Economic Reform Programme 2016

Republic of Kosovo
Contents

PRIORITY AREA #1: PUBLIC FINANCIAL MANAGEMENT ................................................................. 2
  Measure #1: Improvement of public and central procurement system ........................................ 3

PRIORITY AREA #2: INFRASTRUCTURE ......................................................................................... 4
  Measure #2: Further development of the road and railway transport ......................................... 6
  Measure #3: Further development of energy capacities and upgrade of transmission network .... 7
  Measure #4: Decrease energy consumption through energy efficiency measures .................... 9

PRIORITY AREA #3: SECTORIAL DEVELOPMENTS ..................................................................... 10

PRIORITY AREA #3.1: AGRICULTURAL SECTOR DEVELOPMENT ............................................... 10
  Measure #5: Further revitalisation of agricultural sector .......................................................... 11
  Measure #6: Agricultural infrastructure for agro-business ......................................................... 12
  Measure #7: Regulation of agricultural land .............................................................................. 13

PRIORITY AREA #3.2: INDUSTRY SECTOR DEVELOPMENT ...................................................... 14
  Measure #8: Industrial sector development ............................................................................... 15

PRIORITY AREA #3.3: SERVICES SECTOR DEVELOPMENT .......................................................... 17

PRIORITY AREA #4: BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE AND REDUCING
INFORMAL ECONOMY ................................................................................................................... 18
  Measure #9: Administrative procedures and public service delivery ...................................... 22
  Measure #10: Evidenced based policy development ................................................................. 23
  Measure #11: Strengthening the property rights system ............................................................ 24
  Measure #12: Increased judicial efficiency ............................................................................... 24
  Measure #13: Improve access to finances for Kosovo SMEs .................................................... 25
  Measure #14: Improve corporate governance with state owned assets ................................... 26
  Measure #15: Fight informality improvement of key processes and establishing a single
      Revenue Collection Agency ................................................................................................. 27

PRIORITY AREA #5: TECHNOLOGY AND INNOVATION .............................................................. 28
  Measure #16: Collaboration between the industry and academia with the aim to promote
      innovation ............................................................................................................................. 30

PRIORITY AREA #6: TRADE INTEGRATION .................................................................................. 31
  Measure #17: Change on Customs Code and Excise in line with the Acquis ............................ 33
  Measure #18: Encouraging businesses to improve quality of products ................................... 33

PRIORITY AREA #7: EMPLOYMENT AND LABOR MARKET ....................................................... 34
  Measure #19: Better linkage between educational programs and required skills for the labour market ............................................................................................................................. 36

PRIORITY AREA #8: SOCIAL INCLUSION ..................................................................................... 39
  Masa #20: Improve social and health services, and empower women economic activity ....... 41
**Priority Area #1: Public Financial Management**

1. Diagnostics

The PFM area has not been identified as a major obstacle to growth in Kosovo. However, based on PEFA and OECD Sigma assessments, efforts to improve PFM are needed in order to enhance Government’s ability to budget policy priorities as well as ensure transparent and efficient execution of budget allocations – especially in areas pertaining to economic growth and competitiveness.

Directly in relation to the economic growth and competitiveness **public procurement is the focus**, as it directly intertwines with competition, which is a catalyst for innovation and firm competitiveness. Lack of transparent and competitive public procurement market, especially in countries with high share of public procurement in expenditure, can negatively affect economic growth. In Kosovo, public procurement accounts for a particularly significant proportion of both public expenditure and demand for goods and services in the economy. Thus, in 2013 the public procurement in Kosovo amounted to 654 million Euro and 41% of the consolidated budget. In 2014 these figures were XXX million Euro and XX% respectively.

**Background analytical information**

Kosovo’s PFM system is, according to PEFA and SIGMA assessments, at a level at least comparable to the other countries of the region. The Government performs encouragingly in PFM, as the 2015 SIGMA Baseline Assessment suggests. It also completed 3 national and 12 local-level PEFA assessment rounds and incorporated the methodology in its work from 2009, when a MoF-led committee and secretariat were set up to draft and implement a PEFA-based PFM Action Plan, evaluated via a further national-run PEFA review in 2013. The new PEFA assessment in mid-May 2015 was started and its final conclusions are to be made available in 2016.

As an overall benchmark of PFM performance, PEFA scores got in line with the rest of the region already by 2009 (average C+/B), with some later advancement (self-assessed average B in 2013). Margins for improvement, however, remain significant and will be addressed in the updated PFM Reform Strategy that the Government intends to adopt in the first 6 months of 2016 based on the latest PEFA.

The main challenges in the public financial management system are related to the need to improve the relevant legal framework, enhance the development of e-procurement, undertake improvement of administrative capacity and procurement skills, and strengthen monitoring of procurement procedures. For instance, actions are required to strengthen the public procurement system, improve the legal framework to simplify administrative procurement procedures, and reduce the usage of negotiated procedures without publication of a contract notice.

EC Progress Report 2015 provides for that Kosovo is at an early stage of alignment with European standards, including in the areas of public procurement, statistics and financial control. Legislative alignment in some areas is high but implementation is weak. Some progress was made in the area of public procurement, especially as regards the enforcement of a centralised public procurement system, but concerns about corruption persist. As regards financial control, some progress was made, especially in external audit. However, significant
efforts are needed to implement public internal financial control throughout the administration and in state-owned enterprises.

2. Country specific recommendations

According to country specific recommendations Kosovo needs to focus further strengthening PFM practices and step up effort to improve public procurement system, by enhancing administrative capacity, increasing efficiency and effectiveness of the Public Review Board, and implementing central procurement. In order to address, Government of Kosovo has initiated drafting of a comprehensive PFM Strategy which will address main challenges identified by recent assessment, e.g. PEFA, 2015 SIGMA baseline measurement and TADAT. The strategy will encompass the existing sub-system strategies, it will have a risk management framework, it will include clear objectives, targets and performance indicators, it will have appropriate institutional arrangements to ensure satisfactory implementation, monitoring and reporting, and it will be subject to public consultation.

Regarding public procurement system, the amendment to Law on Public Procurement has been adopted by the Assembly which introduces electronic procurement. However, Kosovo still needs to address constrains in terms of capacities as well as process of appointment of the members of Public Review Board. Currently only three of five members of the Board are appointed, which limits seriously the capacities of this institution.

Measure #1: Improvement of public and central procurement system

**Summary of the measure:** This reform is a continuation of measure from ERP 2015, which aims further improve the public and central procurement system. In line with the planned reforms Kosovo adopted amendments to the Law on Public Procurement which among other through introduction of electronic procurement aims to increase efficiency and transparency of the public procurement procedures, to ensure a better usage of public funds and to reduce the procedural costs, and to encourage economic operators to participate in the public procurement procedures. It also strives to promote a fair competition between the economic operators, while guaranteeing an equal treatment and non-discriminatory principle for all economic operators participating in the public procurement procedures, guarantees integrity, public trust and transparency in public procurement procedures. Main activities for improvement of public procurement system involve:

- Adoption of the National Strategy for Public procurement
- Application of the platform of e-procurement system, initially the module on e-tendering
- Issuing operational guidance for e-procurement;
- Training of all procurement officials on e-procurement;
- Increase of administrative capacities, basic and advanced training;

**Impact to the budget:** Implementation of electronic procurement will not imply additional for coming midterm period, as necessary funding has been allocated for 2015. The project is currently under final stage of implementation. The fund for implementation of e-procurement has been provided by the World Bank in the amount of 1,000,000 USD, which were used on:
feasibility study, drafting terms of references and main part on contracting the company for implementation of procurement. Implementation of this measure will have positive impact to the budget, as the increase of transparency through e-procurement will attract foreign investments.

**Impact assessment:** Application of electronic procurement will have direct effects to transparency and efficiency of public spending; therefore it will enable a more competitive system. Annual savings on government procurement contracts will be increased from the total value of procurement, which then would enable investment of public fund in other priorities. Decreasing the tolerance to corruption so that it is no longer the major obstacle to business requires a big push in order to increase fair competition, limit discretionary decision-making of state authorities, and improve accountability of institutions. In specific, the expected impact is to increase transparency of the public procurement process, to have greater accountability of the contracting authorities, to increased professional independence of the procurement officers, to improve control of corruption.

3. **Other priority measures**

The Government of Kosovo has initiated drafting process of a comprehensive Public Financial Management Programme, which will be based on PEFA assessment and OECD/SIGMA Assessment. In addition to this, the Government has recently adopted a Strategy on Public Internal Financial Control, which outlines improvements of legal and organisational basis, provision of resources for modernisation of the management information systems and support the capacity building at central and local level and in the public sector entities so that the objectives of this Strategy are achieved.

