, the National Energy Efficiency Action Plan (NEEAP) and the legal basis for energy performance in buildings are seen as good methods to reduce inefficient electricity consumption. Energy certification of buildings would not only help in sustainable economic and social development, but would also help in preserving the environment. This measure also focuses on increasing energy generation through renewable sources in line with the targets set by the EU and the Energy Community and on creating the necessary conditions for investment, in line with the Acquis and the purpose of the EU, and the Energy Community. This measure will have a direct impact on reducing air pollution, increasing competition in the energy market, increasing the security of electricity supply, and will therefore contribute to achieving the Sustainable Development Goal for Clean and Affordable Energy, as well as towards the Green Agenda for Clean, Affordable, and Secure Energy Supply.

a. Activities planned for 2022:

1. Approval of the draft law on RES (ME)
2. Design of a new competitive scheme for RES (ME, ERO)
3. Drafting of a concept document for the review of law on EE (ME)
4. Building of a training scheme, certification of assessors and increase in the number of certified energy auditors (ME, MESPI);
5. Establishment of digital platform for energy performance in buildings (ME, MESPI);

6. Drafting of the law on energy performance in buildings (MESPI).

b. Activities planned for 2023:

1. Approval of the draft law on EE (ME)
2. Approval of secondary legislation on RES (ME)
3. Approval of secondary legislation of the law on EE (ME)
4. Drafting of the guide for Prosumers (ERO)
5. Development of institutional capacity for energy certification of buildings, including training for central and local level institutions (ME, MESPI);
6. Defining of the procedure for the implementation of Energy Efficiency Incentives in the private and household's sectors (ME);
7. Approval of the draft law on energy performance in buildings (MESPI).

c. Activities planned for 2024:

1. Approval of the National Energy and Climate Plan (ME)
2. Drafting and approval of the Action Plan for the implementation of the Prosumers Incentive Program (ME/ERO)
3. Action plan for implementation of the incentive program/incentives for the private and household sectors (ME)
4. Application of incentives for the private and household sectors (KEEF)
5. Development of institutional capacity for energy certification of buildings (ME, MESPI)

Result indicators:	Baseline year 2021	Target 2023	Target 2024
RES legislation, approved		✓	✓
Competitive RES support scheme, approved		✓	✓
EE legislation, approved		✓	✓

Expected impact on competitiveness: The implementation of EE measures, including the policy for energy certification of buildings, will directly contribute to reducing the consumption and cost of electricity. Reducing energy consumption through these measures will boost private sector investment and help businesses. Ultimately, reducing technical losses will help reduce the total cost of energy. Implementing this measure increases the security of electricity supply as a condition for increasing competitiveness, and reduces the amount of imported energy, which is peak energy and at a higher cost than domestic generation. Furthermore, space will be created for the development of the RES and EE sector, the establishment of technical and human capacity for investment, and the preparation of local companies for export abroad. Also, with the development of RES legislation and competitive schemes, space will be created for private investors in the field of RES to join the energy production market, benefiting local consumers by reducing electricity prices compared to prices under FiT.

Estimated cost of activities and sources of funding: The total cost for the implementation of the measure is €380,000.00. The cost for 2022 is €326,000.00, for 2023 it reaches €32,000.00, and for

2024 it is €22,000.00. From this amount, €70,000.00 will be financed by the Central Budget of Kosovo, while €310,000.00 is foreseen to be financed through other grants.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality:

The adoption of legislation in the field of EE and RES enables the creation of legal and strategic conditions for investments in the sector by domestic and foreign companies. Consequently, it will affect the institutional capacity building in the energy sector through the generation of new jobs. Implementing the policy for energy certification of buildings will also create new employment opportunities and advancement in the labour market, through capacity building of manufacturing and construction enterprises, where such actions help reduce poverty and improve living conditions. Furthermore, the legal and strategic documents will also address the components of gender equality, education and innovation in the energy sector, thus positively affecting the well-being of citizens and participants in the energy market.

Expected impact on the environment: Kosovo, as a member of the Energy Treaty and a country with a European perspective, has confirmed its intention to align its policies with those of the European Union, and consequently the policies of the Green Agenda. The implementation of legislation and NECP creates legal, regulatory, operational, and infrastructural conditions that enable an active competitive market in which barrier-free trading of electricity will play an important role (regardless of production capacity or type of technologies, in the conditions of development of decarbonization policies), as well as it will influence the increasing penetration of electricity from RES in the market, which in turn results in the reduction of environmental emissions. Furthermore, investments in the field of EE and the initiative for energy certification of buildings will not only reduce energy consumption, but will also contribute to achieving thermal comfort inside buildings, and will have a direct impact on reducing environmental pollution, thus also affecting the reduction of the use of other forms of energy for heating.

Potential risks:

Risk	Probability	Planned mitigation action
Delays in the adoption of laws and bylaws on EE and RES	Low	Harmonization with the legislative plan
Lack of full inter-institutional coordination	Low	Full inter-institutional coordination through a number of activities at central and local level, including harmonization of activities as a priority in the implementation of policies for energy performance in buildings.
Unpredictability of the duration of the COVID-19 pandemic	Medium	Government measures against the COVID-19 pandemic as well as coordination of activities remotely.

Reform measure #6: Reforming the energy market

Description of the measure: The measure will address the problem of low effectiveness of competition in the energy market by relying on the review of existing policies including the Energy Strategy, energy sector legislation and the further development of the institutional, regulatory, and operational capacities of the actors involved in the energy sector. This measure also envisages the functionalization of the Electricity Exchange, of which Kosovo is a part, as well as the provision of an additional service to customers, offering them the opportunity to compare at any time the offers from suppliers in the energy market. This measure will contribute towards meeting the

Sustainable Development Goal (SDG) 'Affordable and Clean Energy' as it is expected to foster competition in the energy market in the electricity generation and supply chain; and the policies of the EU Green Deal on the supply of 'Clean, Affordable, and Safe Energy', where emphasis is placed on energy affordability and security, tackling energy poverty, and promoting regional cooperation in the energy sector; energy, issues that are expected to be addressed and regulated through the proposed legislation.

a. Activities planned for 2022:

1. Drafting and approval of the Energy Strategy and the Program per implementation of the Energy Strategy; (ME)
2. Approval of the Concept Document for the revision of laws in the energy sector (ME)
3. Functionalization of the Albanian Power Exchange - ALPEX, (KOSTT)
4. Establishment of a platform for comparing supply prices; (ERO)

b. Activities planned for 2023:

1. Design and approval of the Draft Law on Energy; (ME)
2. Drafting and approval of the Draft Law on Electricity; (ME)
3. Approval of the Draft Law on Energy Regulator; (ME)
4. Adoption of bylaws of energy sector legislation; (ME)

Result indicators:	Baseline year 2021	Target
Energy Strategy, approved	2021	2022
Amendment/supplement of legislation, completed	2021	2023
Power Exchange, operationalized		2022
The platform, functional and accessible		2022

Estimated cost of activities and sources of funding: No costs are foreseen regarding the drafting of documents defined in the activities. Also, the development of the tool/platform for comparing energy prices will be performed free of charge, while the cost of operation of the Power Exchange will be financed with own-source revenues after the functionalization of the Power Exchange.

Expected impact on competitiveness: The measure of further reforming the energy market will result in: (i) increased security of energy supply; (i) increased flexibility of the energy system, which will be accompanied by the opening of new businesses in the field of services in the energy sector (iii) increased investments, especially in the field of energy production from RES; (iv) increased competition in the energy market. After the start of operation of the Power Exchange (ALPEX), more transparency and competition in the electricity market will be guaranteed, while it will also have a positive effect on the security of electricity supply, more efficient use of cross-border capacity, while the price of electricity is expected to reflect competitive market prices for the citizens of both countries.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: The measure of further reforming the energy market will enable the creation of conditions for new investments in the sector by local and foreign companies, in all links of the energy system chain, consequently in the creation of new jobs, the improvement of welfare and environmental living

conditions. New policies and necessary legislative changes for their implementation will include the component of gender equality.

Expected impact on the environment: The measure of further reforming the energy sector will have an impact on the gradual decarbonization of the energy sector. Further increase of opportunities for integration of renewable energy sources, new obligations imposed on operators for efficient use of energy, as well as strict measures for the implementation of environmental operating conditions, will reduce harmful emissions to the environment.

Potential risks:

Risk	Probability	Planned mitigation action
Delays in the adoption of legal and sub-legal acts as well as of strategic and operational documents	Low	Timely harmonization with the legislative plan.
Unpredictability of the duration of the COVID-19 pandemic	Medium	Government measures against the COVID-19 pandemic as well as coordination of activities remotely.

5.2. Analysis of obstacles in other areas and related structural reform measures

5.2.1. Public Finance Management

State of play: Kosovo aims to ensure a modern system of Public Finance Management that is in line with the best international experiences and enables the efficient and effective functioning of all phases in this field. It is currently the third pillar of Public Administration Reform (PAR). The Ministry of Finance, Labour and Transfers (MFLT) has the objective to draft, in the first part of 2022, the Public Finance Management Reform Strategy (PFMRS) of Kosovo 2022-2026 and the Action Plan, and the same to be approved by Government. This strategy will be a continuation of PFMRS 2016-2020 and the Transitional Action Plan 2021, approved by the Minister of Finance, Labour and Transfers in 2021. The PEFA assessment is in the final stage of the report. OECD/SIGMA has finalized the PFM Field Assessment, which is part of the Monitoring Report on Principles of Public Administration²⁷. Findings from these two assessments, as well as other relevant assessments of international and domestic institutions, including the National Audit Office, will serve in the drafting of PFMRS 2022-2026. The strategy is expected to have four pillars, as follows: a) fiscal discipline; b) allocation efficiency; c) operational efficiency and d) PFM-related issues.

As part of the joint dialogue between Kosovo and the European Commission, in the meetings of the Special Group for PAR (SGPAR), it was agreed to continue the reforms, and with the recommendation of the OECD/SIGMA, the strategic framework within PAR will be harmonized in terms of duration, covering the time period 2022-2026.

The legal framework of Public Finance Management has been identified as a current challenge. A Working Group has been established to draft a Concept Document for the treatment of PFM. The group will address all identified deficiencies and obstacles that need to be incorporated into the legal framework. The Strategy and the Concept Document will include all the objectives which are considered as priorities and which address the main obstacles to stable economic growth. The main objective in drafting the strategy of reforms in the field of PFM will be macroeconomic and

²⁷ <http://www.sigmaweb.org/publications/monitoring-reports.htm>

fiscal stability as well as budget transparency, which are a prerequisite for the functioning of government operations and for creating a more favourable climate for private sector development. The strategy will also support the development of competitive economic sectors and ensure that economic growth is inclusive and aims to increase welfare. In order for the new law and PFMRS 2022-2026 to be in line with international standards and best practices, the findings and recommendations from PEFA which are soon expected to be finalized and the OECD / SIGMA that have already been published will be considered, as well as other local and international organizations. On the other hand, extra care will be given to areas which are already regulated by international standards in order to continue to be maintained and updated according to the developments of the time.

In the field of Public Procurement, Kosovo has a legal framework that is based on EU principles of public procurement, such as: transparency, equal treatment, free competition and non-discrimination. Kosovo has continuously adopted a legislative framework in order to increase competition in the field of public procurement.

In order to increase competition in the field of public procurement, the following legal conditions have been created:

- it is now possible to divide contracts (procurement activities) into lots (homogeneous and heterogeneous);
- since 2016, the procedure for the invitation for quotation (from 1000 euros to 10,000 euros) is being developed as an open procedure. Previously it was conducted by contacting at least 3 economic operators; and
- there is full implementation of e-procurement.

Full implementation of e-procurement (from January 2019) has increased efficiency, transparency, accountability in the field of public procurement and has greatly facilitated the preparation and submission of bids by economic operators during tendering processes, thus influencing the increase of competition in public procurement. The implementation of e-procurement enables economic operators, from the workplace (wherever they are), to prepare and submit their bids in procurement activities electronically. During 2021, contracts with minimum values (0-1000 euros) are developed through e-procurement and two new modules have been functionalized in the framework of e-procurement. The module for managing contract execution through e-procurement has been functionalized as well as the module for evaluating the performance of contractors. The implementation of these two modules through the e-procurement system will greatly increase the efficiency, transparency and accountability in managing the execution of signed contracts in the field of public procurement.

The EC 2020 Country Report, the latest report that contains data on 'bidders per tender', estimates that: "Kosovo has an average of five bidders per tender which reflects a good level of competition". According to the procurement category (goods, services, works), especially for works tenders, we have a higher average that goes up to 7 bidders per tender (a procurement activity). These data are extracted from e-procurement and reports of contracts signed in the field of public procurement by the Contracting Authorities at the country level, which are submitted to the PPRC for each fiscal year.

Regarding Public Finance Management, after meetings and internal consultations of the coordination group for the field of PFM, it is estimated that currently there are no identified barriers

that affect economic competition, therefore, we do not have any specific measures that can be part of structural reforms under the Economic Reform Program 2022-2024. In parallel to an ongoing review of PFM legislation led by MFLT, GoK is processing a new Law on Debt as well as a revised Public Procurement Law.

5.2.2. Green transition

State of play: Kosovo faces various environmental issues such as climate change, natural disasters and various pollution. These environmental issues pose significant development challenges for Kosovo institutions, which do not yet have sufficient capacity to address them.

Air pollution in urban areas and especially in industrial areas is estimated to be high, based on data from continuous air quality monitoring through the National Network for Air Quality Monitoring in Kosovo. 23.6% of the time throughout the year, the air quality index is at the level of poor quality, which means that 16.9% of the time the air is of poor quality, 4.6% of the time the air is of very poor quality and 2.1% of the time the air is of extremely poor quality, resulting from exceeding the allowed values with dust particles PM_{2.5}²⁸. Kosovo already has an online reporting system for air quality results, which enables the provision of accurate real-time information to the public in some Kosovo municipalities. This system presents data monitoring for 5 indicators in 12 air quality monitoring stations. The largest contributors are power plants, high combustion plants, transport sector, low combustion plants, agricultural activities, household waste and waste incineration sites.

In terms of municipal waste, the amount generated at the country level is approximately over 450,000 tons. Based on the composition of municipal waste generated at the country level, over 90% of them can be recycled. Currently, over 10% go to the recycling line (including exports dedicated to recycling). Almost the entire amount of municipal waste ends up in sanitary landfills and some of it ends up in illegal landfills. On the other hand, the legislation regulating this area is harmonized with the EU Acquis. However, the waste sector needs reform and support. The circular economy would create opportunities for investment and new jobs, by providing sources of raw materials for production. The implementation of the Deposit Refund System (DRS) would result in investments from the private sector, including foreign direct investment. This is in line with the principles of extended manufacturer liability as well as the 'polluter pays' principle.

In recent years, special attention has been paid to the conservation of biodiversity, through the proclamation of nature protected areas. About 11.53% of the total territory has been proclaimed as Nature Protected Areas including: 19 strict nature reserves, 2 national parks, 182 natural monuments, 1 natural park, 5 protected landscapes and 1 special protected area for birds. So, in total, the number of protected areas is 210. Despite this positive fact, their effective management is at an unsatisfactory level. Illegal construction, deforestation, hunting and other human activities are seriously threatening the natural values of these areas. This situation has resulted due to the partial implementation of existing legislation and the lack of relevant institutions for management, monitoring and inspection.

The current legislation in the field of waters has many shortcomings and policy reforms in this area are necessary. They are intended to be implemented through several planned activities, in order to meet the objective of the measure. The small amount of waters in local watercourses, with an average annual volume of less than 100 m³/s, implies the need to build urban and industrial

²⁸ <https://airqualitykosova.rks-gov.net/en/>

Wastewater Treatment Plants (WWTP). Currently, the WWTP for the Skenderaj and Prizren area are in operation and the WWTP for the Peja area in the testing phase, whereas WWTP for Gjakova area is in the implementation phase. Some other municipalities, such as: Prishtina, Mitrovica, Ferizaj and Gjilan are in the initial stages of administrative procedures for contracting consulting companies. Illegal exploitation of alluvium in rivers, then regulation of rivers without ecological/hydromorphological criteria, implies the urgent need for restoration of rivers, according to protective and ecological criteria. These actions directly affect the conservation of the biodiversity of the water environment.

Structural barriers: Use of outdated technologies/outdated power plants; Financial constraints of companies for investing in new technologies to reduce air emissions; Lack of wastewater treatment; Poor waste management; Biodiversity loss; Wild exploitation of natural resources;

Reform measure #7 Reducing environmental pollution and preserving biodiversity

Description of the measure: The main objective of this measure is to improve the quality of life and sustainable economic, social and cultural development. In order to meet this objective, existing policies will be reviewed, harmonizing them with EU legislation, to provide the basis which aims to reduce air pollution, increase the level of waste and water management, sustainable use of natural resources, protection of biodiversity and natural landscapes as well as raising awareness on environmental issues. The measure is related to the NDS, the Air Quality Strategy 2013-2022, the Kosovo National Plan for Emission Reduction 2018-2027, the Strategy for Integrated Waste Management 2021-2030, the National Water Strategy 2017-2036, the Green Agenda for the Western Balkans and Sustainable Development Goals.

a. Activities planned for 2022:

1. Drafting of the Long-Term Decarbonisation Strategy (MESPI, ME);
2. Drafting of the Strategy for Environmental Protection and Sustainable Development 2022-2031 (MESPI, ME);
3. Research and analysis of opportunities for establishing a Deposit Refund System (MESPI);
4. Drafting of the law on waters of Kosovo (MESPI);
5. Review and supplement of the National Water Strategy 2017-2036 (MESPI);
6. Finalization of the River Basin Management Plan for Drini i Bardhe (MESPI).
7. Preparation of the Circular Economy Roadmap (MESPI).

b. Activities planned for 2023:

1. Drafting of the Administrative Instruction on the competencies of the waste owner, producer and importer of the product (MESPI);
2. Drafting of the Administrative Instruction for the establishment of the deposit refund system (DRS), (MESPI);
3. Approval of the Long-Term Decarbonisation Strategy (MESPI, ME);
4. Increase in the number of nature protected areas (MESPI);
5. Drafting of the Concept Document on the field of financing water resources management (MMPHI).

6. Drafting of five Administrative Instructions from the Law on Waters of Kosovo (MESPI).

c. Activities planned for 2024:

1. Drafting of the draft law on financing water resources management (MESPI);
2. Establishment of a deposit refund system for glass and plastic bottles and cans - start of operation (MESPI);

Result indicators:	Baseline year 2022	Target 2023	Target 2024
Increase in the number of natures protected areas	210	240	280
Points set for return of packaging (plastic, aluminium, glass bottles) for DRS application	0	0	20
Good Status of Waters (start of operation of two new Wastewater Treatment Plants (Peja and Gjakova)	2	3	4

Expected impact on competitiveness: The implementation of this measure will contribute to living in a cleaner environment, maintaining health and economic and social well-being. The expected impact is related to the transition to a circular/green economy through: increasing the amount of packaging for use in the local recycling industry; increasing the export of packaging material, mainly beverages (plastic, aluminium, glass), the positive effects of which can be observed within 2-4 years after application of DRS; orientation towards a low carbon economy by reducing greenhouse gas emissions; better preservation of biodiversity and natural resources; improvement of surface and groundwater quality.

Estimated cost of activities and sources of funding: The total expected cost for the implementation of activities is expected to be €1,727,200.00. On an annual basis, for 2021: €1379,100.00, for 2023: €185,500.00, and for 2024 it is planned to be €162,600.00. Implementation of these activities is done through the Budget of the Republic of Kosovo and donors. The estimated cost of the activities from the Budget of the Republic of Kosovo is planned to be €621,000.00, and €1,106,200.00 from donors. In order to implement these activities, policies will be drafted and the national legislation will be harmonized with the EU acquis.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Approval of strategic documents, legislation and the implementation of planned measures projects provide basis and opportunities for job creation. Marginalized groups of informal sectors will be drawn into the formal economy. Consequently, this measure affects the improvement of quality of life and economic and social well-being. The legal equality component is addressed in the strategic and legal documents.

Expected impact on the environment: Implementation of legislation and action plans of strategic documents and projects enables the reduction of air and water pollution, reduction of loss of biodiversity and improvement of waste management.

Potential risks:

Risk	Probability	Planned mitigation action
Delays in implementation from the situation created by COVID-19	Low	Measures set by the Government, virtual communication

Low level of inter-institutional and private sector cooperation	Low	The private sector should be consulted from the beginning because it is a key participant in the process
Insufficient budget for the environment	Low	Establishment of Eco Fund and the possibility of membership in GEF (Global Environment Facility)

5.2.3. Digital transformation

State of play: Fixed broadband electronic communications infrastructure is widespread in both urban and rural areas. Towards a gigabit digital infrastructure, there are bottlenecks in backbone infrastructure and insufficient capacity in international connections. Fixed access internet penetration is estimated to be 129% of households compared to 78%²⁹ in EU. Mobile telephony penetration is around 110% of the population and it is estimated that internet users via 3G and 4G network are 78% of the population compared to 100% in EU. Mobile internet speed at unsatisfactory level - due to insufficient utilization of frequency resources.

Demand for additional Internet capacity / speed has increased significantly during the COVID-19 pandemic. Government, in order to address the growing demand for broadband Internet services, through the KODE Project is acting to create the preconditions for the extension of robust broadband telecommunications infrastructure by interconnecting mobile network stacks with optical cables to enable the development of technologies and services based in 5G and 6G generation networks. So far, 188 villages, 105 schools and 43 ambulances have been covered with fixed broadband infrastructure. In the framework of human resource development for the digital economy and support for digital businesses, the IPA 2017 project has started to be implemented in 2020, which aims to increase the competitiveness of the ICT sector in Kosovo. Also, the other IPA 2019 project for digitalization of businesses through ICT has started the implementation procedures and aims to increase the efficiency and productivity of the private sector through the use of ICT, creating the right and safer ecosystem for e-business and e-commerce enabling the improvement of electronic services for citizens and businesses. In June 2021, the Government approved the Draft Law on Electronic Identification and Trust Services in Electronic Transactions (transposing eIDAS Regulation) and it was submitted to the Assembly for approval.

In accordance with the Kosovo IT Strategy, the implementation of the project for the establishment of the Centre of Digital Excellence (CDE) in the Innovation and Training Park in Prizren has been initiated. A Data Centre has been built within CDE as part of the National Research and Education Network, which will serve the academic and research community. CDE will serve for the development of ICT innovation and will initially focus on studies, research and developments in the field of ICT based on the latest ICT trends. In Kosovo, the added value of the ICT sector is mainly provided by the provision of services at home and abroad.

Investments in telecommunication infrastructure have marked a continuous decline since 2015 when they were close to €52 million, during 2016, 2017 and 2018 were about € 30 million per year, and during 2019 and 2020 investments were around €20 million and €24 million respectively (or close to 0.3% of Kosovo's GDP). The general use of ICT in industry is still limited and many companies lack awareness of competitive benefits. It is estimated that the ICT (Information and

²⁹ https://ec.europa.eu/newsroom/dae/document.cfm?doc_id=67086

Communication) sector employs about 3.4%³⁰ of the total number of employees compared to 3.7% at EU level.

Institutions of the Republic of Kosovo have developed: State Computer Network, State Data Centre, Interoperability Platform, a number of central electronic systems for providing electronic services to citizens, businesses and the administration itself, the electronic portal “e-Kosovo” where a limited number of services have been launched and which will be the only platform whereby the state institutions will provide services to citizens and businesses.

Before the COVID-19 pandemic hit the world, Kosovo faced serious challenges in the education system reflected in the PISA results. The closure of schools as a result jeopardized even more the level of teaching - learning and the quality of teaching. To facilitate the implementation of curriculum in distance learning through the digital platform in Kosovo, the digitalization of primary and secondary education had the greatest efforts in the period 2020/21. The electronic platform with digital educational content, known as the Learning Passport, has been launched in Kosovo in April 2020 and now in February 2021 has been unified for entire pre-university education³¹. So far, there is no official data on the level of use of this platform.

Structural obstacles: Lack of a general ecosystem to create opportunities for more innovative ideas in all areas related to ICT and digital technologies; the lack of broadband internet infrastructure; the unwillingness of businesses to go digital; lack of support and enabling environment for fixed broadband networks and 5G networks for digitalization of the economy; and lack of a system for electronic identification and authentication (e-ID). Limited number of electronic services in the e-Kosovo Platform; non application of electronic payment module; the need of investing in the modernization of state IT infrastructure; the need of expanding the Implementation of the Interoperability Platform for systems integration; further advancement of hardware capacities and increase of security in the State Data Centre - SDC; the need of establishment of a Disaster Recovery Centre for cases of disasters; as well as building and advancing professional human capacities.

limited ICT equipment in Primary and Secondary schools. In terms of tertiary level, universities still do not have access to European and international academic networks even though Kosovo is a member of the pan-European network GEANT and the National Research and Education Network is in the process of development.

Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system

Description of the measure: The measure builds on the previous ERP, revised in order to expand access to and use of ICT through the extension of broadband infrastructure, support for the extension of 5G mobile infrastructure, creation of conditions for research and education, strengthening of human capital, support of digital businesses, digitalization of other businesses, as well as digitalization of public services, and the education system. This measure is in line with the National Development Strategy, Kosovo Digital Agenda 2013-2020, Kosovo IT Strategy, NPISAA and MTEF. It is essential to set priorities during the process of drafting the Digital Agenda 2030, the Strategic Plan for Education in Kosovo, the Smart Specialization Strategy, the review of the National Strategy for IT. Measure is also in accordance with SDG 17.6 and 17.8.

³⁰ <https://ask.rks-gov.net/media/4671/anketa-e-tregut-te-punes-2018.pdf>

³¹ www.shkollat.org

a. Activities planned for 2022:

1. Approval of the Digital Agenda 2030;
2. Review of the Kosovo IT Strategy;
3. Drafting a Concept Document for Electronic Communications Code;
4. Extension of fixed and mobile 5G infrastructure;
5. Finalization of the Fixed Station for frequency monitoring;
6. Finalization of the National Research and Education Network (KREN);
7. Development of trainings for youth and Program - YOU (Youth Online and Upward Program);
8. Digitalization of businesses through the use of ICT (eID System, creating the right and safer ecosystem for e-business and e-commerce);
9. Ongoing development of the Centre of Digital Excellence - 5G Pilot;
10. Development of Prishtina - Tirana digital corridor based on 5G technology;
11. Establishment of ICT monitoring system;
12. Further development of electronic services in eKosova Platform, application of the electronic payment module; (AIS)
13. Extending the Implementation of the Interaction / Interoperability Platform for systems integration; (AIS)

b. Activities planned for 2023:

1. Drafting of the Law on Electronic Communications Code;
2. Provision of support for the extension of fixed and mobile 5G infrastructure (interconnection of schools and ambulances);
3. Delivery of trainings for youth and Program - YOU (Youth Online and Upward Program);
4. Digitalization of businesses through the use of ICT (eID System, creating the right and safer ecosystem for e-business and e-commerce);
5. Ongoing development of the Centre of Digital Excellence - 5G Pilot;
6. Development of Prishtina - Tirana digital corridor based on 5G technology;
7. Smart villages in remote areas;
8. Establishment of an education centre - STEM in the field of ICT in CDE;
9. Further development of electronic services in eKosova Platform, application of the electronic payment module; (AIS)

c. Activities planned for 2024:

1. Support for the extension of fixed and mobile 5G infrastructure (interconnection of schools and ambulances);
2. Delivery of trainings for young people and their connection with online job opportunities - online youth and growth program (Youth Online and Upward Program - YOU);

3. Digitalization of businesses through the use of ICT (eID System, creating the right and safer ecosystem for e-business and e-commerce);
4. Establishment of Laboratory for 5G, IoT, Cybersecurity and Smart Village, at ITP Prizren;
5. Wise villages in remote areas;
6. Starting classes for children from primary schools in Prizren in STEM education;
7. Initiation of a call for proposals for R&D projects in ICT;
8. Construction of Disaster Recovery Centre; (AIS)

Result indicators:	Baseline	Target	Target
Number of mobile network stacks connected to fixed broadband infrastructure - 5G Ready	2020 0	2022 30	2024 40
Number of trainees in the field of ICT, on the digital economy	2021 500	2022 1500	2024 3060
5G pilot in CDE, completed	2021 No	2022 In implementation -50%	2023 yes

Expected impact on competitiveness: The WB study concludes that a 10% increase in broadband fixed infrastructure penetration will be followed by an increase of 1.21% of GDP in developed economies and 1.38% of GDP in developing economies. Creating the right conditions through the extension of the relevant network infrastructure and the provision of broadband services will facilitate access to international markets, the development of new business models, allowing people and companies to work regardless of location and with flexible hours and in general accelerating procedures and processes by increasing economic dynamism and improving competitiveness, improving the labour market and business environment. Providing a skilled workforce would help grow the ICT sector, increase of competition and increase of revenues in the economy of our country.

Estimated cost of activities and sources of funding: Total cost for implementation of this measure is expected to be around €23,431,894 million for 2022-2024. Of this total amount, the estimated cost for 2022 is €11,742,950, of which €4,081,250 are funds from the Kosovo Budget, €1,400,000 are funds from IPA and €6,261,700 are loans from the World Bank (KODE Project). The estimated cost for 2023 is €8,388,944, of which €3,801,449 will be funded from the Kosovo Budget, €1,300,000 from IPA Funds and €3,287,495 Loans from the World Bank (KODE Project). Whereas, the estimated cost for 2024 is €3,300,000, of which €2,000,000 will be funded from the Kosovo Budget and €1,300,000 from IPA Funds.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: This measure will have a positive impact on employment by expanding opportunities for digital work, with a special focus on young people, women and people with disabilities. According to some surveys, broadband infrastructure has been assessed as a major motivator of flexible work, in more than ¾ of the surveyed businesses, citing the expansion of broadband infrastructure as a factor influencing this. As a direct result of the second component of the KODE Program, the creation of 400 new jobs in the IT software businesses is planned and ICT trainings are planned for 2000 people, who could potentially be considered new jobs (employed or self-employed).

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

Potential risks:

Risk	Probability	Planned mitigation action
Potential delays in the implementation of projects with WB and IPA as a result of the pandemic	Low	Detailed review, at an early stage of the activity implementation, of the potential ICT workforce and existing ICT businesses regarding the criteria for admission to the activity, using the most effective ICT tools for testing and evaluating potential candidates.

5.2.4. Business environment and reduction of the informal economy

State of play: Kosovo's economic development is suffering from the widespread informal economy, a slow and inefficient judiciary, and weak overall rule of law. Recent studies estimate that the informal economy accounts for up to 30% of GDP. The presence of the informal economy in the country has a negative impact on the market economy, and fair competition between businesses. In this regard, it is also a major obstacle in measuring macroeconomic indicators, such as: Gross Domestic Product (GDP), economic growth and unemployment rate, etc., which are reflected in the creation of economic policies. The high level of informality in Kosovo is an important challenge of the business environment. During 2021, TAK has intensified formalization efforts, registering 2,756³² previously unregistered workers by October 2021, and is continuing a targeted campaign to urge employees to request formalization³³. Challenges, such as regulatory and administrative reforms, administrative burden for businesses, lack of proper mechanism and handling of commercial disputes, lack of proper coordination and training in the field of inspections and the poor state of the tax regulator in Kosovo, continue to adversely affect the business environment by creating legal uncertainty and unfair competition in market. Measures taken to prevent the spread of the COVID-19 pandemic during 2020 affected Kosovo's economic decline of 5.3%.

The economic situation improved throughout 2021 following the ease of anti-COVID measures at the beginning of 2021 and the measures taken by the government to support businesses (direct subsidies to out of work employees, to employer formalization, support for liquidity and rent) and households (additional basic pension and social assistance payments, and additional support to vulnerable groups). Real GDP is estimated to have grown by 9.7% in 2021, detailed data and information on the contributors to this growth are provided in the Macroeconomic Framework section of this ERP, as well as the accompanying tables. However, the challenges mentioned above and the ongoing fight against the COVID-19 pandemic are a source of uncertainty going forward.

Although the informal economy is constantly being combated and is one of the priorities of the government, this phenomenon is continuing as a result of low awareness of its negative effects, lack of coordination and lack of inter-institutional cooperation of the Labour Inspectorate and other inspection bodies, consequently resulting in low efficiency in combating the informal economy. Another key problem remains the administrative burden and difficulties in the full implementation of the Law on Business Organizations. The small number of one-stop-shop services, the high time and cost of services for businesses, the numerous requirements for businesses that affect their

³² <https://www.atk-ks.org/komunikate-per-media-2-756-punetore-te-formalizuar/>

³³ <https://www.atk-ks.org/komunikate-per-media-88-raste-denoncimi-per-punedhensit-nga-punetoret/>

management, discourage businesses from operating and investing in Kosovo. In the spirit of the Sustainable Development Goals (SDGs), this area is in line with SDG Goal 16 (Promoting just, peaceful and inclusive societies) by promoting peaceful and inclusive societies for sustainable development, providing access to justice for all, and building effective, accountable institutions at all levels.

Structural obstacles: The main obstacles and challenges in this area are unfair competition due to the informal economy, lack of coordination, planning and implementation of coordinated activities of inspection bodies, administrative burden, incomplete implementation of the Law on Business Organizations and lack of adaptation of the recent European practices and low inter-institutional coordination and coordination between public and private institutions in the collection and sharing of financial information. These structural obstacles affect legal uncertainty, discouragement of investment and operation in the market, the realization of economic rights, the state budget and the increase of fair competition in Kosovo.

Reform Measure #9: Improving the doing business environment by reducing the administrative burden, inspection reform

Description of the measure: In the light of the doing business environment improvement, the Government aims to undertake several activities that will have an impact on increasing transparency and quality of services for businesses and citizens, as well as increasing the effectiveness of the administration. The inspection reform aims to achieve two main objectives: improving inter-institutional coordination regarding inspections of business activities and digitalization of the inspection process. This measure is in line with Indicator 2.4.3 Efficient governance and Indicator 2.8.1 Improving the doing business environment of the Program of the Government of Kosovo 2021 – 2025.

a. Activities planned for 2022:

1. Update of the Administrative Burden Reduction Program; (OPM)
2. Update of policy development methodologies: Manual on Concept Documents, Manual on SCM and the Manual on Explanatory Memorandums; (OPM)
3. Analysis of the legal basis of about 300 sub-legal acts approved by the Government (continuation of the analysis of 1762 sub-legal acts approved by the ministries, conducted in 2021) and the respective repeal and establishment of the legal basis of sub-legal acts as a result of both rounds; (OPM)
4. Development of modular training on tools and approaches used to reduce the administrative burden and build capacity for administrative burden reduction; (OPM)
5. Harmonization and approval of 50 laws with the Law on General Administrative Procedure; (MIA)
6. Analysis for simplification, merging or abolishment of permits and licenses for all line ministries and regulatory bodies; (OPM)
7. Evaluation for digitalization of all permits and licenses; (OPM)
8. Amendment of horizontal legislation allowing and governing the inspection reform (OPM);

9. Human capacity building, which means the training of inspectors and other relevant officials preparing them for the full implementation of the new concept of inspections (Central Inspection Office);
10. Development of digital inspection platform (MIET).
11. Reorganization of inspection units, including database interconnection (MIET).
12. Adoption of the Law on Business Organizations (MIET)
13. Increasing the number of market inspectors and training (MIET)

b. Activities planned for 2023:

1. Capacity Building for Administrative Burden Reduction; (OPM)
2. Increasing the number of labour market inspectors and training (MIET)

c. Activities planned for 2024:

1. Increasing the number of labour market inspectors and training (MIET)
2. Capacity Building for Administrative Burden Reduction; (OPM)

Result indicators:	Baseline year 2021	Target 2023	Target 2024
Reduction of permits and licenses	Baseline year 2014 480 licenses and permits	At least 20% of simplified, merged and / or abolished licenses and permits	At least 3% of licenses and permits simplified, merged and / or abolished compared to the baseline year 2014
Repeal of sub-legal acts, which have no legal basis	1762 sub-legal acts (baseline year 2020) At least 5% of sub-legal acts without legal basis have been repealed compared to the baseline year 2020	At least 15% of sub-legal acts without legal basis have been repealed compared to the baseline year 2020	At least 3% of sub-legal acts without legal basis have been repealed compared to the baseline year 2020
Reduction of inspection bodies	2021 36	2023 36	2024 18

Expected impact on competitiveness: Improving the quality of policy-making and drafting legislation, creating a unified system that ensures sustainable inter-institutional coordination by inspection authorities and the functioning of a single, effective and specialized address in resolving commercial disputes will significantly affect the removal of unnecessary obstacles in the process of Administrative Burden Reduction (ABR), increase the efficiency, transparency and accountability of inspection bodies and increase legal certainty for businesses. Therefore, by eliminating unnecessary procedures and requirements, simplifying and digitizing the necessary procedures, reducing the supervisory burden on businesses, as well as increasing legal certainty through efficient resolution of commercial disputes will have a direct impact on improving the business environment, improving competitiveness, increasing foreign and diaspora investment and reducing the risk of expanding existing businesses.

