



**Republika e Kosovës**

**Republika Kosovo - Republic of Kosovo**

*Qeveria - Vlada - Government*

*Zyra e Kryeministrit - Ured Premijera - Office of the Prime Minister*

---



**NATIONAL DEVELOPMENT STRATEGY 2016 – 2021 (NDS)**

**Prishtina,  
January 2016**

# TABLE OF CONTENTS

<b>Vision</b> .....	<b>4</b>
<b>Why Human Capital?</b> .....	<b>10</b>
NDS Interventions .....	10
1. Enrolment in pre-school and pre-primary education.....	11
2. Enhanced quality of teaching in the pre-university education.....	12
3. Better linkage between education system and labour market .....	13
4. Strengthening the examination, inspection and accreditation functions in education system.....	14
5. Optimise expenditures in education through data systems .....	15
6. Short-term recruitment of experts and diaspora students.....	16
7. Addressing informal employment and creating adequate working conditions .....	17
<b>Why good governance and the rule of law?</b> .....	<b>19</b>
NDS Interventions .....	19
8. Further enhancement of customer-focused service delivery for businesses and the public .....	20
9. Decreased administrative barriers to licences and permits.....	21
10. Improved efficiency of inspections system .....	22
11. Encouraging evidence-based policy making.....	23
12. Closing loopholes in the public procurement system .....	24
13. Strengthening the property rights system .....	25
14. Increased judicial efficiency .....	26
15. Fight against informality through establishment of a single revenue collection agency .....	27
<b>Why competitive industries?</b> .....	<b>29</b>
NDS Interventions .....	29
16. Increased access to finance for Kosovo SMEs.....	30
17. Network and cluster development of SMEs.....	31
18. Upgrading SMEs to activities with higher added value.....	32
19. Promoting Foreign Direct Investment (FDI) and increased role of diaspora in economic development.....	33
20. Regulating agricultural land .....	34
21. Utilization of Kosovo’s mineral potential.....	35
22. Restructure and revitalization of Trepça.....	36
23. Unlocking privatization fund and using funds for development .....	37
24. Improve corporate governance with state owned assets .....	38
<b>Why infrastructure?</b> .....	<b>40</b>
NDS Interventions .....	40
25. Build new and sustainable power generation capacities .....	41
26. Establish an open and competitive energy market .....	42
27. Decrease energy consumption through energy efficiency measures .....	43
28. Rational use of renewable energy sources.....	44
29. Further development of road and railway infrastructure.....	45
30. Deployment of information and communication technology infrastructure .....	46
31. Agriculture infrastructure at the service of agro-business .....	47
32. Rational use and increase of capacities of water resources.....	48
33. Sustainable forest management and use .....	49

34. Sustainable waste management .....	50
<b>Implementation of National Development Strategy .....</b>	<b>52</b>
1) Activity planning.....	52
2) Correlation to other strategic planning frameworks .....	53
3) Committing resources.....	53
4) Development and employment fund .....	53
5) Strengthening capacity .....	54
6) Monitoring progress.....	55
7) Evaluation of results .....	55

# VISION

## THE PURPOSE AND MEANING OF NATIONAL DEVELOPMENT STRATEGY

The Republic of Kosovo is **at an important stage for orientation of its development agenda towards European integration in all areas**. Such a European development orientation comes naturally after concluding the emergency and stabilization phase during 1999-2007, and the state-building phase in the post-independence period. During the emergency and stabilization stage, we as a society along with our international partners, was focused on rebuilding the basic devastated infrastructure as well as restoring normal living conditions. Later, in the state-building stage, our energies were directed at establishing the institutional architecture of the country and basic physical infrastructure for development and welfare. Thus, public investments were focused towards building new state institutions, development of educational and health infrastructure as well as other infrastructure necessary for sustainable development.

However, while the rate of economic growth in the recent years has been considerable and satisfactory despite the world economic crisis – averaging 3.3% annually since 2009 – subsequently resulting in lowering the overall poverty levels, they nonetheless could be even higher. In fact, they have to be higher in order to allow a sustainable development and higher standards of living for Kosovo. Income per capita in Kosovo are 11% in relation to European Union countries, and to attain this level of EU countries, Kosovo needs to have a growth rate of 8% in the next 30 years. Also, as Kosovo is lagging behind the average of Southeast European countries that are non-EU members, based at a number of key economic and social indicators that illustrates the economic development and quality of life, initially our goal is to attain the level of these countries (as illustrated by the table below).

**Comparison of five selected indicators**

<b>Indicator</b>	<b>Kosovo</b>	<b>Average of Southeast European non-EU countries</b>
Gross Domestic Product per capita	€2,935	€3,504
Percentage of unemployment	30.1%	20.8%
Participation in labour market	40.5%	49.7%
Percentage of population living in poverty	29.9%	19.7%
Ratio between export and import	12.0%	46.5%

Therefore, in this new development stage of Kosovo, **a new approach to development policies** is needed. This new approach which will address all factors that currently are limiting economic growth and improvement of standard of living, and which treats development as a multi-faceted enterprise. In this sense, Kosova is not poor of strategies and specific initiatives that aim addressing the development barriers separately. In fact, there are numerous and detailed sectoral strategies or specific initiatives but their implementation is rather difficult because of limited capacities.

It is necessary to integrate the existing policies and strategies and create a common axis of orientation. A genuine national development policy requires not only their coherent interaction, but also to narrow the focus of their multitude measures, by selecting the **“country’s top priorities”**.

The National Development Strategy (2016-2021) represents such a list of top priorities. This is a document that aims to address key obstacles to development of Kosovo. Creating such a document is based on the principle that one of the key obstacles **to sustainable economic development is the coordination of development policies and institutional processes**, as identified by various national and international institutions.

Developing a list of priorities, under an umbrella strategy, will allow **building synergies** between various initiatives, prevent institutional overlap, yield higher performance efficiency, orientation of support of the development partners and establish a firm guiding basis for Kosovo's institutions and accountability to the public. The stakeholders of this important document are all of us – state institutions, private sector, civil society, development partners, etc. – as the measures set out under this document **require the contribution of each of us** in order to be effective, either as an implementation or supervisor body.

NDS is also **distinct from other documents on policy orientation** in that it spans onto a timeframe beyond the mandate of one government and is focused on priorities of high importance. As a guiding policy document on development it does not address all aspects of governance, but is confined to those related to the overall social and economic development. Furthermore, it reflects development initiatives, which are national objectives that enjoy a broad social consensus.

Simultaneously, NDS is in full harmony with other strategic processes, such as EU integration process through the implementation of Stabilization and Association Agreement (SAA) or the Economic Reforms Programme (ERP). This is because the measures set out in NDS are mostly synchronized with priorities of economic and institutional reforms necessary for Kosovo's integration into the European Union.

NDS is a **document prepared by the Kosovo institutions**, under the leading and coordinating role of the Strategic Planning Office (SPO) mandated by the Prime Minister of the Government of the Republic of Kosovo and with the technical support of the European Commission Office in Kosovo. The process of drafting the document commenced under the Government Decisions dated 3<sup>rd</sup> of June 2015 and continued with a consultative process within state mechanisms through working groups, based on preparatory and study work carried out by SPO in the previous year. The document is also open to public consultation in order to obtain input from civil society, private sector and other stakeholders

## **GUIDING PRINCIPLES AND STRUCTURE OF PRIORITIES**

Selection of NDS priorities and measures was done based on two general principles. The first underlying principle is the need to ensure **highest annual economic growth rates**. This, in turn, implies the need to increase revenues, consequently the employment and welfare of the citizens of Kosovo. The second principle is the need to ensure **social cohesion and inclusion** parallel with economic growth, which means non-exclusion of certain social groups from benefits deriving from economic growth. Inclusion is required not only as a pre-requisite for social justice and cohesion but also because, as such, it drives larger and more sustainable economic growth.

In view of these guiding principles, during the previous studies that preceded the development of NDS and the consultation process, **key obstacles that** prohibit higher rate of economic growth and increased inclusion have been identified in a structured way. This was followed by identification of **necessary interventions**, or measures that will be undertaken in the course of the next six years to eliminate these obstacles and unlock the economic and social potential of the country.

The **nature of obstructions** to economic growth and inclusive development is very complex. However, expressed in economic terms, the common denominator of these obstructions is the fact that they have impact, directly or indirectly, by limiting the quality, productivity and of the capital and labour force of the country – two main factors necessary for economic growth. More concretely, these obstructions inhibit economic growth by producing market distortions and institutional failures; discourage private sector investments and innovation, rendering the use of country's resources in a rather inefficient and effective way.

On the other hand, **the nature of interventions** on these obstructions is pragmatic, focusing on achieving the targeted results of economic growth and inclusion rather than ideological prejudice on the need for state's intervention or adopt a hands off approach, leaving the free market to its own devices. The underlying principle NDS is that that the economy of Kosovo will develop by having private sector and competitiveness as its own pillars, as the most effective ways to generate value and allocate resources

in economy. To achieve this the active role of the state is undoubtedly necessary and also to allow for the growth and strengthening of private sector.

It is worth noting that interventions hereunder are guiding and orientation principles, with main focus on their designation as priorities and not necessarily **their development as detailed final interventions**. In many sectors the Republic of Kosovo has already clearly identified priorities and approach to addressing challenges, therefore measures set out in these sectors are more detailed. In some others yet, there is need for further consultation and study to develop specific solutions, therefore the options produced there are more open and generic. Detailed, ready solutions to all challenges cannot be a requirement for producing a framework strategic document such as NDS. There where solutions remain more generic, at least the need for intervention has been set out as a priority, therefore the strategy as such should be seen as a living document, something to be complemented during the coming years through specific sectoral policies and strategies.

Structurally, NDS is divided into four thematic pillars: human capital, the rule of law and good governance, development of competitive industries and development of infrastructure. These pillars make the strategy to promise Employment, **Law, Business and Construction** (in Albanian, **PLAN**).

To understand the logic behind the pillars and their correlation, imagine a business seeking to invest in Kosovo and conditions it requires to achieve its success. This business requires that what the NDS requires, too: capable labour force, rule of law, business support schemes and reliable infrastructure. Meeting these requirements for businesses will lead to the path of economic development.

These pillars make sense and produce their impact on development only if implemented in full, as their success is contingent on the synergy arising from the interaction of measures, in full alignment with one another. For example, the impact of investments in infrastructure (Pillar 4) is exponentially higher if operated in conjunction with closure of loopholes that allow for abuse of public procurement system (Pillar 2), as the investment will then be diverted to where it is needed the most and with lower cost. Developing a credit guarantee scheme to businesses (Pillar 3) will be helpful for a variety of industries besides solving the problems of supporting infrastructure (pillar 4).

### **PILLAR 1: NDS IS A PLAN FOR EMPLOYMENT**

The economy of a certain country is based largely on its human capital, which is why the **first pillar of this strategy deals with the issue of human capital**. The developing states' policies are often confined to the importance of infrastructure and human resources. However, to make use of the natural resources and the infrastructure of a country, a capable labour force that can produce valuable things is also required.

Unfortunately, Kosovo today **is the ranked towards the bottom in the region in terms of skilled labour**. At a time of rampant unemployment, the paradox is that many enterprises actual run into difficulties recruiting skilled labour. One of the main underlying cause is the education system, i.e. the low inclusion of children in the pre-school programmes and the quality of teaching. Another issue is also the mismatch of acquired skills with labour market demands, and there is also the lack of interconnection between the schools, businesses and the communities. In this sense, we are yet to also adequate capitalize on the skills of Diaspora members. The lack of qualified labour discourages investment and is an obstacle to our enterprises for increase of their productivity and competitiveness and develop products of higher added value.

Therefore, in the next six years, the PLAN aims to shift policies towards Kosovo's **labour force becoming the engine of development**. It will do this by addressing the shortages of the education system as well as by making use of the Diaspora human capital for transfer of know-how. In terms of education, the measures set out will allow for inclusion of children age 0-6 in the pre-school programmes, enhance the quality of teaching in the primary and secondary level and establish a stronger connection between the curricula and the labour market needs. These measures will translate into the higher success of children at schools. The states institutions and schools will also work to strengthen the accountability mechanisms,

so as to connect the performance of teachers to incentives or sanctions, as well as improve the expenditure planning system to ensure better value for every cent spent in education.

Investments in the human capital will produce results at later stages, however, the return of these investments is guaranteed. A more skilful labour force will not only ensure **a higher economic growth rate, but also comprehensive growth as well**. This is because the increase of children's involvement in educational programs, improving the quality of education and better liaison between the school and the labour market will enable children from poor families to gain the necessary skills and abilities to be integrated in the labour market.

## **PILLAR 2: NDS IS A PLAN FOR LAW**

The rule of law and good governance are important matters not only because they provide social justice, but because the **legal certainty and effectiveness of institutions is a pre-requisite to economic welfare of a country**. Building a society based on market economy requires trust in justice and impartiality of institutions, as well as their effectiveness in delivering services. Very few would want to live, let alone invest, in a country where the state is not simultaneously the guardian of public interest and of free entrepreneurship, as this is the only way to establish honest competition and a viable business environment. Legal uncertainty oppresses the spirit of entrepreneurship, discourages investment and creates the inequity in an open and competitive market resulting in a reduction of economic growth.

Kosovo made considerable progress in building the necessary legal institutions and infrastructure, especially as it had to start from scratch. The country, however, faces **considerable challenges in terms of effectiveness and impartiality of the state in delivering effective and fair services** and these challenges represent an obstruction to comprehensive economic growth.

Today, for Kosovo courts takes very long time to solve cases. This increases the cost of the process and discourages citizens and businesses to file cases for protection of their rights and interests. Kosovo has problems with property rights, which are also discouraging investment and limit the citizens' opportunities to get investment loans by leaving property as a collateral. The public procurement system continues so far has flawed and is associated with huge problems that have hindered the orientation of public funds towards the full function at the service of development. On the other hand, in the wake of state-building, our state and public administration have created many rules and administrative processes, some of which are unnecessary and cause inefficiencies and unnecessary costs, either for the state or for businesses. Inspectorates, on the other hand, as state mechanisms to ensure fair competition in the market are not sufficiently empowered to perform the task.

Due to these reasons, **NDS aims to increase state support for businesses and for the benefit of citizens**, in order to stimulate investments and facilitate higher economic growth and equal treatment for all citizens by state institutions. To this end, measures have been identified aimed at strengthening the property rights system and increasing the speed of case solutions by courts. Also, NDS sets out measures that will decrease the time and financial burden of businesses from administrative processes, which will also decrease the state's operational expenses. Strengthening the inspectorates and closing the public procurement system loopholes will allow markets to operate within the law and direct state's resources towards development priorities, including those set out under NDS.