**Priority area #2: Infrastructure**

**Summary of obstacles.** Access to uninterrupted power is a major obstacle to growth in Kosovo. Investing in new power generation capacity, upgrading the network transmission infrastructure and improving energy efficiency are thus key priorities for action. Transport links are not a binding constraint for growth at present, but the road and rail infrastructure also require further development to facilitate cross-border trade, especially related to the mining sector. Water supply infrastructure is also underdeveloped with negative impact on quality of life, but it is not prioritized in the ERP as it has not a direct impact on competitiveness.

**Background analytical information.** Since 2008, Kosovo has invested significantly to improve its road infrastructure by completing a highway with Albania and has commenced the construction of a new highway with Kosovo’s biggest regional trade partner, Macedonia. However, scant investments have been channelled to the railway sector, despite strong evidence about its importance for freight transport related to extractive industries and exports. On the energy infrastructure, Kosovo has privatized its distribution and supply system, but has yet to develop new generation capacities, while the infrastructure on energy efficiency is unfolding slow pace. The World Bank has warned (Public Finance Review, 2014) that Kosovo is set to experience an “energy crunch” unless a new thermal plant is built to address the growing energy supply gap.
**Road and railway infrastructure** - Since the declaration of independence, public investment in physical infrastructure has increased considerably. Since 2007, the investment in transport has mainly focused on the construction of new roads. The scale and composition of transport investment marked a significant shift: it rose from 0.4% of GDP on 2007 to 6% in 2012 (WB, PFR, 2014). However, most of this increase resulted from the construction of Route 7 with Albania. But, while the road maintenance expenditures increased significantly until 2009, they were scaled back to 0.5% of GDP in light of the construction of Route 7. Gross domestic investment (also known as gross capital formation) as a percentage of GDP (comprising of investments in roads, railways, and other physical infrastructure, including land improvements) stands higher in Kosovo than any other country in the region. For the period 2009-2013, the average rate of gross capital formation, relative to the size of GDP, stood at 30.5% in Kosovo, followed by Macedonia (29.2%), Albania (28%), Montenegro (21.4%) and Croatia (20.8%).

Roads represent more than 90% of transport infrastructure by length, while 98% by service delivery (WB, PFR, 2014). Road infrastructure is comparable to the Eastern European average i.e. Kosovo has a high “road transport density” (average road length per square kilometre, per dollar of GDP and per capita), but when measured as “the average road length per thousand of population”, Kosovo’s road density is average (WB, PFR, 2014). According to the World Bank, these statistics point to the fact that the relatively high road density reduces the need for investing in new roads, and instead there is a need to focus scarce investments toward maintenance of the existing road stock. The World Bank also estimates that many of the existing local roads, which require maintenance, have a higher rate of return than the large motorways.

Kosovo’s urbanization rate is still considered low at 35%, which means that the country requires a relatively low level of transport intensity (number of trips per capita). This implies that Kosovo would have difficulty sustaining a fixed mode of transport (such as railway) for passenger travel. Related to the railway sector, Kosovo’s needs should be defined in relation to the potential of the mining sector, by directing public investment, and soliciting private sector participation from mining operators and companies, toward freight transport, rather than passenger railway transport. The investment in transport infrastructure, especially railways, should specifically target trade corridors that enhance export links. Statistically, Kosovo has a very low railway density. According to the World Bank (Public Finance Review, 2014), the railway intensity – captured by the freight ton kilometre and passenger kilometre, per kilometre of track – is the second lowest in South East Europe and represents only 7 percent of the average of the railways in the EU.

**Energy** - Access to uninterrupted power is a major obstacle to growth in Kosovo. The latest confirmation about how the business sector views access to power came from the World Bank BEEPS (2013) survey: around 50% of Kosovo firms surveyed identify access to electricity as a major obstacle, compared to a mere 5.7% in Croatia, 5.8% in Montenegro, 8.1% in Serbia, 10.2% in Bosnia, and 14.8% in Slovenia. Based on an analytical simulation by the World Bank, Kosovo will face a “power gap” of around 3,000 gigawatts per hour in 10 years: this is due to an increasing power demand, and a planned decommissioning of the Kosova A power plant (PFR, World Bank, 2014). Without new power generation capacities, the estimated combined cost of energy production and imports, the World Bank estimates, will increase from around 6
eurocents per kilowatt/hour to more than 8 eurocents per kilowatt/hour in 2024 (PFR, World Bank, 2014).

According to EC Progress Report (2015) “investment and maintenance continue to improve the reliability of the power transmission system and reduce transmission losses. Whilst distribution losses dropped, combined commercial and technical losses are high at 28.46 %.” One of the major constrains in terms of commercial and technical losses are bill collections in the North of Kosovo. On this EC Progress Report stresses that ‘while there was substantial progress with Serbia in terms of relations between transmission companies, little progress was made, until the August 2015 agreement, on the parts of the 2013 agreement that provide for the establishment of a Serbian power supply company in the north. The parallel management that Serbia installed at the Gazivode/Ujmani hydropower plant continues to interfere in its operation, with a risk of flooding.”

Meanwhile, the government adopted in October 2013 a decision to dismantle three facilities at Kosovo A power plant (gasification, fertilizer and heat plant), but this process has faced significant delays (EU Progress Report, 2014). The distribution system has been privatized, and price increases have generated substantial social pressure. To secure stable power supply, the government plans to construct new generation capacities as well as to rehabilitate TC Kosova B. In addition to this, the Government is focused on further development of transmission network as well as decreasing losses in the distribution network, which have been reduced overtime, though they still remain considerably high (the latter at 31%) (EU Progress Report, 2014).

Kosovo also faces the challenge of connecting to the SEE energy market. Kosovo has finalised its part of construction of the high voltage interconnectivity line between Kosovo and Albania. Based on this interconnection Kosovo can start developing a joint energy market with Albania, being complementary to each other. A joint market would significantly increase security and reliability of electro energetic systems of both countries as well as contribute to energy security of the region.

On the area of renewable energy, Kosovo lags significantly behind. The Energy Regulatory Office has authorized three hydropower projects and a wind-powered electricity plant, but they have yet to produce electricity (EU Progress Report, 2014). The government has committed to a 2020 target of producing 25% of its energy from renewable sources, but this target is still a distant prospect (EU Progress Report, 2014). The government adopted in November, 2014, a national renewable energy action plan for 2011-2020. A strategy on energy efficiency has also been adopted for the period 2013-2015 which includes a 3% savings target. A directive on energy performance of buildings is in place but suffers in implementation from inadequate of institutional coordination (EU Progress Report, 2014).

**Measure #2: Further development of the road and railway transport**

The measure is a continuation of respective measures under ERP 2015, and is a strategic priority for the Government of Kosovo. The aim is further develop road and railway infrastructure in order to facilitate regional trade and attract FDI, in line with Western Balkans connectivity agenda. While in the road infrastructure there have been major advances in quality
through building an extensive network of highways, in the railway sector further investments are necessary to bring Kosovo railroads to EU quality standards. The support for construction of multi-modal terminals should contribute to fulfilment of EU environmental standards. Specifically the government will continue to implement its projects on construction and modernisation of road transport. Likewise the railway transport involves upgrade and/or rehabilitation of railways and feasibility study plans to be conducted in the sector. These infrastructural projects were endorsed by the National Investment Committee, to be submitted for further support under Western Balkan Investment Framework and the Berlin Process.

Main investment projects for development of road and railway transport involve:

1. **Roads: new construction**
   1.1. Finalization of the remained segments of the highway Morinë – Merdar (R7)
   1.2. Construction of the Highway (SEETO Route 7) section E from Pristina to Merdar
   1.3. Construction of priority segments in highway Prishtina – Han i Elezit (R6) which connects the Corridor VIII to South-East Europe

2. **Roads: upgrade and/or rehabilitation**
   2.1. Continuation of the projects on extension of national roads Prishtina – Pejë (M9) and Prishtinë – Mitrovicë (M2)

3. **Railway: upgrade and/or rehabilitation**
   3.1. General rehabilitation of railway route 10 (border with Serbia – Leshak – Fushë Kosovë – Hani i Elezit – border with Macedonia)

4. **Railway: feasibility studies**
   4.1. Preparation of detailed project design for southern and northern part of the railway line 10
   4.2. Drafting the project design on the rehabilitation of the eastern line (Podujevë – Fushë Kosovë), (Klinë – Prizren), western line (Fushë Kosovë – Pejë), airport line (Prishtinë – Fushë Kosovë – Aeroporti i Prishtinës)
   4.3. Drafting the feasibility study for the new railway line (Prizren – Durrës)

**Budget impact:** These highway and railway infrastructural projects constitute a direct impact to the consolidated budget as well as to the external sources of financing, such as IPA, WBIF, and WB etc. The total cost amount financed by WBIF of the 11 activities (projects) of the measure within the 3-year period comprises a sum of 603,925,000 EUR.