Estimated cost of activities and sources of funding: The total cost of this measure will be € 4,537,330 for the next three years (2022-2024). Regarding the reduction of the administrative

burden, for the year 2022-2024, the IPA program and GIZ will allocate € 380,000 for the development of capacities for the reduction of the administrative burden, the simplification of licenses and permits for regulatory bodies and the repeal of bylaws without legal basis. While in terms of inspection reform, the total cost for the years 2022-2024 is € 2,032,000, from the Kosovo Budget are planned to allocate € 432,000 for the employment and training of new inspectors, while € 1,600,000.00 € loan from the World Bank for the development of the platform inspection, linking the database and equipping inspectors with electronic equipment.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality:

Reduction of the administrative burden for businesses and administration, as well as drafting best policies and laws will have a positive effect on the growth and development of businesses, as well improving of services for businesses and citizens, which in turn increase employment and reduce poverty. Inspection Reform will improve the administrative effectiveness in terms of inspections and reduces the barrier of control exercised over businesses that will affect the reduction of informal economy, as well as improving services for citizens. Reduction of the informal economy means increasing the budget, and increased budget can affect the increase of welfare for the poorest strata of the population.

On the other hand, the improvement of the doing business environment will result in the increase of the interest for foreign investment. New investments dynamize the labour market and stimulate the increase of women's participation in the labour market.

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

Potential risks:

Risk	Probability	Planned mitigation action
Lack of institutional capacity for full implementation of administrative burden reduction approach and inspection reform.	High	Organizing trainings for professional capacity building through technical assistance.

Reform Measure #10: Reduction of the informal economy

Description of the measure: This measure aims the improvement of the quality of governance in the economy, as well as the increase of financial resources for public services as a result of additional tax revenues. This measure is in line with the National Strategy of the Republic of Kosovo for the Prevention and Combating of the Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes 2019-2023, the National Development Strategy (NDS) and constitutes the implementation of the commitments of the Government of the Republic of Kosovo in the dialogue with the European Union (EU) during 2018.

a. Activities planned for 2022:

1. Application of the new risk approach by TAK based on the design and implementation of compliance projects, to target the treatment of high-risk sectors, such as: construction, accommodation, informal employment, trade and stock control (TAK);
2. Determining corrective measures for compliance projects through ex post evaluation of the implementation of these projects; (TAK)
3. Increasing the number of inspections and staff engaged in joint operations between TAK

and KC, under the leadership of the joint group established by both Institutions in order to address cases of businesses which are characterized by a high degree of risk in avoiding tax and customs duties; (ATK & Customs)

4. Review of ensuring direct access of the FIU-K to the TAK database. Authorities should consider the FIU's indirect access to the TAK database in the context of financial intelligence analysis to ensure the timely availability of information commensurate with the risks and priorities of the competent authorities.
5. Increase of the level of oversight and the number of on-site inspections, especially in relation to the DNFBP sector, to ensure, *inter alia*, that beneficiary ownership information is being collected and maintained
6. Adoption of the Law on the Register of Beneficiary Owners; (MIET)

b. Activities planned for 2023:

1. Drafting the new National Strategy for Combating the Informal Economy, based on sector risk assessments and assessments related to the tax gap in general. (SLEJ Secretariat)
2. Establishment of a special team or organizational unit in the FIU-K for the development of strategic analysis.

c. Activities planned for 2024:

1. Improvement of coordination between institutions responsible for preventing and eliminate the undeclared work.
2. Investigative and intelligence capacity building (FIU)
3. Increase the administrative capacity of the FIU-K, including the provision of sufficient staff resources for the FIU-K to check the compliance of financial institutions and DNFBPs with PML / CTF requirements
4. Development and strengthening of IT capacities
5. Professional capacity building of FIU-K staff
6. Conducting National Risk Assessment

Result indicators:	Baseline year 2021	Target 2022	Target 2024
Increase in tax revenues compared to the previous year	19%	26%	33%

Expected impact on competitiveness: Reduction of the informal economy will improve the business environment in general, fair competition and consequently will enable the growth of those sectors where Kosovo has more competitive advantages. Competition from the informal sector is the main obstacle for regular taxpayers. This measure would address this issue by increasing the taxable transactions as a result of the implementation of a more effective control mechanism and a better risk analysis, as well as the reduction of informal employment. The situation created by the COVID-19 pandemic in Kosovo has also influenced some taxpayers to hide their turnover by finding additional justification for the economic downturn and the decline in purchasing power as a result of the pandemic. This situation can have a negative impact, resulting in the continuous growth of unfair competition, so the actions proposed in this measure would tackle these issues by

continuously increasing the inter-institutional cooperation in order to exchange information based on the risk assessment.

Estimated cost of activities and sources of funding: For 2022, the cost is estimated to be EUR 194,100. This value will be financed from the Kosovo Budget. While in 2023 the cost is estimated to be EUR 36,000. In 2024, the cost is estimated to be EUR 60,000.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: The reduction of the informal economy will directly affect the growth of formal employment. The main impact on employment would be the improvement of official employment levels in the sectors with the highest level of informality. This would also affect the increase of workers' rights and easier access to finance, especially to gender equality and poverty reduction that impact women's labour force participation in particular. Moreover, it would also affect the economic development, increasing the budget, which could translate into increasing welfare for even the poorest sections of the population. The reduction of the informal economy will significantly affect the increase of budget revenues used for funding the public services, thus increasing the well-being of the citizens of the country.

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

Potential risks:

Risk	Probability	Planned mitigation action
Stagnation of inter-institutional cooperation	Medium	Intensify or increase the exchange of data between various institutions, both central and local, in order to combat the informal economy.
Lack of consistency of Law Enforcement Institutions in inter-institutional interaction.	High	Increase the number of memoranda of cooperation between the Institutions by enabling the interconnection of systems where information would be exchanged electronically

5.2.5. Research, Development and Innovation

State of Play: Research, Development and Innovation (RDI) in Kosovo still remains at a low level of support. Although, according to Law on Scientific-Research Activities, Kosovo must allocate 0.7% of the total budget or €17.5 million and there has been recent increase in the budget, it still remains unfunded with budget allocation to €2.5 million, or 0.1% of the total state budget. The Republic of Kosovo is an international partner country for cooperation in Horizon 2020 Programme and so far, has managed to benefit 20 projects funded by this program (out of 103 applications, of which 95 project proposals have met the criteria and 20 of them have been funded). Based on good performance shown in the Horizon 2020 Programme, the GOK has reached the agreement with EU for the advancement of Kosovo's status in the Horizon Europe Programme and plans to join the European Scoreboard. Membership in these mechanisms will contribute to improve the system, identifying priorities and regulating the innovation ecosystem in the country. In 2021 we have launched a grant scheme to support innovative ideas and projects of start-up businesses in the amount of €500,000 and for Start-Up businesses that with Spin-off in the amount of €650,000. Due to COVID-19 pandemic situation, the Government has provided supply to 6 high schools in the municipalities with ICT equipment. Also, ICT businesses will exhibit their services at EXPO2020 in Dubai. The National Science Council has been operationalized, which will enable a comprehensive institutional approach and better coordination of research and innovation

policies. There is a need to establish a National Science Fund, as well as to develop implementation mechanisms. The legal infrastructure is a precondition for establishing this Fund to define, clearly the main goals for orienting businesses towards the application of innovative ideas and projects, in order to increase export potential, competitiveness, job creation, improvement of quality of products or services, capacity building, with priority given to young people, women and marginalized people. Finalization of this document will help to regulate sources of funding for businesses and Academy of Innovations, functions of the Innovation Centres, clusters and other common spaces for development of innovative ideas, which will ensure services for training and consultancies in order to translate creative ideas of the innovators into sustainable projects and businesses.

We also have started to develop the Kosovo Research Information System as a platform development for collecting and storing data and regulating relevant processes for R&I. Administrative Instruction on Subsidies and Transfers has been amended in order to address clearly direct financial support to businesses, students and other individuals who apply innovative ideas and projects.

Structural Obstacles: The field of innovation in Kosovo is still fragmented and competencies need to be clearly addressed. Inter-institutional cooperation should be enhanced in order to sustain the innovation ecosystem and increase investment to stimulate business and academia. This cooperation has stalled due to the situation created by the COVID-19 pandemic. The legal framework for innovation should be amended by additional provisions and instruments for capacity building, with special emphasis on increasing involvement of women, young people, people with special needs in additional education. A serious obstacle for Kosovo's entrepreneurs, young people and academic staff are the limited opportunities for access to international funding, and exports.

Reform Measure #11: Improving the environment for research, innovation and entrepreneurship

Description of the measure: The measure builds on the last year's ERP cycle and aims to improve the environment for research, development and innovation with an impact on economic and social development of the country, based on review of existing policies. Main objectives and public policies for research and innovation will favour the development of sectors that have a direct impact on the Transitional Green Economy. The measure is in line with Government Program 2021-2025, Government Strategic Operational Plan and policies of the institutions responsible for innovation, and it is also related to Sustainable Development Goals, i.e., Goal 9 concerning the Industry, Innovation and Infrastructure, through indicators related to investments on research, production and employment (Points 9.5 and 9b).

a. Activities planned for 2022:

1. Adoption of Law on Innovation and Entrepreneurship; (MIET)
2. Functionalization of the National Council for Innovation - digital coalition; (MIET)
3. Functionalization of the National Science Council and drafting of the National Science Program; (MESTI)
4. Drafting of AI on the Forms of Transfer of Knowledge and Technology; (MIET)

5. Drafting and approval of the Concept Document on Mapping of Research, Science and Innovation Systems; (MESTI)
6. Launching grant schemes for direct support of businesses and individuals for innovative projects; (MIET)
7. Voucher support for scientific projects and publications in indexed journals;
8. Investments in innovation centres and laboratories in high schools, faculties and vocational schools. (MESTI)

b. Activities planned for 2023:

1. Drafting of Law on the Innovation Fund; (MIET)
2. Creating a database for Innovation potential at the country level; (MIET)
3. Investments in innovation centres and laboratories in high schools, faculties and vocational schools; (MESTI)
4. Launching grant schemes for direct support of businesses and natural persons for innovative projects; (MIET)
5. Voucher support for scientific projects and publications in indexed journals; (MESTI)

c. Activities planned for 2024:

1. Membership in the European Innovation Scoreboard; (MESTI)
2. Launch of grant schemes for direct support of businesses and natural persons for innovative projects, (MIET);
3. Voucher support for scientific projects and publications in indexed journals; (MESTI)

Result indicators:	Baseline year 2020	Target 2023	Target 2024
Support of innovative businesses	10%	20%	30%
Investments in technology equipment and laboratories	N / A	20%	N / A
Support of scientific projects	11	15	18

Expected impact on competitiveness: Support for business, science and innovation will increase by amending the legal framework and establishing the mechanisms necessary to improve the environment for RDI, which will be a key driver in increasing the performance of our enterprises, as well as competitiveness. Particular focus will be on the green transition economy and the use of advanced technologies.

Estimated cost of activities and sources of funding: The total value for implementation of this measure for three years is estimated to be €9,210,000, all financed from the Kosovo Budget. For 2022, implementation cost will be €2,580,000, of which €30,000 will be from the category of goods and services, €2,350,000 from “Subsidies and Transfers” and €200,000 from “Capital Expenditures”. In 2023, the cost is estimated to be €3,230,000, of which €30,000 will be from the category of goods and services, €3,000,000 from “Subsidies and Transfers” and €200,000 from “Capital Expenditures”, while for 2024 the total amount is €3,400,000 which are from the category “Subsidies and Transfers.”

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Investments will be made in training and consulting of young entrepreneurs, in order for their innovative ideas and creativity to be translated from project ideas into sustainable businesses. These trainings will facilitate the access of young people and women to access international investments. Evaluation of the research and innovation system will enable data-driven policies that will contribute to citizen welfare.

Expected impact on the environment: Innovative projects that will be subsidized by the government for businesses, scientific research or training of entrepreneurs, will focus on supporting activities that are highly sensitive to environmental problems (green business), for the preservation of natural landscapes (green tourism), outputs of the recycling process, digitalization of services and processes or digital transformation (green industry) according to the Green Agenda Agreement for WB countries.

Potential risks:

Risk	Probability	Planned mitigation action
Needs for reallocation of the innovation budget for the purposes of emergency economic revival packages	Medium	Coordination with the Ministry of Finance Labour and Transfers the reallocation of the innovation budget.
Non-functioning of the National Council of Science	Low	Proposal for approval in the assembly of the members of the National Council of Science
Lack of statistical data on the indicators needed for the European Innovation Scoreboard.	Medium	Cooperation with the Kosovo Agency of Statistics and relevant institutions to provide the necessary data.

5.2.6. Economic integration reforms

State of play: Kosovo has taken substantial steps in liberalizing foreign trade and significant progress has been made in aligning trade policies with international trade rules. However, despite all the efforts made, it has not yet managed to ensure stability as Kosovo continues to face a high deficit in trade in goods. Kosovo's economy saw a significant hit in 2020 as a result of the COVID-19 pandemic and the measures taken to protect public health, mainly in the context of restricting movement and physical distancing, were reflected in an overall decline in economic activity. The increase in exports of goods, as well as the significant decline in imports as a result of the decline in economic activity. The **trade deficit** in real terms narrowed by only about 0.5% compared to the January-September of the previous year, as the significant increase in import of goods and services almost fully offset the increase in exports, especially those of services (the full table with breakdowns is available under section 2.2 of the Macroeconomic Framework of this ERP, as well as accompanying annex tables). At the regional level, Kosovo participates in trade facilitation reforms through CEFTA mechanisms, as well as the plan for the Common Regional Market, which is reflected with the activities in measure 13.

Structural obstacles: Kosovo depends on a very close number of partners, consequently it has limited supply capacities that can meet the requirements of many countries. Thus, the geographical diversification and product range diversification is very low and as such susceptible to potential demand shocks that may occur in the narrow group of export markets. However, obstacles to achieving quality and implementing international trade standards remain challenging, especially after the entry into force of the Stabilization and Association Agreement where Kosovo producers

are facing an “aggressive European market”, including difficulties in meeting Sanitary and Phytosanitary (SPS) requirements and Technical Barriers to Trade (TBT). Furthermore, limited integration into the regional and global value chain, lack of cooperation between local and regional /international suppliers makes it impossible to establish trade links between international companies. An eventual integration of Kosovo input suppliers into the global supply value chain would create expansion effects in regional and international markets. In conclusion, the frequent non-tariff trade barriers imposed by the region on local businesses remain another reason for a negative trade balance.

Reform Measure #12: Improving cross-border trade through trade facilitation

Description of the measure: This measure is expected to reduce the cost of cross-border transactions and time in order to improve the market penetration conditions for Kosovo's exports to selected (targeted) markets. Also, this measure is expected to provide a friendly legal environment for commercial activities in Kosovo. Kosovo has already assumed obligations at regional and global level, which derive from CEFTA, SAA, Free Trade Agreement with Turkey and the United Kingdom and the World Customs Organization (WCO). Trade facilitation, namely addressing and reducing barriers, is also addressed through the National Development Strategy, the Government Program and the National Program for the Implementation of the SAA. This measure is repeated from last year's ERP because some of the activities require a period longer than 1 year to be implemented. Also, some of the activities have not been implemented due to the frequent political changes and the situation with the COVID-19 pandemic. This measure is related to the European Green Deal, Item 2: Transforming the EU's economy for a sustainable future; Sub-item 2.1.3. Mobilizing industry for a clean and circular economy. There is also a relation with the SDGs, which aims to strengthen implementation tools and revitalize the global partnership for sustainable development.

Furthermore, measure is on relation with the Common Regional Market which derives from Item 1 of the Sofia Summit: Regional Trade Area - Related Trade Measures; Sub-items: 1.1 Preservation of Green Corridors / Lanes and harmonization of controls in BCPs / CCP (5. Establishment of full connection between SEED + and Electronic Quality Management System (e-QMS) if put into operation, to maximize benefits of both systems for economic operators), 1.2. Elimination of Non-Tariff Barriers (NTB) (1. Adoption of an efficient and effective dispute resolution mechanism), and 1.5. Reduction of trade costs and increase of transparency.

a. Activities planned for 2022:

1. Drafting of the Trade Policy document (MIET).
2. Supplement / amendment of the Customs and Excise Code (CEC) and AI on the implementation of the CEC, (MFLT - Kosovo Customs).
3. Approval of the new Law on Internal Trade (MIET).
4. Initiation of the negotiation process for agreements with EFTA countries (MIET).
5. Approval of the Regulation on the Establishment of the Information Facility for Trade Facilities by the Government (MIET - Kosovo Customs).
6. Feasibility study for the NCTS (New Computerized Transit System) project platform (Customs - MoF).

7. Finalization of negotiations with CEFTA countries on Additional Protocol 7 for the settlement of trade disputes;
8. Submitting the application to the World Trade Organization for the purpose of membership in this mechanism;
9. Drafting of secondary legislation on the Law on External Trade; (MIET)
10. Ratification and implementation of the agreement with EFTA countries. (MIET)

b. Activities planned for 2023:

1. Creating and the functioning of the information exchange platform at the regional level through SEED + (Customs);
2. Ratification of Additional Protocol 7 to CEFTA for the Settlement of Trade Disputes.

c. Activities planned for 2024:

1. Initiation of the WTO accession negotiation process (MIET and relevant institutions);

Result indicators:		Baseline 2021	Indicator 2023	Target 2024
Customs clearance time per hour, Unit / Hour	Import	130 min	110 min	100 min
	Export	75 min	65 min	55 min
Increase in the percentage of electronic customs declarations (paperless concept)		70%	80%	90%

Expected impact on competitiveness: According to the World Trade Organization, trade facilitation can reduce trade costs by an average of 14.3%. Analyses show that in many countries, the reduction of the trading time at the macro level to just one day can increase trading activity by more than 5%. Trade facilitation reforms in Kosovo are expected to reduce customs clearance time on exports and imports from 130 minutes currently for import to 100 minutes by 2023 and for exports from 75 minutes to 55 minutes.

Estimated cost of activities and sources of funding: The total amount of the budget planned for these activities for three years is 113,000.00 €. For 2022 the amount of € 38,000.00 will be financed from the Kosovo budget and € 10,000.00 from IPA foundations. For 2023 it is foreseen to be financed € 41,000 from the Kosovo budget which fall into the category of goods and services and for 2024 the amount financed from the central budget is € 24,000 which also fall into the category of goods and services.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: According to the 2018 Report of the World Trade Organization and the World Bank “Trade and Poverty Reduction” in 2018, it is emphasized that the market opening has clear and positive effects on poverty reduction. According to research by the International Trade Centre (ITC), women-owned businesses that export employ an average of 42 people, compared to an average of only 8 people employed by non-women-owned businesses that do not export. Trade is also associated with higher participation of women in work with greater formality and higher wages. Exporters in developing countries employ more women than non-exporters and women make up up to 90% of the workforce in export processing areas. Therefore, the implementation of these activities aims to provide a positive impact in the increase of social welfare in Kosovo in the medium term.

Expected impact on the environment: According to the OECD, the economic growth resulting from trade expansion can have a direct impact on the environment by increasing pollution or degrading natural resources. However, increasing trade on the other hand, by supporting economic growth, development and social welfare, can contribute to a greater capacity to manage the environment more effectively. Most importantly, open markets can improve access to new technologies that make local production processes more efficient by reducing the use of inputs, such as energy, water and other environmentally harmful substances. Similarly, trade and investment liberalization may give firms incentives to adopt stricter environmental standards. As a country becomes more integrated within the world economy, its export sector becomes more exposed to the environmental requirements imposed by major importers. The changes needed to meet these requirements, in turn, flow backwards along the supply chain, stimulating the use of cleaner production processes and technologies.

Potential risks:

Risk	Probability	Planned mitigation action
Delays in the adoption of legislation	Medium	Increase coordination cooperation with relevant bodies while respecting the hierarchy.
Political barriers related to regional representations and membership in international organizations	Medium	Building lobbying platforms for membership in international mechanisms and addressing obstacles to relevant local and international stakeholders.

Reform measure # 13: Further development of quality infrastructure and empowerment of the role of market surveillance authorities

Description of the measure: The measure aims at further approximation and implementation of EU sectoral legislation in order to ensure increased market surveillance, fulfilment of obligations by producers of non-food industrial products, further increase of services provided in the local market by conformity assessment bodies as well as integration into the market of the EU and other countries; elimination of technical barriers to trade and effective market surveillance by market surveillance authorities. This measure is related to the NPISAA, the Government Program and indirectly to the NDS in the standardization section and it's also linked with The European Green Deal point 2: Transforming the EU's economy for sustainable future; sub-item 2.1.3. sub-point 2.1.3. Mobilising industry for a clean and circular economy (Energy-intensive industries, such as steel, chemicals and cement, are indispensable to Europe's economy, as they supply several key value chains).

a. Activities planned for 2022:

1. Drafting of the action plan for the transposition of EU Regulation 2019/1020 on Market Surveillance and Compliance of Products and Regulation 2019/515 on the Mutual Recognition of Goods (DIC-IT);
2. Implementation of the Program for the Elimination of Barriers to Trade 2021-2025 (Treaty on the Functioning of the European Union 34-36 TFEU), for the part of the non-harmonized field of technical and non-technical legislation (national provisions) (DIC);

3. Establishment of the certification body accreditation scheme (EN ISO/IEC 17065) including the requirements of technical rules; (DAK / DIC - MIET);
4. Accreditation of three testing/calibration laboratories of KMA (Volume and Flow Laboratory, Mass Laboratory and Force and Pressure Laboratory) - (KMA / MIET);
5. Drafting and approval of the Law on General Product Safety (transposition of Directive 2001/95/EC), as well as approval of 85 EU harmonized standards, according to the requirements of the Law on General Product Safety; (AKS- MIET);
6. Drafting of three Administrative Instructions for construction products such as: plastic pipes, concrete pipes, concrete walls (DIC);
7. Drafting a concept document on market surveillance and product compliance, as well as mutual recognition of goods traded in the EU; (DIC-IT);
8. Establishment of a length laboratory, and preparation for accreditation of force calibration laboratories, thermometry; (KMA).

b. Activities planned for 2023:

1. Drafting of three (3) Administrative Instructions according to the requirements of the Law on General Product Safety (DCI);
2. Drafting of three (3) Administrative Instructions for 3 groups of construction products. (DIC);
3. Drafting the Law on Market Surveillance (amending and supplementing the Law on technical requirements for products and conformity assessment part of the market surveillance);
4. Preparation of analysis for the merger of "Single Liaison Office" and "Product Contact Point" as a National Point and software development (IT-DIC);
5. Upgrading (update and upgrade) the SMIS system which will enable to businesses Functional access and online purchase of standards (SMIS- standard management information system);
6. Accreditation of Calibration Laboratories of force, thermometry and preparation for accreditation of laboratories for electrical quantities and legal metrology laboratories.

c. Activities planned for 2024:

1. Drafting sub-legal acts arising from the amending and supplementing of Law No.06 / L-041 on technical requirements for products and conformity assessment part of market surveillance (DIC);
2. Approval and publication of 100 standards according to the requirements of the regulation (MIET) no. 01/2017 on electromagnetic compatibility;
3. Approval and publication of 500 standards according to the requirements of the technical regulation (MIET) no. 06/2018 for electrical equipment designed for use within certain voltage limits.
4. Drafting and approval of the regulation on gas appliances in use.

Result indicators: ³⁴	Baseline 2020	Indicator of 2023	Target 2024
Export of industrial products	396,884,042.99	485,469,208.15	520,427,912.20
Import of industrial products	2,531,343,595.88	2,100,377,693.37	2,010,388,405.02
Trade balance	2,134,459,552.89	1,614,908,485.22	1,489,960,492.82

Expected impact on competitiveness: The aforementioned activity would enable the strengthening of a sustainable regulatory system, which would support domestic producers by improving security and quality of products, in order to be competitive with products bearing the CE mark, and market placement of certified products equivalent to European Union products. This would ensure the building of competitive skills of businesses by allowing them access to international markets and reducing trade deficit. Businesses that are more competitive provide for a better environment for employment and the foundations for sustainable growth.

Estimated cost of the activities and the source of financing: The total cost for the implementation of the measure for the next three years (2022-2024) is 111,000 Euros namely 39,000 Euros for 2022, 48,000 Euros for 2023 and 24,000 Euros for 2024. Of these funds 101,400 Euros are provided from the central budget, and 9,600 Lux-DEV.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Further development of the regulatory system on industrial products is expected to have an even broader impact in the society by encouraging investments in the private sector, generating new jobs and inciting businesses to apply standards for increasing security and quality of industrial (non-food) products and services to stakeholders. The measure is also expected to have an even greater impact on society by encouraging private sector investment, job creation and encouraging businesses to implement standards for safety and quality of industrial products and stakeholder services.

Expected impact on the environment: No environmental negative impact is expected.

Potential risks:

Risk	Probability	Planned mitigation action
Delays in approval of legislation and lack of technical professional capacities	Low	Building human capacity
Delays in the accreditation and appointment of CAB according to the Law on Construction Products.	Low	Specific training for CAB staff.

5.2.7. Energy Market Reform

State of play: Electricity production in Kosovo is based mainly on coal (94.5% of total domestic production) while the rest of the supply of 5.5% is based on RES consisting of hydropower plants, wind farms, and photovoltaic panels. The total electricity production in Kosovo in 2020 was 6,301 GWh. The largest producer is KEC, which under the Wholesale Supply Agreement, is obliged to provide the necessary amount of energy with priority to the supplier KESCO to supply customers with the right to universal service. KEC also provides part of the generation to the TSO and DSO

³⁴ Official data from the Department of Trade (MINT) on the trade balance (imports and exports).

to cover losses. KEC offers surplus electricity in the free and competitive market based on the Electricity Trading Procedure.

Gross electricity consumption for 2020 was 6,167 GWh. 5,549 GWh of electricity were sent to the electricity distribution system, 396 GWh were sent directly to industrial customers (Feronikel, Sharr Cem and Trepça), while from the remaining 114 GWh were dedicated to internal expenses of KEC and 107 GWh were transmission losses.

Local generation is not enough to cover the maximum load in the Kosovo power system, so part of the national demand for electricity is based on imports. The import of electricity in 2020 was 812 GWh or 13.61% of the total demand, while the export of electricity was 1,254 GWh. The demand for heating is covered by only 3 to 5% of central heating, while the rest is covered mainly by biomass.

The electricity market in Kosovo started gradual liberalization in 2017 with the issuance of guidelines for the liberalization of the electricity market in Kosovo by ERO, based on the authority given by the Law on the Energy Regulator, the Law on Energy, and the Law on Electricity. The wholesale electricity market faces the lack of day-ahead market, the lack of sufficiently active suppliers where only KESCO out of a total of 8 licensed suppliers is active. According to the legal requirements, the production prices for the Public Generator (KEC JSC) are deregulated from April 2017, but this energy will be offered in the wholesale energy market, with priority for the Universal Service Supplier.

Regarding the part of energy produced by RES, Electricity generating companies that have invested through the FiT support scheme have guaranteed the sale of electricity produced by them for a period of 10-12 years at fixed prices.

For the purposes of security of supply and protection of customers with the right of universal service, in accordance with market circumstances, ERO approves regulated tariffs for customers supplied within the universal service.

Large customers connected to the 220 KV and 110 KV voltage buy electricity in market conditions, while other consumers are supplied with electricity under universal service conditions with regulated tariffs. Electricity generating consumers have limitations in terms of their own generating capacity and the level of voltage where they can be connected. Affected consumers are currently supported by a direct payment scheme to cover part of the energy cost. Transmission System Operator, Distribution System Operator, Universal Service Provider and Commercial Suppliers continue to lack access to some municipalities in northern Kosovo. The retail energy market continues to face the challenge of cross-subsidizing household from non-household customers; where to address this issue, ERO through annual updates of electricity tariffs ensures that in cases where there is room for reduction of tariffs, the reduction is entirely dedicated to non-household customers (commercial and industrial). Progress has been made in the field of integration in the regional market, where the Albanian Power Exchange (ALPEX) will have its branch in Kosovo. The exchange will operate the short-term electricity markets in Albania and Kosovo.

To provide greater opportunities for the customer to compare offers, regarding the retail market, ERO will provide a price comparison system which will be accessible to all customers, in electronic form. This price comparison system will enable consumers to compare suppliers' offers at any time based on their consumption parameters.

Structural obstacles: the energy sector has the following: lack of investment to increase the flexibility of the System; low diversity of energy sources; technical and commercial losses in the electricity distribution system; inefficient use of energy, especially in the residential sector; transition from support schemes to competing schemes for RES; full implementation of the market liberalization guide; non-reflection of costs in electricity prices; limited competition in the wholesale and retail market; limited cross-border cooperation and with countries in the region.

5.2.8. Transport market reforms

State of play: Kosovo's geographical position emphasizes the importance of having a good and modern transport network. Kosovo has invested heavily in road corridors that have improved trade links with neighbouring countries and provided access to sea routes through Albania, Montenegro. Kosovo is a party to the Transport Community Treaty and assumes obligations under the Transport Community Treaty. Kosovo roads are connected by corridors from the east to the western Balkans which is part of the PAN-European transport network.

Road transport - Kosovo has road network of 2000 km of national and regional roads, during the ten-year period, 150 km of highways were completed on the road network of Kosovo, road (R7 Prishtina - Vërmicë and R6 Prishtina - Hani i Elezit), 90 kilometers of national roads with 4 lanes, over 90% of the internal road network have been built and rehabilitated and 1500 km of local roads have been built and rehabilitated.

The Prishtina-Gjilan Highway with a length of 23 km is also being built and the construction of the Besi-Merdare highway segment that is connected to Corridor 10 of the PAN-European network is in progress. Road transport of passengers and goods as well as dangerous goods are regulated by Laws which are partially in line with the *acquis* and has bilateral agreements or Technical Protocols with most countries of the European Union and the Western Balkans. Bilateral agreements with Serbia, Bosnia and Herzegovina remain a challenge, and we are in the process of bilateral agreements with Northern Macedonia and Montenegro.

Railway transport, Kosovo Railways cover the entire territory of Kosovo, with a length of 335 km of open railway line, with a length of 105 km in stations and 103 km of industrial lines.

Railway transport of passengers and goods is regulated by law, this law regulates and develops the railway infrastructure and conditions of access to the domestic and international market of resident and non-resident operators of railway transport of passengers and goods. In this context it should be mentioned the fact that Railway line 10 is being upgraded which is part of the SEETO's comprehensive network connecting Kosovo with Serbia and North Macedonia, as well as Railway Route 7 (Fushë Kosovë - Prishtina - Podujeva) which connects Kosovo with Serbia. Rehabilitation of these lines is divided into 3 phases (first phase: F. Kosova-Hani i Elezit - through credit and support of international institutions WBIF, WBIRD), second phase, F. Kosovo-Mitrovica where the announcement was made for the winner of the contract and the third phase, F. Kosova - Podujeva which is in the feasibility study phase. The situation with the COVID 19 pandemic has had an impact on the implementation of railway projects, but also on the decline of passenger and freight transport, which in turn has reduced the planned revenues for railway transport operators (TRAINKOS and RAILTRANS), but also Management of Railway Infrastructure-INFRAKOS. Also, the number of passengers who used the railways as a means of transportation has decreased

by 76.85% in the second quarter of 2020, compared to Q2 of 2019. The reduction of the use of the railway network has come as a result of the Government Decision with the measures taken in the fight against COVID-19. Freight transport by rail network in Q2 2020 compared to the second quarter of 2019 has decreased by 5.70%.

Air transport: Kosovo has the International Airport "Adem Jashari", which is also part of the comprehensive SEETO network. Air transport is conducted in accordance with the applicable legislation in Kosovo. The development of air transport is based on the agreement on the use of the common European space. Within the International Airport "Adem Jashari", the extension of the runway for 500 meters is implemented, which will have an impact in terms of security and in terms of competitiveness with the countries of the region. Furthermore, the lighting instrumental system is in function, which is designed to eliminate fog in PIA. As a result of preventive measures to combat the COVID-19 pandemic there is a 96% reduction in traffic. Consequently, the overall level of decline in service activities is expected to have a significant impact on the overall decline in GDP. Based on the analysis and estimates in the period January-September 2020, there were 726,467 passengers, while in the period January-September 2021 there were 1,623,183 passengers, which means that this year there are 123% more passengers than in the previous year.

Structural obstacles: the transport sector includes: Membership in international transport organizations in general; Road safety conditions to reduce fatal and serious injuries accidents; Air Pollution from Transport; Digitalization of the road and railway transport sector; Maintenance of road and railway network and Control of low and high airspace of the Republic of Kosovo.