## **PILLAR 3: NDS IS A PLAN FOR BUSINESS**

The creation of new industries and development of existing ones in a completely open competition is a challenge especially for developing countries. In the case of Kosovo, following the collapse of the communism-era industries, the country is essentially going through a re-industrialization stage, this time headed by the private sector. In this regard, attracting Direct Foreign Investment (DFI) or the ascent of national companies requires not only capable labour and the rule of law, but also **the active role of the state in addressing market distortions and delivering conducive and facilitating services**, especially in the strategic sectors. Kosovo has an interest to stimulate moving the economy to activities with higher

added valuable and marketable products, as only this qualitative steps may increase revenues in economy.

Until now, Kosovo businesses and industries were born and grown without the active role of the state, while institutional mechanisms of support or investments in strategic industrial assets were limited. Given the nature of the challenges and problems facing enterprises in Kosovo, institutional support is more than necessary. Interest rates despite the downward trend in recent years, remain high and are associated with risk estimated by banks, while investments are perceived as high-risk ones by foreign businesses as well as those from the Diaspora. Many enterprises have the potential to grow but lack the know-how or funding to attain the required standards of quality for export markets. On the other side, enterprises with state shares and strategic enterprises such as Trepca, require particular attention in order to recover or increase efficiency, just as the special sectors such as agriculture and agro-industry, where land fragmentation, for example, is a significant issue for creating economies of scales.

For these reasons, **NDS aims to increase state support for the re-industrialization process in Kosovo.** In order that our private and public companies may grow and move to activities with higher added value, produce marketable goods and export services. This, among others, means creating facilities and incentives for strategic investors, or direct subsidization of projects and initiatives that enhance competitiveness of enterprises, especially in attaining the standards of quality required for export. Support also implies establishing mechanisms for advisory services, credit guarantees, facilitating networking and establishment of industrial clusters. In the case of Diaspora, the support entails establishment of matching grants scheme to stimulate investment of Diaspora in establishing companies in our country.

#### **PILLAR 4: NDS IS A PLAN FOR INFRASTRUCTURE**

The importance of infrastructure for development of a country is almost self-evident. Studies indicate that the availability and quality of available infrastructure is the key factor that determines the readiness of a business to invest in a country. A business and a community cannot be successful if there is no reliable power supply or roads through which it may transport the goods to market.

During the recent years, Kosovo achieve considerable results in improving the road infrastructure, especially its international connectivity. However, the lack of financial capacities meant deferral of investments into the railway network. The biggest challenges remain **ensuring reliable and affordable power supply**, amidst obsolete generation capacities and lack of diversity in import, driving up the prices. The information technology, on the other hand, has become commonplace for household use in Kosovo, but not for improving the operations in private sector, public institutions or educational institutions. Industrial development and market research have begun exerting serious pressure on natural resources such as water and wood, damaging the basic living infrastructure – the ecosystem.

For these reasons, NDS aims to direct state's financial resources towards building the **strategic infrastructure assets that will be at the function of development.** In the energy sector, the issue of security of supply will be addressed by building new lignite-based capacities, while potential for use of renewable sources from water and biogas will be considered. The issue of cost will be addressed by diversifying the sources of important and lowering the consumption through efficiency measures. The road transport infrastructure will be expanded by completing the international highways that are under construction, and commencing regional highways, along with upgrading the only international railway line in order to facilitate the transport of minerals for export and agricultural products. Separate measures will also ensure investments that will allow sustainable use of natural resources, by ensuring balance between development needs and environmental protection.



# HUMAN CAPITAL

## Why Human Capital?

One of the reasons why the developed companies relocate their operations to developing countries such as Kosovo, or the reason why a Kosovar company may have an advantage relative to a company of a developed world is the fact that in these countries, the cost of production is lower due to cheaper labour. A business will be in more favourable position if it has to spend less money to put a product on the market. However, in order for this investment to make sense, the labour force in Kosovo needs to be as productive and skilled as in developed countries. An investor may bring a state-of-the-art machinery in Kosovo, however, the question arises whether it can find labour of requisite skills and qualifications to operate such a machinery and manufacture products of the quality required by the equipment?

Human capital refers to skills of labour force to make effective use of the physical capital, such as machinery. Some workers may require less time than the others to produce the same product. Some may work better than the others. Human capital also refers to the ability of people to be innovative and develop new technologies, processes or new products. These things determine the success of a company in a competitive international market. As such, they determine if a country is to develop or otherwise. The more advanced the labour skills, the higher the workers' incomes and economy in general.

Discussion on skills encompasses not only technical skills, such as cutting and shaping a product, but also cognitive skills such as logic and reasoning, or soft skills such as interpersonal skills or work ethics. Building these skills depends entirely on the quality of education, its correlation to the labour market, the work conditions in the labour market, but also opportunities to acquire skills through migration or brain gain from diaspora.

## NDS Interventions

**Increased inclusion of children in pre-school institutions.** This will allow better success at higher levels of education, decrease inequality and increase participation of women in the labour market. This means that a child may learn while his or her mother may work.

**Improved quality of teaching in the primary and secondary education.** This is a pre-requisite for better success of the education system and strengthening the skills of youth for the labour market. This means our teachers, who teach our children, are qualified for the work they do.

**Improved correlation between skills acquired in education and labour market needs.** This will contribute in driving down unemployment and growth of Kosovar enterprises. This means that a pupil of a vocational school or a student from University may find it easier to find practical work during studies or full-time employment upon completion of studies.

**Strengthened mechanisms of accountability and certification in the education system.** This will allow schools and teachers to be held accountable and be rewarded for the quality of work, which will help improving the quality of education.

**Improved expenditure planning in the education system.** This will allow savings to the state's budget and divert funding from areas of lower to higher priority.

**Decreased level of informal employment.** This will allow protection and better advancement of workers. Also, a worker will be able to benefit pensions, enjoy access to loans and better conditions for work.

**Concrete recruitment of experts and diaspora students.** This will allow transfer of know-how from our diaspora and strengthening their ties to their homeland. This means that a technology expert may be financially supported to develop a project in Kosovo institutions or private companies, and produce something long-term.

## ENROLMENT IN PRE-SCHOOL AND PRE-PRIMARY EDUCATION

**WHAT ARE THE CHALLENGES?** Inclusion of children age 0-6 in Kosovo into the education programmes is much lower than in the region. Registration in the pre-school and pre-primary education is at a level of 25-30%, while differences persist between urban and rural areas (in rural areas being very low). Inclusion in the pre-school activities has a decisive role for a better performance in the later stages of education, as age 0-6 is decisive for cognitive development. It also has a positive effect in increasing the participation of women in the labour market, while the lack of pre-school institutions forces them to stay home.

**WHAT ARE THE CAUSES?** At the pre-school level, the main issue is the lack of physical infrastructure and staff, while at the pre-primary level, the issue involves lack of infrastructure.

**WHAT ARE THE SOLUTIONS?** NDS aims to increase the inclusion of children in the pre-school and pre-primary education. Specifically, the aim is to achieve universal inclusion in the pre-primary education and increase the number of children attending pre-school education by 5,000 children annually until 2021. This will be done by increasing the number of public kindergartens and increasing the inclusion through private institutions.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Increase the number of public kindergartens. Initially, 18 kindergartens for pre-school education will be built, based on proposals and requests of municipalities, prioritized by those in urgent need or lacking public kindergartens altogether. An assessment and inventorying of current pre-school and pre-primary services will be carried out in parallel, to extend to both public and private providers, in order to identify the access gaps.*
- 2) *Increase inclusion of private institutions. This will be done by licencing new pre-school institutions, re-licencing of those existing (around 124 kindergartens) and introducing incentives for expansion of private institutions network. To this end, it is necessary to improve the existing legal framework on education and early child care, with focus on establishing common standards of quality and services (e.g. fees, tariffs, conditions of activity, etc.).*
- 3) *Optimize teaching personnel by reallocation from higher levels (primary education). This will allow addressing issues related to number of teachers available and their quality. Issue of training and qualification is addressed under other NDS measures and include capacity building for both pre-school and pre-primary levels.*

### IMPACT ON DEVELOPMENT

The combined outcome of the activities above will be increased inclusion in the pre-school and pre-primary education. Another indirect effect will be improved success of pupils at primary and other levels. Additionally, another indirect effect is increased participation of women into the labour market. Improved success of pupils will enable strengthening the labour skills, which in the long run, will facilitate increased economic growth and revenues.

## ENHANCED QUALITY OF TEACHING IN THE PRE-UNIVERSITY EDUCATION

**WHAT ARE THE CHALLENGES?** The success of the Kosovar pupils at the primary level, according to the projections of standardized PISA test, is the lowest in the region. Inability to acquire the knowledge and skills at the lower education levels affects the ability of the pupils to perform successfully at higher levels.

**WHAT ARE THE UNDERLYING CAUSES?** Studies indicate that the quality of teaching is the most important fact to improve the results of pupils at schools. In this regard, Kosovo has major challenges. Around half of teachers presently at service fail to meet the minimal qualifications or normative requirements to hold the office, because they have not completed the bachelor level studies. Pay raises have not been followed by commensurate enhancement in quality of education, while only an estimated 10% of schools apply the new curriculum. Most of schools build their work on outdated textbooks.

**WHAT ARE THE SOLUTIONS?** NDS aims to enhance the quality of teaching at the primary level by strengthening the capacities of teachers and accountability mechanisms. The correlation between the teachers' qualifications, their performance and ultimately their pay will be strengthened. It is also necessary to introduce an early retirement scheme and teachers' requalification, improve textbooks and expand the use of new syllabi at all schools.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Review and completion of the teachers' qualification process before entering service. This involves final national test for teachers and development of a clear teacher licensing system.*
- 2) *Quality-based optimization of existing number of teachers. The evaluation process will end with early retirement of a number of teachers as well as implementation of the requalification scheme for at least 500 teachers that will be retained by the system. In parallel, a system of teachers' performance evaluation will be built with stronger connection to the pay system, establishing thereby accountability for the quality of teaching.*
- 3) *Expedite the process of teachers' professional development, with special focus on the segment of teachers in vocational schools and STEM areas (Science, Technology, Engineering and Mathematics).*
- 4) *Expand the adoption of the new curriculum in the remaining schools. Simultaneously, carry out assessment of effectiveness of pilot schools (10%) and introduce systemic changes to curriculum, as appropriate.*
- 5) *Review of existing textbooks for suitability and develop new textbooks in accordance with expected learning outcomes. In line with distinct features of the vocational education, basic texts will be develop for relevant profiles, along with other school material.*

### IMPACT ON DEVELOPMENT

By 2021, Kosovo aims to increase the number of teachers meeting minimum qualification requirements to 100%. Enhanced quality of teaching will also improve the results of pupils at schools and in the standardized tests (such as PISA) as well as strengthen the abilities and skills of the labour force. This is expected to generate long-term impact on the economic growth and development.

## BETTER LINKAGE BETWEEN EDUCATION AND LABOUR MARKET

**WHAT ARE THE CHALLENGES?** Mismatch of labour market with knowledges acquired at the higher and vocational level has been identified as one of the key obstructions to higher employment rates and economic development of the country. Around 25% of the Kosovo's companies argue that the work force has inadequate skills, which are incompatible with their needs. On the other hand, more than 85% of the investors underline the quality of labour as the main factors when pondering investment decisions.

**WHAT ARE THE UNDERLYING CAUSES?** There is no system for forecasting skills requirement in the labour market in Kosovo. The process of developing professional qualification standards is rather slow, just as the implementation of the Framework Curricula. The level of public spending for education and vocational training is very low, while at least half of vocational schools do not provide any possibilities for practical work at schools and beyond. Enterprises have no incentives to hire interns. Schools do not provide career orientation neither any connection to enterprises through product research and development (R&D).

**WHAT ARE THE SOLUTIONS?** NDS aims to strengthen the connection between education programmes and labour market needs by establishing professional standards and priority areas, as well as by implementing the core curricula and teacher training. The vocational training system will become as practical as possible, including attending classes in enterprises. Establishment of a skills forecasting system will also play a pivotal role, as well as connection of research work conducted by universities with industries, through smart specializations.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) Expedite the process of professional standards development, in conformity with the European Qualification Framework (EQF) as well as National Qualifications Framework (NQF), as well as the revised National Occupations Classification System.
- 2) Determining high priority areas in Vocational Education and Training (VET) through consultation with Kosovo's development policies and priority sectors. Development and implementation of core curricula in modular form, in line with VET priority areas and implementation of VET teacher training programmes for these sectors, based on occupational standards.
- 3) Implementation of the combined VET pilot system with elements of dual learning (combination of learning in schools and in enterprises) starting with VET priority areas and in compliance with core curriculum. Coordinate the pay subsidization system with priority areas, in order to allow better integration of VET graduates into the labour market.
- 4) Development and implementation of the National Skills Forecast System. This will be done by ensuring connection with the career orientation systems inside the schools and employment services/lifelong learning services. Create conditions for support services and studies in order to track career progress.
- 5) Relate research work at universities with industry by facilitating access to smart specializations in line with Europe 2020 strategy. This provides for public and private investment in research and development (R&D) in a number of specific industrial sectors.

### IMPACT ON DEVELOPMENT

Implementation of these measures will contribute to building a more employable labour force and more effective and productive enterprises. Better matching of labour skills with market needs will produce increased investments, employment, revenues and growth of existing enterprises. All these efforts cumulatively will enable higher economic growth and more sustainable development.

## **STRENGTHENING THE EXAMINATION, INSPECTION AND ACCREDITATION FUNCTIONS IN EDUCATION SYSTEM**

**WHAT ARE THE CHALLENGES?** The Kosovo education system suffers from lack of effective mechanisms to evaluate success and quality of teaching and learning. Lack of these effective mechanisms prohibits schools grasping the shortcomings and potential intervention areas, but also deprive the central and local institutions of any tools to seek accountability from educational institutions. As a result, the quality of education and the prospects of Kosovar children and youth to obtain meaningful knowledge and skills suffer.

**WHAT ARE THE UNDERLYING CAUSES?** The external pupils examination system is underdevelopment, lacking in credibility and unable to produce credible data. Tests are yet to become systematic and standardized with international practices to allow comparative analysis. Inspection of schools and supervision of quality suffer from poor capacities of inspectorates, along with the absence of external evaluations framework. Accreditation authorities lack autonomy and accountability for their performance.

**WHAT ARE THE SOLUTIONS?** NDS will strengthen the examination, inspection and accreditation functions with the view ensuring accountability and responsiveness of the teaching personnel for the work they perform. This will be done through increased capacities, establishment of a reliable final testing system for students and regulated professions; teachers' performance assessment and strengthening accreditation authorities.