**Impact assessment:** Infrastructure is not a means in itself but a means to an end. The upper mentioned investments in infrastructure will generate short-term economic growth, but the purpose of the proposed measures is to make those capital investments play a support function for industrial development. The impact of the measures will therefore be a decrease in the cost of transport for exporting agricultural goods and minerals, a decreased cost of moving goods and people within the country, more efficient operations of public institutions and businesses, better market information for product placement and business deals. All of this could lead to increased output and more profitability in several business sectors, thus enabling higher economic growth for Kosovo.

**Measure #3: Further development of energy capacities and upgrade of transmission network**
In order to address challenges regarding generation capacities and ensure stable supply of electricity in the medium-term, a new power plant will be constructed. The TPP “New Kosovo” is expected to have generation capacities of around 500MW. However, in order to ensure stable supply of electricity until installation of new generation capacities, Kosovo envisages postponing the decommissioning of the Kosovo A TPP and rehabilitate Kosovo B to reach higher technical and environmental standards. These interventions would result with electricity generation that simultaneously meets market demands, reduces shortages of supply, increases exports and addresses environmental concerns. Further development of the energy capacities strives to ensure the security of supply for a more competitive market with as minimal environment effects as possible.

In order to implement these measures, the following activities are planned to be undertaken:

1. Development of new generation capacities from lignite, TP New Kosovo, with the most up to date agreed capacity of around 500 MW, cost amounting to approximately 1 billion EUR.

2. Maintenance and rehabilitation of existing generation capacities, including the lignite mining and decommissioning of objects surrounded by TP Kosovo A (gasification, fertiliser and heat plant).

3. Detailed mining project for the development and the functionalization of the new exploitation field.

4. A package of interventions in the transmission network:
   4.1. Further upgrade and rehabilitation of the energy transmission network for the 2016-2018 period
   4.2. Upgrade of 110 kV transmission lines.

**Budget impact:** The budgetary impact of the further development of energy capacities and upgrade of the existing transmission network will be significant. In total, the cost of implementing the activities within the measure equal: 1.989 billion EUR.

The total cost for the 3 year period (2016-2018) amounts to 569.235 million EUR. Decommissioning of TPP Kosova A is expected to be supported through IPA II. Studies for decommissioning will be supported through IPA 2014 which will cost 1.5 million euro. Whereas dismantling of facilities will cost 23 million Euro, to be supported through IPA II (starting from 2018).

This project cost is estimated to cost around 150.3 million EUR. This project is part of Single Project Pipeline endorsed by the National Investment Committee.

The approximate cost for such interventions is 85.4 million EUR, of which KOSTT contributes with 13 million EUR, donations of 11.1 million EUR and the remaining part of 61.3 million EUR will come from loans.

The total cost for the implementation of the activity is 2.3 million EUR.
Impact assessment: By increasing the energy generation, and simultaneously reducing the domestic consumption through efficiency measures and diversifying sources of imports, Kosovo could turn into a net exporter of electricity while also reducing the cost of imports and thus the cost to end-use consumers. Energy could thus play not only a supportive function to development by providing stable supply to other sectors of the economy, but could also become a source of development by generating revenues for the state. At the moment, there is a lack of competitiveness and openness in regional energy markets. The implementation of these measures would ensure an optimal mix of generation sources and take into account social aspect and environmental concerns.

Measure #4: Decrease energy consumption through energy efficiency measures

The measure involves strategic priorities of the government on implementation of energy efficiency measures. In order to fulfil, its commitments towards Energy Community Treaty, Kosovo’s priorities remain the implementation of legislation for buildings and adoption of missing secondary legislation and Energy Efficiency Law. This includes establishment of the Energy Efficiency Fund, and new financing instruments. The fund could provide subsidies for district heating systems; efficiency measures related to public buildings or infrastructure; switching of houses to heating sources other than electricity or insulation projects; provision of loans and credit guarantees for individual households and SMEs for energy efficiency measures, etc.

- Reduce energy consumption and fossil fuel use in public buildings through energy efficiency and renewable energy investments, and enhance the policy and regulatory environment for renewable energy and energy efficiency. Improving the energy efficiency state in the period 2016-2018 is expected to have a cost of 44.75 million EUR, of which 0.45 million EUR from the Kosovo budget while 44.3 million EUR from WB and KfW. Energy Efficiency Measures in Public Institution Buildings. The approximate cost for the activity is 30.2 million EUR.

- Further development of Termokos Central Heating for the period 206-2018. The budget for such interventions is estimated to be 22 million EUR, of which 21.5 million EUR are financed by external sources while 0.5 million EUR is expected to be financed by Kosovo budget.

- Improving District Heating in Kosovo by Implementation of District Heating System in Municipalities with heating potential: The approximate cost for the activity is 150 million EUR.

Budget impact: The budgetary impact of the measures on the decrease of consumption through energy efficiency measures is expected to be 257.45 million EUR. However, the vast majority of the investments will be from external sources.

Impact assessment: Implementation of the measure on energy efficiency will contribute to decreasing of domestic consumption. Decreasing energy consumption will serve to lowering
the cost of energy and as the result will help businesses and increase investments in private sector.

**PRIORITY AREA #3: SECTORIAL DEVELOPMENTS**

**PRIORITY AREA #3.1: AGRICULTURAL SECTOR DEVELOPMENT**

1. **Diagnostics**

*Summary of obstacles* - Agriculture is not identified as one of the binding constraints for economic growth in Kosovo at present. However, given its sizable share in the overall economic activity, improvements to productivity and export competitiveness would contribute to growth over time. This is why the National Development Strategy has prioritised agricultural infrastructure investments facilitating development of agri-business, as well as improvements to agricultural land regulation. Also irrigation systems and cold storage facilities require significant attention, as this is an area where high-value added fruit and vegetable production can be especially profitably exploited.

**Background analytical information:** Agriculture has the potential of being one of the engines of growth over the short to medium term and to move back over time to its pre-war status of self-sufficiency and contribution to exports. Building on recent successes in increasing the productivity of the agricultural sector and agro-processing—including the implementation of targeted reforms and policies aimed at facilitating the formalisation of agricultural activities and farmers’ connections to markets in Kosovo and abroad—could help to provide the rural population with considerably improved economic perspectives. This requires close collaboration with other Ministries, especially Finance and Education, Science, and Technology, to help the sector to “catch up” to production methods employed elsewhere and take full advantage of the assistance offered by the EU and other development partners.

Agriculture plays a significant role in Kosovo’s economy. It is a leading contributor to national GDP, accounting for about 14 per cent of GDP in 2011. Approximately 60 per cent of the country’s poor live in rural areas and depend, directly or indirectly, on the agricultural sector for their livelihood. The sector is the largest private employer, accounting for about one-fifth of total employment, although primarily on an informal basis. About 90 per cent of the population have land for cultivation and 55 per cent own livestock. Beyond economic considerations, Kosovo’s reliance on agriculture has a crucial social dimension—being pervasive as a safety net for much of its population.

Despite a steady growth in the sector since independence, the overall balance of trade in agricultural products is substantially negative. Imports of agricultural products remain relatively high, accounting for about 10 per cent of all imports. Of this amount, 30 per cent comprise food and food products. On a per capita basis, Kosovo is one of the largest importers of food in Europe. This is largely due to the fact that the sector has remained predominantly subsistent/semi-subsistent in nature and faces several diverse and inter-related challenges that are reducing competitiveness and preventing it from meeting its production potential. A key sector of Kosovo’s economy, agriculture is fraught with systemic and structural challenges that will need to be addressed to harness its competitive and growth potentials. At present, agriculture is characterised by (still) poor overall productivity, primarily due to the following:
• fragmented land holdings averaging 1.5 hectares (often spread across an average of seven smaller plots, further exacerbating economies of scale);
• outdated farm technologies and lack of modern agricultural knowledge/skills among farmers and agro-processors;
• lack of diversification of agricultural products;
• lack of investments in irrigation and the absence of a participatory system of irrigation management;
• limited access to, and especially high costs of, credit and investment capital, partly reflecting high informality and the inability to realise the value of collateral (e.g., because of the weaknesses in property rights regarding the availability and reliability of land title documents and maps);
• limited processing facilities, including lack of storage, packaging, and transport facilities;
• limited implementation of food safety and hygiene standards;

Poverty among the agri-rural population is high and about 40 per cent of the rural population is unemployed. Most of the labour force is unskilled or semi-skilled and the lack of perspective of jobs is putting a strain on social cohesion and encouraging out-migration (as well as emigration). In most cases, agriculture forms only part of rural households’ incomes; most families depend on remittances from abroad to supplement their farming incomes. It is estimated that an average of 48 per cent of rural household budget is used for consumption of food and non-alcoholic beverages, leaving little for other necessities and leisure.