Reform measure # 14: Further development and modernization of Transport

Description of the measure: Further development and modernization of Transport is a measure that is presented for the first time in the ERP and the main objective is to create a modern and integrated system of transport services, which will contribute to sustainable economic development, road safety and will be environmental-friendly. This measure aims to review the legislation and harmonize it with EU legislation, which also aims to establish intelligent transport systems and prepare for membership in international road, railway and air transport organizations. This measure is related to the government program 2021-2025, Sector strategy and multimodal transport, Strategic Operational Planning (SOP), NPISAA, objective 11 of the SDG, respectively point 11.2 related to transport improvement and road safety.

a. Activities planned for 2022:

1. Drafting the Strategy for transport development 2022-2030; (MESPI)
2. Amending and supplementing the Law on the Establishment of the Road Traffic Safety Agency. (MESPI)
3. Amending and supplementing the law on railways; (MESPI)
4. Digitization of the Road Accident Database; (MESPI)
5. Drafting the Administrative Instruction on the framework for installation of intelligent transport systems (ITS) and intelligent transport system (ITS); (MESPI)
6. Preliminary design of the technical project for line 7 railway Fushë Kosovë - Podujevë (Border with Serbia); (MESPI)

7. Drafting of AI for Drivers Licensing and Devices and Equipment for Motor Vehicles Powered by Gas; (MESPI)
8. Concept Document on Driver License; (MESPI)
9. Drafting AI for Road Infrastructure Safety Management; (MESPI)
10. Establishment of mobile centres for control of vehicles on the road; (MESPI)
11. Professional capacity building in the field of road safety inspection; (MESPI)
12. Application of emission control of exhaust gases from vehicles; (MESPI)
13. Functionalization of structures for road traffic safety; (MESPI)
14. Identification of high-risk road axes; (MESPI)
15. Development of application for e-testing in driver's license; (MESPI)
16. Application for membership of Kosovo in international organizations of road, railway and air transport; (MESPI)
17. Normalization of low space, opening of air routes with Albania and Montenegro. (MESPI)
18. Feasibility study for the Kosovo-Albania railway line; (MESPI)

b. Activities planned for 2023:

1. Drafting the Law on Driver's License; (MESPI)
2. Establishment of the Road Safety Agency; (MESPI)
3. Finalization of the Legal basis for the management of Road Infrastructure Safety; (MESPI)
4. Professional capacity building in the field of road safety; (MESPI)
5. Identification of high-risk road axes; (MESPI)
6. EIA and social feasibility study as well as Preliminary design for the railway line (Prishtina-Prishtina Airport); (MESPI)
7. Normalization of low and high airspace control of the Republic of Kosovo; (MESPI)

c. Activities planned for 2024

1. Digitalization of Road Infrastructure; (MESPI)
2. Digitalization of the road accident database; (MESPI)

Result indicators:	Baseline year 2019	Objective 2023	Objective 2024
Reduction of fatal road accidents per 100,000 inhabitants	6.5 persons	4 persons	3 persons
Digitalization of transport systems	0%	20%	40%

Expected impact on competitiveness: Implementation of this measure will contribute to the reduction of fatal accidents by up to 50% and those with serious injuries by up to 25%. Orientation towards digitalization of the database system enables us to have a clear and accurate picture regarding fatal accidents and serious injuries. With the further development of transport and digitalization, the reduction of time, financial cost will be achieved, as well as the free movement of passengers and goods will be realized with higher efficiency.

Estimated cost of activities and sources of funding: The total expected cost for the implementation of the activities is expected to be € 520,000. On an annual basis for 2022, 160,000 €, for 2023, 170,000 € and for 2024, 190,000 € From the budget of the Government of Kosovo for these three years will be 440,000 € and from donors 100,000 €. In order to fulfil these activities, policies will be drafted and the national legislation will be harmonized with the EU acquis.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: The approval of strategic documents, legislation as well as the implementation of planned projects of the measure, provide the basis and opportunities for the creation of new jobs. Marginalized groups of the informal sector will be attracted to the formal economy. Consequently, this measure affects the improvement of quality of life and economic and social well-being. The legal equality component is addressed in the strategic and legal documents.

Expected impact on the environment: Implementation of legislation, action plans for the implementation of strategic documents as well as projects related to the digitalization of the system, enable the reduction of environmental pollution.

Potential Risks:

Risk	Probability	Planned mitigation action
Delays in implementation from the situation created with Covid-19	low	
Establishment of the Road Safety Agency	low	

5.2.9. Agriculture, Industry and Services

State of Play: Agriculture sector contributes with 7.5% to Kosovo's GDP while employing about 23%³⁵ of the total number of employees in Kosovo. The utilized area of agricultural land is 420,209 ha, where the largest share are cereals (30%), fodder crops (9%), vegetables (3.3%), fruit trees (2.4%), vineyards (0.8%) while the rest of 51.7% are meadows, pastures and common land.

In the livestock sector, cattle have a higher share of 48%, followed by sheep with 39%, pigs with 8%, goats with 5% and a hoof 0.3%. Within this sector, birds are of special importance where their number is 2.7 million while beehives are 262,541.

Regarding the expansion and rehabilitation of the irrigation system, there are currently estimated about 20,000 ha of agricultural land which are under irrigation, or about 5% of the total area used for agriculture. The share of export of agricultural products in the total export is 16.4%, while the share of import is 23.2%. Kosovo in 2020 imported agricultural products in the amount of € 765.4 million, while the value of exports was € 78.1 million, resulting in a trade deficit in the amount of € 687.3 million. There is an improvement in the state of the trade balance of agricultural products by 1%, considering that the increase in the value of exports has been higher than the increase in the value of imports.

The government has continued to support the agricultural sector through support programs such as direct payments and investment grants. Within the direct payments, 3 sectors were supported (horticulture, cereals and livestock) with a total of 27 sub-sectors. According to the data of 2020, a total of 33,644 beneficiaries (5% women) were supported through direct payments in the amount

³⁵Seasonal employment, and during the harvest.

of about € 36 million, while through grants were authorized projects worth about € 6 million. The government has doubled the value of direct payments to help farmers as a result of COVID 19, so far about € 30 million has been allocated to support them from the Economic Recovery Program for a total of 32,315 beneficiaries.

The situation with Covid-19 has continued to have an impact on the agricultural sector where as a result of the closure of local and central markets, different sectors depending on crops have been affected in different ways. The supply chain has been observed to have been disconnected due to the circumstances created, especially the closure of the gastronomy sector has affected the reduction of sales of agricultural products.

Industry Sector- is dominated by micro enterprises with 85% and MSMEs with low levels of integration in global value chains, as well as low participation of innovation and FDI attraction. According to research and analysis, cooperation between companies and educational and research institutions is weak and the general level of skills in the workforce, the small number of businesses run by women and youth, and the lack of networking. Sector of Processing Industry (Sector C) in Kosovo, in 2020 participated with 14% in GDP and compared to 2019, where GDP was 11.67%, there was a larger increase than in the previous two years (in 2017 it was 10.9% and in 2018 it was 11.3%). In total employment, in 2020, this sector participated with 11.8% and in turnover increased by 8.36%. The share of Sector C in the total export is about 84%, while in the total import the share of the processing industry is 93%, in 2020. The sectors with the highest share in the export are: metals with 26.01%, plastics and rubber with 14.63%, furniture with 8.42%, processing of food products with 8.38%, production of fabricated metal products with 7.96%, production of beverages with 7.45% and the sector of chemical products with 4.93%. As a result of the pandemic, Foreign Direct Investments in Kosovo in 2020, in the "Production" sector have marked a negative value (5.5) million euros.

In 2020, in order to more easily overcome the economic situation, as a result of COVID-19, to directly assist the private sector, the operational plan of the Emergency Fiscal Package was implemented. Through this package with 50% of the rent payment, 10,369 businesses and 178,935 employees were assisted, of which 148,188 active employees were assisted with € 170, 15,822 employees were assisted with 130 euros (14,988 new employees and 834 inactive employees) and 14,925 endangered workers were assisted with € 100.

Tourism as a sub-sector of the industry has been growing before the onset of the Covid-19 pandemic, signalling that this sector has great potential for economic development, job creation, empowerment of women and youth in general. Since the beginning of 2020 tourism has experienced a challenge becoming one of the most affected sectors by the pandemic. According to KAS, as regards tourist traffic at border crossing points, arrivals of foreign visitors have decreased by about 35.4% for 2020 compared to the same period of 2019 or expressed in figures from 4,962,335 tourists in 2019, to 3,203,594 in 2020. Whereas according to the number of nights of stay of domestic and foreign visitors from 490,402 during 2019 there has been a decrease to 266,491 during 2020 or about 46%. However, if we make a comparison of the first six months 2020 and 2021 per night stay realized in Kosovo, it is noticed that we have an increase in the number of night stays by about 100% in 2021 (data published by KAS, Q1 and Q2 report 2021). Overcoming this situation and its consequences will be one of the main concerns in the field of tourism in the near future, because the tourism sector includes many other sectors.

Services sector: Services are the largest sector of the economy, accounting for about 72.7% of GDP in 2020. Moreover, in 2020, the services sector accounts for about 79.1% of employment in Kosovo, and 81.7% of new businesses opened in 2020 were in services. Trade in Services for 2020 was characterized by export revenues in the amount of € 994.4 million. The sectors that have performed best are: travel with € 628 million, information and communication services (ICT) with € 71.7 million, professional / business services with € 139.6 million, construction services with € 12 million, and personal, cultural and recreational services with € 3.2 million. Total services exports increased from € 1.358 billion in 2017 to € 1.675 billion in 2019, a year in which the trade surplus of services reached € 932.3 million.

Tab.1 Annual statistics of trade in services (2018 - 2020)

Years (million euros)	2018	2019	2020
Export of services	1,561.6	1,675.1	994.9
Import of services	705.8	749.1	603.3

Source: CBK, 2021

During 2020, COVID-19 had a negative impact on services exports, which fell by 994 million euros. Kosovo's main exports of services are travel, other business services, ICT and construction. It is worth noting that on the time of COVID-19, two sectors have increased: the export of ICT and other Business Services by 22.4 million euros compared to 2019. Other business services include various business services such as: research and development services, professional and management services, consulting services, technical, commercial and other business services, waste treatment and pollution, agricultural and mining services, operating leasing, trade-related services. This sector is one of the most productive sectors in the trade of services, therefore it is crucial to focus and further increase the performance of this sector. Despite the overall positive balance of the services sector, this sector is still not having progress with its potential. Other essential factors that can positively influence further development of services and trade in services are that companies in this sector have better access to finance and focus on promoting the export of services.

Structural barriers: small average farm size, 90% of farms in Kosovo have an area of less than 5 ha, low productivity and high production costs, land fragmentation, diversification of low production, poor irrigation infrastructure, outdated technology, limited storage capacities, weak or dysfunctional connections between the primary producer and processors between producers and the market, as well as the lack of a digitized system.

The industry sector is hampered by the relatively high level of informal economy, lack of access to finance, insufficient implementation of product standards, small number of women and youth-led businesses, inconsistencies in vocational training and the labour market, access to information and lack of networking. Main obstacles in the tourism sector remain the lack of investments in tourism infrastructure, inadequate legal framework and insufficient institutional coordination, insufficient promotion of tourist destinations, as well as for the available products and services.

In the services sector, Kosovo is mainly expanding its non-marketable service activities with low productivity, and there is insufficient articulation between service activities and material production sectors; Lack of adequate legal framework promoting the development of high

technology and high value-added services, Lack of a legal framework that could regulate the digitalization of service sectors and Access in finance and proper institutional coordination between the various entities that direct the services activities.

Reform measure # 15: Structural changes in the agricultural sector

Description of the measure: The measure is a continuation of ERP 2021-2023 which aims at policy design by aligning them with the Common Agricultural Policies, digitalization of systems, increasing local production and increasing the workforce throughout the production, processing and service chain. The measure also aims to expand and rehabilitate the irrigation system, regulate agricultural land through the drafting of new policies which will affect the solution of the problem of agricultural land. The measure will also affect the development of the sector by improving conditions and providing better services. This measure is in line with the Government Program 2021-2025, the National Plan for Economic Recovery, the Medium-Term Expenditure Framework MTEF 2022-2024 and the EU Common Agricultural Policies within the Green Agreement. The measure is also in line with the SDG goals and the Economic Investment Plan for the Western Balkans which has the potential to mobilize further assistance for the sustainable transformation of the agri-food system and rural development of Kosovo.

a. Activities planned for 2022:

1. Drafting the legal basis for the Development of the Agricultural Insurance Fund; (MAFRD);
2. Increasing areas with agricultural crops with a focus on value-added products; (MAFRD);
3. Drafting of the Concept Document for the Common Market Organization - CMO; (MAFRD);
4. Drafting the national plan for the Inventory of Agricultural Lands of the Republic of Kosovo; (MAFRD);
5. Feasibility study of irrigation projects based on the Master Plan for irrigation of agricultural lands; (MAFRD);
6. Development of a system for managing grants and subsidies (Software Development) (MAFRD, ADA);

b. Activities planned for 2023:

1. Feasibility study of irrigation projects based on the Master Plan for irrigation of agricultural lands; (MAFRD)
2. Functionalization of the Agricultural Insurance Fund; (MAFRD)
3. Common Market Organization (CMO) for agricultural products; (MAFRD)
4. Increasing areas with agricultural crops with a focus on value-added products; (MAFRD)
5. Unification of farm identification number (FIN) with all other institutions such as KAS, FVA; (MAFRD).

c. Activities planned for 2024:

1. Increasing areas with agricultural crops with a focus on value-added products; (MAFRD);
2. Introduction of the ADA accreditation package.

Result indicators:	Baseline 2020	Target 2022	Target 2024
Share of export of agricultural products (1-24) in total export (1-98)	16.4%	20%	23%
Share of import of agricultural products (1-24) in total import (1-98)	23.2%	18.9%	16.8%
Increase of areas with agricultural crops	22%	23%	26%

Expected impact on competitiveness: Implementation of activities of this measure will contribute to increased production of the agricultural sector, with a particular focus on value-added market agricultural products, will also have an impact on improving the value chain throughout the cycle, as the situation created by COVID 19 has created gaps in the supply chain cycle as there has been closure of local markets. Measures to support the agricultural sector will have a positive impact over the next medium term, given the significant investments that are taking place in this sector and this effect will be visible through the replacement of imports of agricultural products and growth of exports. The drafting of laws, i.e. the legislative program will serve to improve policies and improve the sector, which will obviously have an impact on improving competition in the future.

Estimated cost of activities and sources of funding: The total cost for the implementation of this measure during the years 2022-2024 is estimated to be € 220,947.577. From this amount € 79,152,145 is estimated cost for 2022, € 71,325,764 for 2023 and € 70,469,668 for 2024. Most of this cost is expected to be financed from the budget of Kosovo, respectively from the scheme of Subsidies and Transfers from MARD with the respective values, € 72,331,446 (2022), € 64,319,166 (2023) and € 66,319,166 (2024) which are offered as grants and subsidies to farmers for the development of the agricultural sector, as well as to cover natural damage in agriculture. The rest of the activities will be covered by the World Bank Project, for capital investments € 2,747,500 for 2022 and 2,822,500 for 2023

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: This measure has a positive effect on the stimulation of the population in agricultural activity as well as the working and cultivation of agricultural land, the introduction of special crops in production which may have priority and competitive ability. Currently, agriculture accounts for 7.7% of GDP, while employing about 23% of the total number of employees in Kosovo. These measures aim to respect gender equality where the priority in the evaluation during the application will be given to women and also the generation of jobs is one of the main priorities is to reduce poverty in the country through revenues generated from agricultural activities and also improve welfare. The development of the agricultural sector directly affects the economic engagement of women and consequently their economic empowerment.

Expected impact on the environment: Support through this measure will be reflected in structural investments but also in a more sustainable environment. Through the increase of agricultural areas and the improvement of the irrigation system, the environment will also benefit.

Potential Risks:

Risk	Probability	Planned mitigation action
Delays in implementation	Medium	Timely signing programs and timely publication of calls for application as well as approval of Laws which will regulate many issues of importance for the sector;

Prolongation of the pandemic globally.	High	Implementing the government-supported packages and stimulating the sector through the support from various donations. Approximation of policies to stimulate the situation;
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Reform measure # 16: Increasing competitiveness in the production industry

Description of the measure: The measure is a continuation of the ERP measure 21-23 and aims to create a more coordinated policy for the development of industry throughout the supply chain, assisting the processing industry, increasing competitiveness and internationalization of SMEs. The measure will support SMEs to grow and switch to value-added activities and produce marketable goods for export, provides ease of access to finance for SMEs, support for improving quality standards and growth of the level of Foreign Direct Investment (FDI). A number of activities planned in 2021, have not been implemented due to the pandemic situation and will be repeated in 2022. The Joint Conclusions section of this ERP provides details of measures taken during the latter half of 2021 to address competitiveness by supporting local producers, exporters, and women-owned businesses, etc., the impact of which will be more prominent in 2022.

The measure is related to the National Development Strategy, NPISAA - Chapter 20, Government Program 2021-2025, Economic Recovery Package for Economic Development and Employment as a Consequence of the Pandemic - COVID 19, as well as the MTEF 2022-2024 Medium Term Expenditure Framework. Through support for industry and manufacturing activities, the measure is in line with SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure). While with the Sustainable Industry area of the Green Deal, the measure is partially in line, with targets on modernisation of production technology to reduce pollution, as well as the creation of economic zones. It is also in line with SDG 5, on gender equality: Achieving gender equality and empowering women and girls, through their empowerment in entrepreneurship.

a. Activities planned for 2022:

1. Drafting and approval of the Industrial Development Strategy (Industrial Policy); (MIET / DI)
2. Designing the value chain study for chemical industry sector; (MIET / DI)
3. Financial support of at least 100 businesses, in order to increase production, product quality, exports, competitiveness and access to international markets, as well as to promote Kosovar exports and tourism; (MIET)
4. Restructuring of KIESA functions; (MIET)
5. Increasing the capacity of the incubation space; (MIET)
6. Finalization of the construction of physical infrastructure of four economic zones (Suhareka, Viti, Vushtrri and Lipjan); (MIET)
7. Feasibility study for the impact of Economic Zones; (MIET)
8. Drafting the Law on Economic Zones; (MIET /DI)
9. Development of a follow-up care program for investment; (MIET)
10. Drafting a National Investment Policy (including foreign direct investment, strategic investments); (MIET)

11. Review and approval of the law on foreign investments. (MIET)

b. Activities planned for 2023:

1. Designing a value chain study for the food processing industry and creating a database for the sector; (MIET / DI)
2. Financial support of at least 100 businesses, in order to increase production, product quality, exports, competitiveness and access to international markets, as well as to promote Kosovar exports and tourism; (MIET)
3. Increasing the capacity of the incubation space; (MIET)
4. Construction of new industrial areas, including technology transfer centres or technology parks; (MIET)
5. Strengthening promotional teams in Kosovo embassies, sending economic attachés; (MIET / MFA)
6. Creating and strengthening business networks with potential investors through the diaspora; (MIET)

c. Activities planned for 2024:

1. Financial support of at least 100 businesses, in order to increase production, product quality, exports, competitiveness and access to international markets, as well as to promote Kosovar exports and tourism; (MIET)
2. Increasing the capacity of the incubation space; (MIET)
3. Construction of new industrial areas, including technology transfer centres or technology parks; (MIET)
4. Strengthening promotional teams in Kosovo embassies, sending economic attachés; (MIET)
5. Creating and strengthening business networks with potential investors through the diaspora. (MIET)

Result indicators:	Baseline 2020	Indicator 2022	Target 2024
BVSH (MVD) of Processing Industry per capita (Euro)	502.8	583.2	676.5
Share of Exporting Companies of Processing Industry in Sector C (%)	16.81%	18%	21%
Participation of women in employment within sector C (%)	7.6%	9.1%	10.5%

Expected impact on competitiveness: Policy making for industrial sectors will affect the creation of new opportunities for further development of SMEs, access to new markets, as well as networking of enterprises in sectors with development potential through the value chain. The implementation of industrial policy measures will enable the production of value-added products and increase the competitiveness of enterprises, as a result of investments in modern technology, digitalization, certification and consulting, investments in economic zones and cooperation of local companies with regional partners and the EU. The participation of companies in international fairs will offer them the opportunity to be part of the global market as well as increase their export potential. The review and approval of the investment law, the drafting of a national investment

policy and the drafting of the follow-up investment care program, will increase the level of cooperation with foreign companies and increase foreign investment.

Estimated cost of activities and sources of funding: The total cost calculated for the implementation of this measure (2022-2024) is expected to be around 7,063,902 Euros, an amount which is allocated from the Kosovo budget. In 2022, 2,374,634 Euros are planned, in 2023, 2,344,634 Euros, and in 2024, 2,344,634 Euros.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Positive effects on employment growth in the targeted industrial sectors are expected. As a result of the implementation of this measure, we expect to create employment opportunities for about 2000 people per year and to develop the industrial productive sectors in Kosovo and at the same time women entrepreneurs will be empowered.

Expected impact on the environment: This measure will have an impact on the environment, since during the construction the area where the infrastructure works are carried out will be degraded. However, with the construction of Economic Zones, the impact on the environment will be controlled and there will be a concentration of businesses with access to infrastructure, electricity and underground infrastructure, as well as agricultural lands will be protected from their degradation. Also, the support of SMEs for investments in modern technology will have a positive impact on the environment, reducing greenhouse gas emissions, as well as energy savings.

Potential risks:

Risk	Probability	Planned mitigation action
Lack of standardized products for penetration in international markets	Medium	Support provided for product certification and export growth advice
Prolongation of pandemics globally	High	The implementation of the National Plan for economic recovery continues in the following years as well; Adaptation of policies depending on the circumstances as a result of the pandemic.

Reform measure # 17: Increasing Competitiveness in the Tourism and Hospitality Sector

Description of the measure: The measure is a continuation of ERP 2021-2023 and will influence to increase the economic value of tourism and increase employment. The activities that will be undertaken in this measure are the improvement of the legal infrastructure according to the European practices, and the development and promotion of the products which will directly affect the increase of the tourist offer. During 2020, many planned activities could not be realized due to the pandemic but also political changes, therefore some of them have been transferred from 2020 to 2021. The measure is related to the Government Program 2021-2025, is related to objective 5, 8, 9 and objective 12 SDG, as well as in terms of promoting cultural heritage, it is related to the National Strategy for Cultural Heritage 2017-2027 then Economic recovery package 2021, MTEF 2022-2024.

a. Activities planned for 2022:

1. Adoption of the strategy for the tourism sector and Action Plan; (MIET)

2. Drafting of Administrative Instructions arising from the new Law on Tourism (AI on the Tourism Register and AI on Tourist Guides) (MIET)
3. Development and promotion of the Kosovo tourism brand (MIET)
4. Tourism support rural areas through subsidies and transfers (MIET, MAFRD)

b. Activities planned for 2023:

1. Establishment of the tourism register (MIET)
2. Licensing of tourist guides (MIET)
3. Analysis and research of tourism markets for access and promotion of Kosovo tourism offer in international markets (MIET)
4. Identification of traditional houses and castles to serve as accommodation structures (MCYS)

c. Activities planned for 2024:

1. Designation of priority areas for tourism development (MIET)
2. Development of at least 5 new tourist products in cooperation with municipalities (expansion of Via Ferrata in Rugova, development of the cycling path in Peja-Radavc, expansion of the Via Dinarica path in Deçan, Junik and Peja) (Municipalities, MIET)
3. Financial support for the redefinition of traditional houses and castles in accommodation facilities (MCYS Municipalities).

<i>Result indicators</i>	Baseline 2020	Target 2022	Target 2024
Number of arrivals of foreign visitors ³⁶	3,203,954	5,000,000	5,700,000
No. of overnight stay of local and foreign visitors	266,491	530,000	650,000
GDP (Gross domestic product by economic activity: Hotels and restaurants)	1.6%	2%	2.5%

Expected impact on competitiveness: The new law on tourism regulates the legal infrastructure in the operation of tourist guides, tourist agencies, and the accumulation of accommodation tax as well as the definition of priority areas for the development of tourism, the state branding of tourism. All this will reduce informality in the tourism sector and promote competitive values in the tourism sector. The development of tourism will be expanded in rural and mountainous areas where the aim is to increase employment in these areas, to increase family businesses where women will have easy employment opportunities. The growth of new tourism products will affect the expansion of Kosovo's tourism offer which directly affects the increase in consumption of tourism services and as a result promotes employment and increase welfare.

Estimating the cost of activities and sources of funding: According to preliminary estimates, the implementation of the activities listed in this proposal for the period 2022-2024 will be in the amount of 1,887,000 but may change. These funds are funds of the Kosovo budget. A budget value will be from MCYS in support of the development of tourism through cultural heritage (so far 200,000.00 have been confirmed), and from MAFRD as well as a part of the funds will be from municipalities (610,000) for the development of tourism products.

³⁶ Source of information: KAS / Border Police, Tourist traffic at border crossings.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality:

The development of tourism will be expanded in rural and mountainous areas where the aim is to increase employment in these areas, the growth of family businesses where women will have easy employment opportunities. The grant scheme will also aim to increase the quality and quantity of the product and increase the business skills of the community. Expanding the tourist offer, offering quality and standardized services as well as promoting Kosovo in international markets, will bring new inflows of international tourists and this will result in particular in increasing the number of international tourists in Kosovo, where it is expected that by the end of 2024 we have about 43% growth. This is expected to directly affect the share of tourism in GDP which is expected to increase up to 2.5%.

Expected impact on the environment: The development of tourism, especially in protected areas, can lead to increased pollution, more waste, affecting endangered species, etc. These environmental effects may gradually affect the damage to the tourism resources on which tourism depends. Therefore, this measure requires a greater inter-institutional interaction (inter-ministerial and with municipalities), in order to develop a sustainable tourism.

Potential risks:

Risk	Probability	Planned mitigation action
Insufficient cooperation with municipalities and other relevant institutions	Medium	It is planned to intensify meetings with municipalities with the highest potential for tourism

Reform measure # 18: Increase competitiveness in the sector of trade in services

Description of measure: This measure aims to improve the efficiency and competitiveness of tradable services activities and promote their development at the level of sectors related to trade in services. Further development of service activities will be essential in reducing the trade deficit and improving trade in goods and services following the impact of COVID-19. This measure also aims to increase the overall productivity and competitiveness of the Kosovo economy and increase exports of services. Kosovo has taken some obligations at the regional and global level, particularly generating from CEFTA and the SAA. The development of modern and efficient services is foreseen in the Government Program 2021-2025 and the National Program for the Implementation of the SAA. This activity is linked to several strategic documents, such as Green Deal point 2: Transforming the EU's economy for a sustainable future; sub-point 2.1.3 mobilizing industry for a clean and circular economy. With SDG, Goal 17, strengthen the means of implementation and revitalize the global partnership for sustainable development. Also, a document on Common Regional Market, which derived from Sofia Summit, points out on adoption of a services trade liberalization package to, inter alia, and enable the supply of services without obligatory establishment and authorization, in line with Chapter 3 of the EU acquis, enable mobility for students, researchers, and professors and establish a regional e-commerce market by adopting core harmonized rules and internal market principles,

a. Planned activities for 2022:

1. Establishing the Point of Single Contact (PSC) through e-Kosova portal and make it functional (MIET).

2. Identify further services sectors that fall under services directive 123/2006 / EC to integrate into the use on the PSC (MIET and relevant institutions).
3. Strengthening communication with businesses, society, professional associations and municipalities for the digitalization of administrative procedures related to the service sector by drafting a communication document and organizing at least one event (MIET and relevant institutions).
4. Diagnosing potential services trade sectors and assessing the competitiveness advantage of the trade in services (MIET).
5. Continuation of negotiations for mutual recognition between CEFTA countries for selected professions (general doctors, dentists and architects) (MIET).
6. Drafting and approval of the Law on Electronic Commerce (MIET and relevant institutions).

b. Planned activities for 2023:

1. The digitalization of at least two other sectors and integrating them into the PSC through the e-Kosova portal (MIET).
2. Analysis of at least two sectors on the diagnosing potential sectors of trade in services and assessing the competitiveness advantage in the service trading (MIET).
3. Further alignment of domestic legislation with EU on services field (MIET).
4. Identification of barriers to trade in services and drafting an action plan to remove these barriers under AP6 (MIET).

c. Planned activities for 2024:

1. Addressing the integrated agenda and calculating the extent of restrictive measures affecting trade in services (MIET).
2. Further liberalization of trade in services between CEFTA member countries (MIET and relevant institutions).
3. Liberalization of services with trading partners (United Kingdom, Turkey) (MIET).

Result indicators	Baseline 2019	Target 2023	Target 2024
Contribution of professional and ICT services in GDP (%)	4.05%	4.2%	Increase to 7.5%
The value of exports in services	€ 1.6 billion	€ 994 million	Increase to € 1.9 billion

Expected impact on competitiveness: The implementation of the planned activities will contribute to the increase of services exports and the orientation of favourable policies in services. Furthermore, development policies in the field of professional services will positively impact the competitiveness of the sector in general and the trade of professional services, mainly through new job creation opportunities and an increase in FDI in high productivity services and facilitate access to finance for businesses.

Estimated cost of activities and sources of financing: The total amount of budget planned for these activities for three years is € 260,000.00, divided by years: € 111,500.00 for 2022, €

114,500.00 for 2023 and € 34,000.00 for 2024. The amount of € 60,000.00 will be financed from the Kosovo budget and € 200,000.00 from IPA funds.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality:

The development of service activities will be oriented towards the employment of youth with a focus on women. Since many service activities depend on women employment, such as education, health, and other business services, further development of services will increase the level of share of women in the labour force. In 2020, 79.1% of the employees in Kosovo were employed in the services sector and comparing with previous years in 2019, there is no change in the employment trend in this sector. Furthermore, following the impact of the pandemic situation with COVID-19 and comparing the statistics for the last five years, there is no fluctuating employment in the services sector.

Expected environmental impact: This measure is not expected to have an environmental impact.

Potential risks:

Risk	Probability	Planned mitigating action
Coordination of central and local public institutions in the intervention for adjusting the services	Low	Identification of specific sectors that fulfil the criteria to be digitalized. Analysis of assessing human capacities and IT infrastructure at central level institutions for the establishment of the SPCs.
Delays in the adoption of legislation	Low	Increase of coordinated cooperation with relevant bodies while adhering to the hierarchy and include the proposed amendments into the legislation that fall under Services Directive.
Duration of the pandemic Covid-19	High	Government measures against the Covid-19 pandemic.

5.2.10. Education and skills

Current situation: The school year 2020/21 was characterized by numerous disorders caused by the pandemic situation, which seriously hindered the development of learning process and resulted in significant learning losses for all education levels, especially for those from marginalized groups. We have made all the preparations for e start of 2021/22 school year, reviewing guidelines for developing learning under pandemic conditions and offering new distance learning solutions.

In terms of data on education, the gross enrolment rate for 2020/21 of children in pre-primary education (5 year) is 88.1% (males 89.9%, females 86.4%), while only at preschool level (ages 3-5) is 36.4% which is low and far from meeting the EU Objective targets. This weakens educational outcomes but also hinders women’s labour force participation, given their predominant sociocultural role as care-givers. In primary education it is 101.2% (males 101.3%, females 101.1%), while in lower secondary education for 2020/2021 school year it was 90.9% (males 90.7%, females 91.2%). In higher education we have a decrease - from 82.5% in 2019-2020 to 81.1% (men 80.0%, women 82.2%) in 2020-2021. The total number of students in university education was 95 335, of which in public universities were 54 753 students, or 57.4%, while in private colleges were 40 582 students, or 42.6%. In 2019 the 25-64 age percentage of educational attainment was 81.1, while in 2020 it was 76.7%.

Public expenditures on education, as % of GDP in 2020 are 4.4%, and as % of government budget are 12.8%³⁷. The average gross (monthly) salary of teachers across all pre-university levels is approximately 80% of the average salary in Kosovo and 77% of the average salary of the public sector alone. Number of students per teacher in school year 2021/22 is 13.4; whereas the student-teacher ratio varies according to level of education. For pre-primary / kindergarten level one teacher is for every 10.1 registered children; for pre-primary education - 17.6 children for each teacher; for primary and lower secondary education, for each teacher approximately 13.5 students; in upper secondary education one teacher is for every 12.9 students. At the primary and lower secondary education level, the average class size is 17.7 students, while for upper secondary education, this ratio is 21.4. In vocational education, about half of upper secondary students choose one of 117 profiles provided within the 68 vocational schools and Competence Centres. Sectoral policies need to focus on compatibility of education system in order to respond better to the labour market. The dropout rate in compulsory education for 2020/2021 was 0.05% (109 students; in 2018/2019 this was 0.05% - 122 students) and the attendance of adult education in 2020-2021 was 2.3, while statistics for "Early leavers from education and training" for ages 18-24 was 7.8% in 2020 (in 2019 it was 8.2% according to LFS).

In Q1 2021, the unemployment rate among persons without education was 55.4% (males 61.2%, females 33.0%); 35.0% unemployed among those with primary education (males 34.7; females 35.9%), 26.5% unemployed in vocational secondary education (males 25%, females 33.2%); high school-gymnasium 27.5% (males 24.4%, females 35.3%) and 19.2% among those with tertiary education (males 15.8%, females 23.7%). In 2014 the KAA became a member of ENQA, while in 2019 its status was reviewed. Now the KAA has taken concrete actions to complete it all criteria for return to ENQA.

Structural barriers: In the area of education and skills, barriers are related to the low inclusion of children in preschool education and inclusion of students of marginalized groups. The division of VET management of VET between two institutions (MEST, the Ministry of Finance, Labour and Transfers (MFLT) is posing a barrier. Lack of coordination and complementarity between the two types of VET leads to inefficient use of funds. The unclear role of AAAPARR that currently manages only 6 of the 68 vocational schools is another obstacle. Adult education is provided only by private institutions and non-governmental organizations. There is a lack of cooperation of education structures with the labour market resulting with skills mismatch, development of mechanisms for quality improvement, profiling of higher education institutions, a large number of higher education institutions and their academic programs; linking higher education with the labour market; insufficient labour market statistics, insufficient capacity in KAA; monitoring of higher education institutions; needs for digitalization of accreditation and monitoring processes;

Reform measure #19: Reform in pre-university education and increase of inclusion in early education.

Description of the measure: It aims to increase the attendance of children in early childhood education (ECE) including the implementation of a comprehensive approach and quality improvement, and effective management in pre-university education, based on functional mechanisms for quality assurance and transparency, which will affect effective learning and teaching as well as raising student outcomes. This is intended to be achieved through: increasing and adapting the spaces of public Preschool Institutions (PIs), improving the legislation and

³⁷ This section was drafted around mid-2021, so the data may have been subject to change by end-2021

developing the core curriculum, updating the “Distance Education” platform where is expected to benefit all children aged 0-6 and especially children who cannot be part of pre-school institutions as well as the continuous professional development of managerial and educational staff. Also, it aims to amend legislation on textbooks and school materials, procedures for selection of pre-university education staff; professional development of teachers by creating mechanisms for sustainability and professional development of MESTI digital skills, MED and schools and capacity building of the education inspectorate. It is a continuation of the previous cycle of ERP, and is in line with the Government Program 2021-2025, Government Strategic and Operational Plan and policies of MEST, and also is part of the NDS, while with SDG is related to objective 4 indicators 4.1. and 4.2, 4.a and 4 b.

a. Planned activities for 2022:

1. Drafting a situation analysis for adaptation of existing school spaces in kindergartens; (MESTI).
2. Construction of 12 new preschool institutions and adaptation of 2 schools in kindergartens (MESTI)
3. Drafting of all bylaws arising from the Law on Early Childhood Education; (MESTI)
4. Design and approval of the core curriculum for Early Childhood Education; (MESTI);
5. Adoption of the law on textbooks and school materials; (MESTI / Assembly)
6. Hiring of 20 new inspectors; (MESTI)
7. Drafting and approval of the AI on Procedures for the selection of pre-university education staff; (MESTI)
8. Review, harmonization, finalization and approval of TPD legislation; (MESTI)
9. Training of 3500 teachers according to priority programs; (MESTI)

b. Planned activities for 2023

1. Construction of 10 new preschool institutions and adaptation of 5 schools in kindergartens; (MESTI)
2. Training of trainers for piloting the new curriculum; (MESTI)
3. Training of up to 100 educators in the pilot phase for the implementation of the core curriculum; (MESTI)
4. Training, mentoring and monitoring of 500 educators for the implementation of the core curriculum for early childhood education; (MESTI)
5. Transfer of financial responsibility of the platform "Distance Education - Care, Development and Education in early childhood" and management by MEST staff; (MESTI)
6. Hiring of 20 new inspectors; (MESTI)
7. Training of 5000 teachers according to priority programs; (MESTI)

c. Planned activities for 2024:

1. Construction of 2 new preschool institutions and adaptation of 5 schools in kindergartens; (MESTI) education system at all levels

2. Training, mentoring and monitoring of 1000 educators for the implementation of the core curriculum for early childhood education; (MESTI)
3. Management of the Platform “Distance Education - Care, Development and Early Childhood Education; (MESTI)
4. Hiring of 20 new inspectors; (MESTI)
5. Training of 5000 teachers according to priority programs; (MESTI)

Result indicators:	Baseline 2021	Objectives 2023	Objective 2024
Number of PIs built / adopted	44	78	85
Participation in early education (Number of children aged 0 to 6 years)	31 179	35 630	35 870
<i>Number of new education inspectors</i>	30	64	74

Expected impact on competitiveness: This measure has impact on improvement and increase of involvement in early education, as it aims to increase access through increasing the number of institutions, and continuous improvement and updating of the online platform for remote access (until now it reached over 6 million entries). Also, the development of policy documents such as the law on ECE and core curricula, will contribute to quality of education which will serve more positively in the short- and long-term development of the child and society. The professional development of teachers, the employment of new officers and inspectors, adoption of law on textbooks and school materials, adoption and implementation of bylaws on the selection and employment procedures of management and staff will also have impact on competitiveness.