### **CONCRETE ACTIVITIES OF THE MEASURE**

- 1) *Increased capacities of the National Quality Council to implement the Standard European Instructions and Recommendations from ENQA/EQAR, as well as complement the accreditation process with a more comprehensive process of ranking the programmes under European Multidimensional Framework.*
- 2) *Implementation of a more credible final test for pupils – including the test after grade 5, semi-matura and PISA. Pupils' aptitude will be comparable with and standardized according to international tests PISA, TIMSS, PIACC.*
- 3) *Improved final examination for regulated professions (in conformity with EC Directive 2005/36 of the EU). For this purpose, the Standards and Evaluation Agency will be established along with State Council on Regulated Professions.*
- 4) *Expansion and enhancement of the inspections system in education system and aspects of teacher performance evaluations, including managerial, pedagogical and legal.*
- 5) *Improved quality of autonomy and accountability of the accredited institutions through development and expansion of Accreditation Authorities' capacities (KAA and NQA).*
- 6) *Development of a teacher performance assessment system and a teacher grading system. The grading system will take into account the qualification, good performance and experience. Pupils' aptitude and inspection reports will be an essential part of evaluation criteria.*

### **IMPACT ON DEVELOPMENT**

Implementation of these measures will allow a more credible, transparent and comparable evaluation of student performance. Increased accountability practices and quality assurance will result in better performance of education system, consequently increased abilities and skills of the labour. Strengthening the human capital will facilitate larger economic growth and sustainable economic development.

## OPTIMISE EXPENDITURES IN EDUCATION THROUGH DATA SYSTEMS

**WHAT ARE THE CHALLENGES?** To date, funding of education system has not been related to any demographic trends and needs assessment for developing teaching capacities. Expenditures are committed in a rather non-systematic manner. This makes it difficult to forecast the trends and needs in a timely manner and results in inefficiencies during resource allocation. Improving the quality and measures set out under NDS require additional resources, which should be taken into account during financial planning. They may partially be done through effective action in the current system, subject to more efficient information system.

**WHAT ARE THE UNDERLYING CAUSES?** There is a lack of a master plan of schools that incorporates plans on capacities and needs based on demographic projections or system's human capacities. At the same time, there is also a lack of information management system in education, or their interconnection to labour market systems.

**WHAT ARE THE SOLUTIONS?** NDS will improve expenditure planning in education by building database systems that project next year trends for a series of important indicators in education system. This goal will be achieved by acquiring more detailed information the school network and their needs, including possible piloting of the Public – Private Partnership (PPP) model, as an alternative way for funding the vocation education system.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Development of a master plan for VET school networks, for lifelong learning institutions and for employment services, in conformity with demographic changes, educational needs assessment and the principle of effective public funds spending. The master plan will create savings that will allow increased expenditure for investment in education access and quality.*
- 2) *Creation of the Higher Education Information Management System will be established (HEIMS) and further development of other information systems related to education system, labour market and their correlation.*
- 3) *Increased funding for vocational education programmes and higher education. This will be achieved by reviewed the current funding formula and diverting expenditure from lower to higher priority areas.*
- 4) *Piloting the Public Private Partnership model in selected areas/schools of VET, in order to improve the quality of education in VET.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will enhance efficiency of public spending in education system by producing savings and reorienting investment from lower to higher priority areas. More efficient use of resources will produce enhanced quality in education system and in implementation of reforms aimed at increased inclusiveness in the pre-school levels. Enhanced quality and inclusiveness will strengthen the capacities of labour force in Kosovo, which in turn, will help economic growth and sustainable development.

## SHORT-TERM RECRUITMENT OF EXPERTS AND DIASPORA STUDENTS

**WHAT ARE THE CHALLENGES?** In the recent decades, in various countries of the world, Kosovar diaspora acquired skills and know-how the transfer of which would be beneficial to Kosovo's economy. Studies indicate that the expatriates from diaspora who possess the skills have managed to find employment in Kosovo much easier than those possessing no skills, which demonstrates their worth as human capital. However, to date, the so-called brain gain process has been sporadic and lacking in institutional support. Establishment of mechanisms that would facilitate engagement of diaspora would not only enable the transfer of skills, but also potentially help in durable return of a number of skilled diaspora members.

**WHAT ARE THE UNDERLYING CAUSES?** At the moment, in terms of skills transfer schemes, there is only one programme aimed at boosting the return of scholars – namely, the MEST brain gain programme. However, it failed to score meaningful success. In the civil administration area, the Cadre Fund has provided until now additional remuneration for staff with higher qualifications in civil service, however, it applies to all rather than Diaspora alone. There are no schemes to enable engaging with diaspora in private sector, nor their inclusion in Kosovo universities.

**WHAT ARE THE SOLUTIONS?** NDS will establish concrete mechanisms for short-term engagement of experts and students from diaspora in public, private and educational institutions in Kosovo, in order to facilitate transfer of skills and strengthen the human capital of the country.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Establish a database that will use the diaspora registry to identify various profiles of the expatriates. The database will publish the profiles needed for engagement in Kosovo, duration of such tenure, subsidies available, etc.*
- 2) *Establish Homeland Engagement Programme (HEP), which will commence implementation in 2016. The programme will allow short-term deployment of diaspora experts and students in public, education and private companies. The programme will include support through subsidies targeting: a) professional engagement in experts' area of expertise; b) professional internship of young students; c) pursue studies in public or private universities of Kosovo. Student networks or diaspora professional networks will be involved in programme's implementation.*
- 3) *Kosovo will become part of the Expert Return Programme of the German Government in 2016. The programme will allow short-term deployment of diaspora experts from this country in Kosovo, similar to HEP.*
- 4) *Kosovo and UNV (United Nations Volunteer Programme) will implement the TOKTEN programme for short-term volunteer engagement from of diaspora members.*
- 5) *Establishment of an online learning programme (e-learning) to facilitate interaction of students with experts of various areas.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will allow concrete and temporary engagement of a considerable number of diaspora members in public, educational or private institutions. This could also spur potential initiatives (projects or companies) by engaged members of diaspora. Public institutions and private companies would enhance their capacities in the wake of transfer of skills. The contribution of human capital from Diaspora will play an important role in gaining higher economic growth rates.

## ADDRESSING INFORMAL EMPLOYMENT AND CREATING ADEQUATE WORKING CONDITIONS

**WHAT ARE THE CHALLENGES?** Specific groups of society, particularly those marginalized, are obliged to work in the informal sector where except other things they do not enjoy any protection— legal, health, physical safety, etc. In addition, work in conditions of informality restricts many benefits, such as access to financing. Working in informality in general aggravates the mobility of poor strata of society and strengthening their human capital.

**WHAT ARE THE UNDERLYING CAUSES?** High level of informality in employment is caused by the poor implementation of legislation on labour rights, especially by the labour inspection. The latter suffer from lack of capacities including human, technological, such as information management systems. Another particular issue is the lack of awareness among workers on benefits deriving from formalizing their work.

**WHAT ARE THE SOLUTIONS?** NDS will work to strengthen the role of social partners in developing the country's socio-economic policies in order to enhance the working conditions and decrease informal employment in Kosovo.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Strengthening the dialogue of institutions with social partners, in particular the employing and worker organizations, by developing the capacities of structures and the work system of the Social Economic Council (SEC). Parallel and in conjunction with social partners work will be done to promote the awareness of workers through awareness campaigns on informal employment.*
- 2) *Improve the workers' rights and guarantee the minimum standard of safety and health at work, in accordance with international standards. This will be done by enhancing the legal framework, promoting awareness and better monitoring of the legal framework implementation. In 2016, 10 sub-legal acts regulating the safety and health at work will be approximated to 10 corresponding EU Directives.*
- 3) *Strengthening the mechanisms and coordination of institutional actions targeting decrease of informal employment of men and women, by creating joint platforms and bodies for inspection on the ground.*
- 4) *Establishing information management system on Labour Inspectorate. The system will allow for control of direct supervision of field inspectors by the senior management in MLSW and Labour Inspectorate. The information system will also enable exchange of information with Kosovo Tax Administration and Kosovo Pensions Fund.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will decrease the level of informal employment in Kosovo's economy. Decreasing the level and improving the working conditions for labour in Kosovo will improve the welfare of the citizens of the Republic of Kosovo.



GOOD  
GOVERNANCE AND  
THE RULE OF LAW

## Why Good Governance and the Rule of Law?

One of the main pillars for creating a functioning market economy is the legal certainty and efficiency of institutions in delivery of services. Any company seeking to invest in a country may wish to know if it can rely on efficient and fair courts, simple laws that guarantee property and enforcement of contracts, or effective support services of public administration.

Few are ready to venture investment in a country amidst the lingering doubts that courts are unable to guarantee contract execution, or if public administration is unpredictable, unprofessional, cites unfair sanctions in the guise of market regulation and burdening businesses with unnecessary procedures. Such obstructions drive up the costs of making business. In an ever competitive world, enterprises will not find it difficult to divert investment elsewhere, with such legal certainty and institutional efficiency. Therefore, the discouragement and above mentioned barriers toward investments prohibit the economic growth of a country.

Lack of rule of law efficiency jeopardizes social cohesion and equal opportunities for marginalized strata. Institutions guided by arbitrariness rather than the written rule of law is most detrimental to the poor, by further marginalizing them into exclusion. Phenomena such as corruption and inefficient administration direct the state resources towards the powerful and those in control rather than towards priority development needs and poverty reduction.

### NDS Interventions

- **Strengthening the property rights system.** This will create legal certainty among investor and allow citizens to use property as collateral for access to funding. This also means that a business may freely and securely rely on the land it purchased to develop the economic activity.
- **Enhanced efficiency of judiciary in disposing cases.** This will significantly expedite the time needed for case disposition, consequently driving down costs of proceedings for both the public and the businesses and help establish a climate conducive to attracting investment.
- **Close loopholes for abuse in the public procurement system.** This will allow decrease of corruption, along with better and more equitable resource allocation in economy, meaning that by enhancing transparency and efficiency the fair competition is promoted, guaranteeing a fair and non-discriminatory treatment of all economic operators.
- **Further enhancement of service delivery for businesses and the public.** This consists in creating an integrated information system for public administration services, rendering the administration's work more effective, decreasing costs for all, including the public, citizens and businesses. This means that citizens and businesses will go through simplified procedures to obtain services.
- **Decrease administrative obstructions for issuance of business licences and permits.** This will help expedite application procedures and eliminate excessive rules. A business will not be required to apply simultaneously for two different licences where one licence should suffice.
- **Improve the efficiency and coordination of state inspections.** This will decrease the cost of inspections, reduce the number of needless and arbitrary inspections and ensure better compliance of public institutions and private companies with the law. Consequently, a company violating the law will be punished while those in compliance with the law will be protected from arbitrary sanctions.
- **Regular review of regulatory policies and measures prior to adoption.** This will ensure that adopted laws and policies do not produce unintended consequences and state resources and private investments are not spent irrationally. It also means that business are not punished because of a law or regulation that prohibits legitimate work.
- **Shift from border taxation to taxation inside Kosovo.** Merging the Tax Administration and Customs will enable more effective management, decrease of operational costs and level of informality and boost formal businesses. This means that businesses will not see taxes as burden to their activities and will deal with fair market competition.

## FURTHER ENHANCEMENT OF CUSTOMER-FOCUSED SERVICE DELIVERY FOR BUSINESSES AND THE PUBLIC

**WHAT ARE THE CHALLENGES?** Kosovo's central institutions provide 629 public services, while municipalities 100 services. Of these services, around 575 services are used by businesses in the course of their operations, including licences and permits. Such a large number of administrative processes and institutions involves creates high expenditures and increases the cost of doing business. It is estimated that the cost of all these processes to Kosovar businesses is 130 million EUR annually.

**WHAT ARE THE UNDERLYING CAUSES?** The level of information exchange between multiple institutions involved in services provision is very low, while the system is fragmented. State institutions ask businesses to provide information the state already possesses. Few exceptions represent positive examples such as BRAK, which provides more than 30 services through "one-stop-shop" system. In addition to fragmentation, there is no unified policy regarding the standards that public services provides should attain, which would allow for better integration of information systems. Online services are also largely underdeveloped.

**WHAT ARE THE SOLUTIONS?** NDS aims to improve the delivery of administrative services for businesses and citizens by integrating information systems related to these services. The aim is to establish a horizontal approach to services through creation of unified information windows, which contain all public services relevant for businesses. This way, online services may gradually be extended.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Establish a registry of all public services both at central and local level. The registry will serve to potentially create an integrated information system between various services.*
- 2) *Establishing a central database for public services that serves as data repository for different information systems, thus eliminating the need for citizens to provide information, which the state already possesses.*
- 3) *Establishing a system of regular information updates on services within the Ministry of Public Administration.*
- 4) *Further approximation of legislation on services in compliance with EU Directive on services.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will create an integrated information system for public administration services, which will expedite the work of the administration and decrease the costs for both administration as well as for businesses. Decrease of administrative costs will allow budget savings, while businesses will be able to save and use the money for their daily operations and investments. More effective use of public spending and private investments will provide an impetus to economic growth and enable more sustainable economic development.

## DECREASED ADMINISTRATIVE BARRIERS TO LICENCES AND PERMITS

**WHAT ARE THE CHALLENGES?** The reason behind licences and permits is to control risks expected by the business activity and ensures fair competition and optimum use of scarce resources. However, often licencing procedures without a clear legal basis merely become “administrative burden”. In general, Kosovo institutions have established 533 administrative procedures, which cost Kosovo businesses 130 million EUR annually.

**WHAT ARE THE UNDERLYING CAUSES?** Kosovo has an excessive number of administrative procedures related to licencing and permits (around 66% of administrative procedures are of this nature). Attempts are being made to expedite the procedures and decrease their number through the Law on Permits and Licensing System and by adopting the Law on Administrative Procedure. However, substantial amount of work is needed to implement the laws and harmonize the systems.

**WHAT ARE THE SOLUTIONS?** In line with the public administration reform process already underway, NDS aims to expedite and decrease the number of procedures and administrative fees the businesses have to go through in the course of their work. The key role will belong to simplification of the service provision process and decrease the number of licences and permits required.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Development of a registry of all specific administrative procedures at both central and local level.*
- 2) *Establishment a system for review and approval of all administrative procedures, by prioritizing those directly related to businesses.*
- 3) *Review and improvement of administrative procedures, starting with priority areas.*
- 4) *Adaptation of a “guillotine” approach to decrease the number and streamline the list of existing licences.*
- 5) *Full implementation of online registration of all permits and licences and ensuring that those not in the register will be deemed invalid.*
- 6) *Prevent creation of unjustified licensing requirements, by ensuring alignment of sectoral laws to the overall legal framework.*

### IMPACT ON DEVELOPMENT

The implementation of these measures will help reduce business transaction costs. They will also diminish room for bribery and favours for public officials. Simplification and decrease of the number of administrative procedures will decrease the cost of doing business, consequently strengthening the private sector, by enabling increased investments and economic growth.