While the government has taken several significant and strategic initiatives to address these challenges, a vast unfinished agenda remains. The overall development agenda in Kosovo’s agricultural sector is largely driven by prospects for eventual EU integration. The agriculture chapter is one of the most demanding and onerous chapters of the EU’s *acquis communautaire*. This places additional demands on an already challenged sector. However, moving towards compliance with EU Common Agricultural Policy (CAP) provides Kosovo more opportunity to benefit from technical expertise (twinning projects with EU member states) through the EU Instrument for Pre-Accession (IPA), in addition to assistance from other donors, that can help to put in place the right mix of policies and investments for the establishment and maintenance of a competitive agricultural sector.

2. Planned reforms

The agricultural sector has a strong potential for being one of the engines of growth over the short- to medium-term. Recognising this, in 2015, the government substantially increased its budgetary support to the sector; still the allocation remains considerably insufficient to tackle the myriad challenges facing the sector. Nonetheless, as public investments are scaled up, there is a need to ensure that the appropriate polices are put in place to harness the sector’s productive potential and promote, more broadly, a thriving rural economy. In order to address existing challenges in the sector, the Government will focus its priorities on revitalisation of agricultural sector, investments in agricultural infrastructure for agribusiness and land consolidation related activities.

**Measure #5: Further revitalisation of agricultural sector**
Implementation of support scheme for agriculture and rural development is part of Agriculture and Rural Development Programme 2014-2020, pending approval by the Government. The Program aims to stabilise farmers’ incomes, increase productivity, through usage of improved agricultural inputs and usage of unexploited agricultural lands for production. The measure will directly contribute to increase of quality and safety standards as well as packaging. Main interventions under the existing support schemes include:

1. **Increase productivity** – through implementation of measures under Agricultural and Rural Development Programme, the Government aims to contribute to increasing productivity, increase efficiency and effectivity, usage of new technologies and replacement of old ones. Increase quality and safety standards through investments in agro-processing and increase of efficiency and effectivity.

2. **Reorientation of existing policies** – through promotion of new cultures with priority and competitive advantage and organic farming.

3. **Diversification activities** - development of rural tourism and other activities alternative to the collection and cultivation of medicinal and aromatic plants, and non-wood forest products.

4. **Transfer of innovation and knowledge** in agriculture, forestry and rural areas and strengthening public administration capacity in implementing rural development programs.

**Impact to the budget:** Budget allocation for measures of the first pillar for 2016 is 46.6%, from the total budget on subsidies and grants. Implementation of these measures is in line with the Common Agricultural Policy, as the within EU budget allocation for direct payments is split into 73% for director payments and 27% for other activities as outlined above. In line with this, for implementation of activities during 2016, for the Ministry of Agriculture have been allocated 55,123,922 €. In addition to this, the Government for 2016 will continue to support investment projects on rural development (measures under second pillar), through provision of co-financing grants, in a considerable percentage depending on the purpose and expected impact. In this regard, MAFRD during 2016 aims to support investments in the amount from 50% to 70% for measures 101, 103, 202, 302, 302, 402, 501 and measure on irrigation.

**Impact assessment:** Implementation of foreseen activities in these for ERP 2016 will have direct impact in increasing agricultural production and processing products, new jobs and supporting of existing ones. Also this measure will have direct impact on social policies such as culture; gender equality new green sites will be created and recreational spaces in rural areas. Overall this programme will have direct impact in economic development of the country.

**Measure #6: Agricultural infrastructure for agro-business**

The measure aims to address challenges related to physical infrastructure, including soft and physical infrastructure. This entails extending the coverage of irrigation system throughout the region with high production potential; improvement of wholesale market, decreases transaction cost, etc. This reform measure is in line with the National Development Strategy, and it includes the following:
1. Increase irrigation system coverage to at least 40% of arable land by 2020 (from the current ~25%)

2. Develop the agricultural wholesale market infrastructure, respectively increase warehouse and storage facilities in key Kosovo regions through PPP

3. Expand the number of laboratory testing units for verifying the quality of private seed production and to improve phyto-sanitary measures, which are key to expand agricultural exports;

4. Establishing Integrated Agricultural Information System in order to increase competitiveness in the sector (integration of existing agricultural information systems – FADN, EFR, LPIS, and IACS).

Impact to the budget: te dhwnat tw ofrohen nga Ministria, duke pwrfshirw projektin e mundshwm tw BB pwr ujitje

Expected impact: Implementation of these measures will impact the improvement of agricultural productivity; improving economies of scale in agricultural production through market infrastructure to wholesale and improving land consolidation through a more functional system of registration of farms. Increasing agricultural productivity, economies of scale and innovation will translate into cost savings for agro-processing industry and its growth, and will help provide higher rates of economic growth.

**Measure #7: Regulation of agricultural land**

Through this measure, the Government aims to address fragmentation of agricultural land, by grouping and creation of larger and consolidated parcels, with the purpose of increasing their size and increase the average size of farms. This will have direct impact in increasing the agricultural productivity and competitiveness in the market. Through the National Development Strategy (measure ## under ERP 2016) property rights, which entails interventions on policy and legal framework. Land regulation is a tool for the restructuring of agricultural land, which will affect:

- Dispute resolution of legal participants in the unfinished land regulation and registration of property owners in the Immovable Property Rights Register (IPPR) in Municipal Cadastral Office.
- Increasing the size of the farm, the farmer in order to be competitive in the market. With the completion and registration of owners in IPPR will enable the creation and development of the land market as very important precondition of a free market economy.
- Increase opportunities for long-term investments in lands that have the status of unfinished land in the process of regulation.
- Facilitating land reform through the development of the land market (trade, the creation of standard rental contracts), stopping the further fragmentation of plots.
- Improved control of unplanned construction in areas covered by consolidation, because the loss of agricultural land from unplanned constructions are evident in this case.

Realization of the project for the regulation of land unfinished would help in implementing Municipal Development Plans, mapping regional and municipal environmental protection in the implementation of the project System parcel identification LPIS, fair distribution of
subsidiary in land rights and better monitoring of those subsidies. Also regulation of land would help farmers in land tenure, address to credit and investment in their property, access to investment projects.

**Impact to the budget:** According to the Action Plan of Strategy on Land Consolidation, unfinished projects on land regulation will be carried out during 2016-2018, for which are allocated approximately around 500,000 Euro for each year (from the Kosovo budget). This entails some cadastral zones of unfinished consolidation land in these Municipalities: Vushtrri, Gjakove, Mitrovice, Viti, Obiliq, and Prishtina.

The project on land regulation on voluntary basis currently is carrying out public consultation and information with owners and users of agricultural land in the village of Pozharan, Municipality of Vitia and it is expected to continue with project implementation in an area of 30 ha. This project will also continue in other municipalities according to the Law No. 04/L-040 on land regulation.

**Impact assessment:** Projects of voluntary regulation of agricultural land will continue to increase farm size, access to property, resolution of property disputes, to support income generation for farmers, reduce unit costs, increased productivity of agricultural crops and competition agricultural products on the market. Also regulation of land will contribute to the sustainable development of agriculture and rural areas.

Regulation of the land, as an integral part of rural development and an important policy reform of agricultural land can have an impact on several different levels: lower level (e.g. with farmers as direct beneficiaries, social and gender equality because will clarify property rights), medium (indirect beneficiaries, infrastructure and regional economy and opening of new jobs) and high level (national economy, institutions and the environment).

### 3. Other priority measures

Implementation of these measures will be directly linked with the measures of food safety, quality and hygiene standards, the land cadastre and the packaging and marketing of agricultural products. Direct investment in farm and processing sector will reflect on the proper use of agricultural land, the use of seeds and other inputs quality, the use of techniques and technologies of cultivation, the result will be increased productivity on the farm, lowering production costs, import substitution and improving trade balance. In addition, investment in this sector will have the widest character economic and social development.

**Priority Area #3.2: Industry Sector Development**

### 1. Diagnostics

**Summary of obstacles.** Industry-level factors are not identified as an obstacle to growth in Kosovo. The share of industry to GDP is comparable to some of its regional peers, but given development needs, including the need to create jobs, this may be considered as low. Weaknesses in the private sector environment are pervasive, including engagement in low value-added, undifferentiated, and low-complexity products and a focus on overly saturated tertiary activities. Hard and soft infrastructure problems, related to energy, access to finance, knowledge acquisition, to name a few, are to blame. Moreover, Kosovo has yet to exploit the
potential of industrial clusters as a means toward greater employment generation, but this, too, is hindered by a host of factors, including lack weak inter-firm cooperation via underperforming industry association.