Estimating the cost of activities and sources of funding: The total cost for implementation of this measure is estimated to be around € 20,899,131 for 2022-2024 from the category of goods and services and capital expenditures. From this value, for 2022, the total cost will be € 17,050,377 of which € 12,050,377 8 from the Kosovo budget (for infrastructure, training, the platform "Distance Education" and drafting bylaws, recruitment to new inspectors) and 5,000,000.00€ from EU funds (IPA). For 2023, the implementation cost is € 1,799,377 from Kosovo budget. For 2024, the implementation cost is € 2,049,377 from Kosovo budget.

Expected impacts on social outcomes, such as employment, poverty reduction, gender equality: Measure helps to increase employment and create equal opportunities for employment, through the creation of additional spaces and through alternative forms of services in early education, advancement of teachers and staff of educational institutions, while in the long term it reduces poverty. As families' access to Early Childhood Education increases, so does gender equality as it enables families to work while caring for their children is a service provided in their community.

Expected impact on the environment: Environmental impact is expected to occur depending on the construction / adoption of Preschool institutions. The Ministry intends to adhere to all parameters for environmental protection depending on the specifics of the locations identified for construction of preschool institutions and relevant municipalities.

Risk	Probability	Planned mitigation action
Extension of procedures for construction /adoption of PI due to expropriation or not	Medium	Analysis of the situation by the municipalities in coordination with the

finding the right location by municipalities		Secretary General and the Cabinet in MESTI
Restriction of educational staff employed in new educational institutions	High	MESTI with the review of the funding formula plans for the new educational staff
Failure to hire 44 new inspectors	Medium	Accurate and timely coordination

5.2.11. Employment and labour market

Current situation: Labour force participation in labour market in Kosovo remains low. The short- and medium-term impact of COVID-19 has increased job vulnerability and risks deepening socio-economic divisions.

The improvement of economic activity has also begun to be reflected in the labour market. The latest available labour market data published by Kosovo Agency of Statistics (KAS) show that the **employment rate** in the first quarter of 2021 marked a slight improvement in annual terms, reaching 29.3%. Labour force participation improved by 0.7 p.p, reaching 39.5%. Whereas the unemployment rate increased by 0.8 p.p. in annual terms reaching 25.8%.

The sectors with the highest employment continue to be: trade with a share of 16.8% to total employment; manufacturing by 12.4%, education by 11.1% and construction by 9.4%. Male employment was higher in the sectors of trade, construction, and manufacturing, while female employment was higher in education, trade and healthcare sectors.

Unemployment rate in Q1 2021 marked 25.8%, compared to 25.9% in 2020. Unemployment rate among youth aged 15-24 has decreased from 49.1% in 2020 to 48.6% in Q1 2021. About 45.7% of youth aged 15-19 were long-term unemployed (more than 12 months). Among youth, the unemployment rate for young men is 46.1%, while among women the unemployment is 53.5%. According to LFS, Q1 2021 the percentage of youth in the NEET category marked 29.8% (compared to 33.6% in 2020). Inter-Ministerial Group at the political level led by Minister of Finance, Labour and Transfers to address the process of developing Youth Guarantee Scheme is established, and also Inter-Ministerial Technical Team for to draft Youth Guarantee Scheme.

Skills mismatch with labour market needs remains the main obstacle. On the employer's side, about 50% of firms report that general education does not adequately prepare students for the workplace - neither in terms of up-to-date knowledge nor soft skills (World Bank, 2019). A lack of basic business skills has been cited as a significant obstacle to the development of private sector. According to the STEP survey, 75% of companies have encountered difficulties in hiring managers, professionals and technicians.

Regarding the **undeclared work**, on average is considered that about 30% of employees do not declare for tax purposes, 22.6% of declared employment is under-declared employment, and 20% to one third of employed individuals are self-employed workers. Kosovo currently does not have a National Employment Agency register. TAK possesses information about employees, but has no information about the employees' details. The formalization of beneficiaries of ALMM, according to legislation in force, is not a mandatory requirement imposed on beneficiaries of ALMMs. Direct support or subsidies for agriculture provided by MAFRD, are not conditional on formalization of workers. We do not have an integrated labour inspection system that could also address labour inspection in agriculture as a priority. The organization of awareness campaigns remains low

compared to prevalence of undeclared work. In contrast to the data published by the KAS Labour Force Survey, administrative data from TAK regarding employment for 2021 (up to Q3) provide us a better picture regarding employment, since they have been greatly affected by government measures. The measures aiming to mitigate the negative impact of COVID required that all workers should be in the formal sector. Thus, data show an increase on average of around 10.5% in employment for period Q1-Q3/2021, compared to the same period of last year. Detailed information on labour market indicators are available in section 2.2.2. of the Macroeconomic Framework. According to Employment Agency data number of jobseekers registered in Employment Offices (EO) has increased, due to measures of emergency package, where one of criteria to benefit from the measures has been the registration as unemployed and jobseekers in EO.

Structural barriers: Skills mismatch is the main obstacle, and also informal employment because it reduces productivity due to lack of protection of workers' rights, loss of budget revenues and strengthening advantages of companies operating in informal sector. Insufficient budget in expanding and increasing the quality of employment services and vocational training in the labour market. The limited connection of jobseekers with private sector raises long-term unemployment, fragility of institutions such as Labour Inspectorate, failing to sufficiently sanction informal sector, feeding informal employment without proper social protection and reducing tax base.

5.2.12. Social protection and inclusion

Current situation: Kosovo has made progress in transitioning to a market-based system and has maintained relatively stable economic growth. However, historically Kosovo's economic growth has not been sufficient to reduce poverty and significantly reduce high unemployment rates as well as to create formal jobs, especially for women, youth, and the Roma, Ashkali, and Egyptian communities.

The poverty rate continues to be high, around 21% of in 2019,³⁸ especially in rural areas where over 40% of population is unemployed. In 2017, poverty rate among households with three or more children was 2.5 times higher than among families without children. The Human Capital Index (HCI) index for Kosovo is lower than the average for the region, although it is higher than the average for lower-income countries and it shows that a child born today in Kosovo will be 56% productive when he/she grows up compared to the same child if he/she were to enjoy a full education and good health. The on-going COVID-19 pandemic poses a serious social and economic challenge to the country, exacerbating poverty outcomes. GoK has tackled this through the Economic Recovery Package in 2020 and, more recently with the Economic Revival Package in 2021. Besides direct support to businesses which included increasing formalization, the Revival Package contains a wide range of measures targeting those most in need by providing increased pensions (for select pension schemes), social assistance, maternity leave support (for employed and unemployed mothers), those who lost family members from Covid-19, etc. A detailed discussion and modalities of the payments is available in the Joint Conclusions section and the Macroeconomic Framework of this ERP. By cooperating and coordinating with international financial institutions and other development partners, will initiate the Social Assistance Scheme reform and improving targeting of social spending, harmonizing legal framework, institutional, human and technological capacity building, to increase equality between different beneficiary categories in terms of both social inclusion and general social level. The Government Program

³⁸ Based on the poverty line of US \$ 5.5 per person per day (with 2011 PPP).

2021-2025 aims to increase social welfare and reduce poverty through support of vulnerable groups and the restructuring of social and pension schemes. We recently have introduced the allowances program for children, (age 2 will receive monthly allowances in of 20 EUR per month, while children between 2 and 16 will receive monthly allowances in the amount of 10 EUR per month. Challenges exits in increasing demand and number of citizens and families in need of social protection, and social services as a result of loss of income and jobs from the Covid-19 pandemic are existing challenges. Another challenge remains the financing of new social protection programs, maintenance and improvement of social protection system, establishment of social security system, synchronization of social support policies, improvement of legal framework and increasing human and institutional capacities, for providing social services according to the needs of citizens.

Structural barriers: Some of the challenges facing the pension and benefits system derive from the current legislative framework, causing fiscal pressure on the budget and inequality in social protection for some of the different categories of social benefits. Non-harmonization of the legal framework for pensions and benefits enables benefits from more than one scheme, thus favouring some groups of beneficiaries and creating fiscal pressure on the budget, while some categories are excluded as a result of legal restrictions and lack of a complete social security system.

Reform measure #20: Improving social services and empowering excluded groups

Description of the measure: It aims to create a sustainable and stable system of social protection that meets the needs of citizens and economic development of the country. Effective implementation of this measure requires a more determined approach and comprehensive decision-making. The general objective of the measure is the advancement of social services, increase of coverage of families living in poverty from the social assistance scheme, pension system reform, inclusion of persons with disabilities in benefits and services, increasing the quality of social and family services, eliminating duplication of payments and benefits and advancing the control of beneficiaries by regulating other legal acts that are in conflict with each other. This measure aims at ensuring the well-being of the population, through the expansion and enhancement of the quality of social protection schemes, social security and social services and is closely related to the Government Program 2021-2025. Operational Objectives of the Government Work Plan 2021-2025, Economic Revival Program 2021, Sectoral Strategy of the former MLSW 2018-2022, , National Strategy for Disabilities 2017-2023 and NPISAA.

a. Activities planned for 2022:

1. Adoption of the Law on Family Social Services and drafting secondary legal framework for starting the implementation of the law;
2. Drafting and approving the Law on SAS and secondary legal framework for initiating law enforcement;
3. Approval of the Law on Local Finance and drafting Administrative Instruction on the financing formula for social and family services (Special Grant for Social Services);
4. Drafting primary legislation for the evaluation, status recognition, benefits and services for persons with disabilities;
5. Drafting bylaws for the implementation of legislation for the evaluation, status recognition, benefits and services for persons with disabilities;

6. Drafting and approval of the Administrative Instruction for exemption from payment of social categories for health insurance;
7. Construction of Homes for Child Protection and implementation of the child allowance program;
8. Supporting the licensed non-governmental sector (50 NGOs) with grants and subsidies for the provision of social and family services;
9. Signing at least 1 Bilateral or Multilateral Social Security Agreements;
10. Development of the Program and preparation of modules for vocational training and training of social workers (200 social workers).

b. Activities planned for 2023:

1. Drafting of minimum standards for social and family services
2. Development of the SAS Information System and creation of the platform of the Integrated Information System for Social Welfare as well as data digitalization for pension schemes;
3. Construction of community homes for the elderly, and vulnerable groups;
4. Supporting the provision of social and family services in line with upcoming legislation;

c. Activities planned for 2024

1. Construction of community homes for elderly, and vulnerable groups;
2. Supporting the provision of social and family services in line with upcoming legislation;
3. Licensing and training of social workers of public and non-governmental sector by the General Council for Social and Family Services;
4. Development of Social Registry platform and data Digitalization on pension schemes;
5. Training of staff of Pension Offices, Centres for Social Work and other social protection institutions.

Result indicators:	Baseline 2021	Objectives 2022	Objectives 2024
Increasing the coverage rate of families living in poverty from social assistance schemes.	50%	60%	90%
Realization of the rights in providing pension and disability pension for employees in the private and public sector as well as the implementation of the child allowance program.	40%	60%	80%
Increase inclusion in benefits and services for people with disabilities.	50%	60%	80%

Expected impact on competitiveness: Although the essence of measure covers the social, pension, and disability area, improving social services will help reduce the costs of exercising these rights for beneficiaries. One of the conditions for increasing competitiveness and achieving economic growth is the establishment and functioning of a system that can ensure the right to adequate and

accessible social protection for its citizens. Social protection, social services, and pension reform will improve social cohesion; women and youth will be empowered through social entrepreneurship initiatives. Central and local levels of government will be the key actors in providing social services and social protection to citizens in need.

Estimating the cost of activities and sources of funding: The total implementation cost for this measure during 2022-2024 is estimated to be around 150,000,000. From this amount €30,000,000 is estimated cost for 2022, of which €28,000,000 is expected to be financed from the Kosovo Budget and €2,000,000 from donor funds. For 2023, the cost is estimated to be around €50,000,000, of which €47,000,000 is expected to be financed from the Kosovo Budget and €3,000,000 from donor funds. While the estimated cost for 2024 is €70,000,000 of which €68,000,000 is expected to be financed from the Kosovo Budget and €2,000,000 from donor funds. The cost of this measure is related to the implementation of the new legislation on child allowances, the social assistance scheme and other primary and secondary legislation in the field of pensions, disability, child protection and social and family services.

Expected impacts on social outcomes and poverty reduction, gender equality: Access to social services and social protection for a large number of beneficiaries (especially children, people with disabilities, the elderly) as a result of improving the social assistance scheme and on the other hand increasing the quality of social services. Improvements in legal framework will bring better living conditions for different social categories of the elderly, people with disabilities, poor families and other groups of minority communities. Activities planned as part of this measure will increase welfare and reduce poverty.

Expected impact on the environment: Social welfare is always positively related to the degree of green consumer preference. Low level of socio-economic groups creates environmental problems when consuming goods and services. Thus, reducing poverty and improving the quality of life of certain communities will have an impact on improving the living environment.

Potential risks:

Risk	Probability	Planned mitigation action
1. Increase in the cost of the food basket as a result of inflation.	High	Support with other food and hygiene package programs for social categories and retirees.
2. Increase in the number of beneficiaries in the SAS as a result of job losses.	Low	Involvement of SAS beneficiaries in the program of active labour market measures

5.2.13. Healthcare systems

Current situation: The health sector in Kosovo faces major challenges and insufficient funding. Health care expenditures are 1.6% of GDP (since 2019), which is the lowest in the region, representing only about 40% of the annual demand for public health care. The 18% of the population does not have access to health services as they live in extreme poverty, and lack of sufficient system resources has caused the shift of costs to the citizens' pocket (€158,883,180), primarily for medicaments and consumables (outpatient medicaments), and for health services that are not provided in the public sector. Program of treatment outside public health institutions (in the country or abroad) is in place to address these issues, but the funds are not enough and a number

of citizens spends a significant amount of funds for abroad treatment. Health financing is mainly done by the Budget of the Republic of Kosovo, and also with the support from development partners. Own-source revenues in Primary Health Care are used to partially finance the implementation of capital projects for municipal health, while the Ministry of Health allocates a regular budget for capital investments in PHC in the amount of up to 4 million euros per year.

World Bank Health Sector Master Planning Project states that 80% of the population has access to any of the primary care levels within 10 minutes and 99% of the population has access to the primary health care level within 20 minutes. Main family medicine centres are accessible to 94% of the population within 20 minutes and to 98% of the population within 30 minutes. This tells us that infrastructure investments over the last 10 years have not been necessary in most cases and the funds spent could have been used for diagnostics and health services. Thus, in

Primary Health Care (PHC) based on 2016 data, the number of inhabitants per doctor is 1,587, which is close to the norm given for Family Medicine. As per Secondary Health Care (SHC), according to the reports generated in the NIPHK, in 2016, a total of 1952 beds were reported and utilization of hospital capacity at the Kosovo level is 55.3%, with variations from 118.6% to 33.4%. Also, there is lack of doctors in Tertiary Health Care (THC). having a total of 3,097 employees, of which 597 doctors (19.3% of the total number of employees). Basic health information system in primary health care started in 2018-2020 and so far, it has been extended to 29 municipalities and 14 specialist ambulances. In parallel with this development, the extension of hardware was completed in primary health care institutions, regional hospitals and UCCK, but due to COVID 19 its extension to other PHC institutions was interrupted. in 2020. Also, at the beginning of 2021, the immunization module and home visits started and the adaptation of the module for COVID-19 has been developed. In order to address the needs of vulnerable groups, which also represent mainly a large part of the population, we plan the development of specific services for children with special needs (autism, Down Syndrome), infrastructure projects for hospices (providing services to patients in the terminal stages of life), correction of physical access for people with disabilities in public health institutions, construction of 'warm' canals/UCCK and asylum canals for tetraplegics, addressing issues of gender-based violence and trafficking in human beings, as well as strengthening the integration of health services in prisons.

Structural barriers: The insufficient funding in the health sector cannot address the problem of access for these categories of the population, while non-implementation of the law on health insurance and unfair allocation of current resources will continue resulting with fail to improve financial protection, which will deepen barriers to access for vulnerable groups, low access to health services and the inability of families to afford the costs of these services with a family budget.

5.3. Summary of reform measures

A) Reforms that address the three main challenges:

Key challenge 1: Promoting sustainable employment by improving quality education and connecting it to labour market needs

Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market

Reform measure #2: Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions

Reform measure #3: Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups.

Key Challenge 2: Reorganizing the health sector in order to provide adequate and accessible health services for all citizens

Reform measure #4: Improving health services

Key Challenge 3: Creating conditions for sustainable energy supply

Reform measure #5: Developing EE and RES policies in view of the green transition

Reform measure #6: Reforming the energy market

B) Reforms that address other challenges:

1. Public Financial Management

2. Green transition

Reform measure #7: Reducing environmental pollution and preserving biodiversity

3. Digital transformation

Reform Measure #8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system

4. Business environment and reduction of the informal economy;

Reform Measure #9: Improving the doing business environment by reducing the administrative burden, inspection reform

Reform Measure #10: Reduction of the informal economy

5. Research, development and innovation;

Reform Measure #11: Improving the environment for research, innovation and entrepreneurship

6. Economic integration reforms

Reform Measure #12: Improving cross-border trade through trade facilitation

Reform measure #13: Further development of quality infrastructure and empowerment of the role of market surveillance authorities

7. Energy market reforms

8. Transport market reforms;

Reform measure #14: Further development and modernization of Transport

9. Agriculture, industry and services;

Reform measure #15: Structural changes in the agricultural sector

Reform measure #16: Increasing competitiveness in the production industry

Reform measure #17: Increasing Competitiveness in the Tourism and Hospitality Sector

Reform measure #18: Increase competitiveness in the sector of trade in services

10. Education and skills

Reform measure #19: Reform in pre-university education and increase inclusion in early education.

11. Employment and labour market

12. Social protection and inclusion

Reform measure #20: Improving social services and empowering excluded groups

13. Healthcare systems

6. COSTS AND FINANCING OF STRUCTURAL REFORMS

The reforms identified contain existing and new Government policies that addresses key barriers to economic growth, competitiveness and job creation. The total projected cost of the 20 priority reform measures set out in Chapter 4 of the **ERP 2022-2024** is estimated at € **543,442,416** (including direct budget expenditures, loans, IPA funds and others). These reforms are expected to be financed mainly through the Kosovo budget but also through external funding from financial institutions, grants and technical assistance from developing partners.

The total direct budgetary impact that derives from the implementation of the 20 structural reforms amounts to € **475,990,385** (central and local level) for the period 2022-2024.

A total of € **20,932,836** is expected to be donor support during the years 2022-2024. Support is focused on further advancing new reforms. The rest of the donor support is mainly focused on supporting various legislative initiatives in the form of technical assistance. An additional €**12,610,000** is expected to be supported by IPA funds.

A significant number of activities are expected to be financed also through loans. The total impact of loans for the years 2022-2024, which have already been approved and are part of the 2022 Budget, are at €**17,519,195**.

Table: Budgetary implications of structural reforms 2022-2024, by funding sources

a- Total cost of 20 structural measures					
Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	3,920,547 €	12,204,309 €	138,426,080 €	27,960,150 €	182,511,086 €
2023	3,033,260 €	11,089,658 €	148,711,295 €	10,964,849 €	173,799,062 €
2024	2,607,176 €	9,901,892 €	167,153,800 €	7,469,400 €	187,132,268 €
Totals	9,560,983 €	33,195,859 €	454,291,175 €	46,394,399 €	543,442,416 €

b- Total financing of 20 structural measures							
Year	Central Budget	Local Budget	Other national public finance sources	IPA	Other grants	Project loans	Total
2022	153,874,726 €	320,000€	0.0 €	7,660,000 €	10,587,460 €	10,068,900 €	182,511,086 €
2023	149,495,421 €	2,220,000 €	0.0 €	2,550,000 €	12,578,346 €	6,955,295 €	173,799,062 €

2024	165,010,238 €	5,070,00 €	0.0 €	2,400,000 €	14,157,030 €	495,000 €	187,132,268 €
Totali	468,380,385 €	7,510,000.0 €	0.0 €	12,610,000 €	0.37€322,836 €	#####17,510,195 €	8,325,834,416 €

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

This chapter presents the process of preparing and approval the Economic Reform Program 2022-2024, and consulting various stakeholders during the process of preparing this program as part of the dialogue on economic governance between the EU and the Republic of Kosovo.

According to the Governments Decision, the Minister of Finance, Labour and Transfer has been appointed as National Coordinator for the ERP, whose work is supported by the Office of Strategic Planning of the Office of the Prime Minister; Department of Economic and Public Policy and International Financial Cooperation at the Minister of Finance, Labour and Transfer; and the coordinators of relevant fields within the line ministries: Minister of Finance, Labour and Transfer, Ministry of Economy, Ministry of Industry, Entrepreneurship and Trade, Ministry of Agriculture, Forestry and Rural Development, Ministry of Education, Science, Technology and Innovation, Ministry of Internal Affairs, Ministry of Environment, Spatial Plan and Infrastructure, Ministry of Justice, and other supporting bodies.

Based on the instructions of the National Coordinator, on July 23, 2021, the SPO invited the ministries and other institutions for the initiative meeting, where a high-level meeting was held for the launch of the Economic Reform Program 2022-2024.

According to the working calendar presented at the launch meeting, the Office for Strategic Planning has held these activities:

- Prepare the first proposals of structural reform priorities based on the criteria of the European Commission Guidelines and related instructions.
- Holding workshops with ML to review the proposed measures in terms of the quality of presentation of objectives, activities, indicators, indicative cost and impact of the measure.
- Organization of the workshop with CEF and ML for costing measures for ERP 2022-2024, held on 19-20 October 2021.
- On 25-29 October 2021, the first draft of the structural reform chapter was finalized and sent to the EC for evaluation and comment.
- On November 16-17, 2021, virtual meetings were held with the delegation of the European Commission and the Line Ministries on the evaluation of the first draft of the Structural Reforms of the Economic Reform Program 2022-2024. In the framework of this mission, thematic meetings were held on certain challenges that have been identified by the European Commission Assessment or ERP 2022-2024.
- As part of the public consultation process to discuss the draft PRE 2022-2024, the draft was sent for public consultation on the government platform from 22.12.2021 to 17.01.2022 (<http://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=41299>).

Addressing the comments is presented in a summary of the results of the public consultation in Annex II of the Program.

ANNEX 1 TABLES OF THE ECONOMIC REFORM PROGRAMME 2022-2024:

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	2020	2020	2021	2022	2023	2024
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	6.680	-5.3	9.7	7.8	7.1	6.8
2. Current GDP at market prices	B1*g	6.772	-4.0	12.2	10.6	9.3	8.8
Components of real GDP							
3. Private consumption expenditure	P3	5.791	2.5	6.3	1.5	6.8	5.7
4. Government consumption expenditure	P3	0.899	2.1	0.6	4.5	-0.1	0.4
5. Gross fixed capital formation	P51	2.023	-7.6	12.2	21.3	11.1	10.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.241	3.6	3.3	3.8	3.9	4.0
7. Exports of goods and services	P6	1.467	-29.1	72.0	6.6	7.6	7.5
8. Imports of goods and services	P7	3.742	-6.1	27.6	5.0	7.4	6.5
Contribution to real GDP growth							
9. Final domestic demand		8.7	-0.1	9.0	8.4	9.2	8.4
10. Change in inventories and net acquisition of valuables	P52+P53	0.2	-0.1	-0.1	0.4	0.0	0.0
11. External balance of goods/services	B11	-2.3	-5.1	0.8	-0.9	-2.1	-1.6

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	2020	2021	2022	2023	2024
1. GDP deflator		1.4	2.4	2.5	2.1	1.9
2. Private consumption deflator		-0.7	3.1	2.7	2.2	2.0
3. HICP		0.2	3.4	2.5	2.2	2.0
4. National CPI change		0.2	3.4	2.5	2.2	2.0
5. Public consumption deflator		4.7	2.3	3.9	1.1	1.1
6. Investment deflator		-0.7	4.8	2.6	1.4	1.3
7. Export price deflator (goods & services)		0.2	4.6	3.1	2.5	2.3
8. Import price deflator (goods & services)		-2.4	6.4	4.0	2.4	2.4

Table 1c: Labour markets developments

	Code	2020	2020	2021	2022	2023	2024
		Level	Level/Rate of change				
1. Population (thousands)			1,795.7	1,798.2	:	:	:
2. Population (growth rate in %)			-0.04	0.1	-100.0	:	:
3. Working-age population (persons)[1]			1,222	1,226	:	:	:
4. Participation rate			38.3	39.5	:	:	:
5. Employment, persons [2]			347	359	:	:	:
6. Employment, hours worked[3]			36.2	38.3	:	:	:
7. Employment (growth rate in %)			-4.4	3.5	:	:	:
8. Public sector employment (persons)			86.0	95.5	:	:	:
9. Public sector employment (growth in %)			-2.0	11.0	:	:	:
10. Unemployment rate [4]			25.9	25.8	:	:	:
11. Labour productivity, persons[5]		19.2	-0.9	6.0	:	:	:
12. Labour productivity, hours worked[6]			5.1	3.8	#DIV/0!	:	:
13. Compensation of employees	D1	2.1	-2.0	-74.0	:	:	:

Table 1d: Sectoral balances

Percentages of GDP	ESA code	2020	2021	2022	2023	2024
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.8	-4.8	-5.6	-6.6	-7.3
<i>of which:</i>						
- Balance of goods and services		-32.2	-30.4	-29.8	-29.9	-29.7
- Balance of primary incomes and transfers		25.1	25.5	24.3	23.4	22.5
- Capital account		0.3	0.1	-0.1	-0.1	-0.1
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	0.5	-3.6	-0.9	-2.8	-4.2
3. Net lending/borrowing of general government		-7.6	-1.3	-4.6	-3.7	-3.0
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

		2020	2021	2022	2023	2024
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	6.8	7.6	8.4	9.2	10.0
Investment ratio (% of GDP)		29.7	31.1	35.0	36.1	37.2
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		-5.8	-0.3	11.1	4.2	5.9
2. Industry (excluding construction)		2.5	3.5	10.6	8.0	7.0
3. Construction		-9.0	5.5	3.1	3.7	2.6
4. Services		-4.8	8.5	9.1	8.2	7.1

[1] Age group of 15-64 years

[2] Occupied population, domestic concept national accounts definition

[3] National accounts definition

[4] Harmonised definition, Eurostat; levels

[5] Real GDP per person employed

[6] Real GDP per hour worked

Table 1f: External sector developments

Billion Euro unless otherwise indicated		2020	2021	2022	2023	2024
1. Current account balance (% of GDP)	% of GDP	-7.0	-4.9	-5.5	-6.5	-7.2
2. Export of goods	bn EUR	0.5	0.8	0.9	1.0	1.1
3. Import of goods	bn EUR	3.0	4.1	4.5	4.9	5.4
4. Trade balance	bn EUR	-2.6	-3.3	-3.6	-4.0	-4.3
5. Export of services	bn EUR	1.0	1.9	2.0	2.2	2.4
6. Import of services	bn EUR	0.6	0.9	0.9	1.0	1.1
7. Service balance	bn EUR	0.4	1.0	1.1	1.2	1.3
8. Net interest payments from abroad	bn EUR	:	:	:	:	:
9. Other net factor income from abroad	bn EUR	1.5	1.8	1.9	2.0	2.1
9a. Remittances	bn EUR	1.0	1.2	1.2	1.3	1.4
10. Current transfers	bn EUR	0.2	0.1	0.2	0.2	0.2
11. Of which from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-0.5	-0.4	-0.5	-0.6	-0.7
13. Capital and financial account	bn EUR	-0.5	-0.4	-0.4	-0.4	-0.4
14. Foreign direct investment, net	bn EUR	-0.3	-0.3	-0.3	-0.3	-0.3
14.a Of which: Net-FDI (Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0
14b. Of which: Portfolio investment	bn EUR	-0.1	-0.1	-0.1	0.0	-0.1
14c. Of which: Net-Portfolio investment(Equity)	bn EUR	0.0	0.0	0.0	0.0	0.0
14d. Foreign direct investment, inward	bn EUR	0.3	0.4	0.4	0.4	0.4
14e. Foreign direct investment, outward	bn EUR	0.1	0.1	0.1	0.1	0.1
15. Foreign reserves	bn EUR	0.0	0.1	0.1	0.1	0.1
16. Total foreign debt	bn EUR	2.5	2.8	0.0	0.0	0.0
16a. Of which: foreign currency denominated	bn EUR	0.0	0.8	0.0	0.0	0.0
16b. Of which: public external debt	bn EUR	0.6	:	:	:	:
16c. Of which: interest payments	bn EUR	:	0.8	0.0	0.0	0.0
16d. of which: repayments due	bn EUR	:	:	:	:	:
17. Exchange rate vis-à-vis EUR(annual average)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	% , y-o-y	0.0	0.0	0.0	0.0	0.0
17a. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	1.0	1.0	1.0	1.0	1.0
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	% , y-on-y	0.0	0.0	0.0	0.0	0.0
18. Net foreign saving	% of GDP	-7.0	-4.9	-5.5	-6.5	-7.2
19. Domestic private saving	% of GDP	24.3	21.4	24.8	23.3	22.8
20. Domestic private investment	% of GDP	24.1	25.5	26.6	26.8	27.8
21. Domestic public saving	% of GDP	-1.6	4.8	4.7	6.2	7.2
22. Domestic public investment	% of GDP	5.6	5.5	8.4	9.2	9.5

Table 1g: Sustainability indicators

	Dimension	2017	2018	2019	2020	2021
1. Current Account Balance	% of GDP	-5.5	-7.6	-5.7	-7.0	-4.9
2. Net International Investment Position	% of GDP	-1.6	-6.1	-5.8	-12.3	-9.5
3. Export market shares	%, yoy	:	:	:	:	:
4. Real Effective Exchange Rate [1]	%, yoy	-0.2	-0.8	1.0	-0.6	0.4
5. Nominal Unit Labour Costs	%, yoy	4.0	-16.8	1.4	3.2	:
6. Private sector credit flow	% of GDP	:	:	:	:	:
7. Private sector debt	% of GDP	:	:	:	:	:
8. General Government Debt	% of GDP	15.7	16.4	17.0	22.0	22.5

[1] Please explain the methodology used (deflators, trade weighing, etc)

Table 2a: General government budgetary prospects

	ESA code	2020	2020	2021	2022	2023	2024
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-0.5127	-7.6	-1.3	-4.6	-3.7	-3.0
2. Central government	S1311	:	:	:	:	:	:
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:	:
General government (S13)							
6. Total revenue	TR	1.7222	25.4	28.9	28.1	27.9	27.7
7. Total expenditure[1]	TE	2.2349	33.0	30.3	32.7	31.6	30.7
8. Net borrowing/lending	EDP.B9	-0.5127	-7.6	-1.3	-4.6	-3.7	-3.0
9. Interest expenditure	EDP.D41 incl. FISIM	0.0275	0.4	0.4	0.5	0.5	0.6
10. Primary balance[2]		-0.4852	-7.2	-0.9	-4.1	-3.2	-2.4
11. One-off and other temporary measures [3]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		1.5175	22.4	26.0	25.2	25.1	25.0
12a. Taxes on production and imports	D2	1.2730	18.8	21.9	21.0	20.9	20.8
12b. Current taxes on income and wealth	D5	0.2445	3.6	4.0	4.3	4.2	4.2
12c. Capital taxes	D91	0.0000	:	:	:	:	:
13. Social contributions	D61	0.0000	:	:	:	:	:
14. Property income	D4	0.0230	0.3	0.5	0.5	0.5	0.5
15. Other (15 = 16-(12+13+14)) [4]		0.1817	2.7	2.5	2.4	2.3	2.3
16 = 6. Total revenue	TR	1.7222	25.4	28.9	28.1	27.9	27.7
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1.5175	22.4	26.0	25.2	25.1	25.0
Selected components of expenditures							
16. Collective consumption	P32	0.9599	14.2	13.1	12.8	11.9	11.3
17. Total social transfers	D62 + D63	0.8678	12.8	11.1	10.6	9.8	9.2
17a. Social transfers in kind	P31 = D63	0.0000	0.0	0.0	0.0	0.0	0.0
17b. Social transfers other than in kind	D62	0.8678	12.8	11.1	10.6	9.8	9.2
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.0275	0.4	0.4	0.5	0.5	0.6
19. Subsidies	D3	0.0000	0.0	0.0	0.0	0.0	0.0
20. Gross fixed capital formation	P51	0.3797	5.6	5.5	8.4	9.2	9.5
21. Other (21 = 22-(16+17+18+19+20)) [6]		:	:	:	:	:	:
22. Total expenditures	TE [1]	2.2349	33.0	30.3	32.7	31.6	30.7
p.m. compensation of employees	D1	0.6608	9.8	8.7	8.0	7.3	6.8

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

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

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

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

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

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

Table 2b: General government budgetary prospects

	ESA code	2020	2021	2022	2023	2024
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-0.51	-0.10	-0.38	-0.34	-0.30
2. Central government	S1311	:	:	:	:	:
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	:	:	:	:	:
5. Social security funds	S1314	:	:	:	:	:
General government (S13)						
6. Total revenue	TR	1.72	2.20	2.36	2.57	2.77
7. Total expenditure[1]	TE	2.23	2.30	2.75	2.91	3.07
8. Net borrowing/lending	EDP.B9	-0.51	-0.10	-0.38	-0.34	-0.30
9. Interest expenditure	EDP.D41 incl. FISIM	0.03	0.03	0.04	0.05	0.06
10. Primary balance[2]		-0.49	-0.07	-0.34	-0.29	-0.24
11. One-off and other temporary measures [3]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		1.52	1.97	2.12	2.31	2.50
12a. Taxes on production and imports	D2	1.27	1.67	1.76	1.92	2.08
12b. Current taxes on income and wealth	D5	0.24	0.31	0.36	0.39	0.42
12c. Capital taxes	D91	0.00	0.00	0.00	0.00	0.00
13. Social contributions	D61	0.00	0.00	0.00	0.00	0.00
14. Property income	D4	0.02	0.04	0.04	0.05	0.05
15. Other (15 = 16-(12+13+14)) [4]		0.18	0.19	0.20	0.21	0.23
16 = 6. Total revenue	TR	1.72	2.20	2.36	2.57	2.77
p.m.: Tax burden (D2+D5+D61+D91-D995) [5]		1.52	1.97	2.12	2.31	2.50
Selected components of expenditures						
16. Collective consumption	P32	0.96	0.99	1.07	1.09	1.13
17. Total social transfers	D62 + D63	0.87	0.84	0.89	0.90	0.92
17a. Social transfers in kind	P31 = D63	0.00	0.00	0.00	0.00	0.00
17b. Social transfers other than in kind	D62	0.87	0.84	0.89	0.90	0.92
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	0.03	0.03	0.04	0.05	0.06
19. Subsidies	D3	0.00	0.00	0.00	0.00	0.00
20. Gross fixed capital formation	P51	0.38	0.42	0.71	0.85	0.95
21. Other (21 = 22-(16+17+18+19+20)) [6]		:	0.01	0.03	0.02	0.02
22. Total expenditures	TE [1]	2.23	2.30	2.75	2.91	3.07
p.m. compensation of employees	D1	0.66	0.66	0.67	0.67	0.68

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

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

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

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

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

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

Table 3: General government expenditure by function

% of GDP	COFOG Code	2020	2021	2022	2023	2024
1. General public services	1	5.6	3.1	:	:	:
2. Defence	2	0.9	0.6	:	:	:
3. Public order and safety	3	3.0	2.0	:	:	:
4. Economic affairs	4	6.8	2.9	:	:	:
5. Environmental protection	5	0.2	0.1	:	:	:
6. Housing and community amenities	6	0.5	0.3	:	:	:
7. Health	7	3.9	2.5	:	:	:
8. Recreation, culture and religion	8	0.8	0.5	:	:	:
9. Education	9	4.6	3.1	:	:	:
10. Social protection	10	8.1	5.5	:	:	:
11. Total expenditure (item 7 = 23 in Table 2)	TE	33.0	30.3	32.7	31.6	30.7

Table 4: General government debt developments

% of GDP	ESA code	2020	2021	2022	2023	2024
1. Gross debt [1]		22.0	26.3	26.5	28.2	29.5
2. Change in gross debt ratio		4.9	4.3	0.2	1.7	1.3
Contributions to change in gross debt						
3. Primary balance [2]		7.2	0.9	4.1	3.2	2.4
4. Interest expenditure [3]	EDP D.41	0.4	0.4	0.5	0.5	0.6
5. Real growth effect		0.9	-1.9	-1.9	-1.7	-1.8
6. Inflation effect		-0.2	-0.5	-0.6	-0.5	-0.5
7. Stock-flow adjustment		-3.3	5.4	-1.9	0.2	0.6
<i>of which:</i>						
- Differences between cash and accruals [4]		:	:	:	:	:
- Net accumulation of financial assets [5]		:	:	:	:	:
<i>of which:</i>						
- Privatisation proceeds		:	:	:	:	:
- Valuation effects and other [6]		:	:	:	:	:
p.m. implicit interest rate on debt [7]		2.3	2.2	2.1	2.3	2.2
Other relevant variables						
8. Liquid financial assets [8]		:	:	:	:	:
9. Net financial debt (9 = 1 - 8)		:	:	:	:	:

[1] As defined in Regulation 3605/93 (not an ESA concept).