## IMPROVED EFFICIENCY OF INSPECTIONS SYSTEM

**WHAT ARE THE CHALLENGES?** The aim of inspectorates is to oversee compliance of economic operators with the valid legislation. In Kosovo there are 36 administrative bodies overlooking the implementation of more than 140 laws and are responsible for conducting inspections. However, the effectiveness of these inspectorates is very low. This makes businesses operate free of any necessary legal restrictions (e.g. those related to environment, labour, etc.) and produces inequalities in the market due to favouritism during inspections. This aggravates the climate of doing business and is detrimental to the citizens' wellbeing.

**WHAT ARE THE UNDERLYING CAUSES?** Inspectorates in Kosovo are not bound to a single functional legal basis, but rather some have been established and regulated under primary legislation of specific areas, while some under administrative instructions and decisions. Currently inspectorates work mainly using achievement of certain revenue targets as key indicators, which makes for a misguided motivation for work. There is poor coordination between inspectorates, often producing overlapping or conflicting functions and responsibilities. Inspectorates usually have low human and administrative capacities.

**WHAT ARE THE SOLUTIONS?** NDS aims to reform the inspections area in Kosovo by establishing a general framework law, which will provide clear guidance on legal basis for inspection operations in Kosovo. Also, it aims to eliminate excessive inspections and introduce joint inspections standards for those remaining in effect, including standardized forms. Risk-based inspections will be encourage along with better coordination of inspection procedures.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Approve harmonized law related to inspections, which will create the foundation for a risk-based inspection approach.*
- 2) *Evaluate all inspections currently performed, followed by eliminating needless activities or merging inspection activities, where applicable.*
- 3) *Establish a coordination mechanism between inspection bodies to ensure better coordination of inspection procedures and more effective oversight system, including establishment of an information system for exchange of information between inspectorates.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will primarily help drive down administrative costs of inspections and allocate funding to measures of higher priority. Secondly, improved effectiveness of inspectorates will improve market distortions and externalities and decrease needless government interventions on business activities, but also the level of corruption. Alleviating the financial burden of the state and transaction costs to businesses will enable higher levels of public and private investments, resulting with a higher economic growth.

## ENCOURAGING EVIDENCE-BASED POLICY MAKING

**WHAT ARE THE CHALLENGES?** Policies in Kosovo are often adopted without properly studying their impact in practice. Laws and regulations are adopted without prior Regulatory Impact Assessment (RIA) and without proper consultation with the business community. As a result, they are often unsuited to circumstances and produce consequences contrary to those desired under the document. Lack of policies based on data on the ground causes inefficient public spending, detrimental business climate and citizens' wellbeing.

**WHAT ARE THE UNDERLYING CAUSES?** Regulatory Impact Assessments (RIA) have been introduced as a practice in 2007 through Government Regulation no. 01/2007, as superseded by Regulation 09/2011. However, these regulations have not been implemented, mainly due to limited capacities of ministries that draft legislation but also business associations.

**WHAT ARE THE SOLUTIONS?** NDS will ensure that policies and laws are informed by data on the ground and be systematically preceded by Regulatory Impact Assessment (RIA), in conformity with the Better Regulation Strategy (2014-2020). With an average number of twenty new laws adopted by the Assembly each year, the implementation of the RIA seems feasible. But, in order to achieve that successfully, it is necessary to build the capacities of government agencies and the private sector.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Establish a government unit on RIA, as well as units within line ministries. Instruments for public-private dialogue on specific laws, which will help the implementation of RIA, will also be encouraged in parallel.*
- 2) *Implementation of the Better Regulation Strategy, including setting up procedures for mandatory implementation of prior RIA, through the system of concept documents and explanatory memoranda for draft legal acts.*
- 3) *Set up a mechanism for systematic collection and storage of quantitative data (database) necessary for preparation of RIAs.*
- 4) *Utilize National Economic Development Council and ad-hoc committees for detailed analysis of policies and legislation.*

### IMPACT ON DEVELOPMENT

First of all the implementation of these measures will help achieve better value for money. Their implementation will lead toward proper policies and increase the overall work efficiency, in both private and public sector. Increasing efficiency and productivity in public and private sector will enable higher economic activity, i.e. higher economic growth rates.

## CLOSING LOOPHOLES IN THE PUBLIC PROCUREMENT SYSTEM

**WHAT ARE THE CHALLENGES?** Around 40% of Kosovo budget spending is completed through procurement system. In 2013, the Anti-Corruption Agency found violation of procurement rules in 1/3 of reported cases. In this year also, around 53% of criminal cases dealt with by prosecution were cases involving allegations of corruption. The public funding abuse produces consequences to country's development, while also inhibits investments and decreases the quality of capital investments.

**WHAT ARE THE UNDERLYING CAUSES?** The legal basis for fighting corruption in procurement system (including framework laws and strategies) as well as institutional infrastructure is already in place. However, current regulations need to be reviewed to overcome shortages in public procurement procedures. Lack of information on procurement plans and contract award notices, incomplete or excessive technical specifications, lack of minimal pre-qualification criteria as well as abrupt withdrawal and contract defaults remain issues of particular concern. Electronic procurement platforms, that would enhance the level of transparency and accountability are also lacking.

**WHAT ARE THE SOLUTIONS?** NDS will allow the work in strengthening the public procurement system to remain a pillar of anti-corruption strategy. In this regard, the main focus will be to close the legal loopholes that condone corruptive practices and strengthen the political will through adoption of integrity packages.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Implementation of the revised law and existing regulations in the area of public procurement to close the loopholes that allow corruptive practices, especially those related to transparency, technical specifications, minimal qualification criteria, withdrawal from processes or defaults in commitments.*
- 2) *Expedite introduction of electronic public procurement platform for all contracts, including development of information technology (IT) and contract management system.*
- 3) *Adopt Integrity Package through which all contracting parties will commit to non-corruptive policies in public procurement.*
- 4) *Promote Corporate Integrity Commitment through which business associations or NGOs will invite businesses to voluntarily adopt the Corporate Integrity Commitment.*

### IMPACT ON DEVELOPMENT

Closing the loopholes for corruptive practices in the public procurement system will lead to decreased corruption resulting with a better resource allocation in economy. Furthermore, decreasing the corruption levels will increase the state's financial capacity to invest in capital projects and social transfers, contributing thereby to economic growth and poverty reduction. The decrease of corruption levels will also decrease the level of social inclusion, as corruption is particularly harmful to businesses and poor families, by stifling their competitiveness in economy.

## STRENGTHENING THE PROPERTY RIGHTS SYSTEM

**WHAT ARE THE CHALLENGES?** Economic development of a country requires a system in which the property rights are fully respected and where the property is commercial and marketable. The poor development of property market adversely affects many sectors of economy, including agriculture, where land consolidation and appropriate economies of scale should be encouraged so as to increase competitiveness. Unresolved property issues are also essential for access to funding because the properties could be used as collateral.

**WHAT ARE THE UNDERLYING CAUSES?** One of the main problems is inconsistent cadastral information and ineffective courts in dealing with property rights cases. In general, the property rights legislation is not implemented fully, while violation of women's rights to inheritance is as well of a particular concern. In 2014, girls and women owners accounted for only 15% of real estate ownership.

**WHAT ARE THE SOLUTIONS?** NDS aims to strengthen the property systems by focusing on strengthening the legal framework, promoting a land market, strengthening the capacities of judiciary to adjudicate property rights cases and implement activities to ensure better protection of property rights for marginalized groups, such as non-majority communities as well as girls and women.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Develop legal framework to clearly define the rights and legal requirements related to tradeable property rights in conformity with EU legislation.*
- 2) *Promote land market conducive to economic growth, including facilitating agriculture land consolidation, as well as develop and adopt municipal development plans and zone maps.*
- 3) *Strengthen the capacities and roles of courts to recognize, determine and strengthen property rights.*
- 4) *Ensure property rights protection for non-majority communities as well as guarantee and strengthen the property rights of women.*

### IMPACT ON DEVELOPMENT

Setting up more effective property rights systems leads toward a legal safety of investors and as a consequence it increases the potential for investments, while providing more opportunities to citizens to use property as collateral and access to funding. Special focus on property rights of marginalized groups will generate better social cohesion. Increased investments and better social cohesion enable higher public and private investment rates.

## INCREASED JUDICIAL EFFICIENCY

**WHAT ARE THE CHALLENGES?** The judiciary currently indicates a poor efficiency in terms of speed of case disposition, while in average the disposition of a single case requires up to 414 days. The clumsiness of the judiciary limits the access of citizens to justice and increase the cost of doing business for enterprises. So the poor effectiveness of judiciary weakens the rule of law, restricts investments, informality and contributes to social exclusion of marginalized groups.

**WHAT ARE THE UNDERLYING CAUSES?** The judiciary is overburdened due to last decade's backlog (446,000 as of end 2013) and minor offences. The overlap between the basic and appellate functions under the old system led to frequent retrials and made the outcome less predictable, while adding up to the backlog. Moving to the new system dividing the appellate and basic functions regulated this issue, but also led to increase in outstanding cases.

**WHAT ARE THE SOLUTIONS?** NDS aims to increase judicial efficiency by increasing the capacities to resolve cases more quickly and relieving the system of the pending cases and backlog. Priority will be given first to addressing the significant burden of minor offences caseload, with special emphasis on traffic violations, by encouraging resolution of offences outside of the court system. Secondly, the implementation of the National Backlog Reduction Strategy will continue by strengthening the human and financial capacities of courts to dispose of old cases. Thirdly, increase the average rate of disposition of civil and criminal cases by optimizing the case management system and making more effective use of information technology.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Changing the legal framework so that the judiciary only deals with offence if sanctions have been disputed by parties.*
- 2) *Encouraging early payment of fines by applying discount for fines paid within 72 hours and increasing the fines in case of delays of transfer of resolution to courts.*
- 3) *Relieve the court system of backlog by establishing a special team of 100 persons to decrease the backlog, which in the course of four years may dispose of the accumulated civil and criminal cases by helping judges as drafters of judgments.*
- 4) *Maintain a positive rate of clearance of backlog by optimizing the case management system through use of information technology.*

### IMPACT ON DEVELOPMENT

The combined result of the proposed measures will be a drastic reduction of disposition time per case from the current count of 414 days down to 100 days. This added efficiency will have considerable impact on the rule of law and the business climate in Kosovo and increase competitiveness of Kosovo towards attracting direct foreign investment. For people of Kosovo, this should translate into better prospects for employment and access to justice.

## FIGHT AGAINST INFORMALITY THROUGH ESTABLISHMENT OF A SINGLE REVENUE COLLECTION AGENCY

**WHAT ARE THE CHALLENGES?** The level of informality in Kosovo remains high, which causes significant consequences to budget revenues. The estimated level of informality in Kosovo ranges from 26-34% of GDP. Revenues not subject to taxation decrease the state's opportunities to invest in priority development areas. Also, the informality and poor compliance with the law favours unfair and non-innovative business, damaging thereby the fair competition and development of private sector.

**WHAT ARE THE UNDERLYING CAUSES?** The current revenues system is entirely dependent on the revenues collected at the border. A gradual transition to internal revenues is necessary to ensure sustainable fiscal development. According to the last World Bank estimates related to taxation gap, the level of gap in VAT alone is estimated at 34%. The capacities of Kosovo Tax Administration to collect taxes inside Kosovo are limited.

**WHAT ARE THE SOLUTIONS?** NDS will increase the potential for boosting internal revenues by merging Kosovo Customs and Kosovo Tax Administration into a single administrative unit for unified collection of taxes and customs duties. This will be done in the context of decreased customs revenues, due to preferential agreement with CEFTA and MSA. The relatively low number of KTA and Customs personnel, coupled with the fact of young organizations, would make the process of merging easier.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Inter-institutional cooperation to bring about gradual convergence of process and subsequent integration of two institutions. Identification of identical, similar and distinct processes. Optimize tax collection systems by minimizing resources, eliminating loss of funding and saving time. This is to be followed by adequate legislative amendments for establishment of unified revenue collection administration. The merger process of two institutions will be subject to a transitory period, so as to prepare the organizations for merger and harmonization of relevant processes.*
- 2) *Establishment of the Revenue Collection Agency. Draft Law on establishment of Revenue Collection Agency, draft Action Plan on Agency's functioning as well as operationalization of Kosovo Revenue Collection Agency.*

### IMPACT ON DEVELOPMENT

Increased budget revenues will enable investment in development priority areas. Merging administration of both institutions will eliminate overlap and consequent decrease of operational costs. Decreased informality will improve market competition, restore fairness and stimulate growth of formal and innovative businesses. All these will create better conditions for investment and economic growth.



# COMPETITIVE INDUSTRIES

## Why competitive industries?

A market economy is more effective and capable of generating economic growth with as little state intervention as possible at private operators. However, the role of the state is inevitable to stimulate creation of competitive enterprises in sectors of high added value. Such industries make the economic growth produce sustainable economic development. The future of Kosovo's development depends on the scope and productivity of enterprises. The creation, sustainability and productivity of local private enterprises and attraction of foreign investments have to be encouraged. Kosovo already has a considerable achievement in this area, especially the order in the "Doing Business" report. On the other side this is not sufficient. That is why we have to continue further and support constantly the new entrepreneurs – existing enterprises and the foreign potential investors. Such a new and innovative approach is necessary in state interferences which would enable businesses to be firmly developed and with a better access to finance. That is why interferences have to be made only in areas in which the market itself cannot solve its barriers for development with the aim to encourage the development of private sector considered as a foundation for this pillar.