**Background analytical information.** The relative size of industry, measured by its value added, to GDP, for the period 2010-2012 stands at an average of 20%. This is comparable to some of its neighbours: Albania’s industry to GDP share for the same period is 14%; 26% in Bosnia and Croatia, 27% in Macedonia and Serbia; and 19% in Montenegro. The regional average across these countries, including Kosovo, stands at 25%. By comparison, the relative size of industrial countries in Southeast Asia and Latin America is significantly larger. The share of industry to GDP was at an average of 47% for the period 2010-2012 in Indonesia; 46% in China; 43% in Thailand; and 40% in Malaysia (World Bank, WDI). The regional average of industry to GDP ratio across these countries stands at 43%.

Kosovo’s private sector is stuck in a low equilibrium trap: it is small-scale, scattered, engaging unspecialized labour, operating in overly-saturated low value-added tertiary activities, characterized by lack of knowledge and innovation, inadequate corporate financial reporting standards and a systemic failure to adopt EU quality management and safety standards. This, in turn, translates in undifferentiated and low product complexity that is not competitive in international markets and yields low incomes that do not place Kosovo on a sustainable income convergence path to the EU.

The reasons for the weak state of the private sector in Kosovo vary. Hard infrastructure for SME growth continues to be weak due to erratic energy supply imposing substantial costs on businesses; lack of adequate transport links with regional markets, which impose high import costs. Issues related to competitiveness also stem from soft infrastructure problems related to finance, business regulations and commercial court system. In addition, problems related to competitiveness stem from supply-side issues: absence of high-skilled human resources, problems with product certification and innovation, etc.

In general, Kosovo also faces challenges related to the emergence of industrial clusters, because of weak inter-firm cooperation and coordination via underperforming industry associations; weak educational and research institutions who would have supplied the SME sector with business-relevant knowledge; even with those institutions that do exist, there are weak links between them and the SME sector; lack of competitive edges (due to lack of high-skilled labour or lack of innovation) to integrate local clusters as part of regional or global value chains; lack of strong business advisory services to improve value proposition by businesses, including advice on deal-making to enhance joint strategic partnerships both within and outside of Kosovo; efforts to integrate local clusters and the SME sector in general as part of regional and continental value chains are hampered by lack of production certification. Cooperating between firms to pool production capacities together for large-scale orders is hard to achieve if there is variance in firms complying with product certification standards.

**Measure #8: Industrial sector development**

The main objective of the reform measure is to establish conditions for development of SMEs in Kosovo through cluster development in priority sectors of Kosovo’s industrial policy. The rationale behind this reform measure is that Kosovo’s internal competitiveness is weak because
of domestic policy failures and external competitive pressures. This would enhance domestic competitiveness and includes adoption of a National Competitiveness Strategy; supporting cluster development; and facilitating establishment of supplier and sub-contractor cluster networks. Most of this reform is a continuation of measures from ERP 2015, apart from interventions in the mining sector. Key interventions of the measure include:

- **Determining the potential for cluster development**: in order to enhance industrial sector development, the Government will focus on putting in place strategic and policy framework on industrial policy. This involves also identification of investment opportunities for the development of clusters, identification of competitive products in Kosovo through value added chain. Next steps would include awareness raising of businesses for economic benefits from cooperation in clusters as well as provision of grants for start-ups in the framework of clusters.

**Utilisation of mining potential for economic development**: The measure involves the approach that the government of Kosovo will undertake towards utilisation of the mining potential. In order to utilise fully the potential of mining sector the Government will adopt the necessary legislation on Trepca and develop a strategy for its development. As regards, other mining resources the Government will develop key areas of interest, which include preparation of data (passports) for at least two areas designated as areas of interest for mining and announcement tender for research.

**Support to municipalities in the functioning of development of economic and industrial zones**: the activity involves financial support for municipalities in the functioning of existing economic zones.

**Impact to the budget** – Implementation of some activities in this reform like:

- Development of free economic zones, **335,000 Euro (Kosovo’s Budget)**.
- Implementation of a study to determine the cluster development with higher value added

**Impact assessment** – cluster development will enhance competitiveness of private sector, enable links to and for the value chain to development. Implementation of the measure will also increase exports with higher value added, and exports in general in relation to GDP and increase financial capital turnover while increasing domestic industrial production (mining) and its exports, and finally increase the level of strategic cooperation between businesses.
**Priority area #3.3: Services sector development**

**Summary of obstacles.** The service sector itself is not considered to be an obstacle to growth in Kosovo. In fact, the ICT sector is considered to hold significant potential for growth.

**Background analytical information.** Kosovo’s services sector is characterized by large differentials in earnings and concentrated in terms of location only in a few large cities, increasing further the interregional differences in growth rates and development levels (UNDP, Human Development Report, 2012). Economic activity has been concentrated mostly in the services sector, which has grown through large remittance inflows and the large international presence in Kosovo. Substantial productive investment in the tradable goods sector has not taken place yet. USAID, Country Strategic Document)

EC Progress report stresses that Kosovo is at an **early stage** of preparation in the free movement of persons, services and the right of establishment. **Some progress** was made, particularly on financial services. Thorough and transparent auditing and accounting are crucial for the development of a sound financial services market and the economy at large, especially small and medium-sized enterprises (SMEs).

The dissemination of ICT infrastructure in Kosovo is highly uneven. Rural areas, schools, libraries, health, institutions and government agencies suffer either from lack of access to ICT services, or have not adopted appropriate ICT technologies and tools. The ICT sector also suffers from the lack of an overarching body at the center of the government that can coordinate and balance the development of different aspects of ICT sub-sectors. Moreover, Kosovo needs to adopt international ICT standards for its ICT sector, which is a cumbersome and costly process. Many Kosovo businesses especially stand to benefit from adopting ICT solutions to their organizational and process restructuring. Whereas, government services, including procurement processes, stand to benefit enormously from the introduction of ICT technologies and tools.

The dissemination of ICT infrastructure in Kosovo is highly uneven. Rural areas, schools, libraries, health, institutions and government agencies suffer either from lack of access to ICT services, or have not adopted appropriate ICT technologies and tools. The Government of Kosovo aims to accelerate expanding access and application of ICT through extension of broadband infrastructure, as well as strengthening human capacities in order to fully participate and maximise the benefits of digital economy in a global trade. The Government in cooperation with the World Bank are developing the Kosovo Digital Economy Programme. Main component of the programme are based on projects that will develop the relevant broadband infrastructure for not covered areas as well as human capital and digital businesses in order that Kosovo is included within the future of digital economy.

This program is focused on extending the high speed infrastructure broadband ICT across the country for coherent regional development and inclusive approach for the opportunities of ICT, support for regional SMEs, including internet service providers in rural areas, as well as support for rural community.
PRIORITY AREA #4: BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE AND REDUCING INFORMAL ECONOMY

Public policies directly affecting the business environment (e.g. regulatory and administrative reforms, reduction of costs of doing business including para-fiscal charges, improvement in property rights, contract enforcement, access to finance, support to SMEs etc.), subsidy and state aid policies, privatisation, SOE restructuring and corruption will be covered under this sub-section. Public policies reducing the informal economy should also be covered here.

1. Diagnostics

Summary of obstacles: Cost of finance is considered to be a major obstacle to growth, given the low loans to GDP ratio, high interest rate spread, uncompetitive behaviour in the banking sector and a high level of contract enforcement risk. Contract enforcement is also considered a binding constraint to growth due to the cumbersome commercial court resolution process. Practices of the informal economy, too, are considered by Kosovo firms to be a major constraint to business growth. Perceptions among Kosovo firms on the level of corruption practices in Kosovo are considered to be highest in the region, and this presents serious challenges to doing business in the country.

Background analytical information

Doing Business

The regulatory framework in Kosovo receives mixed marks, but in general it can be considered a binding constraint to growth. Labour regulations are considered adequate, but customs and trade regulations are perceived to be a major constraint to enterprise growth (World Bank, BEEPS, 2013). In addition, more than 30% of surveyed Kosovo firms perceive the tax administration as a major constraint, compared to 2.7% in Montenegro, 3.1% in Estonia, 10.6% in Macedonia, and 13.1% in Albania (World Bank, BEEPS, 2013). Furthermore, in the construction licensing, Kosovo lags significantly behind: more than 140 days are required to obtain a construction-related permit, compared to an average of around 80 days in Eastern Europe and Central Asia (BEEPS, 2013).