[2] Cf. item 10 in Table 2.

[3] Cf. item 9 in Table 2.

[4] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

[5] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

[6] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

[7] Proxied by interest expenditure divided by the debt level of the previous year.

[8] AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2020	2021	2022	2023	2024
1. Real GDP growth (% , yoy)	B1g	-5.3	9.7	7.8	7.1	6.8
2. Net lending of general government	EDP.B.9	-7.6	-1.3	-4.6	-3.7	-3.0
3. Interest expenditure	EDP.D.41	0.4	0.4	0.5	0.5	0.6
4. One-off and other temporary measures [1]		:	:	:	:	:
5. Potential GDP growth (% , yoy)		:	:	:	:	:
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		:	:	:	:	:
7. Cyclical budgetary component		:	:	:	:	:
8. Cyclically-adjusted balance (2-7)		:	:	:	:	:
9. Cyclically-adjusted primary balance (8+3)		:	:	:	:	:
10. Structural balance (8-4)		:	:	:	:	:

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

Table 6: Divergence from previous programme

	2020	2021	2022	2023	2024
1. GDP growth (% , yoy)					
Previous programme	-6.7	5.2	4.1	4.2	:
Latest update	-5.3	9.7	7.8	7.1	6.8
Difference (percentage points)	1.4	4.4	3.7	2.9	:
2. General government net lending (% of GDP)					
Previous programme	-7.8	-7.9	-5.0	-4.2	:
Latest update	-7.6	-1.3	-4.6	-3.7	-3.0
Difference	0.2	6.6	0.4	0.5	:
3. General government gross debt (% of GDP)					
Previous programme	22.4	28.3	31.7	34.5	:
Latest update	22.0	26.3	26.5	28.2	29.5
Difference	-0.5	-2.0	-5.2	-6.3	:

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

	Dimension	2020	2021	2022	2023	2024
Short-term interest rate	Annual average	-0.5	-3.1	-2.4	:	:
Long-term interest rate	Annual average	-0.3	-2.2	-1.4	:	:
USD/EUR exchange rate	Annual average	1.14	1.19	1.16	1.16	:
Nominal effective exchange rate	Annual average	3.94	1.3	-1.3	0	:
Exchange rate vis-à-vis the EUR	Annual average	:	:	:	:	:
Global GDP growth, excluding EU	Annual average	-3.4	5.7	4.5	3.5	:
EU GDP growth	Annual average	-5.879	5	4.3	2.5	:
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	:	:	:	:	:
Oil prices (Brent, USD/barrel)	Annual average	42.30	66.91	65.93	63.04	60.95

[1] If necessary, purely technical assumption.

Table 9a. Social scoreboard indicators

	Data source	2017	2018	2019	2020	2021
1. Adult participation in learning during the last 12 months, age 25-64						
2. Share of early leavers from education and training, age 18-24						
3. Share of population with basic overall digital skills or above, age 16-74						
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	LFS (SAK)	27.4	30.1	32.7	33.6	29.8
5. Gender gap in employment rate, age 20-64						
6. Income quintile share ratio - S80/S20						
3. Unemployment rate (%) total						
Working conditions						
7. Employment rate, age 20-64	LFS (SAK)	29.8	28.8	30.1	28.4	29.3
8. Unemployment rate, age 15-74	LFS (SAK)	30.5	29.6	25.65	25.9	25.8
9. Long-term unemployment rate, age 15-74						
10. Gross disposable income of households in real terms, per capita						
11. At-risk-of-poverty or social exclusion rate (AROPE)						
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)						
13. Impact of social transfers (other than pensions) on poverty reduction						
14. Disability employment gap, age 20-64						
15. Housing cost overburden rate						
16. Children aged less than 3 years in formal childcare						
17. Self-reported unmet needs for medical care						

Table 9b: Other selected indicators

	Data source	2017	2018	2019	2020	2021
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	MTFL/KAS	6.0	6.3	6.7	7.6	7.3
2. Public healthcare expenditure in % of GDP	MH/KAS	2.8	3.0	3.2		
3. Household out-of-pocket payments as a % of total health expenditure	MH/KAS	2.4	2.4	2.4		
4. Percentage of population not covered by health insurance		<i>n#a</i>	<i>n#a</i>	<i>n#a</i>	<i>n#a</i>	<i>n#a</i>
5. Ratio of doctors per 1000 inhabitants						
6. Ratio of nurses per 1000 inhabitants						
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions		<i>n#a</i>	<i>n#a</i>	<i>n#a</i>	<i>n#a</i>	<i>n#a</i>

8. Greenhouse gas emissions per capita		n#a	n#a	n#a	n#a	n#a
9. Generation of waste excluding major mineral wastes		n#a	n#a	n#a	n#a	n#a
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	RAEPC	88.8	93.2	93.2	96.4	96.1
11. Share of total population using internet [NB: population 16-74]	RAEPC/KAS	73.1%	87.0%	89.9%	94.5%	107.5%
Energy						
12. Energy imports dependency (%)						
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro						
14. Share of renewable energy sources (RES) in final energy consumption (%)						
Transport						
15. Railway Network Density (meters of line per km2 of land area)	KAS	30.59	30.59	30.59	30.59	30.59
16. Motorization rate (Passenger cars per 1000 inhabitants)	KAS	15.3%	15.6%	16.2%	16.3%	
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	KAS	9.2%	8.1%	9.0%	8.9%	8.5%
18. Share of employment (Agriculture, Forestry and Fishing)	TAK	0.9%	0.9%	0.9%	0.9%	0.9%
19. Utilised agricultural area (% of total land area)						
Industry (except construction)						
20. Share of gross value added	KAS	24.1%	24.2%	23.4%	24.1%	23.7%
21. Contribution to employment (% of total employment)	TAK	14.0 %	14.5 %	14.3 %	15.9%	15.8%
Services						
22. Share of gross value added	KAS	56.5%	57.3%	57.5%	57.7%	57.5%
23. Contribution to employment(% of total employment)	TAK	77.6%	76.5%	77.2%	75.5%	76.6%
Business Environment						
24. Rank in Global Competitiveness Index (Source: World Economic Forum)						
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)						
Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)						
27. R&D expenditure – EUR per inhabitant						
Trade						
28. Export of goods and services (as % of GDP)	CBK	27.3%	29.1%	29.3%	21.7%	37.5%
29. Import of goods and services (as % of GDP)	CBK	53.1%	57.3%	56.4%	53.9%	65.7%
30. Trade balance (as % of GDP)	CBK	-25.8%	-28.2%	-27.1%	-32.2%	-28.2%

Statement of Government Revenue and Expenditure

Description	2019	2020	Aktuali 2021	2022 Proj.	2023 Proj.	2024 Proj.
In millions of Euros:						
1. Total Revenue [1]	1,888.2	1,722.2	2,183.7	2,364.5	2,565.3	2,772.7
1.1 Tax Revenue	1,662.0	1,507.0	1,948.0	2,102.9	2,287.4	2,476.9
Direct Taxes	292.3	267.2	342.2	398.8	431.2	465.0
<i>Tax on Corporate Income</i>	94.6	85.3	114.0	136.2	147.1	159.0
<i>Tax on Personal Income</i>	165.6	158.0	189.5	219.4	237.0	256.2
<i>Tax on Immovable Property</i>	27.3	22.7	36.3	41.0	44.7	47.3
<i>Other</i>	4.8	1.3	2.4	2.3	2.4	2.5
Indirect Taxes	1,415.3	1,272.7	1,664.7	1,762.8	1,920.1	2,081.0
<i>Value Added Tax:</i>	845.6	770.1	1,038.2	1,103.1	1,212.7	1,320.3
<i>Domestic:</i>	239.2	222.4	291.7	322.6	351.1	378.0
<i>Border:</i>	606.4	547.8	746.5	780.6	861.6	942.4
<i>Customs Duty</i>	130.3	101.6	124.6	125.6	135.0	148.9
<i>Excize</i>	435.5	398.1	501.3	531.8	569.8	609.1
<i>Other indirect</i>	3.8	2.9	0.6	2.3	2.5	2.7
Tax Refunds	-45.5	-33.0	-58.9	-58.7	-63.9	-69.2
1.2 Non-tax revenue	214.6	181.2	235.8	239.1	255.4	273.3
Fees, charges, and other - Central Level	121.4	103.5	129.2	142.1	155.4	169.1
Fees, charges, and other - Local Level	50.0	42.7	57.3	46.4	47.8	49.2
Concessionary fees	11.1	2.7	17.0	17.0	19.0	21.0
Royalties	29.4	29.4	19.2	30.2	30.2	31.2
Te hyrat nga dividenda	0.0	0.0	10.0	0.0	0.0	0.0
Interest income (KEC loan)	2.7	3.0	3.1	3.4	3.1	2.8
1.3 Budget support and grants	11.5	34.0	0.0	10.5	10.5	10.5
1.4 DDG - Donor designated grants	8.0	9.0	16.8	12.0	12.0	12.0
2. Total Expenditure [1]	2,093.4	2,234.9	2,290.9	2,747.7	2,907.3	3,069.8
2.1 Recurrent Expenditure	1,538.8	1,827.7	1,837.9	1,990.3	1,996.8	2,054.9
<i>Wages and Salaries</i>	615.9	660.8	667.3	670.9	684.4	707.6
<i>Goods and Services</i>	295.6	299.2	327.9	403.8	409.7	422.6
<i>Subsidies and Transfers</i>	627.3	867.8	842.7	894.5	897.4	918.9
<i>Reccurent reserves</i>	0.0	0.0	0.0	21.0	5.4	5.8
2.2 Capital Expenditure	531.2	379.7	420.8	704.4	848.3	946.0
<i>Regular budget financing</i>	386.8	283.1	349.0	570.1	675.5	730.7
<i>Debt financing through the investment clause</i>	12.5	42.6	18.5	113.2	172.8	215.3
<i>Liquidation proceeds</i>	131.9	54.0	0.0	21.0	0.0	0.0
2.3 Public Debt Interest	23.5	27.5	32.2	41.1	50.2	56.9
2.4 DDG- Donor designated grants	8.0	9.0	9.7	12.0	12.0	12.0
3. Budget Balance (1-2)	-205.3	-512.7	-107.1	-383.3	-342.0	-297.2
4. Expenditure exempted from the fiscal rule:	177.0	149.3	43.6	138.7	177.3	219.8
<i>Expenditure from dedicated revenue</i>	1.0	0.7	4.7	4.5	4.5	4.5
<i>Expenditure financed from municipal carried-over OSR</i>	30.7	30.1	20.5	0.0	0.0	0.0
<i>Capital spending from the investment clause and liquidation p.</i>	144.4	118.5	18.5	134.2	172.8	215.3
5. Budget Balance, as per fiscal rule definition (5+6)	-28.2	-363.4	-63.5	-244.6	-164.7	-77.4
A. Financing Need:	-205.3	-512.7	-107.1	-383.3	-342.0	-297.2
B. External Financing	15.6	135.0	47.3	319.9	242.9	242.4
<i>On-budget lending (IMF ,WB EU, Drawings) [2]</i>	45.0	102.0	60.0	130.0	50.0	50.0
<i>Regular on-budget project-loans</i>	20.6	67.4	34.3	80.3	26.2	14.4
<i>Investment clause project-loans</i>	12.5	42.6	18.5	113.2	172.8	215.3
<i>POE on-lending receipts (gross)</i>	12.1	11.2	13.5	59.9	54.6	32.4
<i>Principal repayment</i>	74.6	88.2	79.0	63.4	60.8	69.7
C. Internal Financing	194.1	241.3	123.8	52.5	91.3	113.5
<i>Issuance of treasury bills</i>	102.4	170.0	144.3	120.0	130.0	130.0
<i>Rapayment of POE debts</i>	10.9	11.4	11.4	11.4	11.4	11.4
<i>Liquidation/privatization proceeds</i>	86.1	71.5	0.0	21.0	0.0	0.0
<i>One-off finaicning (KPST)</i>	11.6	0.0	0.0	0.0	0.0	0.0
<i>Use of carried-forward municipal OSR</i>	-6.3	-2.8	-22.2	0.0	0.0	0.0

<i>Use of dedicated revenue</i>	5.6	2.5	4.7	4.5	4.5	4.5
<i>POE lending outlays</i>	0.0	0.0	0.0	40.0	0.0	0.0
<i>POE on-lending outlays (gross)</i>	12.7	11.2	14.3	59.9	54.6	32.4
<i>Interest on lending</i>	1.6	1.6	0.9	1.3	1.1	0.8
<i>Outflows for IFI memberships and quota increases</i>			0.0	4.5	0.0	0.0
D. Change in usable bank balance:	51.5	-136.5	64.0	-10.8	-7.9	58.7
E. Stock of Usable Bank Balance	360.9	234.4	301.7	290.9	283.0	341.7
Memo 1:						
Revenues received from TAK	504.3	466.9	597.7	680.4	737.5	795.7
Revenues received from Customs	1,179.6	1,050.4	1,376.7	1,440.2	1,569.0	1,703.0
Inflows and Outflows from DDG-s	8.0	9.0	16.8	12.0	12.0	12.0
GDP	7,056.2	6,771.6	7,600.7	8,405.0	9,188.6	10,001.2
Budget deficit (fiscal rule def.) as % of GDP	-0.4%	-5.4%	-0.8%	-2.9%	-1.8%	-0.8%
Available bank balance as % of GDP	5.1%	3.5%	4.0%	3%	3%	3%
Memo 2:						
Stock of Domestic Debt	791.9	961.9	1,106.1	1,226.1	1,356.1	1,486.1
Stock of Foreign Debt (+guarantees)	409.1	525.8	576.4	874.3	1,106.5	1,340.5
State guarantees	44.0	31.7	30.6	29.6	28.6	27.6
Total debt as % of GDP	18%	22%	22%	25%	27%	29%

Comparison with the previous programme

Document	Description	2019	2020	2021 budget law	2022 proj	2023	2024
ERP 2021	Total revenues	1,888.2	1,788.5	1,887.9	2,002.0	2,097.8	n/a
	<i>Tax- Revenues</i>	1,662.0	1,565.2	1,677.6	1,766.5	1,849.7	n/a
	<i>Non-tax Revenues</i>	214.6	188.9	199.8	225.0	237.6	n/a
	Total expenditures	2,093.4	2,620.4	2,454.2	2,375.8	2,434.7	n/a
	<i>Recurrent spending</i>	1,538.8	1,860.5	1,789.6	1,647.6	1,655.2	n/a
	<i>Capital expenditure</i>	531.2	729.9	626.1	678.9	718.5	n/a
	Overall budget balance	(205.3)	(831.9)	(566.3)	(375.0)	(336.9)	n/a
	<i>Budget balance (as per fiscal rule)</i>	(28.2)	(451.1)	(337.0)	(180.0)	(141.7)	n/a
	GDP	7,058.3	6,961.3	7,159.9	7,508.0	7,927.5	n/a
	Overall deficit, as % of GDP	-2.9%	-12.0%	-7.9%	-5.0%	-4.3%	n/a
	Bank balance, as % of GDP	5.0%	3.1%	3.2%	3.0%	3.2%	n/a
	Capital Expenditure, as % of GDP	7.5%	10.5%	8.7%	9.0%	9.06%	n/a
Recurrent expenditure, % of GDP	21.8%	26.7%	25.0%	21.9%	20.9%	n/a	
Document	Description	2019	2020	2021 preliminary data	2022 proj	2023 proj.	2024 proj.
ERP 2022	Total revenues	1,888.2	1,722.2	2,183.7	2,364.5	2,565.3	2,772.7
	<i>Tax- Revenues</i>	1,662.0	1,507.0	1,948.0	2,102.9	2,287.4	2,476.9
	<i>Non-tax Revenues</i>	214.6	181.2	235.8	239.1	255.4	273.3
	Total expenditures	2,093.4	2,234.9	2,290.9	2,747.8	2,907.3	3,069.8
	<i>Recurrent spending</i>	1,538.8	1,827.7	1,837.9	1,988.9	1,996.8	2,054.9
	<i>Capital expenditure</i>	531.2	379.7	420.8	705.7	848.3	946.0

	Overall budget balance	-205.3	-512.7	-107.1	-383.3	-342.0	-297.2
	<i>Budget balance (as per fiscal rule)</i>	-28.2	-363.4	-63.5	-244.6	-164.7	-77.4
	GDP	7,056.2	6,771.6	7,600.7	8,405.0	9,188.6	10,001.2
	Overall deficit, as % of GDP	-2.9%	-7.6%	-1.41%	-4.6%	-3.7%	-3.0%
	Bank balance, as % of GDP	5.1%	3.5%	4.0%	4.9%	4.4%	4.6%
	Capital Expenditure, as % of GDP	7.5%	5.6%	5.5%	8.4%	9.2%	9.5%
	Recurrent expenditure, % of GDP	21.8%	27.0%	24.2%	23.7%	21.7%	20.5%
Difference between ERP 2022 and ERP 2021	Total revenues	0.0%	-3.7%	15.7%	18.1%	22.3%	n/a
	<i>Tax- Revenues</i>	0.0%	-3.7%	16.1%	19.0%	23.7%	n/a
	<i>Non-tax Revenues</i>	0.0%	-4.1%	18.0%	6.3%	7.5%	n/a
	Total expenditures	0.0%	-14.7%	-6.7%	15.7%	19.4%	n/a
	<i>Recurrent spending</i>	0.0%	-1.8%	2.7%	20.7%	20.6%	n/a
	<i>Capital expenditure</i>	0.0%	-48.0%	-32.8%	3.9%	18.1%	n/a
	Overall budget balance	0.0%	-38.4%	-81.1%	2.2%	1.5%	n/a
	<i>Budget balance (as per fiscal rule)</i>	0.0%	-19.4%	-81.1%	35.9%	16.2%	n/a
	GDP	0.0%	-2.7%	6.2%	11.9%	15.9%	n/a
	Overall deficit, as % of GDP	0.0%	-36.9%	-82.2%	-8.8%	-12.4%	n/a
	Bank balance, as % of GDP	2.3%	11.6%	25.0%	63.4%	37.5%	n/a
	Capital Expenditure, as % of GDP	0.0%	-46.5%	-36.7%	-7.1%	1.9%	n/a
Recurrent expenditure, % of GDP	0.0%	1.1%	-3.3%	8.1%	4.1%	n/a	

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

Table 10.a: Costing of structural reform measure: Measure #1 Adapting Vocational Education and Training to the needs of the labour market

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	1,400,000 €	0.00 €	0.00 €	1,400,000.00 €
2023	0.00 €	1,400,000 €	0.00 €	0.00 €	1,400,000.00 €
2024	0.00 €	1,400,000 €	0.00 €	0.00 €	1,400,000.00 €

Table 10.b: Financing of structural reform measure: Measure #1 Adapting Vocational Education and Training to the needs of the labour market

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants ALLED2, GIZ, LUX Development, EYE, OeAD, DVV	Project loans	To be determined	Total
2022	104,410 €	0.00 €	0.00 €	0.00 €	1,295,590 €	0.00 €	0.00 €	1,400,000.00 €
2023	110,174 €	0.00 €	0.00 €	0.00 €	1,289,826 €	0.00 €	0.00 €	1,400,000.00 €
2024	125,070 €	0.00 €	0.00 €	0.00 €	1,274,930 €	0.00 €	0.00 €	1,400,000.00 €

Table 10a: Costing of structural reform measure: Measure #2 Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	107,121.00 €	236,000 €	0.00 €	0.00 €	343,121.00 €

2023	163,034.00 €	162,000 €	0.00 €	0.00 €	325,034.00 €
2024	0.00 €	15,000 €	0.00 €	0.00 €	15,000.00 €

Table 10.b: Financing of structural reform measure: Measure #2 Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	107,121.0 €	0.00 €	0.00 €	0.00 €	236,000.0 €	0.00 €	0.00 €	343,121.00 €
2023	163,034.0 €	0.00 €	0.00 €	0.00 €	162,000.0 €	0.00 €	0.00 €	325,034.00 €
2024	0.00 €	0.00 €	0.00 €	0.00 €	15,000.0 €	0.00 €	0.00 €	15,000.00 €

Table 10a: Costing of structural reform measure: Measure #3 Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	1,492,999.00 €	648,150.00 €	29,000,000.00 €	940,000.00 €	32,081,149.00 €
2023	1,492,999.00 €	419,790.00 €	29,000,000.00 €	940,000.00 €	31,852,789.00 €
2024	1,492,999.00 €	424,790.00 €	29,000,000.00 €	940,000.00 €	31,857,789.00 €

Table 10b: Financing of structural reform measure: Measure #3 Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants ALLED, GIZ DVV, EYE, Lux-Dev	Project loans	To be determined	Total
2022	31,797,789.0 €	0.00 €	0.00 €	0.00 €	283,360.0 €	0.00 €	0.00 €	32,081,149.00 €
2023	31,797,789.0 €	0.00 €	0.00 €	0.00 €	55,000.0 €	0.00 €	0.00 €	31,852,789.00 €
2024	31,797,789.0 €	0.00 €	0.00 €	0.00 €	60,000.0 €	0.00 €	0.00 €	31,857,789.00 €

Table 10a: Costing of structural reform measure: Measure #4 Improving health services

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	225,000 €	300,000.00 €	0.00 €	0.00 €	525,000.00 €
2023	264,400 €	300,000 €	0.00 €	0.00 €	564,400.00 €
2024	0.00 €	0.00 €	300,000 €	0.00 €	300,000.00 €

Table 10b: Financing of structural reform measure: Measure #4 Improving health services

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans World Bank	To be determined	Total
2022	25,000 €	0.00 €	0.00 €	0.00 €	0.00 €	500000	0.00 €	525,000.00 €
2023	264,400 €	0.00 €	0.00 €	0.00 €	0.00 €	300000	0.00 €	564,400.00 €
2024	300,000 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	300,000.00 €

Table 10a: Costing of structural reform measure: Measure #5 Developing EE and RES policies in view of the green transition

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	6,000 €	10,000 €	310,000 €	0.00 €	326,000.00 €
2023	22,000 €	10,000 €	0.00 €	0.00 €	32,000.00 €
2024	12,000 €	10,000 €	0.00 €	0.00 €	22,000.00 €

Table 10.b: Financing of structural reform measure: Measure #5 Developing EE and RES policies in view of the green transition

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	16,000.0 €	0.00 €	0.00 €	0.00 €	310,000.0 €	0.00 €	0.00 €	326,000.00 €
2023	32,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	32,000.00 €
2024	22,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	22,000.00 €

Table 10 a: Costing of structural reform measure: Measure #6 Reforming the energy market

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
2023	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
2024	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €

Table 10.b: Financing of structural reform measure: Measure #6 Reforming the energy market

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
2023	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €
2024	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €

Table 10a: Costing of structural reform measure: Measure #7 Reducing environmental pollution and preserving biodiversity

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	955,100.00 €	424,000.00 €	0.00 €	0.00 €	1,379,100.00 €
2023	95,000.00 €	20,500.00 €	70,000.00 €	0.00 €	185,500.00 €
2024	62,100.00 €	100,500.00 €	0.00 €	0.00 €	162,600.00 €

Table 10b: Financing of structural reform measure: Measure #7 Reducing environmental pollution and preserving biodiversity

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	621,000.0 €	0.00 €	0.00 €	0.00 €	758,100.0 €	0.00 €	0.00 €	1,379,100.00 €
2023	0.00 €	0.00 €	0.00 €	0.00 €	185,500.0 €	0.00 €	0.00 €	185,500.00 €
2024	0.00 €	0.00 €	0.00 €	0.00 €	162,600.0 €	0.00 €	0.00 €	162,600.00 €

Table 10a: Costing of structural reform measure: Measure #8 Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	2,400,000 €	5,350,000 €	3,992,950 €	11,742,950.00 €
2023	0.00 €	1,900,000 €	4,187,495 €	2,301,449 €	8,388,944.00 €
2024	0.00 €	1,300,000 €	0.00 €	2,000,000 €	3,300,000.00 €

Table 10b: Financing of structural reform measure: Measure #8 Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans World Bank	To be determined	Total
2022	4,081,250.0 €	0.00 €	0.00 €	1,400,000.0 €	0.00 €	6,261,700.0 €	0.00 €	11,742,950.00 €
2023	3,801,449.0 €	0.00 €	0.00 €	1,300,000.0 €	0.00 €	3,287,495.0 €	0.00 €	8,388,944.00 €
2024	2,000,000.0 €	0.00 €	0.00 €	1,300,000.0 €	0.00 €	0.00 €	0.00 €	3,300,000.00 €

Table 10a: Costing of structural reform measure: Measure #9 Improving the doing business environment by reducing the administrative burden, inspection reform

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
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2022	150,500 €	694,810 €	0.00 €	679,700 €	1,525,010 €
2023	130,800 €	680,420 €	0.00 €	850,900 €	1,662,120 €
2024	150,700 €	630,100 €	0.00 €	569,400 €	1,350,200 €

Table 10b: Financing of structural reform measure: Measure #9 Improving the doing business environment by reducing the administrative burden, inspection reform

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other Grants GIZ/IFC	Project loans World Bank	To be determined	Total
2022	150,500.0 €	0.00 €	0.00 €	150,000.0 €	664,810.0 €	559,700 €	0.00 €	1,525,010 €
2023	130,800.0 €	0.00 €	0.00 €	130,000.0 €	856,020.0 €	545,300 €	0.00 €	1,662,120 €
2024	150,700.0 €	0.00 €	0.00 €	100,000.0 €	604,500.0 €	495,000 €	0.00 €	1,350,200 €

Table 10a: Costing of structural reform measure: Measure #10: Reducing the Informal Economy:

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	150,000 €	44,100 €	0.00 €	0.00 €	194,100.00 €
2023	30,000 €	6,000 €	0.00 €	0.00 €	36,000.00 €
2024	50,000 €	10,000 €	0.00 €	0.00 €	60,000.00 €

Table 10b: Financing of structural reform measure: Measure #10: Reducing the Informal Economy:

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	194,100.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	194,100.00 €
2023	36,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	36,000.00 €
2024	60,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	60,000.00 €

Table 10a: Costing of structural reform measure: Measure #11 Improving the environment for research, innovation and entrepreneurship

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	30,000.00 €	2,350,000 €	200,000 €	2,580,000.00 €
2023	0.00 €	30,000.00 €	3,000,000 €	200,000 €	3,230,000.00 €
2024	0.00 €	0.00 €	3,400,000 €	0.00 €	3,400,000.00 €

Table 10b: Financing of structural reform measure: Measure #11 Improving the environment for research, innovation and entrepreneurship

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	2,580,000 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	2,580,000.00 €
2023	3,230,000 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	3,230,000.00 €
2024	3,400,000 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	3,400,000.00 €

Table 10a: Costing of structural reform measure: Measure: #12 Improving cross-border trade through trade facilitation

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	48,000.00 €	0.00 €	0.00 €	48,000.00 €
2023	0.00 €	41,000.00 €	0.00 €	0.00 €	41,000.00 €
2024	0.00 €	24,000.00 €	0.00 €	0.00 €	24,000.00 €

Table 10b: Financing of structural reform measure: Measure: #12 Improving cross-border trade through trade facilitation

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	38,000.0 €	0.00 €	0.00 €	10,000.0 €	0.00 €	0.00 €	0.00 €	48,000.00 €
2023	41,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	41,000.00 €
2024	24,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	24,000.00 €

Table 10a: Costing of structural reform measure: Measure #13 Further development of quality infrastructure and empowerment of the role of market surveillance authorities

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	39,000.00 €	0.00 €	0.00 €	39,000.00 €
2023	0.00 €	48,000.00 €	0.00 €	0.00 €	48,000.00 €
2024	0.00 €	24,000.00 €	0.00 €	0.00 €	24,000.00 €

Table 10b: Financing of structural reform measure: Measure #13 Further development of quality infrastructure and empowerment of the role of market surveillance authorities

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants Lux-Dev	Project loans	To be determined	Total
2022	29,400.0 €	0.00 €	0.00 €	0.00 €	9,600.0 €	0.00 €	0.00 €	39,000.00 €
2023	28,000.0 €	0.00 €	0.00 €	20,000.0 €	0.00 €	0.00 €	0.00 €	48,000.00 €
2024	24,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	24,000.00 €

Table 10.a: Costing of structural reform measure: Measure #14 Further development and modernization of Transport

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	24,450 €	105,550 €	0.00 €	30,000 €	160,000.00 €
2023	25,650 €	114,350 €	0.00 €	30,000 €	170,000.00 €
2024	30,000 €	120,000 €	0.00 €	40,000 €	190,000.00 €

Table 10.b: Financing of structural reform measure: Measure #14 Further development and modernization of Transport

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	130,000.0 €	0.00 €	0.00 €	0.0 €	30,000.0 €	0.00 €	0.00 €	160,000.00 €
2023	140,000.0 €	0.00 €	0.00 €	0.0 €	30,000.0 €	0.00 €	0.00 €	170,000.00 €
2024	150,000.0 €	0.00 €	0.00 €	0.0 €	40,000.0 €	0.00 €	0.00 €	190,000.00 €

Table 10a: Costing of structural reform measure: Measure #15 Structural changes in the agricultural sector

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	4,073,199 €	72,331,446 €	2,747,500 €	79,152,145.00 €
2023	0.00 €	4,184,098 €	64,319,166 €	2,822,500 €	71,325,764.00 €
2024	0.00 €	4,150,502 €	66,319,166 €	0.00 €	70,469,668.00 €

Table 10b: Financing of structural reform measure: Measure #15 Structural changes in the agricultural sector

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans World Bank	To be determined	Total
2022	76,404,645.0 €	0.00 €	0.00 €	0.00 €	0.00 €	2,747,500.0 €	0.00 €	79,152,145.00 €
2023	68,503,264.0 €	0.00 €	0.00 €	0.00 €	0.00 €	2,822,500.0 €	0.00 €	71,325,764.00 €
2024	70,469,668.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	70,469,668.00 €

Table 10.a: Costing of structural reform measure: Measure #16 Increasing competitiveness in the production industry

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	40,000.00 €	1,084,634.00 €	1,250,000.00 €	2,374,634.00 €
2023	0.00 €	10,000.00 €	1,084,634.00 €	1,250,000.00 €	2,344,634.00 €
2024	0.00 €	10,000.00 €	1,084,634.00 €	1,250,000.00 €	2,344,634.00 €

Table 10.b: Financing of structural reform measure: Measure #16 Increasing competitiveness in the production industry

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	2,374,634.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	2,374,634.00 €
2023	2,344,634.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	2,344,634.00 €
2024	2,344,634.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	2,344,634.00 €

Table 10a: Costing of structural reform measure: Measure #17 Increasing Competitiveness in the Tourism and Hospitality Sector

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	9,000 €	1,000,000 €	470,000 €	1,479,000.00 €
2023	0.00 €	9,000 €	50,000 €	220,000 €	279,000.00 €
2024	0.00 €	9,000 €	50,000 €	70,000 €	129,000.00 €

Table 10b: Financing of structural reform measure: Measure #17 Increasing Competitiveness in the Tourism and Hospitality Sector

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	1,159,000.0 €	320,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	1,479,000.00 €
2023	59,000.0 €	220,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	279,000.00 €
2024	59,000.0 €	70,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	129,000.00 €

Table 10a: Costing of structural reform measure: Measure #18 Increase competitiveness in the sector of trade in services

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	0.00 €	111,500.00 €	0.00 €	0.00 €	111,500.00 €
2023	0.00 €	114,500.00 €	0.00 €	0.00 €	114,500.00 €
2024	0.00 €	34,000.00 €	0.00 €	0.00 €	34,000.00 €

Table 10b: Financing of structural reform measure: Measure #18 Increase competitiveness in the sector of trade in services

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	11,500.0 €	0.00 €	0.00 €	100,000.0 €	0.00 €	0.00 €	0.00 €	111,500.00 €
2023	14,500.0 €	0.00 €	0.00 €	100,000.0 €	0.00 €	0.00 €	0.00 €	114,500.00 €
2024	34,000.0 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	34,000.00 €

Table 10a: Costing of structural reform measure: Measure #19 Reform in pre-university education and increase inclusion in early education

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
2022	309,377.00 €	91,000 €	0.00 €	16,650,000 €	17,050,377.00 €
2023	309,377.00 €	140,000 €	0.00 €	1,350,000 €	1,799,377.00 €
2024	309,377.00 €	140,000 €	0.00 €	1,600,000 €	2,049,377.00 €

Table 10b: Financing of structural reform measure: Measure #19 Reform in pre-university education and increase inclusion in early education

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	12,050,377 €	0.00 €	0.00 €	5,000,000 €	0.00 €	0.00 €	0.00 €	17,050,377.00 €
2023	1,799,377 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	1,799,377.00 €
2024	2,049,377 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	0.00 €	2,049,377.00 €

Table 10a: Costing of structural reform measure: Measure #20 Improving social services and empowering excluded groups