## NDS Interventions?

- **Increased access to funding for Kosovar enterprises.** This will allow increase the loan availability for producing enterprises, increased investment levels, increased employment and decreased trade deficit. This means that an enterprise will obtain loan at low interest rates and relaxed collateral requirements through loan guarantee mechanism.
- **Support networking of enterprises in similar industrial groupings.** This will help strengthen the connections between industries, creation of new enterprises supported by existing ones and innovation through connection with research efforts. A business will produce or deliver a new service based on information it will acquire as a result of this clustering.
- **Improved quality of standards and move to activities with higher added value.** This will ensure that businesses produce more sophisticated and expensive products, suited for exports, while increasing revenues for themselves and the economy. A clothing processor will also develop their design, hence add value.
- **Increased Foreign Direct Investments and Diaspora Investments.** This will ensure that Kosovo covers its funding needs, facilitate transfer of technology and skills and decrease the trade deficit. A foreign or diaspora business will enjoy concrete state support to invest in Kosovo.
- **Address the issue of fragmented agricultural land.** This will help increase the average farm size and plot areas, as well as agricultural production due to economies of scale. Farmers will be able to produce more and agro-processing industry will obtain more raw material produced locally.
- **Facilitate utilization of Kosovo's mining potential at the service of economic development.** This will allow the growth of existing enterprises and development of new enterprises that will enable larger economic growth. Research of mineral resources and project development will become easier for companies.
- **Full revitalization of Trepça.** This will decrease Kosovo's trade deficit, generate revenues and produce a positive effect onto many other industries.
- **Increased effectiveness of state-owned companies.** This will increase their contribution to economy, enhance their value and revenues for the state budget. It means State enterprises, will generate more profits, which will then be returned to society.
- **Invest Privatization Funds into strategic economic assets.** This will divert resources from former state assets to new assets.

## INCREASED ACCESS TO FINANCE FOR KOSOVO SMEs

**WHAT ARE THE CHALLENGES?** One of the main challenges for investment in Kosovo's private sector is access to funding. Around 40% of firms identify access to funding as a major obstruction. A large number of SMEs cannot meet the requirements for collateral in order to qualify for bank loans.

**WHAT ARE THE UNDERLYING CAUSES?** Kosovo is in the process of establishing a Loan Guarantee Fund, which will cover a percentage of the principal amount, thus help alleviate the issue. On the other hand, the loan registry system in Kosovo functions quite well, but the coverage is limited to only 22% of the adult population (compared to the OECD average of 43%). This affects the ability of the system to serve as a comprehensive provider of financial information for banking industry. Coverage and quality of information is decisive in order for the banks to properly assess the "risk margin", which is added to the basic rate in order to calculate the total applicable interest rate. Additionally, firms in Kosovo have limited capacities to report their financial data, which results in high demand for collateral and high interest rates.

**WHAT ARE THE SOLUTIONS?** NDS will increase the access of Kosovar enterprises to funding by providing a loan guarantee, decreasing the interest rates, improving the financial information system and provide advisory services to attain the corporate standards of financial reporting, which should help companies applying for loans.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Implement the loan guarantee schemes according to current design (ensuring transparent management) and with due consideration for sectoral priorities, as laid out under the Industrial Sector Policy Document.*
- 2) *Assess scheme's operation and review potential for further scheme expansion and optimization. This includes finding other sources of capital to increase the amount of invested capital.*
- 3) *Integration of loan registry's system database with tax administration, public companies and business registry, in order to improve information through which the loan risk is assessed.*
- 4) *Creating special incentives for MTI's Voucher Scheme to finance updating the corporate reporting standards for companies. This will help companies achieve a more positive risk assessment while applying for loans.*
- 5) *Development of securities' market and their integration in regional markets with the aim to reduce risk through diversification.*

### IMPACT ON DEVELOPMENT

The concept document on the Loan Guarantee Scheme finds that increased loans will create additional incremental turnover of 1 billion EUR in the first six years of operation. The bulk of this turnover will come from national production, improving the trade deficit in the process. These sales or this turnover could result in 10 million EUR revenues from corporate income tax. New work places could generate around 12 million EUR worth of pension contributions. The Guarantee Fund would support 4,150 new loans for SMEs at 360 million EUR, generating 20,000 work places. The loan issuance report from banking to private sector, as percentage of GDP, will be increased by at least 40%, up from current average of 33.5%) by 2021. The distribution of interest rate will decrease to the level of regional average.

## NETWORK AND CLUSTER DEVELOPMENT OF SMEs

**WHAT ARE THE CHALLENGES?** Small and Medium Enterprises (SMEs) benefit from cooperation and organization in clusters whereby businesses of similar type and research and education institutions operate in vicinity – to enhance efficiency and disseminate knowledge. Data from other developing countries indicate that SMEs so clustered experience more robust growth and innovative development. Consequently, cluster regions attract more new businesses around the value chains arising inside the clusters.

**WHAT ARE THE UNDERLYING CAUSES?** There are several hindrances for development of industrial clusters in Kosovo. The hindrances involve poor cooperation between the firms, poor interconnection of SMEs to research institutions but also lack of professional labour to promote the firms' activities in value chains. To date, there have been no institutional mechanisms to encourage cooperation between firms and their setup in clusters.

**WHAT ARE THE SOLUTIONS?** NDS will address the lack of connection and clusters between firms by facilitating networking and providing direct assistance (through grants and technical assistance). This will be done through concrete mechanisms involving government and businesses that will nurture cooperation between the value chain actors.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Development of a National Competitiveness Strategy, which will identify strategic interventions to enhance competitiveness of SMEs. Identify seven competitive and functional clusters to be supported through concrete forms (grants, technical assistance, etc.). The support will be provided through Investment and Employment Fund, specifically, through SMEs Competitiveness Scheme or thematic scheme for Innovation Growth in IT sector.*
- 2) *Establish an institutional framework in support of industrial cluster development with the involvement of government and businesses, including Cluster Associations, with larger firms assuming leadership role. The Government, along with associations, will facilitate and support the involvement of SMEs in becoming suppliers of larger firms within the clusters.*
- 3) *Establish a network of suppliers and sub-contracts by setting up regular meetings between the government and businesses, so as to establish and strengthen the ties within the value chains.*

### IMPACT ON DEVELOPMENT

Implementation of this measure will enable interconnection between value chain enterprises and higher participation of industrial sector in GDP. Cooperation between firms will create synergy, spur innovation and facilitate growth of new industries supported by the activities of firms already part of clusters. Sub-contracting and specialization of firms into specific activities will allow larger firms to focus on innovation and move to activities with higher added value, which will increase revenues in economy.

## UPGRADING SMEs TO ACTIVITIES WITH HIGHER ADDED VALUE

**WHAT ARE THE CHALLENGES?** Presently, the SMEs sector in Kosovo is underdeveloped and uncompetitive at both national and international market, dominated by retail and as such, it is unable to become the engine of growth by substituting imports and by engaging in activities with higher added value. Consequences attendant with this situation is the high trade deficit, whereby the export to import ratio is 12%, with lower annual GDP growth.

**WHAT ARE THE UNDERLYING CAUSES?** Most of SMEs in Kosovo, especially those in production sector, fail to meet the quality standards, either due to investment costs or the certification costs. An added difficulty is also the lack of advisory services. The quality and certification infrastructure is decisive in order to compete in the global market. Low public expenditure committed to research and development (accounting for only 0.1% of GDP) as well as lack of coherent innovation infrastructure is detrimental to the development of SMEs. Lack of financial incentives and, for some sectors, market information systems also inhibits the use of human potential and the capital of the country.

**WHAT ARE THE SOLUTIONS?** NDS will help SMEs in improving the standards of quality, create an innovation support scheme and advisory services, as well as specific support to agriculture and IT sectors.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Establish an instrument to assist in quality standards certification for Kosovar enterprises. MTI will establish the instrument and support SMEs geared towards export as well as those involved in tradeable goods sector.*
- 2) *Establish an innovation support scheme, which will provide incentives (matching grants) for investment of SMEs in scientific research and development. The scheme will be part of the Employment and Development Fund. The Ministry of Finance will also introduce tax exemptions for purchase of new technology and encourage connection with research institutions abroad.*
- 3) *Establish an information platform for the Integrated Agriculture Information System in order to drive competitiveness in the agriculture sector. This includes Farm Accountancy Data Network (FADN), Electronic Farmer Register (EFR), Land Parcel Identification System (LPIS) and Integrated Administration and Control System (IACS) in agriculture.*
- 4) *Establish a fund for subsidizing innovation projects in the area of information technology (IT). The fund will be part of the Employment and Development Fund.*
- 5) *Develop business advisory services in five economic regions and deliver a qualitative, effective and standard BAS package. This will be done through a uniformed business advisory service package, provided at regional level, through Regional Development Agencies (RDA). They will provide a support services package, such as market research, financial management, feasibility studies, sale and distribution strategies, etc.*

### IMPACT ON DEVELOPMENT

Implementation of this measure will increase competitiveness of Kosovar SMEs and their move to activities with higher added value, leading to decreased trade deficit, increased revenues in economy and allowing sustainable economic growth.

## PROMOTING FOREIGN DIRECT INVESTMENT (FDI) AND INCREASED ROLE OF DIASPORA IN ECONOMIC DEVELOPMENT

**WHAT ARE THE CHALLENGES?** Kosovo needs more external funding to address the needs of its economy. The average annual FDI income in Kosovo during the 2009 – 2013 was 400 million EUR, which is insufficient to achieve the desired economic growth. On the other hand, the investments of diaspora, as significant as they are, are mostly oriented towards sectors such as construction and real estate, very few towards production sectors.

**WHAT ARE THE UNDERLYING CAUSES?** Kosovo Investment and Enterprise Support Agency (KIESA) presently has no adequate capacities to effectively promote the potential of investments in the country. There is a lack of more aggressive and proactive approach to attracting investors, by providing well-packaged services or concrete incentives. In addition, there are no support schemes, specific to diaspora that would facilitate investment or resolve issues of financial risk, or the issue of lack of information on investment opportunities.

**WHAT ARE THE SOLUTIONS?** NDS will stimulate increased direct foreign investments by strengthening the capacities of KIESA, changing the culture of services and providing incentives for strategic investors. On the other hand, a scheme will be developed to encourage diaspora investments in the form of matching grants.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Strengthening capacities of KIESA and its reorganization. Establish a team with extensive experience in product development, packaging, pre-qualification, presentation, sale, aftersales care and client management in private sector. Develop a new FDI strategy that will provide differentiated incentive packages. KIESA will also deploy trade representatives in Kosovo embassies and establish bonus schemes, directed at services attracting foreign investors.*
- 2) *Support investments of strategic investments through incentives and direct negotiation, provided by the Law on Strategic Investments.*
- 3) *Establish matching grants schemes for diaspora. Through the scheme, the capital investments of diaspora members into a new or existing business (under a genuine business plan) will be receive support for a portion of investment through grants. The scheme will be piloted in agriculture and IT services sectors.*
- 4) *Activate and expand the diaspora business networks for investment, aimed at increasing investments in Kosovo in order to sell Kosovar products in the European and world market, as a way to promote Kosovo exports.*

### IMPACT ON DEVELOPMENT

Increased DFI towards production sectors will help Kosovo's economy cover its lack of funding and ensure transfer of technologies and know-how. This, in turn, will help the process of revitalization of the industrial sector in Kosovo and decrease the trade deficit. Increased diaspora investments will turn it into the engine of export-oriented growth, increased labour skills and connection to global value chains. A focused approach may turn the role of diaspora from financial saviour that supports basic subsistence to a pillar of a long-term, sustainable development.

## REGULATING AGRICULTURAL LAND

**WHAT ARE THE CHALLENGES?** Kosovo has uncompetitive agricultural production and low production basis, which is insufficient to meet the internal demand of both consumers and agro-processing industries. Agriculture plays an important role for Kosovo's economy due to the rural distribution of population and opportunities it affords for generation of revenue. However, to date it has been operating beneath its potential, therefore regulation and consolidation of agricultural land is of utmost importance.

**WHAT ARE THE UNDERLYING CAUSES?** Main obstruction to agriculture development is the limited area of agriculture land of households, fragmented and scattered parcels and lack of property documents. The same goes for cadastral zones, which benefitted from incomplete land consolidation projects implemented in the period 1983 – 1989. The average parcel size is estimated at 0.3 hectares. This prohibits creation of economies of scale.

**WHAT ARE THE SOLUTIONS?** NDS will address the issue of agriculture land fragmentation by grouping and creating larger, consolidated plots, in order to increase the minimum surface areas the average farm size. Additionally, work will be done to address the property-legal issues of beneficiaries of incomplete land consolidation and register owner in the Real Estate Property Register.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Develop and support land regulation projects and their subsequent integration into the rural development projects.*
- 2) *Implement structural reforms (with special focus on legal and institutional measures) in order to create better conditions for increased agriculture production.*
- 3) *Create parcels of regular geometric shape, suited to easier utilization of agricultural machinery and implement the Plot Identification System (LPIS).*
- 4) *Establish field road networks that allow direct access to plots and eliminate seasonal servitude – access to property through someone else's property.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will help increase the average farm size and average parcel area as well as agricultural production; increased competitiveness; development of land market, as an important pre-requisite for free market economy; create conditions for long-term investment in these properties; implement the Municipal Development Plans; equitable distribution of rural development projects and state subsidies for owners for utilization of these properties. The cumulative effect of the measures will be to increase agricultural production and produce higher economic growth and employment rates in the country

## UTILIZATION OF KOSOVO'S MINERAL POTENTIAL

**WHAT ARE THE CHALLENGES?** Access to natural resources is one of the key factors in attracting Direct Foreign Investment (DFI). Development and exploration of existing minerals in Kosovo and their subsequent opening is an opportunity to increase employment and standard of living, allow creating of industries and increase GDP and exports. The value of Kosovo minerals is estimated at 12.5 and 25 billion EUR. However, these resources have not been used properly to serve as a source of economic growth.

**WHAT ARE THE UNDERLYING CAUSES?** There are several hindrances to full utilization of mining potential in Kosovo. One of the most striking remains the need to resolve the property rights which disable the potential exploration. Other main factors affecting research and development are licences and permits, lack of consistency of mining policies and stability of exploratory environment, all related to administration. Creating mineral-based industries is also prohibited by lack of mechanisms to allow inter-sectoral connection between the research work and various industries in the value chain.

**WHAT ARE THE SOLUTIONS?** NDS will facilitate optimum use of mining potential in Kosovo at the service of economic development, by resolving structural problems of property over natural resources, addressing the shortcomings in market regulation and administrative capacities, connecting mines to industries, adopting a cross-sectoral approach and improving support infrastructure. A part of this measure, especially those related to direct funding, may be supported through the Development and Employment Fund or through incentives to be determined under the Law on Strategic Investments.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Develop institutional modalities to support (through funding or technical assistance) new strategic projects in the mining sector, particularly those that can generate employment, create processing industries through connection with value chains and export towards foreign markets.*
- 2) *Support geological and mining researching programmes, develop modalities to resolve the outstanding property issues and build an information system to monitoring developments in mining sector.*
- 3) *Regulate the project research and development market by strengthening the administrative capacities of the supervisory bodies and executive agencies. Review regulatory procedures and policies of the sector so as to provide clarity and incentives to investors and economic operators.*
- 4) *Provide support in development of support infrastructure for mining sector, including transport and power.*

### IMPACT ON DEVELOPMENT

Research and utilization of mineral resources of Kosovo will allow increase of productivity and revenues in economy, creating new industries and generating new work places. Increased investments in mining sector and increased revenues in the industry sector will allow a higher economic growth rate and more sustainable economic and social development.