The World Bank Doing Business report of 2014 specifies a number of areas where Kosovo has made progress. In particular, progress has been made in “starting a business”, improving its overall ranking from 126 in 2013 to 100 in 2014. During this period, procedures to start a business were reduced from 9 to 6, the days required were shortened from 52 days to 30 days, the cost as a % of income per capita was reduced from 23% to 22.1% (WB, DB, 2014). Though obtaining “construction-related permits” pose a significant hurdle, some progress was made. The procedures were reduced from 16 to 15, the number of days required was reduced from 156 days to 151 days, the cost (% of income per capita) was lowered from 2,986 to 514.7) (WB, DB, 2014).

“Getting electricity” recorded no progress regarding the number of procedures (7) and number of days (48 days), but the cost (% of income per capita) was reduced from 915.4 to 881.1. “Registering property” noted some improvements: procedures were reduced from 8 to 7, the number of days shortened from 33 to 28, and the cost (% of property value) from 0.6 to 0.3. “Getting credit” saw no improvements and Kosovo’s overall ranking worsened from 24 to 28
(as other countries have made progress). The strength of the legal rights index remained unchanged at 8 (0-10 ranking, 10 being the best score), the depth of credit information index remained at 5 (0-6 ranking). “Protecting investors” saw no significant change and overall ranking worsened from 95 a year before to 98 in 2014. Extent of disclosure remained unchanged at 6 (0-10 index); extent of director liability index unchanged at 6 (0-10 index); ease of shareholder suits index unchanged at 3 (0-10 index); strength of investor protection index unchanged at 5 (0-10 index).

Informal economy

Kosovo firms rank “practices of competitors in the informal sector” as the single biggest constraint to their business growth: 57.8% of the Kosovo firms, compared to 8.2% in Estonia, 8.6% in Slovenia, 11% in Montenegro, 16.1% in Serbia, 19.9% in Albania and 34.8 in Macedonia. Although small in absolute terms, Kosovo also stands out with the number of years – 0.3 years – that firms reported operating without formal registration (BEEPS, 2013).

Better regulations

In 2014, the Government adopted the Better Regulation Strategy 2014 – 2020. The Strategy aims to institutionalize the Regulatory Impact Assessment (RIA) and to develop a public-private dialogue procedures and capacities with a view to advance smarter regulation. The Office of the Prime Minister (OPM) is to lead on coordinating implementation of this Strategy, which among other reforms aims to establish the RIA Unit in the OPM; review and amending legislation to make RIA mandatory; and providing training and other support to the bodies of Kosovo public administration and the main social partners in terms of capacity building. In 2015, it is expected to institutionalize the RIA unit and adopt the necessary legislation.

The initiative on the implementation of the better regulation strategy aims to implement the following three measures: to establish a web-based portal for central publication of all draft 102 normative acts and supporting documents; to streamline administrative procedures for businesses, and to implement the Law on Permits and Licenses.

Property rights and contract enforcement

“Enforcing a contract” is an area which is consistently being touted as a serious impediment to business growth in Kosovo. Based on the World Bank Doing Business indicators, Kosovo has made no progress over the past few years. It still takes a staggering 420 days from filing a claim to having it taken up by a court, until final resolution. The cost of legal contest remained at a 33% of the total claim value (in Croatia at 13.8%, Bulgaria at 23.8%, Bosnia at 34%, and Albania at 35.7%). The number of procedures required to follow for making and resolving a claim remained unchanged at 53. Similarly, “resolving an insolvency” continues to take 2 years on average, costing 15% of the estate, and the recovery rate (cents on the dollar) hovers at 35 cents/dollar (WB, DB, 2014).

Corruption

More than 50% of firms surveyed by the World Bank in 2013 stated corruption to be a major obstacle to growth, compared to 3.1% in Montenegro, 5.4% in Estonia, 12.2% in Slovenia, 13.4% in Macedonia, 17% in Albania, 18.9% in Serbia, and 26.4% in Bosnia. Likewise, based on the same survey, the reported value of the gift expected to secure a government contract, as
a % of the contract value, was at 2.8% in Kosovo, compared to 0.1% in Bosnia, 0.3 in Albania, 0.5% in Serbia, and 1.6% in Slovenia.

Based on the 2013 foreign investors’ perception survey by International Financial Corporation (IFC), situation with respect to corruption and organized crime was noted by current investors as having deteriorated. More than 45% of surveyed firms by the World Bank reported crime, theft and disorder as a major obstacle to growth, compared to 3.8% in Albania, 4.1% in Montenegro, 6.4% in Serbia, 7.2% in Bosnia, 8.6% in Estonia, 10.4% in Slovenia (WB, BEEPS, 2013). The security costs, as a percentage of annual sales, stood at 2.6% in Kosovo, 2.1% in Albania, 1.7% in Estonia, 0.5% in Serbia and Montenegro, and 0.2% in Slovenia. Around 85% of the firms surveyed reported paying for security, compared to 20.1% in Montenegro, 32.2% in Serbia, 41.2% in Bosnia, 46.3% in Albania, but 84.9% in Estonia (WB, BEEPS, 2013).

Corporate governance

A persistent theme by the banking sector in lending to Kosovo SMEs is the weakness of the latter to strengthen their corporate financial reporting standards. Based on the latest World Bank enterprise survey, only about 20% of Kosovo firms reported having their annual financial statements reviewed by an external auditor. Weak internal accounting standards prevent Kosovo SMEs from exploiting their growth potential.

Access to finance

Access to finance, due to the high cost of it, has been identified as the major problem in development of the private sector and boosting employment and economic growth in Kosovo. According to the 2013 World Bank BEEPS survey, over 40% of firms in Kosovo identified the cost of capital as a significant constraint, compared to 19.9% in Slovenia, 14.7% in Serbia, 7.5% in Montenegro, and 6.5% in Albania. The interest rate spread remains high as compared to peer countries, signalling imperfect competition in the banking sector. Thus, because of the more pronounced decrease of deposit interest rates, the interest rate spread between loans and deposits increased to 9.9 percentage points (pp), compared to 8.6pp in August 2013.

The cost of finance is regularly mentioned as a major obstacle to enterprise growth in Kosovo. Of significant concern is the low level of credit activity in Kosovo. Based on World Development Indicators (WDI), Kosovo’s level of domestic credit provided by the financial sector, as a percentage of GDP, stands at a mere average of 18% for the period 2009-2012, compared to 46% in Macedonia, 56% in Serbia, 66% in Bosnia and Montenegro, 90% in Croatia and 94% in Slovenia. In OECD countries, this figure is significantly higher: 230% in the US, 215% in the UK, or 190% in Germany. The significantly lower level of credit activity as percentage of economic activity may have been induced by a prudential credit policy by the banks; a high lending rate; the high level of perceived contract enforcement risk; the concentrated bank market structure and high profits; and a rudimentary business sector that has difficulties to access the formal banking sector.

The established wisdom on the part of the banking sector is that contract enforcement in Kosovo is high and is reflected on the interest rate spread, which continues to be the highest in the region. For the period 2009-2012, the interest rate spread averages out at over 10%, compared to 2.9% in Macedonia, 3.4% in Slovenia, 4.3% in Bosnia, 5.3% in Estonia, 6% in...
Montenegro, and 6.1% in Albania (WDI indicators, 2012). A look at the items driving the cost of finance, based on Central Bank of Kosovo (CBK) data, the “risk costs” (related to contract enforcement and execution of the collateral) comprise, on average, 40% of the “ex-post costs” that determine the cost incurred by the banks when pricing the cost of lending. “Operational costs” – related to issues such as verification by banks on loan applications by the corporate sector – are the second largest item, followed by “financing costs” (the rate paid to the depositors), and a dwindling “regulatory cost” (because of slashed corporate income taxes in 2009). These data are in line with the received wisdom that risk costs are the single largest item that leads to a high lending rate.

While it is firmly established that the court resolution process of commercial disputes is truly burdensome for the banks, one also has to consider the issue of the “non-performing loans (NPL)”, which are the lowest in the region. For the period 2009-2012, the NPL ratio to total gross loans stood at around 6%, compared to an average of 12% in Croatia and Slovenia, 17% in Montenegro, and 18% in Serbia (WDI indicators, 2012) (see figure 16). Analytically, the low NPL ratio, while a result of a commendable prudential banking sector built following the end of the conflict, also implies that banks have adopted a strong “risk screening mechanism.” In other words, the low NPL ratio seems to indicate that bank lending policies and practices are risk-averse and therefore the level of risk in the loan portfolio is substantially reduced, bringing into question the argument that the high lending rate is a result of the prevailing high level of risk.