Year	Salaries	Goods and Services	Subsidies and Transfers	Capital Expenditures	Total
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2022	500,000.00 €	1,500,000.00 €	27,000,000.00 €	1,000,000.00 €	30,000,000.00 €
2023	500,000.00 €	1,500,000.00 €	47,000,000.00 €	1,000,000.00 €	50,000,000.00 €
2024	500,000.00 €	1,500,000.00 €	67,000,000.00 €	1,000,000.00 €	70,000,000.00 €

Table 10b: Financing of structural reform measure: Measure #20 Improving social services and empowering excluded groups

Year	Central Budget	Local Budget	Other national public finance sources	IPA funds	Other grants	Project loans	To be determined	Total
2022	22,000,000.0 €	0.00 €	0.00 €	1,000,000.0 €	7,000,000.0 €	0.00 €	0.00 €	30,000,000 €
2023	37,000,000.0 €	2,000,000.0 €	0.00 €	1,000,000.0 €	10,000,000.0 €	0.00 €	0.00 €	50,000,000 €
2024	52,000,000.0 €	5,000,000.0 €	0.00 €	1,000,000.0 €	12,000,000.0 €	0.00 €	0.00 €	70,000,000 €

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2021-2023

Reform Measure #1: Reduction of energy consumption through energy efficiency measures		Reform implementation phase (1-5)
Activities planned for 2021	1) Application of households EE measures in 1300 houses and 13 multi-storey buildings, and 15 public buildings (MFK, KFEE)	3
	2) Installation of meters for measuring the consumption of central heating and thermostatic valves for about 14000 customers of Termokos (MFK);	1
	3) Allocation of grants for efficiency measures for women's businesses and internships for 100 women in the energy sector, (MFK);	5
	4) Preparation of the Feasibility Study and cost-benefit analysis for the construction of district heating systems and the beginning of the implementation of the study for the construction of district heating systems in some cities of Kosovo (MEE);	3
	5) Implementation of the capital investment plan by Distribution System Operator for Medium Voltage (MV) and Low Voltage (LV), including projects for the reduction of technical and commercial losses (KEDS);	5
	6) Implementation of the first package (55 projects) and the second package (25 projects) in 22 municipalities for EE measures in lighting, installation of photovoltaic panels and buildings (KFEE);	3
	7) Drafting incentive measures for EE in the household and private sector (KAEE);	5

Description of implementation and explanation whether we have partial implementation or no implementation	1) KAEE: The project is divided into three phases. a) Phase I is completed, b) Phase II is nearing completion. c) Phase III has not started yet.	
	2) KAEE: The installation of meters has not started yet because the process for selecting the Contractor has not been finalized yet.	
	3) KAEE: 100 women have benefited from this project during 2021.	
	4) DE/ME: The feasibility study and ESIA of Central Heating Systems in the regions with potential, respectively in the region of Ferizaj, Gjilan, Peja, Prizren, Mitrovica and the municipalities of Drenas and Obiliq/Kastriot is in the development phase according to the terms of reference and dynamic plan. The initial meeting was held on 7 October 2021 and the project will last 18 months.	
	5) KEDS: DSO investment plan for 2021, approved by ERO is € 20.51 million and DSO has planned to invest around € 23.48 million during this year, i.e., more than was approved by ERO, with the aim of also completing an unrealized part from 2020, the year in which the pandemic had the greatest effect so far. About 38% of these investments belong to direct investments in low voltage (LV), while 47% are direct investments in medium voltage. It should be noted that all these investments (in LV and MV) have a direct impact on reducing technical and non-technical losses, improving the quality of electricity, expanding and modernizing the network, accurate energy metering, etc. The projected reduction of losses in the distribution network for 2021 is projected to be 1.73 percentage points, compared to 2020, i.e., from 19.68% to 17.95%. <i>Additional comment from KEDS: The report for November and December has not been finalized yet, therefore the above numerical values represent the investment realization planning for 2021. During January 2022 a final report can be sent.</i>	
	6) KFEE: Energy audits and designs for the <u>first package</u> including 55 projects (lighting, installation of PV panels and EE measures in buildings) have been completed. They were sent to the World Bank for approval and on 05.10.2021 the tender for the realization of the works was launched. On 19.11.2021 the bids were received which are being evaluated by the Commission. Energy audits and designs for the <u>second package</u> including 19 projects have also been completed, as out of 25 projects 6 have not been assessed as reasonable, for EE measures in lighting and buildings. Relevant designs have started and the tender has been launched on 19.11.2021, where we are waiting for the offers until 31.12.2021. <i>Additional comment by KFEE: Also 21 other projects are in the process of energy audit within a new package.</i>	
	7) KAEE: The draft Administrative Instruction on Energy Services (ESCO) has been drafted, the preliminary consultation has been completed, now the draft will be launched in public consultation.	
Reform Measure #2: Increase the diversity of energy sources		
	Reform implementation phase (1-5)	
Activities planned for 2021	1) Review of the Energy Strategy of the Republic of Kosovo (MEE);	2
	2) Drafting the National Plan for Energy and Climate 2021-2030;	2
	3) Approval of the concept document on Renewable Energy Sources (MEE);	4
	4) Drafting and approval of bylaws to support competitive schemes (MEE/ERO);	1
	5) Construction of seven small hydropower plants with a capacity of 28.02 MW (ERO);	5
	6) Construction of wind power plants with a capacity of 68.94 MW (ERO);	5
	7) Preparation of a Master Plan for the distribution and supply of Natural Gas and completion of an appropriate feasibility study for the North Macedonia - Kosovo gas pipeline (MEE);	2
	8) Functionalization of Electricity Exchanges Albania Kosovo (KOSTT);	4

Description of implementation and explanation whether we have partial implementation or no implementation	1) DE/ME: <ul style="list-style-type: none"> - A Working Team for the drafting of the Strategy on Energy has been established; - A USAID-funded external consultancy has been engaged to support the drafting of the Strategy on Energy; - Working Subgroups have been established (Working Subgroup for Generation and Flexibility; WSG for RES and EE, Working Subgroup for Regulatory and Regional Cooperation; - Supply scenarios have been designed; - The Working Plan of the Working Team has been approved; - By the end of 2021, a first working draft is expected to be prepared; <p>The Energy Strategy and Action Plan are expected to be approved in Q2 2022</p>
	2) DE/ME: <ul style="list-style-type: none"> - A draft Work of NECP has been prepared; - In the Ministerial Council of the Energy Community, on 30 November 2021, it was decided that the first draft of the Energy and Climate Plan be prepared by June 2023 and sent to the Secretariat of the Energy Community for comments; and the Final draft of the National Energy and Climate Plan, according to this decision, should be finalized in June 2024.
	3) DE/ME: On 20 July 2020, the Ministry has established a working group from 18 different institutions to draft a concept paper on renewable energy sources. This document will recommend the best option for the implementation of the new competitive support scheme and will analyse the shortcomings of the legislation for the effective implementation of RES support policies. Donors such as USAID and the WB have been engaged throughout the process of drafting and commenting on the document. The RES Concept Paper has already passed the preliminary and public discussion stage and the next report is being prepared for further processing.
	4) DE/ME: There have been no developments as a result of developments in primary legislation and target setting for 2021-2030. ERO: The EBRD is engaged in this process while the beneficiaries are ME and ERO. There are still no results related to this.
	5) ERO: <u>Implementation in its entirety:</u> <ul style="list-style-type: none"> a) HPP Brodi 1 with an installation capacity of 2.48 MW, b) HPP Restelica 3 with a capacity of 2.35 MW, c) HPP Albaniki 4 with a capacity of 1,119 MW, d) HPP VICA with a capacity of 4.6 MW, e) HPP Dragash with a capacity of 3.4 MW, f) HPP Shterpca with a capacity of 4.9 MW, and g) HC Sharri 6.45 MW. <hr/> Total 25.3 MW
	6) ERO: <u>Implementation in its entirety:</u> <ul style="list-style-type: none"> a) Wind Park SELAC 2 with a capacity of 34.47 MW, b) Wind Park SELAC 2 with a capacity of 34.47 MW, and c) Wind Park SELAC 3 with a capacity of 34.47 MW. <hr/> Total 103.41 MW
	7) DE/ME: Gas Master Plan and the joint feasibility study for the natural gas interconnection North Macedonia - Kosovo is being implemented according to the requirements addressed by the IPF9 consultancy, approved by the WBIF/EBRD. The activity continues to be carried out in accordance with the Terms of Reference and Dynamic Plan presented by the consultancy and approved by stakeholders. Furthermore, a consultative meeting was held between the Ministry of Economy (Cabinet) and some representatives of WBIF/technical assistance.
	8) KOSTT: In May 2021, ALPEX (Joint Power Exchange) established its branch in the Republic of Kosovo and was appointed branch manager. On 21 October 2021, in Tirana, the Agreement on the merger of the electricity markets of Kosovo and Albania between the Energy Regulatory Office (ERO) and the

	Energy Regulatory Entity (ERE) together with the Transmission System Operators of both KOSTT and OST countries was signed. Through the agreement, the signatory parties recognize the Albanian Power Exchange ALPEX as the only electricity exchange for trading one day ahead (day ahead) and during the day (intra-day) for the commercial areas of both countries. This agreement is also a precondition for subsequent agreements that enable the operationalization of the joint power exchange - ALPEX. The signing of the agreement took place in the framework of the meeting of the legal working group for the definition of activities and agreements that must be implemented in order for the ALPEX joint power exchange to become operational in Q4 2022.	
Reform Measure #3: Structural changes in agriculture sector		Reform implementation phase (1-5)
Activities planned for 2021	1) Establishing an Insurance System in Agriculture through the implementation of the Implementation of the Direct Payments Program 2020-2021 (MAFRD);	4
	2) Drafting and approval of Agriculture and Rural Development Program 2021-2027 (MAFRD);	4
	3) Drafting of a legal basis for the Development of the Agricultural Insurance Fund (MAFRD);	4
	4) Approval of the Master Plan for irrigation of agricultural lands (MAFRD);	5
	5) Drafting the Concept Paper for Agricultural Land (MAFRD);	4
	6) Drafting of the Concept Paper for the regulation of Agricultural Land (MAFRD);	2
	7) Drafting of the Concept Paper for the Common Market Organization - CMO (MAFRD);	3
	8) Drafting the national plan for the Inventory of Agricultural Lands of the Republic of Kosovo (MAFRD);	1
	9) Capacity building and consolidation of Advisory Services (MAFRD);	4
	10) Development of a system for managing grants and subsidies (Software development) (MAFRD, AAD);	3
	11) Subsidizing agricultural loans in a period of 1 year as a measure for economic recovery from Covid-19 (MoF);	1
Description of implementation and explanation whether we have partial implementation or no implementation	1) MAFRD through the Direct Payments Programme has provided direct support for the agricultural insurance premium index for the agricultural crop of raspberry, apple, plum, grape, strawberry, pepper and walnut as well as the traditional agricultural insurance premium for apple crops - intensive orchards, pepper - intensive cultivation and wine grapes.	
	2) The Draft Strategy for Agriculture and Rural Development 2022-28 is in the process of Public Consultation until 07.12.2021, while regarding the Program for Agriculture and Rural Development, where the First Draft for all measures has been drafted.	
	3) The vast majority of draft laws to reduce the administrative burden were approved by the Government on 24.11.2021. After that, the AI deriving from these laws will be amended and supplemented.	
	4) Completed activity of the Master Plan for irrigation of agricultural lands has been approved.	
	5) The final draft of the Concept Document for Agricultural Land has been completed, it has passed the stage of preliminary consultation and public discussion, the comments have been reviewed and the same is expected to be processed for the financial evaluation opinion in MFLT.	
	6) The first Draft of the Concept Document for Land Regulation has been drafted, the same based on the timelines of the process of preliminary consultations and public discussions will be postponed for approval until Q1 of 2022.	
	7) The first Draft of the Concept Document on the Common Market Organization (CMO) has been drafted, the same based on the timelines of the process of preliminary consultations and public discussions will be postponed for approval until Q1 of 2022.	

	8) Activity, which according to the Strategic and Operational Plan is expected to be completed in 2022.	
	9) Draft Law on Advisory Services has passed the first reading in the Assembly; The part of trainings in cooperation with the Municipal Advisory Information Centres has continued.	
	10) The development of the system for managing grants and subsidies, based on the SOP is scheduled to be completed in 2022, while the evaluation of bids by the commission has been completed and is in the process of publication.	
	11) There have been no developments regarding this activity. However, MAFRD with the decision of the Minister Mr. Mustafa has doubled subsidy payments for 2020 to help farmers.	
Reform Measure #4: Increase of competitiveness in production industry		Reform implementation phase (1-5)
Activities planned for 2021	1) Drafting and approval of the Industrial Development Strategy (Industrial Policy);	2
	2) Completion of the value chain study for the textile sector (MTI);	5
	3) Professional support for at least 40 businesses through the digitalization/digital transformation program of SMEs (KIESA);	5
	4) Financial support of 25 manufacturing and service provision SMEs, with equipment and machinery for process automation, as well as new technology (KIESA);	5
	5) Subsidizing 30 SMEs in product certification and consulting in order to increase competitiveness, exports, and productivity (KIESA);	4
	6) Increasing export potential through the financial support of 70 manufacturing companies with export potential from Kosovo in 10 International Fairs, in order to expand the market and establish links with international companies (KIESA);	4*
	7) Construction of physical infrastructure of three economic zones, respectively business parks (Suhareka, Vitia and Lipjan) (KIESA)	4
Description of implementation and explanation whether we have partial implementation or no implementation	1) The Strategy for Industrial Development is part of the Strategic Documents Plan (PVDS) for the period 2020-2022 and is scheduled to be finalized in June, 2022. The statistical report and the Analytical Report on the development of the processing industry, respectively Sector C (10 - 33), based on NACE REV 2. The working group was established on 16.09.2021 and the draft dynamic plan for the implementation of the strategy was compiled. The measurement indicators that will be part of the strategy have been identified, the existing documents related to the processing industry have been consulted, the international expert who will assist the working group in drafting the strategy has been selected through a public announcement. Due to the COVID-19 Pandemic, the drafting of the Strategy has been postponed to 2022.	
	2) The Value Chain Study has been finalized. A roundtable was held with representatives of the private sector and the Apparel Association-KAMA. The study presents the barriers of the private sector from supply to marketing of the final product, and recommendations for interventions by institutions and the private sector. The study is published on the MIET website: https://MIET.rks-gov.net/page.aspx?id=1,79 Budget: 4,740.00 Euro.	
	3) During 2021, two phases were developed for the digitalization of SMEs and benefited a total of 50 businesses, which have implemented or are implementing projects. Budget 120,000 euros.	
	4) The call has been announced, over 140 businesses have applied and currently the preliminary list of beneficiaries with 32 businesses has been announced. Budget 500,000 euros.	
	5) Regarding the compatible Grants scheme during 2020 and 2021, 28 were signed, 25 businesses were realized. The total realized value is: 546194.87 euros. During 2021 we started with the new call for	

	applications for grants- (over 500 businesses have applied) the process is in the phase of evaluation of received applications.	
	6) Due to the pandemic and failure to hold the planned international promotional activities until September 2021, the 8 planned activities were not organized. From October 2021 to December 2021, we participated in promotional activities in 3 international fairs where 25 manufacturing companies with export potential were presented. Budget 273,289 euros.	
	7) The works in the construction of these areas have continued, so far, they have managed to complete the projects in Suhareka and Lipjan, while in Viti it is in the final phase. Budget 600,000 euros.	
Reform Measure #5 Increasing competitiveness in the tourism and hospitality sector		Reform implementation phase (1-5)
Activities planned for 2021	1) Drafting and approval of the Tourism Sector Strategy and Action Plan (MTI);	3
	2) Approval of the Draft Law on Tourism (MTI);	
	3) Approval of the Administrative Instruction for Tourist Guides, AI for the Register with data of Tourist Agencies, Administrative Instruction on independent experts and classification of accommodation structures (MTI);	0
	4) Financial support for businesses in the development of rural tourism and agro-tourism (MAFRD);	0
Description of implementation and explanation whether we have partial implementation or no implementation	1) The working group for drafting the strategy in the tourism sector during 2021 has drafted a strategy as well as a draft action plan in cooperation with the relevant ministries and municipalities of Kosovo. Expenditures made for this activity are mainly covered by donors 5,156.00 € and from the budget of the Department of Tourism 1,000.00 €	
	2) The Government of Kosovo in the 45th meeting of 24.11.2021 has taken a decision to approve the Law on Tourism. The draft law is sent to the Assembly of the Republic of Kosovo for review and approval. Expenditures made for this activity are within the general administrative costs and amount to approximately 1,200.00 €	
	3) Administrative Instructions will be drafted after the Law on Tourism is approved by the Assembly of the Republic of Kosovo. There is no cost because the guidelines were not drafted without the law being approved.	
	4) The Ministry of Agriculture, Forestry and Rural Development during 2021 has not provided financial support for the development of rural tourism.	
Reform Measure #6: Increasing competitiveness in the services trade sector		Reform implementation phase (1-5)
Activities planned for 2021	1) Diagnosing potential sectors of trade in services and assessing the competitiveness advantage of the trade in services (MTI);	5
	2) Mutual recognition between CEFTA member countries for selected professions (general practitioners, dentists, architects and engineers);	0
	3) Ratification of the CEFTA Additional Protocol, AP6 on trade in services (MTI);	2
	4) Drafting and approval of the Law on Electronic Commerce (MTI);	3
	5) Human capacity building and IT infrastructure at central level institutions for the establishment of the SPCs;	4

Description of implementation and explanation whether we have partial implementation or no implementation	1) The analyses "Trade of Kosovo Services with EU Member States and CEFTA" and "Evaluation of Audit and Accounting Services in Kosovo", "Evaluation of Logistics Services in Kosovo" have been completed. Analysis has begun for the legal services sector.	
	2) The process of negotiations for the mutual recognition of professional qualifications between the CEFTA member countries has been suspended, until a future decision by the EU in cooperation with the RCC and CEFTA.	
	3) Protocols remain to be approved by the political level; however, the delays so far in not ratifying the protocol have to do with the naming or non-equal treatment of Kosovo's position under the CEFTA agreement, from which this protocol derives and was signed by UNMIK on behalf of Kosovo.	
	4) A Working Group has been established to draft the initial draft of the Concept Document for Electronic Commerce on 30 June with protocol no. 02/3235. This working group has met four times to discuss the need to draft a concept document. With the support of USAID, meetings were held between USAID experts, DT with representatives of relevant public institutions and the private sector and the report from these meetings was completed. The draft Concept has been drafted but has not yet been approved due to the need to define competencies/activities with the Ministry of Economy. The drafting of the Law on Electronic Commerce depends on the recommendation arising from the Concept Document on Electronic Commerce.	
	5) On 6 October 2020, the Contact Point for Services platform was launched (https://cps.rks-gov.net/). This platform will also be used as a contact point for CEFTA. This site is populated with information. The prototype of the PVK Service "Application for Auditor" within the e-Kosovo platform is being finalized, and an analysis has been made for the inclusion of the geodesy sector within the PVK.	
Reform Measure #7: Improvement of the business environment by reducing the administrative burden and inspections reform		
	Reform implementation phase (1-5)	
Activities planned for 2021	1) Updating the Central Registry of Permits and Licenses so that the system is usable for officials who have access to data and training 52 officials from LO and institutions that issue permits and licenses on the use of the updated system (OPM);	3
	2) Amending and supplementing laws and bylaws for the purpose of simplifying, merging and reducing permits and licenses (OPM);	3
	3) Repealing bylaws that have no legal basis (guillotine of bylaws) (OPM and ministries);	3
	4) Calculating business savings as a result of simplification, merger and reduction of permits and licenses (OPM);	1
	5) Updating and approving the standard cost model manual with new guidelines for measuring the administrative burden on citizens and administration (OPM);	4
	6) Developing the capacities for the Standard Cost Model (SCM), the first Training of Trainers on SCM for OPM staff and ABR coordinators in ministries (a training organized with 20 participants by the end of 2021) (OPM);	1
	7) Adopting the law on inspections which will lay the foundations of a risk-based inspection approach (MTI);	3
	8) Amending the horizontal legislation by allowing and regulating inspection reform (MTI, OPM);	1
	9) Establishing the central inspection office that coordinates inspections and adapting the relevant organizational structure (OPM);	1
Description of implementation and explanation	1) The Central Register of Permits and Licenses has been updated and advanced. Currently, AIS, in cooperation with the IT Division in OPM and the economic operator are hosting the registry in AIS. As soon as the website is published by AIS and the institutions have access to the register, it will become possible to hold trainings for the officials who will use the register.	

whether we have partial implementation or no implementation	For the updating and advancement of the Central Register of Permits and Licenses, the Office of the Prime Minister has engaged the economic operator Botek. The contract concluded with EO Botek has a duration of five (5) years and a value of 46,020.00 EUR..	
	2) During 2021, with the support of IFC - World Bank, experts are engaged to conduct analysis of legislation of the Ministry of Internal Affairs, Ministry of Health and Ministry of Environment, Spatial Planning and Infrastructure (part of infrastructure). The analyses have been completed and are currently being finalized and translated, and are expected to be approved by the Government by the end of December 2021. This activity is funded by IFC- World Bank, and consequently the Legal Office in the OPM has no information on the cost of this activity.	
	3) With the support of GIZ, the analysis of the legal basis for 1762 bylaws was performed, of which 292 bylaws will be repealed by decision of the Government. In this regard, the analysis has been finalized, the Legal Office has prepared a draft decision on repeal and they are currently being translated. After the translation, it will be processed for approval at the Government meeting, and the approval of the decision is expected during December 2021. This activity is funded by GIZ, and consequently the Legal Office in the OPM has no information on the cost of this activity.	
	4) The calculation of business savings as a result of simplification, merger or elimination of permits and licenses will be done in the first quarter of 2022.	
	5) In the framework of achieving the objective of better regulation through the assessment of the regulatory impact of new initiatives, the OPM, with the support of GIZ, has started updating the manuals for the Standard Cost Model, concept documents, explanatory memoranda, and has drafted a filtering test of strong policies (laws) and soft ones (strategy, concept document, program), "Evaluation of the implementation of concept documents, explanatory memoranda and Standard Cost Model". However, there is still work to be done on this, as examples of the Standard Cost Model manual and concept documents are already being updated so that all institutions can use the same model which is expected to be finalized by the end of this year. The preparatory phase of preparation has begun and is expected to be finalized in the first period of 2022	
	6) Because first the Standard Cost Model manual has to be updated and approved with new instructions for measuring the administrative burden for citizens and the administration, and the responsible structures are not yet functional (ZBA coordinators in the ministries), this activity will take place in 2022.	
	7) The law on inspections was approved by the Government on 22.09.2021. It has been forwarded to the Assembly and is expected to be read out soon. Apart from administrative expenses during 2021 there were no other expenses.	
	8) The amendment of the horizontal legislation is foreseen after the adoption of the Law on Inspections.	
	9) It is foreseen after the adoption of the Law on Inspections.	
Reform Measure #8: Establishment and functionalization of the Commercial Court		Reform implementation phase (1-5)
Activities planned for 2021	1) Drafting and approval of the Draft Law on Commercial Court (MoJ);	5
Description of implementation and explanation whether we have partial implementation or no implementation	1) The draft law on the Commercial Court was approved by the Government and the Assembly in the first reading.	

Reform Measure #9: Reduce informality in the real estate sector		Reform implementation phase (1-5)
Activities planned for 2021	1) Amending the Law on the Kosovo Property Comparison and Verification Agency; (OPM)	3
	2) Approval of draft laws on Cadastre (MESP), Construction Land (MoJ) and Public Property (MoJ);	3
	3) Drafting regulations on duties and responsibilities of the Secretariat of the KPCVA and the decision-making commission for addressing the formalization requests (KPCVA);	1
	4) Functionalization of the new mandate of the KPCVA (OPM, KPCVA);	1
	5) Training of KPCVA commissioners and support staff of the KPCVA Secretariat (KPCVA).	4
Description of implementation and explanation whether we have partial implementation or no implementation	1) The Draft Law on the Kosovo Property Comparison and Verification Agency was approved at the 36th meeting of the Government of the Republic of Kosovo, with Decision no. 02/36, dated 22.09.2021. The draft law is now in the Assembly.	
	2.1) The draft law on Cadastre is in the preparation phase. During this week it will be sent for preliminary and public consultation. The Draft Law on Construction Land has been approved by the Government, also the Draft Law on Public Property has been finalized and is expected to be approved by the end of this year. There were no additional costs other than the administrative cost of drafting the Draft Laws.	
	3) It is foreseen after the approval of the Law on the Kosovo Property Comparison and Verification Agency in the Assembly.	
	4) It is foreseen after the approval of the Law on the Kosovo Property Comparison and Verification Agency in the Assembly.	
	5) During 2021, 120 employees have held trainings in KIPA. An IT training was held at a cost of 180 EUR.	
Reform Measure #10: Reducing the Informal Economy		Reform implementation phase (1-5)
Activities planned for 2021	1) Amending the necessary legal framework, approving and issuing bylaws to reduce the current transaction from 500 to 300 EUR for business (Law on Tax Administration and Procedures);	2
	2) Functionalization of the new IT system for compliance risk management which will advance the existing opportunities in identifying, analyzing, treating and monitoring compliance risks;	3
	3) Implementation of the new risk approach by TAK based on drafting and implementation of compliance projects, to target the treatment of high-risk sectors, such as: sectors of construction and accommodation, informal employment, trade respectively the stock control;	4
	4) Intensification and coordination of activities between TAK and the Ministry of Labour and Social Welfare (MLSW) in order to identify and register unregistered workers; Exchange of information between TAK and IP about fines imposed on undeclared workers, training of a group of inspectors to address undeclared work, preparation and implementation of the Manual for joint inspections in combating undeclared work;	3
	5) Increasing the number of inspections and staff engaged in joint operations between TAK and MD, under the leadership of the joint group established by both Institutions in order to address businesses which are characterized by high scale of risk in tax evasion and customs duties;	4

	6) Development of a system by TAK for identification of taxpayers whose source tax is withheld on rent, interest, property rights, non-resident persons and special categories;	5
	7) Monitoring and eventual undertaking of measures by TAK, to businesses which are supported by Government through fiscal packages, in order to ensure that all declarations of these businesses are in line with implementation of the criteria of these fiscal packages, and right implementation of tax legislation, in particular with a focus on the list of employees and lease contracts;	4
	8) Drafting and approval of the New Labour Law by the Assembly (Introduction of mandatory electronic payment for all salaries and wages of employees in all sectors;	3
	9) Restructuring of the labour inspectorate and employment of 20 additional inspectors, as well as the implementation of evaluation and monitoring activities aimed at increasing the performance and integrity of inspectors;	3
	10) Compiling data about the informal economy and its integration/publication in Gross Domestic Product (GDP) by KAS;	5
	11) Publication of the Analysis “Assessment of best practices, feasible for Kosovo in reducing informal employment”.	4
Description of implementation and explanation whether we have partial implementation or no implementation	1) An assessment was made regarding the reduction of the threshold for transactions between businesses and it was proposed to reduce this threshold from € 500 to € 300 and the same was included in the new draft Law on Tax Administration and Procedures which has not yet been approved in the Assembly.	
	2) Work is being done in this direction, the description of business processes has been approved and by the end of this year, the Economic Operator should bring the product related to the compliance risk management module which will advance the existing opportunities in identification, analysis, treatment and monitoring of compliance risks.	
	3) Compliance projects are being implemented in cooperation with other law enforcement institutions.	
	4) Communications and cooperation between TAK & IP have been intensified, a new memorandum agreement has been drafted between the two institutions, numerous meetings have been held during 2021, the Action Plan has been approved together with IP regarding treatment of informal employment and field activities are being undertaken to identify and register unregistered workers.	
	5) During this year, joint activities have been undertaken between TAK and DK, based on risk assessments of both institutions, teams from both sides meet continuously to coordinate activities, in this regard we have the work that is being done in drafting the action plan for the upcoming months and year.	
	6) This part has now been fully developed and is in function of its implementation, through which the identification of all taxpayers is being done for whom withholding tax has been withheld.	
	7) There has been continuous verification and monitoring of compliance with the measures through which businesses have benefited from Government subsidy measures, and actions have been taken to ensure that some of the new subsidy measures have the condition that only businesses that have implemented the precautionary measures be able to take advantage of the new measures.	
	8) The Draft Law on Labour is defined in the Government Legislative Program to be submitted for approval at the end of December 2021. Due to the need to adjust some new concepts from the employment relationship and address the social dialogue at the tripartite level in draft law, it is proposed that the Draft Law on Labour be transferred to the new Legislative Program 2022 . The measure is considered to have been partially implemented considering that the draft law is drafted for the most part.	
	9) The process of restructuring the Labour Inspectorate has started in advance with the implementation of some preparatory activities such as: <ul style="list-style-type: none"> - The report with recommendations for the improvement of the labour inspection system, prepared in support of the International Labour Organization, has been drafted and validated; - A training package for Labour Inspectors 2022-2024 is being drafted in support of the International Labour Organization; - The new organizational structure of the Labour Inspectorate is being prepared in support of the 	

	International Labour Organization. The employment of 20 inspectors was not realized during 2020.	
	<p>10) In order to assess the informal economy and ensure full coverage of national accounts in Kosovo, KAS, respectively the Division of Informal Economy and Government Accounts has performed the following activities:</p> <ul style="list-style-type: none"> - With the assistance of the World Bank (WB), KAS has conducted the Informal Economy Survey in businesses in four economic activities: H - Transportation and storage NACE 49; F - Construction NACE 41-43; I - Hotels NACE 55; I - Restaurants NACE 56. - Based on the results of the Informal Economy Survey, within the project supported by Swedish Statistics "Support to Strengthening the Statistical System of Kosovo 2019-2023", KAS has compiled data on the informal economy for the same economic activities for the period 2008-2020. Data are compiled on an annual and quarterly basis, at current and constant prices. - Results for the informal economy for the activities: road transport, restaurants and hotels are integrated in the Gross Domestic Product data and the results were first published in May 2021. The data are published on an annual basis (2008-2019), with current and constant prices. - In the framework of the IPA2017 Project "Methodology of National Accounts", KAS in 2021 has implemented the methodology according to international standards for the following components: <ul style="list-style-type: none"> 1. Assessment of the informal economy based on fiscal audit controls, 2. Assessment of the informal economy based on the Labour Input Method, 3. Assessment of drug trafficking in Kosovo. - In the framework of the IPA2019 Project, KAS has just started with the assessment of the informal economy for type N6 - Misreporting of self-employed persons. <p>Also, other economic activities and phenomena of the informal economy with an impact on the country's economy are being researched.</p> <p>All the above activities are carried out in accordance with international methodologies and standards and the data compilation process is documented.</p>	
	11) The publication of the Analysis "Assessment of best practices, feasible for Kosovo in reducing informal employment" will be done after the restructuring of the new website of the Ministry of Finance, Labour and Transfers.	
Reform Measure #11: Improvement of research, innovation and entrepreneurship environment		Reform implementation phase (1-5)
Activities planned for 2021	1) Functionalization of the National Science Council and review of the National Science Program (MES);	4
	2) Drafting and approval of the Law on Innovation and Entrepreneurship (MEE);	4
	3) Building a Current Research Information System (CRIS) (MES);	4
	4) Drafting and approval of 4 AIs in the field of Scientific Innovation and Knowledge Transfer (for Enterprises with the status of science-technology park; Register of innovative scientific institutions; Technology and knowledge transfer, and forms of technology transfer; Scientific innovation and providers of scientific innovation (MES);	4
	5) Initiation of procedures for the transition from a partner country to an associated country; in the EU Framework Program Horizon 2020 (MES);	4
	6) Drafting and approval of the Smart Cities Guide (MEE);	/
	7) Direct financial support for innovative projects (Innovation Centres, start-ups, students in support of dual education; innovative projects for academic staff and individuals) (MEE);	4
	8) Investments in innovation centres within Public Universities or high schools (MEE).	3
	1) The National Council of Science was approved by the Assembly of the Republic of Kosovo during	

Description of implementation and explanation whether we have partial implementation or no implementation	November 2021.	
	2) The final draft of the Draft Law on Innovation and Entrepreneurship has been completed, is expected to be presented in public consultation and be forwarded to the Government for approval in February 2022.	
	3) MESTI is supporting the development and operation of the Kosovo Research Information System (KRIS); The Ministry has established a working group for KRIS, which has already finalized the terms of Reference for the KRIS Platform. In coordination with partners and cooperation with the HERAS + (ADA) project	
	4) Regarding the administrative instruction, MESTI has worked on this Administrative Instruction in drafting the AI on Technology Transfer and Knowledge Transfer Forms, as well as has established the working group for the AI on Register of Innovative Scientific Institutions.	
	5) MESTI has completed negotiations with the EU on advancing Kosovo's status in the EU Horizon Framework Program for Research and Innovation. The agreement is being signed. Next is the ratification of the Law on the agreement which law is in the legislative plan for 2021.	
	6) The Smart Cities Guide is estimated to be sponsored by AIS, following the passage of the Department on Innovation to MIET.	
	7) Direct financial support for innovative projects for Start-Up businesses established 3 years ago and spin off Start-Up businesses was launched at the end of September and is in the process of evaluation. The value of the grant scheme is 1,150,000 EUR.	
	8) 8) Investments in innovation centres within Public Universities have been completed. The centres are in the phase of full functioning.	
Reform Measure #12: Extension of relevant ICT networks and infrastructure services for socio-economic development		Reform implementation phase (1-5)
Activities planned for 2021	1) Drafting and approval of the Strategy for the future digital agenda of Kosovo (MEE);	4
	2) Support for 5G mobile infrastructure extension (MEE);	4
	3) Establishment of a Fixed Station for frequency monitoring and a national network for research and education (NREN) (MEE);	4
	4) Development of trainings for 500 young people and their connection with online job opportunities - Youth Online and Upward Program - YOU (MEE);	3
	5) Initiation of digitalization of traditional businesses (in the sector of tourism, agriculture and wood and metal processing) through the use of ICT (MEE);	1
	6) Ongoing development of the Centre of Digital Excellence (supply of equipment and operation of QED, 5G piloting) (MEE);	5
	7) Establishment of ICT monitoring system based on DESI system (Digital Economy and Society Index) (MEE).	1
Description of implementation and explanation whether we have partial implementation or no implementation	1) Drafting and approval of the Strategy for Kosovo's future digital agenda; The process of drafting the Digital Agenda of Kosovo 2030 is being finalized. In order to guarantee a better quality and implementation of the strategic document, in the process of drafting the Digital Agenda of Kosovo 2030, technical expertise has been engaged through the KODE project. Initially, the implementation of the previous Digital Agenda 2013-2021 was reviewed, and the cases of five countries selected as the most relevant to be taken as examples and compared with Kosovo were analysed/studied. Several series of workshops and many separate meetings were held with different stakeholders, through which 5 Strategic Objectives were identified, 5-7 Specific Objectives for each Strategic Objective, as well as concrete Activities for achieving these objectives were identified. Deadlines, metering indicators, carriers, etc. are defined for each objective activity. The consolidated draft is almost completed and during the next two months the preliminary consultation and public consultation procedures are carried out as defined by the Regulation on drafting strategic documents. It is planned that the Digital Agenda of Kosovo 2030 could be approved by the Government of Kosovo during Q2 2022.	