## RESTRUCTURE AND REVITALIZATION OF TREPÇA

**WHAT ARE THE CHALLENGES?** At present, Trepça operates with two separate units and at only 29% of its former capacity. In the past, the company was an industrial giant of Kosovo employing around 23,000 people. Its revitalization would play a very important role in decrease the trade deficit, increasing employment and economic development of Kosovo, especially in the Mitrovica region.

**WHAT ARE THE UNDERLYING CAUSES?** The company suffers from obsolete technology and lack of investments in labour. Presently, it functions as Trepça North and South, two autonomous units, each with its separate management bodies, under the KPA's administration. The units operate independently of one another, including on issues such as sales, procurement, human and financial resources management. The most significant issue related to company's restructuring and revitalization are the outstanding creditor claims (around 14,000 claims received by the Special Chamber). Restructuring is a very complex process due to significant legal obligations that Kosovo assumed not of its own free will.

**WHAT ARE THE SOLUTIONS?** The purpose of NDS is to bring about the operation of strategic enterprises such as Trepça in full capacity and thus reinstate them as important factors of employment, production and exports. A possible solution involves transferring the liabilities onto another legal entity, so as to proceed with the revitalization of the viable part of business.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Consolidation of existing analysis that result with the final feasibility analysis ( including assessment of assets and responsibilities/ liabilities of Trepca as well as valorization of mineral reserves ) through local and international expertise.*
- 2) *Drafting the concept document based on the feasibility study through which the gjenral principles of Trepca's legal regulation would be set. Further, based on the concept document, draft and approve a law for regulation of a legal status of Trepca as an enterprise with more than one legal person.*
- 3) *In accordance with feasibility study, regulate the issues of unsustainable assets and businesses for revitalization, whereas a special entity will be identified to undertake responsibilities/ liabilities or to address issues connected to old Trepca debts.*
- 4) *Decision to increase the the further business/ industrial production of Trepca by supporting onto a more reasonable economical, technological, social and environmental alternative.*

### IMPACT ON DEVELOPMENT

With an assumed rate of revenue increase of 20% annually, the nominal value of annual revenues would achieve 39 million EUR, which should allow investment in production for Trepca until the maximum value of production is achieved. Trepca's revitalization would decrease Kosovo's trade deficit and generate revenues for state budget, as well as produce a positive impact onto many other industries in Kosovo, providing thus an impetus to economic growth of the country.

## UNLOCKING PRIVATISATION FUND AND USING FUNDS FOR DEVELOPMENT

**WHAT ARE THE CHALLENGES?** The sale or liquidation of state enterprises that began in the post-war period resulted in 656 million EUR accumulated for the state. Around 300 million of those may be used for capital investment in strategic assets. Government institutions continue to take loans with international institutions such as IMF, WB, EBRD, while the privatization fund remains frozen with KCB. At a time of dire need for investments in Kosovo, it is reasonable to explore ways to use funds from these assets of the past to build the assets of the future.

**WHAT ARE THE UNDERLYING CAUSES?** Legal provisions bind the government to hold the funds in a separate trust fund and only invest in safe financial instruments, as they are deemed a reserve for potential compensation of creditor claims that may arise during the privatization process. However, there are different ways to utilize these resources.

**WHAT IS THE SOLUTION?** NDS aims to unblock the privatization fund and use the resources thus made available for country's economic development, specifically, for initiatives that aim to strengthen the entrepreneurship and industry in Kosovo. The purpose is to invest the resources of the former publicly-owned companies under the principle of "replace asset with asset".

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Independent evaluation of funds available relative to creditors' claims and other liabilities, and taking a strategic decision on the use of funding. In principle, use the funds of the former publicly-owned companies only for capital investments in infrastructure or human capital, following the logic of replacing the "asset with asset". Potential projects include priority projects such as New Kosovo, road projects or Trepça's revitalization. A part of funding may also be directed towards projects investing in human capital, as laid out under NDS.*
- 2) *Adopt legislative amendments that would allow unblocking the funds and establish mechanisms to manage the spending (through budget, or through special financial mechanisms). The process will also involve amendment to Law on KPA and Law on Management of Public Finances and Accountability. Transfer funds to Kosovo Consolidated Budget (under legal guarantees of their utilization only for agreed purposes) or to special financial mechanism.*
- 3) *Implement concrete projects and initiatives funded by the Privatization Fund through; a) budgetary allocations, or b) special mechanisms established, such as National Investments Council.*
- 4) *Ensure property rights protection for non-majority communities as well as guarantee and strengthen the property rights of women.*

### IMPACT ON DEVELOPMENT

Use of privatization funds will create fiscal potential for capital investment, subsequently rendering the economic growth less dependent on debt. Use of these funds will also help maintain a strong macro-economic foundation. Particular impact of this measure will be determined and made known when decisions on specific sectors or initiatives targeted for investment will be disclosed – i.e. if the impact will be in the energy sector, mines, education, etc.

## IMPROVE CORPORATE GOVERNANCE WITH STATE OWNED ASSETS

**WHAT ARE THE CHALLENGES?** Good governance of public enterprises is very important in effective and open markets where public enterprises compete with private sector, both nationally and internationally. Inefficient management of public enterprises affected the life of people and the competitiveness, as they constitute the backbone of infrastructure and provide services used by all industries (such as telecommunication or power).

**WHAT ARE THE UNDERLYING CAUSES?** It is believed that public enterprises have been operating inefficiently, without genuine accountability mechanism to primary shareholder (state) and therefore lost their value. Furthermore, the basic principles of corporate governance such as monitoring, financial and performance audit and overall performance have been neglected to a large extent. Also, the lack of a proper risk assessment process by the state enterprises on the state's budget and economy resulted in perception of poor development of these enterprises.

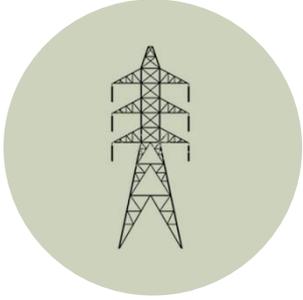
**WHAT ARE THE SOLUTIONS?** NDS will improve the efficiency of public enterprises in conformity with OECD's principles of corporate governance. In this sense, the government will review the options for sectoral approach to supervision and management of publicly-owned corporations. An important intervention for improving the corporate governance will be training of officials in relevant sectors/departments.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Review the options for sectoral approach to supervision and management of publicly-owned corporations.*
- 2) *Develop the process of risk analysis by state enterprises on the state's budget and economy. By 2021, all state enterprises subject to independent review by an external audit.*
- 3) *Train officials in relevant sectors/departments on corporate governance. By 2021, all corporate board members trained in corporate governance.*
- 4) *Introduce MBO system (Management by Objectives) in performance review of public enterprises management.*
- 5) *Review potential for eliminating bureaucracy and interference in commercial enterprises operating in competitive markets.*

### IMPACT ON DEVELOPMENT

Implementation of this measures will lead to improved performance of enterprises with state-owned assets, consequently increasing their contribution in the economic growth, increased value of enterprises and increased revenues for state budget through dividends.



# INFRASTRUCTURE

## Why infrastructure?

Economic activities cannot be conducted or developed in a vacuum. Businesses and citizens require infrastructure and an environment conducive to investment and employment. A factory requires affordable and reliable supply of power and water as well as affordable and expedient ways to transport goods to market. Contemporary businesses require technological infrastructure to increase productivity and decrease operational costs. Agriculture requires support infrastructure, such as irrigation. All of them require a stable environment and ecosystem, as the nature is the main life infrastructure. Therefore, the use of natural resources should be rational, striking a balance between immediate economic needs and environmental sustainability.

## NDS Interventions?

- **Increased local capacity for power generation from both lignite and renewable sources.** This will allow reliable power supply for citizens and business, establish a more favourable climate for investment and decrease trade deficit. A business will no longer be concerned with power supply to invest in Kosovo.
- **Construct a transmission line to diversify sources of energy import.** This will allow more reliable and affordable supply of power, especially during the peak consumption times. This means that Kosovo will not be left in the dark during winters, will not import expensive power, thus decrease the cost of citizens and businesses.
- **Investment in energy efficiency measures.** This will decrease the internal energy consumption, consequently the financial expenditures, enabling increased investment and diminished environmental impact. A business will pay less for power due to insulation investment in industrial environments.
- **Complete main international and regional road axis and the international railway line.** This will enable more expedient movement of people and goods, decreasing costs to business. A business may easily dispatch goods to both local and international markets.
- **Increased use of information technology in business operations, schools and public institutions.** This will decrease operational costs and allow increased investments and innovation. Businesses will save from use of information technology and will be able to use savings to invest in a new business line.
- **Improved support infrastructure for agriculture production.** This will help decrease the cost of agriculture products, increase farm productivity and revenues and facilitate the operations of agro-processing industries.
- **Rationalization of water use and increased production and distribution capacities.** This will ensure that growth of Kosovo's industries and demand for water run in parallel with increase of water resources available. This means that business and citizens will enjoy regular supply of water.
- **Ensure sustainable use of Kosovo forests.** This will prevent degradation of Kosovo's forest and the resulting impact on ecosystem and allow steady and predictable supply for Kosovo's industry.
- **Sustainable waste management.** This will prevent environmental impact from consumption waste and re-introduce it into industrial production, generating employment and decreased costs for production industries.

## BUILD NEW AND SUSTAINABLE POWER GENERATION CAPACITIES

**WHAT ARE THE CHALLENGES?** Power supply is unreliable and costly. Export dependency is 12% in spite of significant lignite reserves, estimated at 12 billion tons, which may be used for energy production domestically. Studies on diagnosing economic growth identified power supply as one of the major hindrances to businesses in Kosovo, consequently for the economic growth. Around 50% of businesses in Kosovo find it a major hindrance.

**WHAT ARE THE UNDERLYING CAUSES?** Power plants Kosovo A and B produce a cumulative generation capacity of only 1000 MW. Current production capacities are obsolete, requires continuous repair and operate with inefficient technology. The Government of Kosovo has an agreement for Kosova A decommission in 2017, but parallel to the process of new capacities building as well as recommendations that will result from a respective study a final decision will be made on these issues. Kosovo has vast underground lignite resources, estimated at 12 billion ton, which require investment into new generation capacities. However, pending construction of new capacities, the energy demand has to be met. Demand for power has seen an upwards trajectory related to economic growth. The World Bank forecasts point to significant increase of demand for power, along with representations of “lower-demand scenario”.

**WHAT ARE THE SOLUTIONS?** NDS aims to address issues related to reliable power supply. Through a series of activities, power production capacities will meet the market demand, avoid power shortages and address environment standards.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Extend decommission process of Kosovo A pending commission of new power plant Kosova e Re and analyse options for operation of Kosovo at different periods,*
- 2) *Rehabilitation of TC Kosovo B for each unit separately during the period 2017-2018, in a way that eliminates major power outages.*
- 3) *Construction of power plant New Kosovo (Kosovo e Re) with generation capacity of 500 MW, under agreement with international consortium and by making use of newest technologies.*
- 4) *Introduce structural reforms in KEK, such as legal separation of generation and mining activities;*
- 5) *Open new coal mine (South Sibovc) in order to increase the security of coal supply to production capacities.*

### IMPACT ON DEVELOPMENT

Provide reliable power supply that will improve the conditions of doing business, facilitate increased private investments and Kosovo’s trade balance through decreased imports. Reliable supply will improve people’s wellbeing. Increased investments will facilitate higher economic growth rates and sustainable development.

## ESTABLISH AN OPEN AND COMPETITIVE ENERGY MARKET

**WHAT ARE THE CHALLENGES?** Kosovo suffers high electricity import costs. The high energy import costs is very problematic as it affects the price of electricity for both customers and businesses. It becomes of particular concern during the consumption peak times, when the internal production is insufficient to meet the demand. The demand for electricity in Kosovo is very imbalanced from season perspective, with considerable growth of consumption during the winter months, mainly due to its use for heating. Import prices surge up during consumption peak times.

**WHAT ARE THE UNDERLYING CAUSES?** Import is presently very costly due to lack of diversity in access to regional transmission systems. The lack of interconnection to Albania represents a particular difficulty, which produces 98% of its electricity through hydropower, reaching its maximum output during winter. The consumption trends in Albania are complementary as the peak of consumption there is in summer, therefore lack of connection to Albania is key to opening the market and decreasing the energy import costs.

**WHAT ARE THE SOLUTIONS?** NDS aims to continue implementation of EU Directive (Third Energy Package) to establish a competitive market as well as the project on strengthening the transmission network with Albania.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Integration of electricity market into the regional electricity market, in conformity with the Berlin Process and EU Directives (Third Energy Package).*
- 2) *Complete the transmission line to Albania with 400 KV capacity by 2018, in order to build a joint energy market between Kosovo and Albania.*

### IMPACT ON DEVELOPMENT

Integration in the regional energy market will diversity the sources of import and decrease the import costs during peak hours. The decrease of import costs will positively affect the energy costs for businesses and consumers. Establishment of a sustainable and affordable market for supply of energy will create favourable conditions for investment, which will allow higher rates of economic growth.

## DECREASE ENERGY CONSUMPTION THROUGH ENERGY EFFICIENCY MEASURES

**WHAT ARE THE CHALLENGES?** Consumption practices and existing technologies in use by consumers, including here the insulation of buildings as well, make for very inefficient use of energy in Kosovo. Inefficient use of energy increases the energy demand, which also significantly affects the cost, in view of the increase need for import. Thus, inefficient energy consumption indirectly affects the increase of the cost of doing business, but also produces environmental effects, making the development unsustainable.

**WHAT ARE THE UNDERLYING CAUSES?** The Government of Kosovo adopted the Law on Energy Efficiency along with a plan to increase efficiency for the period 2011 – 2018. The purpose is to achieve savings target of 9% by 2018. However, to date the measures were mostly confined to public sector buildings, while the largest consumers of energy in Kosovo are households (more than one third of the total consumption), followed by transport and agriculture.