In fact, an additional facet to the idea of a high cost of finance in Kosovo should be understood through the prevalence of possible uncompetitive behaviour. Kosovo’s Herfindhal Index (HHI), measuring bank concentration, was 2,200 in 2011: conventionally an HHI above 1,800 is taken as an indicator that the market structure is “highly concentrated” (USAID constraints analysis, 2012). The HHI of Albania Macedonia for the period 2008-2011 was below 1,500, suggesting a “moderately concentrated” sector, and Serbia’s HHI at an average of 500 suggesting that its banking sector is not concentrated. Additionally, the banking sector in Kosovo is deemed to be significantly profitable. For instance, the returns on equity (ROE) stood at an average of 12% for the period 2009-2013, while this figure was at 3% for Serbia, 4.6% for Albania, and 5% in Macedonia (IMF database).

Another indicator of constrained access to finance, based on a Riinvest enterprise-level survey in 2011, is that only 20% of the firms surveyed suggested they used the banking sector for capital, whereas 60% reported using their “own capital”. The latter point is also reinforced by the World Bank BEEPS survey, which finds that more than 40% of the Kosovo firms surveyed reported being registered as “sole proprietorships,” significantly higher than any other country in the region, with the exception of Albania. The rudimentary structure of the Kosovo firms appears to be a significant reason for problems related to access to finance: small firms registered as sole proprietorships typically have serious issues of implementing accounting and financial reporting standards, or with the capacity at solid business planning.

The pledge register was updated in 2012 to be fully digitized and all financial institutions currently use it. Since it is a recently updated, efficient, and well-used system there are no plans to improve it. On the other hand, the Law on Liquidation and Reorganization of Legal Persons in Bankruptcy governs the context of liquidation and reorganization of corporate creditor
rights. Passing a law on bankruptcy is a priority because one does not currently exist. The first draft will be submitted to the government for approval in January 2015. Depending on the government approval process, the law will be passed by the end of 2015 at the most.

**Measure #9: Administrative procedures and public service delivery**

Description of the measure: In line with SIGMA principles for public administration reform, the Government of Kosovo adopted the Strategy for Modernisation of Public Administration. The second general objective of this strategy deals with service delivery, focusing on improving the quality and accessibility of administrative services to citizens and businesses, based on reasonable administrative procedures and using client-oriented delivery methods based on inter-operability of government’s ICT systems and databases. As this is a novel subject in terms of horizontal approach, the focus will be on setting strong policy and legal foundations common to all areas in which administrative services are provided, while at the same time assisting portfolios and local governments in a coordinated effort to improve the quality of and accessibility to existing services. The measure includes the following activities:

- Legislation on general administrative procedure as the framework for providing administrative services in the public administration, including mechanisms for verifying the coherence of specific procedures with its standards is in place and implemented across institutions of public administration
- Putting in place a strategic policy framework for advancing standards in the delivery of administrative services, based on analysis of the services currently provided by public administration institutions, oriented at increasing customers satisfaction
- Red tape is reduced by reduction of unjustified permits and licenses applied by institutions of public administration.
- Establishing the ‘Points of Single Contact’ (PSCs). The main function of the PSCs is to allow the service providers to get information and to complete all the procedures and formalities that are requested to practice a certain activity of services in Kosovo or to provide cross-border services.

**Impact to the budget:**

**Impact assessment:** Success of Kosovo in improving its international “Doing Business” ranking shows that public administration reform, if focused and implemented in a systematic manner, can yield positive and tangible results. The future reforms should cement those achievements and create a business climate in Kosovo that is competitive to country’s regional peers. If implemented, the reforms of public administration could lead to reduced time and effort, and therefore money that businesses need to spend on complying with unjustified Government procedures and on receiving public services inefficiently. Saved resources can be invested into more productive activities. It would also lead to additional foreign direct investment, as investors' companies would find Kosovo’s public administration friendlier than other countries of the region. It would also reduce corruption, as unjustified and inefficient procedures are soils where corrupt practices emerge.
Measure #10: Evidenced based policy development

As part of National Development Strategy, the Government of Kosovo aims that adopted policies and legislation are based on evidences and are systematically preceded by Regulatory Impact Assessment (RIA), in order to develop clear and problem oriented policies. Better Regulation Strategy is the primary document that foresees the introduction of RIA, including ex-post RIA as a tool to assess existing policies and legislation. Effective use of RIA requires enhanced capacities and political will. Given the government’s limited human resources, the RIA methodology should focus on cost-benefit analysis, assessing the underlying costs and capacities to implement a proposed law. The establishment of a Regulatory Quality Unit would also be helpful in gathering and analysing data trends that will inform the process of designing smarter policies in the future. By encouraging RIA in the process of policymaking, unnecessary legislation is avoided, and policies enacted are clear, consistent, and problem oriented. Given Kosovo’s constrained resources, undertaking RIA should help the government achieve greater results per euro spent. Finally, the government should involve business community representatives as social partners throughout the policy-cycle; the maxim Nothing About Them, Without Them should underpin the complete policymaking cycle. During the period 2016-2018 the Government will focus on implementation of these activities:

1. Establish the unit for quality assessment of legislation and capacity building of line ministries on RIA.

2. Putting in place procedures for compulsory implementation of RIA through the system of concept papers and explanatory memorandums of draft legal acts.

3. Establishing a mechanism for systematic collection and maintenance (database) necessary quantitative data for preparation of Regulatory Impact Assessment.


Impact to the budget: €1.98 million for a capacity building project to support the central public administration carry on good quality RIA. The project costs are for 6 full time local experts with a salary of €500 hired for 2 years (including 20% contingency costs) and €300 thousand software cost for RIA database and 10% for its subsequent annual maintenance.

Impact assessment: Policy formulation and law-making is more effective and efficient as well as unnecessary legislation is avoided and policies are clear and consistent and problem-oriented. Systematic implementation of RIA will enable the government to achieve greater results for each euro spent. Their implementation will lead well thought policies and increase of overall efficiency of work in the public and private sector. Decreasing administrative cost and business cost from avoiding unnecessary regulation will enable reduction of government spending and lower cost for doing business, which will directly have impact to economic growth.
**Measure #11: Strengthening the property rights system**

**Description of the measure:** The main objective under this measure is to strengthen the property rights system through particular focus on strengthening the legal framework, promotion of marketable land, strengthening judicial capacities for dealing with property rights as well as activities that would ensure better protection of property rights for marginalised groups, minorities as well as women. Main activities under this measure include:

1) Developing a Legal Framework that Clearly Define Rights and Creates Legal Conditions for Marketable Land Rights Consistent with the *Acquis Communautaire*
2) Putting Land to Use: Promotion of a Vibrant Land Market to Fuel Economic Growth
3) Strengthening the Role of Courts to Recognize, Determine and Enforce Property Rights
4) Addressing Property Issues Related to the Stabilization and Association Agreement and Protection of Property Related Human Rights of Members of Non-Majority Communities
5) Guaranteeing and Enforcing the Property Rights of Women

**Impact to the budget:**

**Impact assessment:** Creation of an effective system of property rights creates legal certainty to investors and consequently increases investment opportunities, while it creates citizens more opportunities to use property as collateral and therefore improves access to finance. Implementation of this measure will have impact on increased private investments that are much needed to enable economic growth. The focus on property rights for marginalised groups also would enable greater social cohesion.

**Measure #12: Increased judicial efficiency**

The efficiency of the judiciary is commonly measured as the speed and quality with which justice is made. However, the Kosovo’s judicial system is slow in the disposition of the cases (large number of received minor offence cases, large historical backlog, and low clearance case lead to accumulation of backlog), subsequently that causing high transaction costs. The focus in improving the efficiency of judiciary should be on decreasing the caseload for minor offences through incentives and speedy court settlements, temporary increase in hiring additional manpower to sort out cases, and introducing a Case Management and Information System (CMIS) in all courts by 2018. Improving the performance of the judicial system in terms of increase of the clearance rates, reduction of disposition time and elimination of backlogged cases is the top priority for Kosovo.

In this context, the following challenges need to be addressed:

1. **Amending the legal framework** so that the judicial system deals only with the minor offences if the fines were appealed by the parties.

2. **Decreased caseload for minor offences:** Introduction of incentives for early payment of fines so that: (1) a 50% discount is applied for fines paid within 72 hours and (2) a 50% increase of the fine is applied if the 7 days payment period is breached and the settlement is transferred to a court.
3. **Targeting zero backlog**: Achieve Zero Backlog in 2020 for civil and criminal cases by hiring additional manpower: Hiring a task force of 100 associates for a period of 4 years with the specific job to dispose of 90 thousands civil and criminal cases

4. **Improve the clearance rates by optimizing the Case Management System**: Automation of Kosovo Judiciary through the deployment and maintenance of CMIS system, including software, hardware and communication lines; training of end users (judges and prosecutors)

5. **Fiscal departments within the basic court in pristina**

**Budget impact**: The total cost for the measure is 11,700,000 EUR.

First, the activity on decreased caseload for minor offences cost is around € 200,000. The policy measure activity envisages amendments to current legislation which do not presume implementation costs. Halving down the fines as an incentive for early payment will be counterbalanced by increased collection of fines. On the other hand, an information campaign costed at € 200 thousand is necessary in order to increase awareness of the population regarding the amended legislation.