	<p>2) Support for the extension of 5G mobile infrastructure, through the <u>KODE</u> program - during 2021, two Calls for Application for the extension of broadband infrastructure in uncovered areas were published and two Calls for Application for support for the extension of 5G mobile infrastructure, according to the grant scheme for Financing of Digital Infrastructure for interested applicants. The value of the support is € 1,003,000.</p> <p>Through these two Calls, the signing and implementation of 8 Agreements have been achieved, which have included the coverage with broadband electronic communications infrastructure of 16 villages and the internet connection of families in these areas.</p> <p>Also, through two Calls for Applications for support in the extension of 5G mobile infrastructure, 12 Agreements have been signed which include the connection with fixed broadband infrastructure of 21 mobile infrastructure stacks (5G ready). Most of the physical work for the implementation of these agreements has been completed, but due to the overall impact of the Covid-19 pandemic and delays by the manufacturers of some Technological devices have remained unfinished until early 2022.</p> <p>DPTTI and KODE / PIU plan to continue during 2022 with the publication of New Calls to support the expansion of 5G mobile infrastructure.</p>
	<p>3) Establishment of the National Frequency Spectrum Monitoring System (SNMS) - Within the sub-component of KODE for the establishment of the National Frequency Spectrum Monitoring System (NSMS) on 18.12.2020 a contract was signed with the implementing economic operator for the establishment and SNMS. According to the Dynamic Project Implementation Plan, the deadline for project completion is 15 months, i.e., until March 2022. Most of the project has been implemented (> 80%), including three of the four fixed radio monitoring stations, TDMS, MMS and SNMS Communication Centre equipment. The implementation of the project is expected to be finalized by March 2022. The value of the support is € 1,690,905.</p>
	<p>4) Development of training for young people and their connection to online job opportunities (Youth Online and Upward Program - YOU) - The project is the third component of the KODE Project that will fund the provision of training for young people and their connection to opportunities for work in the field of ICT, including online jobs.</p> <p>Due to the pandemic situation and the reluctance to hold these trainings online there has been a delay in starting these trainings until now. However, during this time two training rooms have been equipped with the necessary equipment for the trainings, as well as the Terms of Reference have been prepared and now the procedures for contracting the delivery of initially six different modules are being carried out, which include the training of about 500 young people for one of these modules: Paython, Advanced Network Administrator, Mobile Development, Digital Marketing, Full Stack developer, 3D printing technology, or IT Essentials. The trainings are expected to start in January 2022 and include about 300 teaching hours for each of the modules.</p> <p>By the end of the project new modules will be added as needed and the number of trainees is planned to reach up to 2,000. It is expected that through this training the beneficiaries will also increase their job search capacities in the local ICT market. Value € 81,780</p>
	<p>5) The project "EU support for digitalization of businesses through ICT" is a project funded by IPA 2019. The main product of this project will be the establishment of the Electronic Identification System (ID System). It aims to increase the efficiency and productivity of the private sector through the use of ICT, creating the right and safer ecosystem for e-business and e-commerce by enabling the improvement of electronic services for citizens and businesses. The implementation of the project is managed by the European Union Office in Kosovo, while the beneficiary is the Ministry of Economy. The project is in the final stage of preparing the Terms of Reference for the implementation of the project.</p>
	<p>6) Ongoing development of the Centre of Digital Excellence (supply of equipment and operation of QED, 5G piloting);</p> <p>The project for the establishment of the Centre for Digital Excellence in the Innovation and Training Park in Prizren is being implemented. At this stage the project involved the supply, installation and training of/for advanced 3D printers and scanners and software (4 x 3D Printers and 1 x 3D Scanners and 2 x related software). 3D printing is one of the most important technological advances in production of</p>

	<p>additives which has been implemented and recognized as part of modern industry as it has many advantages compared to the conventional approach, of which some of the most important factors are time, simplicity, reliability and accuracy, etc.</p> <p>Now, in order to take advantage of the opportunities created, procedures have been initiated to provide training on "3D printing technologies" initially for a group of 30 young people interested in this new field of technological development.</p> <p>Regarding 5G Piloting - the Terms of Reference for the initiation of the project for the realization of the 5G Mobile Network in the Innovation and Training Park in Prizren are being finalized. During Q1 2022 it is planned to initiate procurement procedures. Value € 1,169,970</p>	
	7) Establishment of ICT monitoring system based on DESI (Digital Economy and Society Index) system. This activity has not been implemented yet.	
Reform Measure #13: Trade facilitation through reducing the cost of trading transactions		
	Reform implementation phase (1-5)	
Activities planned for 2021	1) Finalization of the new Trade Policy Document (MTI);	2
	2) Supplementation/amendment of the Customs and Excise Code (CEC) and AI for implementation of CEC (MF-Customs);	4
	3) Adoption of the new Law on Internal Trade and the Law on External Trade (MTI);	4
	4) Commencement of the negotiation process for agreements with EFTA countries (MTI);	2
	5) Approval of the Regulation on the establishment of the Trade Facilitation Enquiry Point by the Government (MTI-Customs);	2
	6) Feasibility study for the NCTS (New Computerized Transit System) project platform (Customs-MF);	2
	7) Ratification of Additional Protocol 5 on Facilitation of Trade to CEFTA;	2
	8) Finalization of negotiations with CEFTA countries on Additional Protocol 7 on the Trade Dispute Settlement;	4
Description of implementation and explanation whether we have partial implementation or no implementation	1) Finalization of the new document for Trade Policy - Finalization of the new document for Trade Policy will start in 2022.	
	2) Amendment/supplement of the Customs and Excise Code (CEC) and AI for implementation of CEC - The draft has been completed and is within the legislative program of this year.	
	3) Adoption of the new Law on Internal Trade and Law on Foreign Trade - Adoption of the new Law on Internal Trade and Law on Foreign Trade - Law on Foreign Trade passed the first reading in Parliament and continued in the proceedings further and is expected to pass the second reading by the end of 2021. New Law on Internal Trade - amendment of this law will be made in 2022.	
	4) Commencement of the negotiation process for agreements with EFTA countries - Commencement of the negotiation process for agreements with EFTA countries will begin in 2022.	
	5) Adoption of the Regulation on the Establishment of the Trade Facilitation Information Centre by the Government (MTI-Customs) - As this regulation is derived from AP5, it has not yet entered the legislative program.	
	6) Feasibility study for the NCTS (New Computerized Transit System) project platform (Customs-MoF); - no agreement has been signed, the issue has remained with the Ministry of Finance.	
	7) Ratification of CEFTA Additional Protocol 5 on Trade Facilitation - CEFTA Additional Protocol 5 on Trade Facilitation has not been ratified due to non-treatment of representation in CEFTA. AP5 remains to be approved by the political level; however, the delays to date for non-ratification of the protocol have to do with the naming or not equal treatment of Kosovo's position under the CEFTA agreement, from which this protocol derives and was signed by UNMIK on behalf of Kosovo.	

	8) Finalization of negotiations with CEFTA countries on Additional Protocol 7 to the Settlement of Trade Disputes - Negotiations on Additional Protocol 7 on the Settlement of Trade Disputes within CEFTA are nearing completion. Kosovo has provided professional comments on its approval and implementation equally.	
Reform Measure #14: Further development of quality infrastructure and empowerment of the role of market surveillance authorities, with a focus on construction products		Reform implementation phase (1-5)
Activities planned for 2021	1) Completion of the third phase of technical assistance for two (2) manufacturers of construction products as follows, ready-mixed concrete, concrete paving products: blocks, slabs and curbs (MTI);	5
	2) Drafting of the action plan for the transposition of EU Regulation 2019/1020 on Market Surveillance and Compliance of Products and Regulation 2019/515 on the Mutual Recognition of Goods (MTI);	2
	3) Approval of the national plan for fulfilment of the obligations from Articles 34-36 of TFEU (Treaty on the Functioning of the European Union), for the part of the technical and non-technical non-harmonized field of legislation (national provisions)	5
	4) Approval of the concept document on General Product Safety (MTI);	5
	5) Establishment of the certification body accreditation scheme (EN ISO/IEC 17065) including the requirements of technical rules; (KAD/QID - MTI);	2
	6) Accreditation of three testing/calibration laboratories of KMA (Volume and Flow Laboratory, Mass Laboratory and Force and Pressure Laboratory) - (KMA/MTI)	3
	7) Drafting and approval of the Law on General Product Safety (transposition of Directive 2001/95/EC);	3
Description of implementation and explanation whether we have partial implementation or no implementation	1) Technical assistance to two (2) manufacturers of construction products has been completed, Quality Management System (QMS) and Factory Production Control (FPC) have been established, which confirms that these manufacturers have met all technical and legal requirements and requirements of standards in accordance with Law 06 / L-033 on Construction Products, Administrative Instruction (MTI) No. 07/2020 setting the conditions for placing ready-mixed concrete on the market and Administrative Instruction (MTI) No. 06/2020 on setting the conditions for placing concrete paving products on the market. Within this activity, the last mission of technical assistance from the project "Free movement of goods" to the producers of concrete and concrete elements, "Titan Beton" and "Shalaj" from 07 to 18.06.2021 has been completed. On 18.06.2021 a workshop was held with manufacturers of construction products in which were presented the experiences of two manufacturers who have received technical assistance from the FMG Project. Also, during this mission, three bylaws were prepared: <ul style="list-style-type: none"> - Administrative Instruction (MIET) No.05/2021 on placing on the market of terrace tiles, - Administrative Instruction (MIET) No. 04/2021 on the placing on the market of doors and windows, and - Draft Administrative Instruction (MIET) No. xx/2021 for placing on the market of products for thermal insulation. Value 13,000.00 Euro.	
	2) The first draft of the Action Plan for the transposition of EU Regulation 2019/1020 on Market Surveillance and Product Compliance and Regulation 2019/515 Reciprocal Recognition of Goods has been prepared, an activity which is being supported by the Lux-Dev Project. Also, within this activity was held a two-day workshop with the inter-ministerial working group (Decision (GRK) No. 21/16, dated 22.06.2021) to coordinate the work of all competent ministries in relation to technical legislation which is responsible for the implementation of tasks arising from the free movement of goods on the basis of international agreements signed by the Republic of Kosovo. Value 4,900.00 Euro.	

	<p>3) With the Government Decision No. 22/16, dated 22.06.2021, the Program for Elimination of Technical Barriers in Trade 2021-2025 was approved (articles 34-36 TFEU Treaty on the functioning of the European Union). Value 7,000.00 Euro.</p> <p>4) With the Government Decision No. 21/34, dated 08.09.2021, the Concept Document for the General Safety of Products was approved. Value 5,000.00 Euro.</p> <p>5) The training of DAK staff in the ISO/IEC 17065 standard, accreditation for the purposes of notification of certification bodies for construction materials has been carried out. This training was carried out in support of the PTB project (29.09.2021). <i>Comment: DAK has not managed to set up this accreditation scheme due to the fact that no application has been submitted for accreditation of certification bodies.</i></p> <p>6) Accreditation of three MAK testing/calibration laboratories (Volume and Flow Laboratory, Mass Laboratory and Force and Pressure Laboratory) is in the evaluation phase by the Turkish Accreditation Body (TURKAK). By the end of December 2021, the final phase of evaluation and reporting related to the accreditation of the above laboratories will be completed. From the Project "FMG II" the payment in the amount of 9,400.00 euros was done for TURKAK, for the evaluation of three laboratories for accreditation.</p> <p>7) A draft Draft Law on General Product Safety has been prepared transposing the General Product Safety Directive 2001/95/EC and the Fraudulent Products Directive 87/357/EEC. In cooperation with the project "Free movement of goods" a workshop was held (dated 09.07.2021) with the project expert FMG who was engaged in the preparation of the draft - Law on General Product Safety, in which representatives of MIET, MoH, FVA participated. <i>Comment: Due to the volume of laws which are in the process of drafting during 2021, MIET has decided that the draft law on General Product Safety be part of the Government's legislative plan in 2022 (Q1-Q2).</i> Value 5,000.00 Euro.</p>	
Reform Measure #15: Increasing inclusiveness and quality of education in early childhood		Reform implementation phase (1-5)
Activities planned for 2021	1) Approval of the Law on Early Childhood Education (MES);	3
	2) Finalization of the draft and approval of core curriculum, which contains 7 fields for early childhood education, (MES);	2
	3) Drafting and approval of 7 practical guidelines for the piloting of the core curriculum, (MES);	2
	4) Training of up to 100 educators, during the pilot phase, on the implementation of the core curriculum, (MES);	2
	5) Completion of 6 new preschool institution facilities, and start construction of a new facility (MES);	5
Description of implementation and explanation whether we have partial implementation or no implementation	1. The draft law on Early Childhood was drafted as the first draft. The draft law is under discussion with the cabinet of the minister to continue then with preliminary public discussion and public discussion. The adoption of the draft law on early childhood education is expected to be approved in the first half of 2022.	
	2) The core curriculum will begin to be developed soon. The working group is expected to be formed in early 2022.	
	3) This process is related to the core curriculum.	
	4) This process is related to the core curriculum.	
	5) With investments from the municipality of Rahovec, 3 kindergartens have been built - the constructions have been completed. With investments from MPA, it is expected that by the end of 2021 the construction of 1 kindergarten in the municipality of Prizren will be completed. According to the agreement between MESTI and the municipalities of Viti and Gjilan, the re-functionalization of 2 schools in kindergartens has been completed, in the municipalities of Viti and Gjilan.	

	According to the agreement of MESTI with the municipality of Istog, the construction of 1 kindergarten in this municipality has started.	
Reform Measure #16: Implementation of the new curricular framework in vocational education and training system		Reform implementation phase (1-5)
Activities planned for 2021	1) Approval of the Framework Curriculum for the VET system, revision of the curricula and drafting of guidelines for the implementation of the core curriculum (MES);	4
	2) Review of the funding formula for VET by defining the criteria of funding, which is done through special education grant (MES);	4
	3) Drafting and approval of Administrative Instruction on evaluation of VET students, with the involvement of employers' representatives (MES);	5
	4) Piloting the digital platform in the field of ICT (MES/MTI/TAK);	5
	5) Functionalizing the system for cooperation with business for 10 VET schools (MES);	3
	6) Linkage with the One-year Master program for in-service teachers provided by the Faculty of Education with the targeted faculties (e.g., Mechatronics and Agriculture) to ensure the practical placement of VET teachers (MES).	3
Description of implementation and explanation whether we have partial implementation or no implementation	1) 85 core curricula have been developed/ revised for grades 10, 11, and 12. The curriculum implementation guide has also been drafted and introduced and distributed to all IAAP. For the 14 approved core curricula, teaching packages (profession standard, teaching materials and curricula) have been drafted and trainings have been held for 108 school teachers who have started the implementation.	
	2) The funding formula and funding opportunities in VET have been drafted and presented to all relevant actors including 64 vocational schools. The digital platform "Planifiko VET", to which all vocational schools now have access, has also been completed.	
	3) It is included in the AI for Learning in the Workplace.	
	4) The digital platform in the field of ICT in cooperation with the Chamber of Commerce has been completed.	
	5) The new system for cooperation with business is being implemented in 12 vocational schools where 62 industrial bodies have been established with 120 businesses represented.	
	6) In the phase of initiating activities with MESTI and the Faculty of Education (UP). The analysis of the qualification of VET teachers has been performed.	
Reform Measure #17: Increase and Quality Assurance in higher education by strengthening the KAA and profiling higher education institutions		Reform implementation phase (1-5)
Activities planned for 2021	1) Approval of the Draft Law on the Kosovo Accreditation Agency (MES);	4
	2) Approval of the Draft Law on Higher Education (MES);	2
	3) Staffing and strengthening of KAA capacities through the recruitment of 20 new officials (KAA/MES);	2
	4) Establishment of a "competence centre for linking with the industry" in 2 faculties of the University of Prishtina (MES);	3
	5) Establishment of Research Offices and research plans in Public Universities and support for access to anti-plagiarism platforms and electronic libraries.	3
Description of implementation and explanation whether we have partial	1) The Draft Law on the Kosovo Accreditation Agency has now completed all procedures and has been forwarded to the Government of Kosovo for approval.	
	2) The working group of the Draft Law on Higher Education with representatives of higher education institutions and civil society has been supplemented/amended. Meetings with the working group are being held. It is planned that this draft law be approved during the first half of 2022.	

implementation or no implementation	3) Officials will be recruited during 2022-2023. The initiation of procedures has not yet been approved by the MPA.
	4) Memorandum of Understanding signed by three co-founders (UP, City of Prishtina and KCC). The documents for the functioning of the centre have been developed (Establishment Act, Statute, Business Plan) and the Establishment Act has been signed by two partners and is awaiting signing by the UP.
	5) In the framework of the Erasmus + project "Establishing the Research Culture in Higher Education in Kosovo (ResearchCult)" all public universities in Kosovo have established Research Offices (for research) and responsible coordinators as well as research plans. In the anti-plagiarism system (English system Plagiarismcheck.org) all public universities in Kosovo have access to the EBSCO electronic library access for three years (2021-2024).
Reform Measure #18: Improving and enhancing public employment and vocational training services, increasing employability of long-term unemployed, young people, women and other vulnerable groups	
Reform implementation phase (1-5)	
Activities planned for 2021	1) Drafting and approval of the new cycle of Employment Policy 2021 - 2024 (MLSW);
	2) Drafting and approval of the Law on Labour (MLSW);
	3) Expansion of employment and vocational training services with new services (career guidance, recognition of prior learning and opening of new profiles in VTC based on labour market demands) for clients of Employment Offices and Vocational Training Centres (EARK/MLSW);
	4) Implementation of ALMMs from the emergency package for the post COVID-19 period for at least 3,000 long-term unemployed, with focus on vulnerable groups such as young people, women, people with disabilities;
	5) Review and development of 5 Curricula, teaching packages based on the standards of a profession, publication of textbooks for 5 Qualifications and validation of 5 vocational training profiles (EARK/MLSW);
	6) Development of one (1) study for tracing beneficiaries of employment services (EARK/MLSW);
	7 Support of at least 5 youth projects in the field of ICT and training of at least 100 young people in the same field (MCYS);
	8) Implementation of the feasibility study for the Youth Guarantee Scheme.
Description of implementation and explanation whether we have partial implementation or no implementation	1) Employment Policy 2021 - 2021 is set to be drafted in the Work Plan of the Ministry. Due to the clarification, definition, whether it will be a sectoral employment policy only for the Employment Agency, or a cross-sectoral policy, as the activity has been transferred to the first half of 2022. Nevertheless, we have worked on the draft employment policy, to the part of general trends by updating the necessary data, while it remains to be defined whether it will be sectoral or cross-sectoral policy to conclude as an activity.
	2) The Draft Law on Labour is defined in the Government Legislative Program to be submitted for approval at the end of December 2021. Due to the need to regulate some new concepts from the employment relationship and address the social dialogue at the tripartite level in the draft law, it is proposed that the Draft Law on Labour be transferred to the new Legislative Program 2022 . The measure is considered to have been partially implemented taking into account that the draft law is drafted for the most part.
	3) Public Employment Services have started providing Career Orientation services at Employment Offices. The staff of the Employment Offices have been trained and the process is ongoing. Regarding the expansion of Vocational Training services with the support of DVV-International, the profile of Electrical Installations was opened in VTC-Mitrovica, where the donor also supplied the workshop with equipment, tools and materials of this profile and paid the salary. of the coach for one year, also with the support of the GIZ project was purchased and supplied with modern equipment for the profile of Tailoring in Mitrovica and Prizren, also was printed books for the needs of the profession Metal Worker, which is already accredited at the level and IV according to AKM. This year we have

	<p>started a new service in the Vocational Training Centres Gjilan and Mitrovica Recognition of Pre-Learning, where we are accredited by the National Qualifications Authority in the profile of Welding.</p> <p>4) Regarding the implementation of MATPs, during this year, 3267 persons are included, of which 2048 are women, 1035 young people, 13 persons with disabilities. While in Vocational Training are included 2761 persons, of which 798 are women, 1058 young people, while 5 persons with disabilities.</p> <p>5) Regarding the review and development of new curricula within VTCs with the support of the donor GIZ, the curriculum for Working Metal at level IV according to the KAA has been reviewed and drafted. Also, with the support of the EYE project, the development of curricula, Mason, Carpenter, Electrical Installer and Accounting Officer has started. This activity started in September 2021 and will end in March 2022, (explanation: this activity is supported exclusively by the donor and seeing the circumstances created by the pandemic this activity started a little late).</p> <p>6) A tracer study on employment services is being conducted, which is being supported by the GIZ project and aims to measure the effectiveness of employment services with special emphasis on active labor market measures. Another tracer study is underway for vocational training services, supported by the Lux-Development project. This tracking supports vocational education and training for adults in Kosovo, where the direct beneficiary is MESTI, all VET institutions are involved, where the beneficiary is also the Employment Agency. The implementation will be done by Edguard, while the technical / professional work will be done by Global CT. Activities will be separate, which falls to the part of VTC we will be responsible APRK.</p> <p>7) The Ministry of Culture, Youth and Sports in the framework of the objective "Providing skills and preparing young people for the labour market", this year has supported at least 8 projects in the field of ICT, where through these projects will benefit training in the field of ICT at least 150 young people in the field.</p> <p>8) In accordance with the EC recommendations regarding the consideration of opportunities to implement the Youth Guarantee Scheme, the Government of Kosovo has adopted the first efforts and the preparation of the feasibility study for the implementation of the Youth Guarantee scheme had become part of the annual planning, and an obligation for line Ministries. The preparation of the feasibility study on the possibility of implementation for the implementation of the Youth Guarantee scheme was part of the Government's 2020 Work Plan. In the meantime, the RCC had been informed that the RCC planned to assist the countries of the region in compiling feasibility studies on the feasibility of implementing the Youth guarantee scheme, an initiative which was welcomed. The RCC on this occasion had contracted University College Wisdom to do the Study. Such study has been completed and is expected to be published soon. The Government of the Republic of Kosovo has shown interest and commitment in this regard, and the employment of young people as a priority, including the steps to initiate the implementation of the Youth Guarantee scheme, will be part of the new Government Program and Government Annual Plans. Meanwhile, during this time we are reporting that the process for drafting the Implementation Plan for Youth Guarantee has started (technical team, appointment of coordinator for YG);</p>	
Reform Measure #19: Improvement of social and health services and empowerment of marginalized groups		Reform implementation phase (1-5)
Activities planned for 2021	1) Drafting and approval of the Law on Social and Family Services and the Law on Social Assistance Scheme and bylaws (MLSW);	4
	2) Approval of the Law on Local Government Finance and drafting of the Administrative Instruction on the formula of financing for social and family services (Special Grant for social services) (MLSW);	2
	3) Drafting of the primary and secondary legislation for the regulation and management of the field of pensions and benefits as well as for the treatment of disability (MLSW);	1
	4) Support to the licensed non-governmental sector (50 NGOs) and registered social enterprises (30 enterprises), with grants and subsidies for the provision of social services and employment of vulnerable groups (MLSW);	4

	5) Signing of (3) Bilateral and Multilateral Social Security Agreements with EU countries (MLSW);	2
	6) Piloting of the Poverty Test, for social categories, based on the Operational Manual (MLSW);	5
	7) Increase of infrastructural and professional capacities in the field of prevention, testing, treatment and inspection to fight COVID-19 (MoH);	5
	8) Amendment and approval of the Law on Health Insurance, drafting of the secondary legislation for determining the criteria for exemption from payment of contribution (MoH).	2
Description of implementation and explanation whether we have partial implementation or no implementation	<p>1) The Draft Law on Social and Family Services was finalized and submitted to the Legal Department for further steps in the preparation of Statements, Explanatory Memorandum and Budget Impact Assessment, while a Working Group was established to draft the Draft Law on Social Assistance Scheme, where the draft I is expected to be finalized by the end of this year. Five (5) Administrative Instructions have been drafted in the field of Social Services and during (6) Administrative Instructions have been drafted and are expected to be processed in preliminary consultations during December 2021. The cost of this activity was about 100,000.00 euros, which was covered by cooperation with donors.</p> <p>2) The new Law on Local Government Finance has been drafted, which envisages the establishment of a Special Grant for Social Services. The draft law has passed the stage of public consultations, is part of the Legislative Plan for 2021. The cost of this activity was around 10,000.00 euros, which was covered by cooperation with donors.</p> <p>3) Law No. 04/L-131 on state-funded pension schemes has been postponed to next year, while the Draft Law on Assessment, Status Recognition, Benefits and Services for Persons with Disabilities is being finalized by the Working Group. The cost of this activity was around 10,000.00 euros.</p> <p>4) The support of the licensed non-governmental sector in providing social and family services for 2021 has been for (39) licensed NGOs. The cost of the activity where the budget funds were allocated was 900,000.00 euros, which was covered by the Kosovo Budget.</p> <p>5) In 2021, a Cooperation Agreement was reached in the field of Social Insurance between the Republic of Kosovo and the Republic of Albania. Also, a Cooperation Agreement between the Republic of Kosovo and the Republic of Albania has been reached in the field of child protection. There is no cost identification for this activity.</p> <p>6) The Operational Manual for exemption from social security payment for social categories and software has been finalized, which has been piloted and tested by all Centres for Social Work. The cost of this activity was about 50,000 euros, which was covered by the Swiss Grant, part of the Loan with the World Bank.</p> <p>7) Regarding the activity planned in 2021 for Increasing the infrastructural and professional capacities in the field of prevention, testing, treatment and inspection to fight Covid 19 can be considered to have been fully implemented after 1450 health professionals have been recruited who have been engaged for a period of 6 months. For this activity 4.5 million euros have been allocated by the Government as a loan from the Council of Europe Development Bank CEB.</p> <p>8) Regarding the law on health insurance in 2021, the draft law was drafted, but at the request of the Ministry of Health, the draft law on health insurance, the draft law on health were withdrawn from the legislative program as a result of engaging in COVID 19 pandemic management, could not be finalized in 2021. These draft laws will be transferred to the 2022 legislative program. This activity had no financial cost.</p>	

ANNEX 2: LINKS BETWEEN REFORM AREAS AND RELEVANT POLICY DOCUMENTS

Reform measures ERP 2022-2024	Key structural challenges (Commission assessment of ERP 2021-2023)	ERP Policy Guidance 2021	Enlargement Package 2021	Sustainable development goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatches.	Joint Conclusion 6b: Develop a system to monitor and forecast the skills needs in the labour market to facilitate the alignment of the education and training systems and of reskilling and upskilling provision to labor market needs.	This reform measure addresses the recommendations on adoption of the law and further alignment of VET policy to market needs	SDG - is related to objective 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Indicators 4.3, 4.4, 4.5, 4.6, and 4b.		<i>EU's objective for 2030:</i> "A tech savvy continent where all are digitally empowered" <i>DA of WBs:</i> 6.4.5. European Digital Competence Framework for Citizens and the support from the European Training Foundation	
Reform measure #2: Increasing and ensuring quality in higher education through the strengthening of KAA and profiling of higher education institutions	Key challenge #1: Improving the quality and relevance of the education system to increase employment and mitigate skills mismatches.	Joint Conclusion 6a: Thoroughly apply existing quality assurance mechanisms at all levels of education through increased school inspections and effectiveness of quality coordinators, as well as monitoring of study programmes by the Accreditation Agency.	The draft law on KAA addresses all the recommendations of ENQA, required from the ENQA	SDG - is related to objective 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Indicators 4.3, 4.4, 4.5 and 4b		<i>DA of WBs:</i> 6.4.4. HEInnovate <i>2030 Digital Compass: The European way for the Digital Decade:</i> 3.1 A digitally skilled population and highly skilled digital professionals	
Reform measure #3: Increase employment,	Key challenge #1: Improving the	Joint Conclusion 6 (a and b) - above	This reform measure addresses	SDG - is related to objective 8		EU's objective for 2030: "A tech	IPA 2022

<p>reduce inactivity, formalize, develop professional skills, improve and expand public employment services and vocational training in line with labour market demands with special emphasis on vulnerable groups.</p>	<p>quality and relevance of the education system to increase employment and mitigate skills mismatches.</p>	<p><i>mentioned.</i> In addition, c: Establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan.</p>	<p>the recommendations on expansion of Active Labour Market Measures for the long-term employment of youth, women, people with disabilities</p>	<p>Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Indicators 8.2, 8.3, 8.5, 8.6, and 8b.</p>		<p>savvy continent where all are digitally empowered”;</p> <p>EU’s objective for 2030: “The continent with a high share of digitalised businesses”</p> <p><i>DA of WBs:</i> 6.4. Digital Skills</p>	<p>EU 4 Inclusive Socio-Economic Development: 7,100,000.00 EUR</p>
<p>Reform measure #4: Improving health services</p>			<p>The proposed measure is one of the most important priorities in the health system, the amendment of the Law on Health Insurance and also addresses the recommendations from the Country Report.</p>	<p>SDG – is related to objective 3 Ensure healthy lives and promote well-being for all at all ages. Indicators 3.8, 3.c and 3.b</p>		<p>EU’s objective for 2030: “Modernised public services responding to society’s needs”</p> <p><i>2030 Digital Compass: The European way for the Digital Decade:</i> 3.4 Digitalisation of public services</p> <p><i>DA of WBs:</i> 6.3. eHealth</p>	

<p>Reform measure #5: Development of EE and RES policies in function of green transition</p>	<p>Key challenge #3: Tapping renewable energy and energy saving potential and fully opening the energy market</p>	<p>Joint Conclusion 4: Adopt a coherent long-term energy and climate strategy for lowering carbon emissions, including plans for a phase-out of coal and fossil fuels subsidies as committed under the Sofia Declaration. In line with the commitments of the Green Agenda for the Western Balkans: increase energy efficiency incentives for the private sector and households and improve the support schemes for renewable energy projects with the introduction of competitive bidding/auctions;</p>	<p>It is related with Kosovo Country Report 2021 - point - 5.3.2. Energy. Respectively, implement energy efficiency projects in municipalities and introduce energy efficiency incentives in residential and private sectors. As well as improve the support schemes for renewable energy projects by introducing competitive bidding for support for renewables.</p>	<p>SDG - is related to objective 7 Ensure access to affordable, reliable, sustainable and modern energy for all. Indicators 7.2</p>	<p>Is related to pillar I - Climate, energy, mobility. 2.1.1. Increasing the EU's climate ambition for 2030 and 2050. 2.1.4. Building and renovating in an energy and resource efficient way.</p>	<p><i>2030 Digital Compass: The European way for the Digital Decade:</i> 3.4 Digitalisation of public services</p>	<p>Construction of a Solar Photovoltaic Plant - EUR 15 million, 2022</p>
<p>Reform Measure #6: Energy Market Reform</p>	<p>Key challenge #3: Tapping renewable energy and energy saving potential and fully opening the energy market</p>		<p>It is related with Kosovo Country Report 2021 - point - 5.3.2. Energy. As regards the internal energy market, the implementation of</p>	<p>SDG - is related to objective 7 Ensure access to affordable, reliable, sustainable and modern energy for</p>	<p>Is related to pillar I - Climate, energy, mobility. 2.1.2. Supplying clean, affordable and secure energy.</p>		<p>Energy efficiency in the public sector - EUR 3 million, 2022</p>

			the retail market opening, as well as the gradual adjustment of energy tariffs, reflecting expected increase in costs and mitigation measures for vulnerable consumers remain necessary.	all. Indicators 7.1, 7.2, 7.3, 7.a, 7.b.			
Reform Measure #7: Reducing environmental pollution and conserving biodiversity			It is related with Kosovo Country Report 2021 - point 5.3.4. Environment and climate change. Respectively, the KCR emphasis that political commitment is needed to address environmental degradation and climate change challenges.	SDG - is related to objective 13 Take urgent action to combat climate change and its impacts[b]. indicators 13.2, 13.3, 13.a 15.a.	Is related to pillar III – Depollution and pillar V – Biodiversity. 2.1.7. Preserving and restoring ecosystems and biodiversity. 2.1.8. A zero pollution ambition for a toxic-free environment. 2.2.1. Pursuing green finance and investment and ensuring a just transition. 2.2.3. Mobilising research and fostering innovation. 2.2.4. Activating education and training.	<i>2030 Digital Compass: The European way for the Digital Decade:</i> 3.3 Digital transformation of businesses	IPA 2021 1. Construction of waste water treatment plant facilities in Kosovo B (12 mil EUR) 2. EU Support to Clean Air (Design of Sulphur Dioxide (SO ₂), reduction) (2 mil EUR) 3. Support to the Kosovo Landfill Management Company (2 mil EUR) IPA 2022 1. Advancing Circular Economy and Integrated

							<p>Waste Management in Kosovo (ACCENT) (total cost 11.4 mil EUR, IPA grant 9.9 mil EUR)</p> <p>Pristina's Sewage and Rainwater Network (total cost 43.4 mil EUR, IPA grant 20 mil EUR).</p>
<p>Reform measure #8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education and health system</p>			<p>It is related with Kosovo Country Report 2021 - point -5.2.1. Information society and media. Respectively ,the KCR emphasis that Kosovo should ensure that markets are genuinely competitive including through number portability, without which numbering resources cannot be used effectively</p>			<p>All EU's Objectives:</p> <p>EU's objective for 2030: "Top-notch trustworthy and secure Digital Infrastructures";</p> <p>EU's objective for 2030: "A tech savvy continent where all are digitally empowered";</p> <p>EU's objective for 2030: "The continent with a high share of digitalised businesses";</p> <p>EU's objective for 2030: "Modernised public services</p>	<p>EU Support for the Competitiveness of the Kosovo's ICT Sector IPA 2019</p>

						responding to society's needs" <i>DA of WBs:</i> 5.1. Digital Broadband Connectivity 5.2. Broadband Cost Reduction aspects 6.1. eGovernment 6.4. Digital Skills 7.1. Trust 7.2. Cybersecurity 7.3. Digitalisation of Industries and Digital Innovation Hubs 8.2. Research in information and communication technologies (ICTs)	
Reform Measure #9: Improving the business environment via reduction of administrative burden, inspection reform			This measure addresses Country Report 2021 recommendations and Sub-Committee conclusions with regards to the amendment of the Law on Business Organizations and one of the key sector priorities, the inspection reform development.	SDG - is related to objective 8, indicators 8.2, 8.3, 8.10, 8.a. Is related to objective 16 - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.		<i>2030 Digital Compass: The European way for the Digital Decade:</i> 3.4 Digitalisation of public services	Administrative Burden Reduction Programme IPA 2021 4.5 mil EUR

<p>Reform Measure #10: Reducing the informal economy</p>	<p>Key challenge #2: Formalization of the economy and low competitiveness of the private sector.</p>	<p>Joint Conclusion 5: Update the action plan of the 2019–2023 National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes, and ensure its implementation. Implement incentive measures with an aim to formalise informal employment and businesses, and address tax evasion in identified high-risk sectors in line with the strategy and the action plan. With an aim to prevent evasion of property income tax, improve transparency by publishing all sales prices of real estate property</p>	<p>This reform measure addresses the recommendations on improving quality of governance in economy and increasing financial resources for public services by increasing tax revenues and implementing the strategy for the prevention and combating of informal economy, money laundering, terrorist financing and financial crime.</p>				
<p>Reform Measure #11: Improvement of the research, innovation and</p>			<p>This measure aims to supplement the VET system with</p>	<p>SDG - is related to objective 8 Promote</p>		<p><i>EU's objective for 2030:</i></p>	

entrepreneurship environment			formal qualifications and lifelong learning qualifications, including the Recognition of Prior Learning (RPL) based on the demands of the labour market.	sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Indicators 8.2, 8.3; objective 9, indicators 9.5 and 9.b.		<p>“The continent with a high share of digitalised businesses”</p> <p><i>2030 Digital Compass: the European way for the Digital Decade: Digital transformation of businesses</i></p> <p><i>DA of WBs:</i> 6.5. Innovation & start-up ecosystems – Start-up Europe 7.3. Digitalisation of Industries and Digital Innovation Hubs 8.2. Research in information and communication technologies (ICTs)</p>	
Reform Measure #12: Improving cross-border trade through trade facilitation			This measure addresses the recommendations on reducing Kosovo’s long-standing trade deficit by expanding the trade on services, ratifying and implementing CEFTA Additional Protocol 5, 6 and 7 and implementing	SDG - is related to objective 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Indicators 8.a; objective 17 strengthen the	The European Green Deal point 2: Transforming the EU’s economy for sustainable future; sub-point 2.1.3. Mobilising industry for a clean and circular economy (Digital technologies are a critical enabler for attaining the sustainability	<i>DA of WBs:</i> 6.1. eGovernment 7.1. Trust	

			commitments under the Common Regional Market Action Plan 2021-2024.	means of implementation and revitalize the Global Partnership for Sustainable Development	goals of the Green deal in many different sectors		
Reform Measure #13: Further development of quality infrastructure and strengthening the role of market surveillance authorities			This reform measure reflects on the recommendations to further align national legislation with EU acquis on the field of quality infrastructure and increase of enforcement capacities in particular of conformity assessment and market surveillance bodies.	SDG - is related to objective 9 build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. Indicators 9.1, 9a.	The European Green Deal point 2: Transforming the EU's economy for sustainable future; sub-point 2.1.3. Mobilising industry for a clean and circular economy (Energy-intensive industries, such as steel, chemicals and cement, are indispensable to Europe's economy, as they supply several key value chains).		IPA 2021 EU for Trade and Internal Market 5,500,000.00
Reform measure #14: Further Modernization and Development of Transport			It is related with Kosovo Country Report 2021 - point -5.3.1. Transport policy. Respectively, the KCR emphasis that Kosovo should fulfil the CONNECTA recommendations on rail and road maintenance, road safety inspections,	SDG - is related to objective 11 Make cities and human settlements inclusive, safe, resilient and sustainable. Indicators 11.2.		EU's objective for 2030: "Top-notch trustworthy and secure Digital Infrastructures"	

			intelligent transport systems and the establishment of a crash data system have not yet been implemented				
Reform measure #15: Structural changes in the agricultural sector			It is related with Kosovo Country Report 2021 – point 5.4.1. Agriculture. The Kosovo Country Report emphasis that Kosovo should perform a qualitative assessment of the effectiveness of direct payments and rural development programmes. Kosovo is in the process of establishing an integrated agricultural information system by upgrading and improving interconnectivity of the existing elements, which include the administration and control system (IACS), the agricultural market information system	SDG - is related to objective 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture. Indicators 2.3, 2.4, 2.5, 2.a, 2.b, 2.c.	Is related to pillar IV - Sustainable agriculture and food production. 2.1.6. From ‘Farm to Fork’: designing a fair, healthy and environmentally-friendly food system.		