**WHAT ARE THE SOLUTIONS?** NDS will achieve the 9% target energy savings by 2018 by focusing on residential sector. To achieve this target, the Government will establish the National Energy Efficiency Fund, commence developing markets for ESCO (companies that benefit from improving energy costs) and expand the district heating networks.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Review modalities and establish the Energy Efficiency Fund. The Fund will provide subsidies for district heating systems, efficiency measures in connection with buildings or public infrastructure; move houses towards thermal energy sources and investment in insulation; extend loans and loan guarantees to households and SMEs for energy efficiency measures, etc. The Fund will also finalize project set out under the National Energy Efficiency Action Plan.*
- 2) *Commence implementation of performance contracts on energy savings by developing ESCO market (energy service companies). These companies will provide energy savings by investing in efficiency measures and acquire a part of derived savings.*
- 3) *Expand the district heating network in Prishtina and substitute the fuel in use in Gjakova, Mitrovica and Zvecan heating plants. The district heating network will also be expanded to Obiliq and Drenas towns.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will drive down the internal energy consumption, which should decrease the energy consumption per capita by 25% by 2022. The decrease of energy consumption will help decrease the energy costs, subsequently help businesses and increase investments in private sector. Increased investments will facilitate higher economic growth rates and development.

## RATIONAL USE OF RENEWABLE ENERGY SOURCES

**WHAT ARE THE CHALLENGES?** Kosovo presently makes insufficient use of renewable energy sources (RES). It produces only 3% or 46 MW of its energy from renewable sources. This represents a much lower percentage compared to the commitment of achieving 29.5% of consumption by 2020. Limited use of renewable energy sources contributes to the demand for imported power and unreliable supply in the local market. This has a direct impact on country's economic development.

**WHAT ARE THE UNDERLYING CAUSES?** Kosovo has a small potential for generation of wind energy and even less so for generation of solar power. More sustainable renewable energy sources are mostly hydropower, biomass and biogas. There are 77 locations with potential for hydro-projects. It is estimated that 120 GWh of energy may be produced annually from biomass (forest debris). However, development of projects of these kind is halted mostly on the account of costs. The Zhur hydro plant, the largest of its kind remains at the stage of feasibility study. On the other hand, the animal waste used for production of biogas is scattered throughout the country and is costly to collect into one centralized location.

**WHAT ARE THE SOLUTIONS?** As the potential for use of RES is relatively limited in Kosovo, the government should negotiate a lower RES use threshold due to costs. The Regulatory Office has already approved the stimulating tariffs ('Feed-in Tariff') for all types of renewables and needs criteria to get the certificate of origin, which helps the encouragement of investments for investors of the energy production from RES. The work will proceed further with review of the potential for construction of Zhur hydro plant as well as provide support for farmers through contracts for use of organic remains and better organization of lumber market and forest debris.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Negotiating lower targets for use of renewable energy sources with the Energy Community.*
- 2) *Analyse Zhur Hydro plant feasibility study in the context of joint market development with Albania. Its potential construction will take place either through private investors, some sort of public-private partnership (PPP) or as a state project under a concession contract.*
- 3) *Possibility of long-term contracts for farmers for use of organic waste and ensure better organization of lumber and forest debris market, in order to encourage establishment of biomass market. This work should be done in conjunction with regulating the biomass market tariffs.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will increase the share of renewable energy sources into the energy's output of the country. Kosovo would thus progress towards meeting its international commitments and increase the amount of energy produced national, contributing thereby to the energy security in the country and consequently improve the climate of doing business, increase investments and economic growth. Use of renewable energy sources would also ensure that the State economic growth is sustainable and attentive to its impact on nature.

## FURTHER DEVELOPMENT OF ROAD AND RAILWAY INFRASTRUCTURE

**WHAT ARE THE CHALLENGES?** The transport infrastructure plays a key role in economic development while it facilitates the flow of people and goods by increasing speed and decreasing cost. The transport infrastructure is particularly important for the international transport, in line with the aim of our economy to encourage exports. In recent years, significant investments were made in improving the strategic roads infrastructure and regional roads. However, the needs of the country for transport infrastructure remain precarious, especially in terms of better and faster connection between the region, which should allow for greater mobility of labour, goods and capital. The quality of infrastructure is deemed as one of the important factors in decision of investors to invest in a country.

**WHAT ARE THE UNDERLYING CAUSES?** Only 56% of the road infrastructure in Kosovo is covered with asphalt (main national hubs), while the other part remains uncovered. On the other hand, the railway line extends 330 km, but with an obsolete infrastructure. Kosovo has a low level of urbanization, which decreases the intensity of transport (number of passengers per capita). Geography of Kosovo provides for short distances, therefore the road transportation is the most effective and sustainable means of travel. In order to achieve the highest development impact on local roads, it is paramount that road investments are preceded by adequate studies. On the other hand, regional roads need to be expanded in order to allow quicker movement. Railway transport may play a more prominent role for export of minerals and agricultural goods.

**WHAT ARE THE SOLUTIONS?** NDS will allow continued work in building the main international road hubs (connecting us to Albania, Macedonia and Serbia) as well as regional highways. Priorities will be given to reconstruction of international railway line connecting us to Serbia and Macedonia.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Finalize remaining segments of Morina – Merdare Highway (R7)*
- 2) *Finalize the priority segments of Prishtina – Hani i Elezit (R6) Highway in order to Corridor VIII of Southeast Europe.*
- 3) *Continue expansion of national road Prishtina – Peja (M9) and Prishtina – Mitrovica (M2)*
- 4) *Expansion of main roads Pejë – Deçan – Gjakovë – Prizren.*
- 5) *Construction of Prishtinë – Gjilan highway.*
- 6) *Upgrade the only international railway line in Kosovo, Line 10 (length 148 km) from Fushe Kosove to Macedonia (southern line) and from Fushe Kosove to Serbia (northern line).*

### IMPACT ON DEVELOPMENT

Implementation of these measures will decrease the cost and distance of flow of people and goods both inside and outside Kosovo. Quicker and cheaper transport will help all industries in Kosovo obtain cheaper raw material and cheaper roll out of products on market. Upgrading international railway network will help the export of minerals and agricultural produce. Improved transport infrastructure will also encourage new investment. The cumulative effect will be higher economic growth rates.

## DEPLOYMENT OF INFORMATION AND COMMUNICATION TECHNOLOGY INFRASTRUCTURE

**WHAT ARE THE CHALLENGES?** Information and Communication Technology (ICT) revolutionized the way we develop social process, from economic transactions on the market to state administration and learning in schools. In Kosovo, use of computers and internet at home saw considerable rise. However, the use of ICT remains limited to public institutions or private companies. This restricts the quality of state services and effectiveness of institutions, while the obsolete administrative practices produce higher cost, diverting valuable resources from other areas of higher priority. On the other hand, businesses face needlessly high cost due to failure to incorporate IT in their operations.

**WHAT ARE THE UNDERLYING CAUSES?** Rural schools, libraries, health institutions and government agencies suffer either from lack of access to IT or failure to adopt appropriate tools. There is no central level institution to coordinate and strike a balance between various IT sub-sectors, thus promoting international standards. There have been no incentives for private sector to invest in IT processes.

**WHAT ARE THE SOLUTIONS?** NDS will ensure coordination of various actors of ITC sector so as to ensure extensive distribution and use of information technology in business process, public institutions and education.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Establish National IT Council to coordinate various aspects of development and implementation of IT strategy.*
- 2) *Support to Kosovar IT businesses (through Employment and Development Fund) to export services abroad and to other businesses to upgrade their business operations through use of IT (see Measure 20, activity 4).*
- 3) *Adopt relevant international ITC standards for public institutions and businesses.*
- 4) *Implementation of the Kosovo Digital Economy Programme – KODE (through ITC scheme under Employment and Development Fund), which would involve laying broadband and high-speed infrastructure and development of human resources for digital economy.*

### IMPACT ON DEVELOPMENT

More pervasive use of IT in administrative, education and trade processes will help decrease operational costs and create efficiencies, consequently allow both the state and private companies direct resources to investments in other areas. Use of ITC will also spur innovation in operational process in private sector, consequently strengthening it. Increased investments and innovation will produce higher economic growth rate.

## AGRICULTURE INFRASTRUCTURE AT THE SERVICE OF AGRO-BUSINESS

**WHAT ARE THE CHALLENGES?** Kosovo's agriculture sector represents a sector with the most potential for employment, but is equally very important for other related industries in the value chain, while the agricultural products are used by agro-processing industries. Increasing agricultural production and agro-processing industries is of paramount importance, in view of need to decrease the trade deficit. However, strengthening of the sector is very challenging not only because of the fragmented land (addressed under Pillar 2 of NDS), but also limited agricultural infrastructure.

**WHAT ARE THE UNDERLYING CAUSES?** Increased production capacities in agriculture and agro-processing industries is limited mostly by deficiencies in physical support infrastructure. The current coverage of arable land with irrigate at 25% needs to be expanded. This is particularly related to Kosovo's potential to derive income from high value fruits and vegetables. On the other hand, more rapid development of agriculture sector and agro-processing industry also suffers by the limited number of storage facilities in the main regions of Kosovo, and laboratories to test the quality of private produce of seeds and sanitary standards.

**WHAT ARE THE SOLUTIONS?** NDS will ensure addressing the challenges involving physical infrastructure, including both soft and physical infrastructure. This will involve expanding irrigation system coverage in the regions of Kosovo with high potential for production; improved wholesale market, decreased transactions costs and improved economies of scale, along with reducing the excess produce at the end of harvest season.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Increase irrigation system coverage to at least 40% of the arable land by 2021 (up from current 25%).*
- 2) *Increased number of storage facilities in main regions of Kosovo through Public-Private Partnership (PPP).*
- 3) *Increased number of laboratory units to test the quality of private produce of seeds and improved phytosanitary standards.*
- 4) *Increased farm size and improved farm structure, as well as increased processing capacities of food industries, such as: meat, dairy, fruit, vegetable and grapes.*
- 5) *Strengthening the information management system on agricultural farm and products registry (see Measure 20, Activity 3).*

### IMPACT ON DEVELOPMENT

Implementation of these measures will improve agricultural productivity, economies of scale in agricultural production through the retail market infrastructure and improve land consolidation by introducing a more functional farm registration system. Increased agricultural productivity, economies of scale and innovation will translate into reduced costs for agro-processing industries and its growth, as well as help ensuring higher economic growth rates.

## RATIONAL USE AND INCREASE OF CAPACITIES OF WATER RESOURCES

**WHAT ARE THE CHALLENGES?** State's water reserves and water supply infrastructure play an important role on the quality of life and economic development. With the current water demand levels, Kosovo at present reached the limits of the existing capacities of reservoirs and distribution infrastructure, although springs and reserves are in abundance. Taking into account the fact that Kosovo aims to increase industrial and agricultural production over the coming years, investments are required to ensure abundant supply of water. Insufficient resources risk escalating into serious issue, for both economic activity and household use.

**WHAT ARE THE UNDERLYING CAUSES?** Main challenges in the water sectors are network losses, lack of consumption energy efficiency measures, lack of water storage facilities and relatively underdeveloped and inefficient irrigation systems in agriculture. Storage in reservoirs per capita is 42% of the regional average. Efficiency of irrigation systems is very low, while the technical losses due to leakages are also very high. Ability of the regional water supply companies to collect revenues from sales (only 30%) is also of concern, hence their financial difficulties to invest in upgrading or expanding the network.

**WHAT ARE THE SOLUTIONS?** NDS will ensure decreased water consumption by introduction rationale consumption and decreased technical losses, and make increasing production and distribution capacities a priority.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Decreased technical and commercial losses of regional water supply companies and installation of water metres in all water service areas.*
- 2) *Expanding the water supply network and construction of new networks in high load areas (expansion of urban and rural coverage). Network coverage will increase from 12,000 hectares to 29,000 hectares.*
- 3) *Implementation of the feasibility study for potential locations for construction of surface water accumulations (dams).*
- 4) *Design the project for construction of "Iber-Lepenc" water system (Phase II) and Kremenat-Desivojce-Gjyrishevc water system.*
- 5) *Invest in expansion and increased efficiency of irrigation systems.*
- 6) *Renovate and construct protective infrastructure along rivers Sitnica, Drini i Bardhe and Morava e Binces.*
- 7) *Renovation and expansion of the potable water network for Prishtina, Gjilan and Mitrovica regions.*

### IMPACT ON DEVELOPMENT

The implementation of this measure will increase water use efficiency and increase the degree of control and reporting on used / consumed water quantity. In particular, this will allow increased revenues for water supply companies, decrease the level of losses, increase connection rates to network and increase coverage with irrigation network. Improved water supply will serve as springboard for growth of enterprises and improved welfare of citizens.

## SUSTAINABLE FOREST MANAGEMENT AND USE

**WHAT ARE THE CHALLENGES?** Strategic importance of forests for a small and densely populated country such as Kosovo, with cold winters and a considerable wood processing sector, cannot be underestimated. Good forest management systems are necessary to ensure steady supply of wood mass, which is used for heating or industrial purposes. The current rampant deforestation aggravates the steady supply but also affects the ecosystem and wildlife, results in land erosion and increases likelihood of floods, as trees absorb water. Deforestation may produce major economic and social impact in areas around forests, especially agriculture areas. The risk was even higher at a time when agricultural land will be under threat from extreme weather cycles due to climate change.

**WHAT ARE THE UNDERLYING CAUSES?** High demand for lumber, caused by its use for heating and further processing in industry is placing a lot of pressure on the existing forest reserves. The logging rates (legal and illegal) are considerably higher than the forest regeneration rates. In Kosovo unfortunately around 40% of public forests and 30% of private forests suffer from illegal logging. Forest management is also an issue of concern, as only a limited forest areas operates under forest management plans. However, the biggest concern remains the capacity of institutions to manage and prevent abuse in forests.

**WHAT ARE THE SOLUTIONS?** NDS will curb the pace of deforestation in Kosovo and start their regeneration and sustainable use, at the service of consumers and industrial sector.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Forestation of stripped forest areas, recovery of fire-damaged forests and implementation of preventive protective measures through treatment with entomological substances. All of the activities will be implemented through a national, well-planned forest protection programme.*
- 2) *Enforcement of tougher sanctions against illegal loggers, which requires better institutional setup, legal amendment and strengthening capacities of Kosovo Forest Agency. Introduction of forest information system for integration protection.*
- 3) *Develop forest management plans for at least 60% of the public forest areas by 2021.*

### IMPACT ON DEVELOPMENT

The measure will have a direct impact on increasing the forest regeneration rate; the volume of exploitation, which should note be higher than 60% of the estimated annual growth; reduce the prevalence of illegal exploitation of public forests from 40% to 20% and from 29% to 15% of private forests. Investment and reform in the forest sector will play an important function not only for environment protection but also for supporting industrial development. Improved forest management efficiency will support the wood processing industry, by ensuring fair prices and sustainable supply of raw material.