			(AMIS) and the farm accountancy data network (FADN).				
Reform measure # 16: Increasing competitiveness in the manufacturing industry			This measure addresses recommendations to adopt a Strategy to support Kosovo's business environment and industrial development and overall development of the enterprise and industrial policy.	SDG - is related to objective 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation. 5 Achieve gender equality and empower all women and girls.		EU's objective for 2030: "Top-notch trustworthy and secure Digital Infrastructures"	IPA 2021 EU for Trade and Internal Market 5,500,000.00 EUR
Reform measure # 17: Increasing Competitiveness in the Tourism and Hospitality Sector			This measure reflects on recommendations regarding obligations arising from the Tourism Law as well as overall development of the tourism sector.	SDG - is related to objective 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all. Indicators 8.9.		///	
Reform measure # 18: Increase competitiveness in the sector of trade in services			This measure reflects on recommendations to remove identified barriers to the right of establishment and freedom to provide services by implementing	SDG - is related to objective 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for	Also, a document on Common Regional Market, which derived from Sofia Summit, points out on adoption of a services trade liberalization package to, inter alia, and enable		

			further the law on services.	all. Indicators 8.a. SDG, Goal 17, strengthen the means of implementation and revitalize the global partnership for sustainable development.	the supply of services without obligatory establishment and authorization, in line with Chapter 3 of the EU acquis, enable mobility for students, researchers, and professors and establish a regional e-commerce market by adopting core harmonized rules and internal market principles, facilitating customs clearance of parcels, and removing geo-blocking.		
Reform measure #19: Increasing inclusion and quality in early education			Draft Law on Early Childhood Education addresses the recommendation from the Country Report which aims to contribute to the inclusion of children in early education.	SDG - is related to objective 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all. Indicators 4.1, 4.2, 4.3, 4.5, 4.7, 4.a, 4.b, 4.c.			
Reform measure #20: Improving the quality of general education	Key challenge #1: Improving the quality and relevance of the education system	Joint Conclusion 6a: Thoroughly apply existing quality assurance mechanisms at all	Two Laws (such as the Law on higher education and the Law on Kosovo Accreditation	SDG - is related to objective 4 Ensure inclusive and equitable quality education and			

	to increase employment and mitigate skills mismatches.	levels of education through increased school inspections and effectiveness of quality coordinators, as well as monitoring of study programmes by the Accreditation Agency.	Agency), aims to improve the quality of education based on the recommendations from the Country Report 2021.	promote lifelong learning opportunities for all. Indicators 4.1, 4.2, 4.3, 4.5,4.7, 4.a, 4.b, 4.c.			
Reform measure # 21: Improving social services and empowering excluded groups			This reform measure addresses the recommendations by adopting the Law on Local Finance and drafting of the Administrative Instruction on the formula of financing for social and family services.	SDG - is related to objective 1 End poverty in all its forms everywhere, indicators 1.3, 1.4. 5 Achieve gender equality and empower all women and girls, 5.4 10 Reduce inequality within and among countries, 10.4.		EU's objective for 2030: "Modernised public services responding to society's needs"	

ANNEX 3: EXTERNAL CONTRIBUTION TO THE ERP 2022-2024

Remark area section	Comment received on 17 January 2022:	Contributing stakeholder	Status of comment	Comment
General				
The whole ERP document	The concept of “inclusive growth” needs to be strengthened throughout the document, and it should become central to the conceptual analysis put forward in chapter 1 to 4 of this document and language-wise should replace the use of “economic growth” terminology where appropriate. In line with the inclusive growth conceptual framework, the analysis and outcomes of the proposed policies in chapters 1 to 4 should emphasize the poverty aspects in Kosovo and rising socio-economic inequalities and their effects on human well-being and prosperity. An in-depth but concise analysis that captures the problems before the strike of the COVID-19 pandemic, the ramification of inequalities due to the COVID-19 crisis for specific segments of the Kosovo population and the risks of their exacerbation in the absence of reform initiatives should be further elaborated. The recommended effort for enhanced analysis thoroughness will help to establish better the link between the exposed problems and the relevant proposed structural reform initiatives/measures.	UNDP Marta Gazideda, marta.gazideda@undp.org	Not accepted	Authorities realise the importance of the ‘inclusive growth’ concept and fully agree that ERP should be modified and/or enriched to capture the inclusive growth while emphasizing the poverty aspect and rising economic inequalities. Due to tight deadlines, in the next ERP, there will be attempts to address the above-mentioned topics.
Joint Conclusion 1 (A and D)	Comments provided on the wording/formulation of the joint conclusions (using ‘persons’ instead of ‘households’ and using ‘a gender- transformative review’ rather than just ‘review’ concerning the undertaking of a review of tax expenditure.	KWN Valmira Rashiti valmira@womensnetwork.org	Not Accepted	The comment was not accepted because the formulation/ wording of the Joint Conclusions is provided by the European Commission and therefore is not subject to changes. However, EC will be informed about these comments for future references.
Response to the 1 st Joint Conclusion	Explanation on the government measure regarding the provision of food for families in need through local NGOs was not clear and therefore further clarification was requested.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	More details were provided in the ERP document regarding the measure.

Response to Joint Conclusion 1 (A and D)	An ex post gender impact assessment is required in order to see the short- and long-term impact of these policies on lasting employment.	KWN Valmira Rashiti valmira@womensnetwork.org	Not accepted	Authorities realize the importance of such assessment; however, this is not within the scope of the Economic Reform Programme and is not required by the approved Joint Conclusions in July 2021.
Joint Conclusion 2A	A gender impact analysis is required as part of the prioritization, planning and execution and monitoring of capital expenditures.	KWN Valmira Rashiti valmira@womensnetwork.org	Not Accepted	Authorities realize the importance of such assessment; however, this is not within the scope of the Economic Reform Programme and is not required by the approved Joint Conclusions in July 2021.
Joint Conclusion 4A	A gender impact assessment is required to be incorporated in the drafting of the Energy Strategy.	KWN Valmira Rashiti valmira@womensnetwork.org	Not accepted	Authorities realize the importance of such assessment; however, this is not within the scope of the Economic Reform Programme and is not required by the approved Joint Conclusions in July 2021
Joint Conclusion 4A and 5A	Response regarding the implementation of these two conclusions were missing in the ERP consultation draft.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	Information regarding the implementation of joint conclusion 4A and 5A were added in the final draft.
Response to Joint Conclusion 5B	More information is required with regard to the activities of the Action Plan of the National Strategy for the Prevention and Combating of Informal Economy, Money Laundering, Terrorist Financing and Financial Crimes (2019- 2023). Also, recommendation and assistance are provided with regard to some of the activities of the Strategy.	KWN Valmira Rashiti valmira@womensnetwork.org	Not accepted	The ERP section regarding the Joint Conclusion needs to be concise and brief based on the ERP Policy Guidance and therefore not many details can be provided on the activities of the Strategy. Recommendations on how to improve the activities of the Strategy were communicated to the working group

				responsible for drafting such Strategy.
Joint Conclusion 5B	The 6 th Joint Conclusion regarding the application of existing quality assurance mechanisms at all levels of education needs to include assessment of the extent to which instructors are transforming gender norms and to address gender inequalities.	KWN Valmira Rashiti valmira@womensnetwork.org	Not accepted	Authorities realize the importance of such assessment; however, this is not within the scope of the Economic Reform Programme and is not required by the approved Joint Conclusions in July 2021.
Joint Conclusion 5B	The 6 th Joint Conclusion regarding the developing a Youth Guarantee Implementation Plan should also be informed by gender impact assessment.	KWN Valmira Rashiti valmira@womensnetwork.org	Partly Accepted	Comments are communicated to the working group responsible for this activity. However, the ERP is not required to report on such issue.
Joint Conclusion 4A	Deutsche Gesellschaft für internationale Zusammenarbeit (GIZ) GmbH supported the development of draft National Energy and Climate Plan (NECP) 2021-2030 and is committed to contribute to developing the energy strategy. A comprehensive workshop held during 6 – 7 of July, 2021, also focused on determining long-term strategic orientations in the energy sector.	GIZ	Not accepted	It was already mentioned in the ERP document that The Energy and Climate Plan is being drafted through the GIZ support. However, due to the limited number of pages required by the Policy Guidance regarding the implementation of Joint Conclusion, it is not possible to include all details regarding the assistance of the GIZ in this area.
Joint Conclusion 4B	GIZ is supporting stakeholders in developing options for financial mechanisms that increase implementation rates of EE and RE measures in the residential sector / private sector.	GIZ	Accepted	The Joint Conclusion 4B was modified in order to mention the support of the GIZ in such activity.
Joint Conclusion 1B	The document highlights the goal of returning the 2% fiscal rule by the end of 2023, and to a 3% of GDP deficit by the end of 2022. Considering, on the one hand, the changes in taxation, the recovery measures related to tax cuts, and on the other hand, the uncertainty around the economic growth during 2022,	UNDP Marta Gazideda, marta.gazideda@undp.org	Not Accepted	Macro projections on which budget projections are based on, considering the uncertainty surrounding economic growth during 2022, new government policies regarding revenues and expenditures and future

	the assumptions around the successful return to the fiscal rule need to be explained further.			development of financing items.
General	Sustainable Development Goals mentioned under several sections of the document (SDG 4, 16, 17, etc.). It would be useful to provide deeper reference to Agenda 2030, given that beyond the SDGs mentioned here, there are a large number of additional goals and targets that support this agenda and can be part resources by international cooperation partners.	UNDP Marta Gazideda, marta.gazideda@undp.org	Rejected	Limited space on the ERP document set by EC Guideline does not allow to provide deeper reference to the Agenda 2030
General	Through the Energy Strategy the document indicates increasing the diversity of energy sources. However, in addition to the activities presented – the transition requires a move to embracing conservation and climate financing, which will be key to aiding the driving the alternative generation revolution.	UNDP Marta Gazideda, marta.gazideda@undp.org	Rejected	Energy Strategy is being developed, and this issue will be addressed in the next cycle of ERP (next year)
General	the ERP document lacks solid sectoral analyses. The sectoral analyses incorporated under the state of play section offer limited quantitative and qualitative data. Gender disaggregated data are chiefly segregated under health, employment, social protection and inclusion, and education. All other policy sectors include no such data. It is incomprehensible to analyze the informal economy, research, and innovation, agriculture and not somehow during the analysis to make no use or reference to gender-disaggregated information.	UN Woman Vlora Nushi vlora.nushi@unwomen.org	Accepted	According to the availability of data, these disaggregated data by gender are provided. In some of the sectors. In those sectors that are not will be considered in future ERP cycles upon availability of the data.
General	Conspicuously, the document falls short in following or adhering to the OECD <i>Economic Reform Programme Diagnostic Tool for Identifying Key Constraints to Competitiveness</i> , which has affected the quality of the diagnostics as the key foundation from all the proposed policy reform measures aiming to address structural barriers should follow logically.	UN Woman Vlora Nushi vlora.nushi@unwomen.org	Rejected	The comment is too broad and not enough explained.
General	Comments received from GIZ on financial and contributions on implementation of activities on certain policy measures (Reform measure 1, 3, 5, 7, 11, 12, 15, 16, 19)	GIZ Samira Ajzeri Maloku samira.ajzeri@giz.de	Accepted	Comments received from GIZ in relations to financial and other contributions on implementation of activities on certain policy measures are foreseen in the budgetary

				tables which are proposed by line ministries
General 5.1. Update on the three main obstacles to comprehensive competition and growth and reform-related measures - Analysis of the main obstacles	It is important to disaggregate this by gender; Kosovo also performs among the worst in the region with regard to women's labour force participation. This is arguably one of the key obstacles to growth, as a substantial proportion of working age women are unemployed, and conducting unpaid, unrecognized work. Formalizing their labour, particularly by transforming currently unpaid care services to paid care services would contribute substantially to growth, as evidence from other countries suggests. Identifying women's limited participation in the labour force is crucial as a key obstacle that must be addressed in order to bring about growth and wellbeing for diverse women and men, and should be included herein. The need also to invest in care services as a sure contributor to growth became particularly obvious amid the COVID-19 pandemic as well, as women were affected disproportionately by closures of the few childcare and disability care centres. These obstacles should be noted briefly.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	This is addressed in the first challenge, <i>promoting sustainable employment by improving quality education and connecting it to labour market needs</i>
Macro-fiscal framework				
Labour Market	Present labour market indicators by gender, given the high differences between females and male, for data obtained by KAS. Also, for data obtained from Tax Authority, it would be advisable to present gender-disaggregated data to better understand if any particular groups are more affected / prone to registering from informality.	UN Women	Partly Accepted	Based on the consultation comments, final ERP documents presents KAS by gender, while TAK data still do not. In the next year's ERP, formal employment data will also be provided disaggregated by gender.
Recent Economic Developments in Kosovo and Outlook for 2021	As feminist economists have observed, GDP alone, is not a very good indicator for wellbeing among diverse women and men. Consider adding at least a sentence observing that diverse women and men may be affected differently by these trends, albeit positive, and that gender impact analysis will seek to attend to any added vulnerabilities identified.	KWN Valmira Rashiti valmira@womensnetwork.org	Not accepted	Authorities realize the importance of such assessment; however, this is not within the scope of the Macro Fiscal Framework of the Economic Reform Programme and is not required

				<p>by the Policy Guidance of this Programme.</p> <p>The ERP is drafted based on very specific requirements from the European Commission, detailed to each sub-section of the document, which MFLT must maintain each year. Nonetheless, to address these comments, we would like to note that the 2021 Public Expenditure Framework Assessment (PEFA), conducted with EU support, contains a 'Detailed Assessment of Gender Responsive Public Financial Management' section for the first time. The 2021 PEFA will serve MFLT to include as many of these considerations as possible in other future budget documents.</p>
Alternative Scenarios and Risks	It is required that the 'Alternative Scenarios and Risks' includes a short section with the findings of the ex-ante gender impact assessment. Also, this section should reflect on gender inequalities and fiscal risks from a gender perspective, and could include attention to the aforementioned inequalities often obscured by attention solely to GDP.	<p>KWN Valmira Rashiti valmira@womensnetwork.org</p>	Not accepted	
Alternative Scenarios and Risks: Pressure to increase spending on new schemes	Both ex ante gender impact assessment in the design of social support initiatives and ex post gender impact assessment that evaluate anticipated and actual outcomes will be needed to assess the extent to which programs expenditures are addressing the needs of diverse women and men and ensuring the most vulnerable have access to anticipated benefits. An important risk is that recovery schemes and those targeting Kosovo's most vulnerable may not reach	<p>KWN Valmira Rashiti valmira@womensnetwork.org</p>	Not accepted	

	diverse women and men, necessitating ongoing monitoring and evaluation.			
Alternative Scenarios and Risks: 1 st Risk on Restrictions on slowing the spread of Covid-19 virus	In addition to the Delta variant of the virus, the Omicron should also be mentioned as a reminder for the possibility of the spread of new variants.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	The Omicron became the dominant variant of the virus in Kosovo quite recently (after the ERP consultation process ended)
Key challenge #1: Promoting sustainable employment by improving quality education and connecting it to labour market needs				
Analysis of the main obstacles	<ul style="list-style-type: none"> - It is important to note that undeclared work affects women and men differently. - We recommend to specify the increase of women and men jobseekers, as per the EO data. - For instance, in 2016, EO found employment for 4% of those registered (only 39% of whom were women); while in 2017 they found employment only for 3% of those registered (only 40% of whom were women. Qualitative information regarding the reasons underpinning these gender differences is lacking and further research is needed. 	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	The analyses when it comes to Undeclared Work has been shortened due to a limited page that has the ERP document (EC guideline), so the comments have been removed as well.
Main structural obstacles	Context here sounds unclear, and we would suggest dividing this into a single sentence, given the role of the Labour Inspectorate. “The Labour Inspectorate does not sufficiently sanction the informal sector, leaving women and men workers in the informal employment with no proper social protection and reducing the tax base.”	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Part of the text in the main structural obstacles has been edited and shortened.
Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market	Proposed activity for 2022 and 2023: Support development, institutionalization and promotion of more diverse VET programs that address market needs and are tailored to women’s particular needs; (MESTI)	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Activity number 1 and 2 addresses this proposed activity
Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market	Proposed Indicator: Increased women’s employment rate	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Due to a limited indicator proposal (up to 3) we did not include this indicator
Reform measure #2: Increasing and ensuring quality in higher education by	Attention must be paid to the Draft Law on Higher Education, so to harmonise it with the Law on Gender Equality and base it on gender impact assessment.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Gender Impact Assessment is already mandatory when drafting Concept Document and legislation.

strengthening the KAA and profiling higher education institutions				
Reform measure #2: Increasing and ensuring quality in higher education by strengthening the KAA and profiling higher education institutions - Expected impacts on social outcomes, such as employment, poverty reduction, gender equality	This measure will also contribute to gender equality, as more HEI programs can and will be identified, through tailoring them to the needs of women in the labour market.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	
Reform measure #3: Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups.	Consider including as an activity cooperating with the EU, KWN and other actors to conduct gender impact assessment to inform government strategy and future activities to address the informal economy (as KWN has planned this with EU support). This, then could contribute to more concrete planning in future years.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Gender Impact Assessment is already mandatory when drafting Concept Document and legislation.
Reform measure #1: Adapting Vocational Education and Training to the needs of the labour market	Can the lack of interest from businesses and the lack of capacity of enterprises to accommodate students from vocational schools for the implementation of dual education in IAAP be added?	UN Woman Bashkim Isufi	Rejected	According to EC guidelines we can not have more than 3 potential risks.
Reform measure #2: Increasing and	And increase the quality in Education maybe?	UN Woman Bashkim Isufi	Accepted	

<p>ensuring quality in higher education by strengthening the KAA and profiling higher education institutions - Expected impacts on social outcomes, such as employment, poverty reduction, gender equality, <i>Expected impacts on social outcomes, such as employment, poverty reduction, gender equality</i></p>				
<p>Indicators in the Reform measure #3: Increasing employment, reducing inactivity, formalization, developing professional skills, improving and expanding public employment services and vocational training in line with labour market demands, with special emphasis on vulnerable groups.</p>	<p>In 2020, 51.8% of the beneficiaries of the active measures (excluding vocational training were women). Why reduction is foreseen. 26.2% of the trainees were women. It is better to separate these indicators, i.e., separately for vocational training and separately for other active measures.</p>	<p>UN Woman Bashkim Isufi</p>	<p>Rejected</p>	<p>The official data were given from Employment Agency of the Republic of Kosovo</p>
<p>Key Challenge #2: Reorganizing the health sector in order to provide adequate and accessible health services for all citizens</p>				
<p>Reform measure #4: <i>Improving health services</i> Indicators</p>	<p>- We suggest to further provide this data gender disaggregated. As we previously mentioned, the high unemployment rates among women may mean that they do not have their own income to pay for healthcare. In approximately one-third of Kosovo families, men are primary decision-makers for family</p>	<p>KWN Valmira Rashiti valmira@womensnetwork.org</p>	<p>Rejected</p>	<p>The indicator has been developed in overall implementation of measure and due to a limited indicator proposal (up to 3) we did not include this indicator</p>

	<p>finances, which also could hinder women's access to healthcare.</p> <p>Suggest to reformulate: a) women and men who do not have access to basic health services for economic reasons.</p> <p>- A similar indicator could be used to monitor the percentage of women and men citizens who do not have access to basic health services due to social, ethnic, and / or geographical reasons. Suggest to ensure disaggregation by gender.</p>			
<p>Reform measure #4: <i>Improving health services</i> <i>Expected impacts on social outcomes, such as employment, poverty reduction, gender equality</i></p>	<p>This measure will affect the comprehensive approach through the coverage of services from the list of health care services for all categories, social and gender, at an affordable cost. It also affects the improvement of social services especially for marginalized groups, as well as people with special needs, minorities and women</p>	<p>KWN Valmira Rashiti valmira@womensnetwork.org</p>	Accepted	
Key Challenge #3: Creating conditions for sustainable energy supply				
Reform area 1: Public Financial Management				
<p>Analysis of the reform area.</p>	<p>Within the framework of the international standards, we would like to bring to your attention that in the context of the PFM reform and drafting of the new law of the Kosovo PFM, this is the right moment to incorporate and introduce the Gender Responsive Budgeting initiative.</p>	<p>UN Woman Vlora Nushi vlora.nushi@unwomen.org</p>	Rejected	<p>Ministry of Finance, Transfers and labour did not foresee any measure this year, the Strategy on PFM and the new law is being developed and the introduce the Gender Responsive Budgeting initiative will be part of it.</p>
<p>Analysis of the reform area.</p>	<p>On Public Finance Management there is no Reform Measure, unlike with most of the other domains below, although different stakeholders and GIZ will make significant contribution to improve commitment control</p>	<p>GIZ Samira Ajzezi Maloku samira.ajzeri@giz.de</p>		<p>Ministry of Finance, Transfers and labour did not foresee any measure this year, so this will be considered in the next cycle of ERP since the ministry is drafting the new Strategy and law on PFM.</p>
<p>Public Finance Management</p>	<p>Proposed measure: Reform measure #7 Improve the transparency and accountability of PFM through gender-responsive fiscal policies</p>	<p>KWN Valmira Rashiti valmira@womensnetwork.org</p>	Rejected	<p>MFPT in this cycle of ERP did not proposed a measure, however this will be taken into</p>

				a consideration for the next ERP cycle.
Reform area 2: Green transition				
Reform measure #7 Reducing environmental pollution and preserving biodiversity	Suggest adding to Green Transition “Activities for 2022”: - Preparation of the Circular Economy Roadmap through a consultative process led by MESPI. - Operationalization of the inter-ministerial Climate Change Committee and updating of the Climate Change Action Plan (led by MESPI) UNDP stands ready to provide targeted capacity building to ensure that the CCC will be able to effectively play its role in ensuring the climate change concerns are incorporated in key planning and decision-making processes. UNDP stands ready to support these efforts.	UNDP Marta Gazideda, marta.gazideda@undp.org	Accepted	
Reform area 3: Digital transformation				
Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system	There is no cybersecurity strategy signalled in the document. Security needs to be an integral part (extension of digital infrastructure and online services) rather than perceived as an add on. As one of the <i>Principles for Digital Development</i> it should be adhered to throughout.	UNDP Marta Gazideda, marta.gazideda@undp.org	Rejected	The strategy on cybersecurity in being developed and will be adopted soon so there was no need to be in the ERP document
	As indicated in the document, activities have been foreseen to accelerate transformation of the education system at all levels. UNDP recommends including the private sector in the process, to identify which skills are most in demand to also ensure employability.	UNDP Marta Gazideda, marta.gazideda@undp.org	Accepted	The private sector is included in the process
Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public	Activity 7: after the activity it could be added “ <i>Expanding Digital Skills Development Offerings in ITP Prizren</i> ”	GIZ Samira Ajrezi Maluku samira.ajzeri@giz.de	Rejected	There is a limited space on the ERP document set by EC Guideline which does not allow us to exceed certain number of pages

services, as well as digitalization of the education system				
Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system	Activity 8: it could be added in brackets (“..., <i>support for Digital Innovation Hub establishment in ITP Prizren</i> ”)	GIZ Samira Ajrezi Maloku samira.ajzeri@giz.de	Rejected	There is a limited space on the ERP document set by EC Guideline which does not allow us to exceed certain number of pages
Analysis of the reform area.	Please provide gender disaggregated data on this number. This is important especially given the low number of women involved in this sector.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	According to the availability of data, these disaggregated data by gender will be provided.
Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system	Suggest to use affirmative measures in activity 7 and 8, providing incentives for women to join these trainings and prioritizing women owned businesses for digitalization of their services. This, given the low number of women in ICT due to gender roles and stereotypes currently present in this sector.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	The 2 activities within itself already provide affirmative measures on women trainings and businesses.
Reform Measure # 8: Extension of ICT infrastructure and services for socio-economic development, advanced public services, as well as digitalization of the education system	Proposed activity for 2022-2023: Expanding the application of affirmative measures in the ICT sector, through supporting digitalization of women-owned businesses, financial support for women and girls in ICT and opportunities for enhancing digital skills;	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Activity 7 and 8 already tackles this proposed activity
Reform area 4: Business environment and reduction of the informal economy				

Reform Measure #10: Reduction of the informal economy	Proposed activity: ‘Gender Analysis to better understand the level of inclusion of women and men in the informal economy, which will further inform all interventions to reduce informality, based on the diverse consequences for women and men involved’ We continue to insist that all interventions listed, should be informed by an ex-ante gender analysis to understand the position of women and men and their level of inclusion in the informal economy. The low level of employment of women could mean that they’re more actively employed informally, and interventions may impact them more severely, if they’re not well informed by prior research and evidence on the matter. Same as last year, we suggest that this can be done through KAS and the Labor Force Survey, using the expertise of Women’s Rights Organisations as well.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	KAS is developing the 5-year plan and during that time we will propose to develop the Labour Force Survey, to better understand the level of inclusion of women and men in the informal economy, so that we can include in the next years ERP cycle.
Reform Measure #10: Reduction of the informal economy Expected impacts on social outcomes, such as employment, poverty reduction, gender equality	It can contribute to gender equality and poverty reduction by identifying labour rights violations that impact women’s labour force participation in particular.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	
Reform area 5: Research, development and innovation				
Reform Measure #11: Improving the environment for research, innovation and entrepreneurship	It is suggested to apply affirmative measures for women's businesses, for all sectors.	UN Woman Bashkim Isufi	Rejected	This is done through application calls
Reform area 6: Economic integration reforms				
Reform area 7: Energy market reforms				
Reform area 8: Transport market reforms				
Reform area 9: Agriculture, industry and services				
Reform measure # 17: Increasing	Reform measure indicates the completion of the Tourism Strategy and Action Plan including subsidies	UNDP	Accepted	According to the IA 07/18 on Development and Monitoring

Competitiveness in the Tourism and Hospitality Sector	for rural tourism. It is important that eco-tourism and/or sustainable tourism is the prevalent model when providing subsidies to mitigate the already identified risk/expected impact on environment. As part of measure#17 it is recommended that both MLGA and MESPI are included in the process due to their roles.	Marta Gazideda, marta.gazideda@undp.org		of the strategic Documents, the proposing ministry is obligated to invite relevant ministries on drafting of the strategic document by including them in the working groups.
State of Play on Agriculture sector	Please specify the number of women and men beneficiaries. This is important because the number of women beneficiaries is extensively lower than men.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	
Reform measure # 15: Structural changes in the agricultural sector	Proposed Activity: Conducting a gender analysis of women and men involved in the agriculture sector	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	This activity is not part of the ERP since the activity has already began as mentioned in the comment from KWN.
Reform measure # 15: Structural changes in the agricultural sector	Unclear. Did you mean where priority will be given to women, during application evaluations?	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	
Reform measure # 17: Increasing Competitiveness in the Tourism and Hospitality Sector	It is recommended that prior to initiating activity “Analysis and research of tourism markets for access and promotion of Kosovo tourism offer in international markets (MIET)” a Kosovo-wide analysis and mapping of potential touristic offers (cultural, winter, rural, etc.) is undertaken. The analysis should bring together MIET, MYCS, MESPI, MLGA and MAFRD. An integral part of the analysis should be the assessment of the existing and required infrastructure. It is suggested that the Government considers the merit of designing targeted touristic sub sector interventions vis a vis the planned activity “Designation of priority areas for tourism development (MIET)” (planned for 2024).	UNDP Marta Gazideda, marta.gazideda@undp.org	Rejected	MIET did not foresee these activities during the 2022 ERP, we will consider the proposing activity for the next cycle of ERP.
Reform measure # 15: Structural changes in the agricultural sector	The development of the agricultural sector directly affects the economic engagement of women and consequently their economic empowerment.	UN Woman Bashkim Isufi	Accepted	
Reform area 10: Education and skills				
Reform measure #19: Reform in pre-	falls short in addressing the severe shortage of early childhood education institutions. The low enrolment	UN Woman Vlora Nushi	Rejected	This concerns is already mentioned in the analyses,

university education and increase of inclusion in early education.	and participation rate affect and limit children's futures by denying them opportunities to reach full potentials. Meantime, the lack of early childcare institutions affects women's participation in the labour market or participation in education opportunities for skills and knowledge upgrade and matching them better with labour market demands.	vlora.nushi@unwomen.org		especially effects on women's participation in the labour market and the early childhood education institutions. The government has already planned building 24 new preschool institutions and adaptation of 12 schools in kindergartens.
Reform measure #19: Reform in pre-university education and increase of inclusion in early education.	the proposed result indicators should be reviewed. The document proposes that during the implementation phase of ERP, the participation rate will increase by a total of 4,691 children! The proposed number, as already mentioned, is too low; if Kosovo has to make a difference in early childhood education participation and access to, the annual participation should increase at least by a total of 5,000 children! At the proposed enrolment rate, the proposed initiative would not significantly serve as an incentive to increase women's participation in continuous education and labour market. Also, under result indicators and activities, it is left unaddressed the expected number of employed personnel (teachers, support staff, etc.) for the operation of the new public early childhood institutions.	UN Woman Vlora Nushi vlora.nushi@unwomen.org	Rejected	The result of indicator is based on the building and adoption of the early childhood education institutions. When it comes to the results of the expected number of employed personnel (teachers, support staff, etc.) for the operation of the new public early childhood institutions we did not put it because of the limited number of the indicator that we can put in the document per measure.
Reform measure #19: Reform in pre-university education and increase of inclusion in early education.	We commend the policy drafters for linking the proposed measure with SDG 4;	UN Woman Vlora Nushi vlora.nushi@unwomen.org	Accepted	It is already linked with SDG 4
State of Play on Education and Skills	Pre-school attendance is low and far from meeting the EU Barcelona Objective targets due to insufficient affordable pre-school facilities. This weakens educational outcomes but also hinders women's labour force participation, given their predominant sociocultural role as care-givers.	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	
State of Play on Education and Skills	Please provide gender and ethnicity disaggregated data regarding the students. This would reflect on the difference in the level of drop out between girls and	KWN Valmira Rashiti valmira@womensnetwork.org	Accepted	According to the availability of data, these disaggregated

	boys from different ethnicities, and it would serve as an incentive to further research and understand the social reasoning behind the dropout rate in girls and boys. It is especially recommended to provide data regarding dropout rates for Roma, Ashkali and Egyptian children, which may be particularly high.			data by gender and different ethnicities be provided.
Reform measure #19: Reform in pre-university education and increase of inclusion in early education.	Indicators proposed: - Number of psychologists hired - Number of educators trained in gender-transformative pedagogy with a focus on undoing socialized gender norms, roles and stereotypes, as well as gendered power relations - Number of VET programs developed and tailored to women's needs % of children with disabilities and children from minority communities that attend school increased	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	Due to a limited indicator proposal (up to 3) we did not include this indicator
Reform measure #19: Reform in pre-university education and increase of inclusion in early education.	- Hiring # school psychologists, and enhance their professional capacities in addressing gender-based violence and preventing drop-outs; - Develop, institutionalize and promote more diverse VET programs that address market needs and are tailored to women's particular needs; - Improve education accessibility for children with disabilities, particularly currently marginalized girls, by allocating resources for personal assistants, accessible transport, accessible buildings and adequate didactical materials.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	MESTI did not foresee these activities during the 2022 ERP, we will consider proposed activities for the next cycle of ERP according to the Ministries plan.
Reform measure #19: Reform in pre-university education and increase of inclusion in early education.	Better to note the participation in early education because it is also related to KESP?	UN Woman Bashkim Isufi	Accepted	
Reform area 11: Employment and labour market				
<i>Current situation</i>	This chapter has no actions proposed/planned? It does overlap a bit with the prior section perhaps.	KWN Valmira Rashiti valmira@womensnetwork.org	Rejected	The measure proposed for this reform area is covered in the Key Challenge 1
Reform area 12: Social protection and inclusion				

Analysis of the main reform area.	Please note there are no orphanages in Kosovo. There are few Residential Children's Houses for children without the parental care run by the international and local NGOs and are NGO-owned facilities, and not government-owned buildings. Probably it was meant to say construction of Child Protection Houses, planned to be established by MoFLT in 2022 and coming years.	UNICEF Dafina Zuna, dzuna@unicef.org	Accepted	This part is already removed
Reform measure #20: Improving social services and empowering excluded groups	Suggesting using the correct name of the draft law: drafting primary legislation for the evaluation, status recognition, benefits and services for persons with disabilities and Drafting bylaws for the implementation of legislation for the evaluation, status recognition, benefits and services for persons with disabilities.	UNICEF Dafina Zuna, dzuna@unicef.org	Accepted	
Reform measure #20: Improving social services and empowering excluded groups	Is Construction of Homes for Child Protection and implementation of the child allowance program foreseen in the Budget for 2022?	UN Woman Bashkim Isufi	Accepted	According to the Ministry in Charge this activity is foreseen in the budget of 2022
Reform measure #20: Improving social services and empowering excluded groups	There is no indicator for the Roma, Ashkali and Egyptian communities.	UNKT Bashkim Isufi	Rejected	The indicators reflect even marginalised groups in general
Reform area 13: Healthcare systems				