## SUSTAINABLE WASTE MANAGEMENT

**WHAT ARE THE CHALLENGES?** Increased economy and welfare translates into increased consumption of goods, consequently adding to the quantity of waste. On one hand, consumer waste creates pressure on environment by damaging the ecosystem in case of poor management of waste collection and storage, but if recycled, may also be an asset to economic development, when used as raw material by industries. For the time being, wastes of Kosovo have become a major environmental issues, while on the other hand, failed to contribute to industrial development through recycling.

**WHAT ARE THE UNDERLYING CAUSES?** Only around 60% of waste in Kosovo is collected. In addition, there is no activity organized for separation of waste for reuse/recycling and their treatment. Exception is the private sector which makes the collection, separation, physical treatment and export of waste. Waste disposal is done mostly in regional / municipal landfills (there are 8 such landfills in total), most of which do not operate in conformity with the environment standards, as inappropriate and uncontrolled disposal is quite prevalent (illegal dumpsites). Around 40% of the remaining waste is disposed illegally or burnt. A small quantity of waste is recycled by the informal sector. Waste water and sludge treatment are also challenging, which emerge as a product after the wastewater treatment process.

**WHAT ARE THE SOLUTIONS?** NDS will allow more effective waste management in Kosovo by investing in the management infrastructure, consolidate public companies for collection, contract economic operators for waste management), increased awareness on and stimulation of recycling, as well as create collection networks for wastewater treatment.

### CONCRETE ACTIVITIES OF THE MEASURE

- 1) *Construction of infrastructure for management of municipal, solid, rubble, industrial and hazardous waste as well as wastewater sludge.*
- 2) *Consolidation of public waste collection companies and contracting economic operators through public-private partnership for waste management (in the area of storage, treatment and recycling).*
- 3) *Increased public awareness and gradual reduction of quantity of waste produced as well as encourage reuse or recycling or use waste treatment products.*
- 4) *Implement projects for reducing environmental and health risks from waste (treating hazardous waste, rehabilitation of polluted / contaminated sites, eliminate illegal dumpsites, etc.). Construction of waste treatment centres in these municipalities. Gjilan, Ferizaj, Prizren, Shtërpçë, Rahovec, Gjakovë, Shtime, Lipjan, Drenas, Suharekë, Kaçanik and Viti).*
- 5) *Repair and construction of wastewater collection networks and construction of wastewater treatment plants in Prishtine, Gjilan, Ferizaj and Mitrovica. The sludge will also be treated in parallel through contracts with economic operators based on Public Private Partnership (PPP).*
- 6) *Construction of transfer station and waste collection centre (Klinë, Istog, Skenderaj, Novobërdë*
- 7) *Improved technical and operational status in regional landfill of Prishtina in Mirash-Obiliq.*

### IMPACT ON DEVELOPMENT

Implementation of these measures will help decrease damage to environment, ecosystem and quality of citizens' life, especially health. Investment in recycling and treatment of waste will allow re-use of assets and their use in the function of development for the waste treatment industry and other industries that used recycled materials as raw material. This will enable more sustainable economic growth and less negative impact on environment.



## IMPLEMENTATION OF NATIONAL DEVELOPMENT STRATEGY

**Adoption of NDS undoubtedly marks a step forward in policy planning and monitoring system in Kosovo** that will help determine Government's long-term planning.

However, the measures set out will not be implemented only because the Government included them in the National Development Strategy (NDS). To convert the measures into concrete outcomes, it is necessary to first turn them into **measurable indicators, with adequate resources and appropriate management**. Planning, budgeting, recruitment communication and monitoring as well as evaluation of top state priorities should be the best that can be produced by our institutions. Furthermore, even for our public administration, NDS represents a starting point towards the future.

The implementation of NDS will be an essential process of the Integrated Planning System in Kosovo and shall be committed to the following principles:

- **The measures contained in NDS shall have priority in resource allocation until fully funded and shall also be monitored closely, including through Prime Minister's direct attention.** Other part of priorities shall be addressed in sectoral strategies and other planning documents. Sectoral strategies and other planning documents shall afford priority to NDS measures, by listing other sectoral priorities at a lower level of priority.
- **NDS measures shall receive full financial coverage, with preferential access to any additional resource from the state budget and / or development partners.** Furthermore, these measures will be reflected in the Government's Midterm Priorities Statement, which proceeds the Midterm Expenditure Framework and finally the annual budgetary allocations and the Government's Annual Work Plan.
- **Implementation of NDS also represents a step forward in the government monitoring system by moving to measurement of results and performance.** Ministers and institutions responsible for NDS's priorities, shall develop clear guidelines for implementation of NDS objectives. These documents should be treated as a public commitment toward citizens of Kosovo and also shall be presented to development partners. Requirements for NDS monitoring will focus on targets and indicators of a higher level. Interaction with line ministries will therefore shift from one that emphasizes the deadlines toward that which measures performance and progress towards medium and long term policies of objectives.

### 1) Activity planning

To achieve the objectives set out under NDS, institutions responsible for implementation of measures should plan their work with more accuracy. Who is going to do what and by when, but also how much is that going to cost. In the course of three months upon adoption of NDS, the ministers responsible for achieving its objectives should present and discuss with the Strategic Planning Office (SPO) of the Prime Minister, **a Guide which details the targeted steps for implementation of any measure** and it shall cover the period of at least three to four years, represented in a rather specific way.

- Summarized description of issues addressed and the intervention logic;
- Relevant NDS performance targets and annual progress rate expected of them;
- Main implementation measures, with results and timeframes for each of the planning periods;
- Organisational units responsible for leading or supporting role in each of the described actions;
- Resource requirements for each of these actions, including the budget and external assistance.

Each Guide will contain sufficient information on the manner the institutions will inform the public on the progress towards achieving the NDS objectives. At least two NGOs, which are deemed representatives of key partners, shall be identified, which the relevant Minister shall involve in the dialogue during implementation and during any major change to be made to the Guide itself. SPO shall provide

guidance on drafting and management of Guides. These documents will be used to guide the process of development of annual work plans.

## 2) Correlation to other strategic planning frameworks

Although the main focus will be growth, the implementation of NDS will serve as a vehicle to push forward the Kosovo's European integration agenda. In this sense, maximum attention will be afforded to harmonization of NDS implementation actions with **National SAA Implementation Programme** and the need for further adoption of EU *acquis*. Recognizing that dialogue with EU represents unique reporting approach and requirements, every attempt will be made to align EI planning and monitoring with the implementation framework of NDS, MEF and Government's Annual Work Plan (GAWP).

Although NDS is clear in terms of its priorities targeting economic growth and inclusiveness, the Government is also committed to the dialogue on economic governance with EU. As part of this dialogue, Kosovo prepared the **second Economic Reform Programme (ERP)**, which sets out around 20 policy actions planned for implementation, in order for Kosovo to cope with growing competitive pressures at both regional and international level. ERP's actions are mostly derived from NDS's measures. In many ways, they represent many elements of NDS on which EU and Kosovo would wish to establish a structural dialogue as part of the joint process of economic governance. Thus, **the two documents are not separate but rather a part of the same package**. ERP will be reviewed annually, while NDS will be subject to external evaluation every 2 years, as a result of its updating.

In this context, the European Union has initiated what has now come to be known as the Berlin Process. It has, in actual fact, recognized the importance of improving the infrastructural connection between the Western Balkans countries as well as between them and the EU. The ultimate goal of the Berlin process is to achieve an understanding on a list of key infrastructure investments in Western Balkans and improve the overall infrastructure situation in the Western Balkans. In this context, the EU urged the countries to establish National Investment Committees (NIC) and prepare **Priority Lists of Projects (PLP)** of infrastructure investments. This way, the Government will ensure that the PLP will serve as a key programmatic tool to coordinate the infrastructure investments in transport, energy and environment and will be **aligned with NDS**.

## 3) Committing resources

NDS priorities cannot be implemented without the financial cost. Subject to SPO's evaluation of Guidelines, the Government commits to integrate its strategic planning framework **to ensure that financial resources required for implementation of the Guidelines** will be fully available within the expected timeframe. Thus, the SPO under the Office of the Prime Minister will include activities of Guides as top Government priorities in its Midterm Priorities Statement, which it develops every year as its strategic input to MTEF. Presently, the costing process may be deemed incomplete, with clear costs for some measures and indicative costs for the rest – depending on the level of detail of the measure.

Minister of Finances has pledged to extend preferential treatment to NDS activities in terms of resource allocation, starting from allocation of budget ceilings in MTEF and then specifically into the annual Budget.

Minister of European Integration shall ensure that NDS measures and relevant activities, especially those reflected in the ERP, are involved in the dialogue with the donor community on any programmes of additional development assistance. Specifically, MIE shall ensure that sectoral planning documents and other documents required under IPA II and other EU funds shall be developed on the basis of top Government priorities, as stated under NDS and in its implementation Guidelines.

## 4) Development and Employment Fund

Kosovo Government Programme 2015-2018 has set forth the establishment of the Development and Employment Fund, whose purpose is to support the private sector in order to serve as the main mechanism for economic growth and job creation. Accordingly, the Fund will be the main tool to address the high

level of unemployment (through the creation of new jobs), to reduce the continuous deficit trade, to increase development of innovation in the private sector (by increasing the skills of the workforce, attracting foreign investment, and scientific research) and to reduce dependence on remittances (by generating internal revenues). The mechanisms involved in the Fund are presented as part of NDS priority measures.

The Fund, through its instruments, will support Kosovo's economic sectors with high potential for growth. It will also encourage development in other areas of the economy based on the needs and potential. In general, the fund will focus on supporting economic sectors that have high export potential and opportunities for export substitution, where these sectors will be defined through the development of industrial policy in Kosovo. Given this, the Government aims to encourage and support industrial development based on clusters, which is the central orientation of NDS approach for the promotion of the competitiveness.

The Fund is designed as a strategic and flexible mechanism to allow for coordinated and targeted support towards implementation of the commitments set out in the National Development Strategy. Therefore, in order to implement the NDS highest priorities, the Government will establish the Development and Employment Fund by bringing together various initiatives of support through state budget and the support of development partners.

Initially the Fund will function as a coordinated mechanism providing targeted support to priority sectors and types of economic activities through its instruments which will include credit guarantee fund, wage subsidies funds, scheme for strategic investments, the fund for the development of the ICT sector, and the mechanism for the development of SME competitiveness.

### 5) Strengthening Capacity

In order to ensure the best use of financial resources, the institutions responsible for NDS measures shall put to use their best management systems and professional skills. This requires **strong connection between the NDS process and Public Administration Reform effort**. The Governmental Ministerial Council on PAR, chaired by the Minister of Public Administration is the leading authority, which shall coordinate the reforms under three thematic pillars headed by OPM, MPA and MF.

The Ministerial Council on PAR shall prioritize measures and sub-measures mostly emerging out of Pillar 2 of NDS (Governance and Rule of Law), which are also incorporated in PAR (as illustrated in the table below). Assistance provided for full implementation of these measures, including institutions and relevant partners involved in the work of the Council, is essential for implementation of reforms that are important for both the efficiency of administration and service provision to the citizens.

NDS Measures for PAR	Responsible authority	
	Horizontal leadership	Sectoral application
1 – Further Regulatory Simplification Programme	OPM (LO)	MTI + others
2 – Developing Regulatory Impact Analysis	OPM (LO and SPO)	MTI + others
3 – Support in introducing “one-stop shop”	MPA (new unit + MLGA)	MTI + others
4 – Support to e-governance for G2B services	MPA (new unit & AIS)	MTI + others
5 – Tax and Customs administration reform	MF (& revenue agencies)	MF, revenue agencies + others
6 – Filling gaps in procurement system and e-procurement	MF (PPA + PPRC)	All operators

Also, for measures of PAR package that are not yet included in the NDS, the Ministerial Council on PAR shall ensure that activities and resources for enhancing the horizontal management systems (like organisation, staffing, policy development, service delivery, financial management, etc.) are first implemented at the institutions responsible for top priorities, as set out under NDS.

## 6) Monitoring progress

Preferential treatment of NDS measures above **should be guaranteed by relevant accountability measures, as a result its periodic monitoring will be carried out under the exiting Government Annual Work Plan.** The Government's Coordinating Secretariat (GCS), along with SPO, is responsible for monitoring the progress of implementation of NDS priorities, as set out under the governmental annual work plan. Responsible institutions are expected to report on the progress on quarterly basis, as part of the standard work plan cycle. SPO, based on the contribution of responsible ministries sent to GCS, analyses the implementation of high priorities and provides reports to the Prime Minister and the Government. Analytical reports on the implementation of the NDS top priorities after their review within the Strategic Planning Steering Group shall be submitted for information and further review to the Strategic Planning Committee chaired by the Prime Minister. These mechanisms should ensure addressing potential obstacles that may occur upon the implementation of NSDS priorities.

During this cycle, the SPO is responsible for supporting the PM in achieving the NDS objectives by directing efforts towards results to be pursued and economic targets. In this context, SPO shall monitor the work of institutions involved in implementation the NDS Guidelines and shall organize regular progress reviews for PM. Also, SPO shall support the PM in identifying difficulties to be eliminated through political intervention, better coordination and through financial, managerial or staffing measures.

SPO will ensure the achievement of concrete results in the monitoring of activities through timely information to the public about the progress in achieving the NDS goals, through dialogue with the private sector within the National Council for Economic Development and civil society within the platform for cooperation between Government and Civil Society.

## 7) Evaluation of results

SPO shall ensure that NDS is fully evaluated in the **course of two years** upon its approval and again at the end of its concluding year. The evaluations shall focus on the degree of attaining the planned and actual results and targets related to NDS high level indicators. Evaluation also shall consider the resources allocated for implementation as well as coherence of their expenditure related to measures and objectives defined by NDS.

SPO will submit to the Government **a comprehensive and feasible evaluation methodology**, the implementation of which can be entrusted to NGO networks in Kosovo. The Government, in line with dialogue with EU and international financial organizations, may seek or consider independent assessments on the implementation of NDS by international organizations that have reputation and expertise in the areas covered by NDS.

Findings of the evaluation may contain proposals for changing objectives and measures of NDS, monitoring framework or indicators, as well as resources allocated for them. SPO will coordinate the review of evaluation reports from the institutions responsible for implementation of NDS and will present all views before the Strategic Planning Committee. Strategic Planning Committee on behalf of the Government publishes evaluation reports, invites the public for comments and responds by implementing changes and NDS priorities accordingly.