Second, the activity on targeting zero backlog costs around € 4,800,000. It is accounted towards the salary wage for 50 judge advisers earning a monthly salary of €4,000 to support disposition of 90 thousand back-logged civil and criminal cases within 2 years.

Third, the cost for the fourth activity is € 6,700,000. It comprises the software and implementation costs for the introduction of an Integrated Case Management System which enables case distribution and tracking from the registration to execution.

**Impact assessment**: The impact of the reforms on the judicial efficiency is indirect on the economic growth, competitiveness, impact on FDI, while the policy measure itself does not have an impact on budget revenues or saving, nor in the job creation. Time savings from decreased disposition time is tremendous. Besides quicker access to justice and, henceforth, improved rule of law, that can attract new investment, the direct impacts of the decreased disposition time is the value saved by those that seek justice in courts. To determine the monetary value of the time savings, the shadow prices from arbitration were analysed. As we know, arbitration is more costly but it provides a swifter settlement of disputes. The break-even value of one day saved is €8.1 determined as the marginal cost of trials/arbitration divided by the marginal time savings. Using this parameter, we have that faster disposal of one case saves 2.5 thousand EUR and, multiplying this to the total number of incoming cases the overall value saved for the society is €140 million Euros. Subsequently, this amount is used as a proxy for the increase in gross fixed capital formation, which is forecasted to have an economic growth increase at a marginal rate of 0.1%.

Improved efficiency does not create jobs by itself. Still, it saves valuable time and resources for businesses which can be re-directed to the productive activities. The associated level of investment can conduct to job creation but the relationship between job creation and increase in capital investment is not sufficient to predict labour market developments.

**Measure #13: Improve access to finances for Kosovo SMEs**
One of the main barriers for private sector investments in Kosovo is access to finance. Around 40% of firms identify access to finance as a major constraint. A large number of SMEs cannot meet collateral requirement to obtain bank loans. Expansion of credit guarantees and improved information on business and individual lending history would enable many more businesses to get access to finance and at lower interest rates.

The following are the main activities of the measure on access to finance improvements for Kosovo SMEs:

1. Fully functioning Credit Guarantee Scheme and newly resourced based on the current design scheme (while ensuring transparent management) and taking into consideration the sectoral priorities from the Industrial Policy paper.
2. Evaluating the functioning of the scheme and reviewing the options for the further expansion and optimisation. Finding other sources of funding in order to increase the sum of the capital invested.
3. Integration of a database for the credit registry system among the Tax Administration, public companies and the business register in order to reduce Information Asymmetry in Bank Lending.
4. Establishing special incentives for the Voucher Scheme of the MTI in order to finance the update of corporate standards for reporting for SMEs. This would lead SMEs to have a better evaluation when it comes to SMEs access to loans in local banks.

Budget impact: € 50 million is the capital contribution to the Credit Guarantee out of which the GoK will contribute with an initial investment of € 15 million by the end of 2016 and an additional € 10 million by the end of 2018. It is expected that private banks and development partners will participate with an additional € 10 million investment.

The vouchers scheme will be run by BAS centres so that no additional administrative costs are envisaged. There will be 1,350 SMEs that will benefit from € 5 thousand vouchers to access expertise on financial reporting.

Impact Assessment: Kosovo’s economy is currently dependent on external sources of financing, primarily remittances and donor funding, as well as high rates of public spending.

Measure #14: Improve corporate governance with state owned assets

Through this measure the Government aims to improve the efficiency of public enterprises in line with OECD corporate governance principles. Within this the Government will consider options for sectorial approach of monitoring and management of corporates with public ownership. In addition to this, the lack of a proper process for risk analysis of state enterprises to the budget and economy, results with a weak development of enterprises. An important intervention for improvement of corporate management includes training of officials in respective sectors on corporate governance and review possibilities for elimination of bureaucracies and influence to the commercial enterprises operating in competitive markets.

Main activities of the measure:
- Adoption of law on public enterprises (central and local level) hartimi I concept dokumentit per plotesimin dhe ndryshimin e ligjit per nderma
- The Policy and Monitoring Unit of Public Enterprises transferred to the center of government
- Public enterprises classified as commercial and non-commercial
- Central public enterprises transferred under the responsibility of respective sectors
- Putting in place the basis for corporate management and possibilities for financing available for corporations
- Operations of central enterprises are outlined in achieving results foreseen for relevant measures
- Establishment of the Institute for Corporate Governance.

Impact to the budget:

Impact assessment (competitiveness and social): implementation of this measure will lead to improvement of performance of enterprises with state assets, therefore it will result to increasing their contribution to economic growth, increase of the value of enterprises and increased incomes for the state budget through dividend.

Measure #15: Fight informality improvement of key processes and establishing a single Revenue Collection Agency

The measure will focus on improvement key revenue collection processes, particularly on improvement of taxpayer registry, addressing deficiencies in declaration and payment of taxes. In addition to this, the measure will tackle informal economy through strengthening risk management in order to fulfil annual targets, identification of unregistered businesses through development of electronic invoice for registration of VAT transactions between businesses. Another aspect of fight against informal economy entails increase of human capacities, in particular tax inspectors for operation activities in the field and during specific period of times, including the night shift.

One of the main aspects of reforms in order to tackle informal economy is the activity on merging the two revenue collection agencies, respectively Customs and Tax Administration. Establishing a single revenue collection agency is based on the need for improvement of services towards taxpayers, reduction of ‘tax gap’ through simplified and effective structures of revenue collection. As the result this will increase the efficiency of revenue collection and reduction of cost during this process, will increase the autonomy of institutional structures dealing with revenue collection. Last but not least, with the new revenue collection agency the aim is to put in place more efficient institutional structures for implementation of tax and custom policies, as well as fulfilling EU integration requirements. Main activities include:

1. Reduction of ‘tax gap’ through simplified and effective structures of revenue collection
   - During 2016 will be implemented the activity on electronic invoices and conducting visits and controls according to the operational plan with the purpose of increasing the fulfilment of tax obligations;
   - During 2017-2018 will be addressed the lack of capacities within the Risk Management Division;
2. Establishing the Revenue Collection Agency:
   - Drafting the law on Revenue Collection Agency, and drafting the Action on functioning of the Agency (2016)
   - Complete operationalisation of Kosovo’s Revenue Collection Agency

3. Fighting informal employment through strengthening labour inspectorate and effective implementation of the Strategic Development Plan of the Labour Inspectorate.

**Impact to the budget:**
Combating informal employment; 1,500,000 euros foreseen in the IPA 2017 for the years 2017-2019

**Impact assessment (competiveness and social):** In the case of Kosovo, the main motivation behind merging two key institutions is the increased potential for raising further domestic revenues, in a light of expected further decline of border revenues due to preferential agreements with CEFTA and the SAA with the EU. Restructuring of LI will enable a new dynamic in the implementation of the legal mandate of the institution, focusing on the protection and guarantee of the rights of the parties in labor market and reduce non-formal employment, which will lead to a greater respect for human rights.

**Priority area #5: Technology and Innovation**

1. **Diagnostics**

**Summary of obstacles.** Kosovo’s rudimentary private sector enterprises pay little attention to research and innovation activities. Moreover, public expenditure on R&D is marginal. Kosovo has a low number of graduates in science and technology, which is a sign of the low technology transfer and absorption capacity. Regional and global networks on research and innovation remain weak. Universities primarily engage in teaching, and their research capacity is limited, the number of graduates in science and technology (S&T) is weak, and there are very few researchers working in key priority areas of industrial development. There is an inadequate and outdated infrastructure at research centres and universities.

**Background analytical information.** Given that micro-enterprises comprise the majority of the private sector in Kosovo, the financial capacity to plough back investment toward R&D and innovation remains very weak (World Bank, 2013). Public expenditures on R&D were estimated to be at around 0.1% of GDP in 2011 (OECD, 2013). Based on the World Bank’s analysis (2013), the R&D system in Kosovo is evident in the insufficient human capital for R&D and technology transfer (i.e. low number of Kosovo graduates in science and technology); and under-developed links with regional and global networks on research and innovation. Regarding the private sector, its innovation capacity is hampered by the lack of links with educational and research institutions, which would enhance capacity for technology transfer and absorption. The weak capacity of business support organizations and business associations also hampers knowledge links with abroad and hurts the capacity to foster innovation in the SME sector. Such capacity also is underdeveloped due to insufficient R&D incentives by the public sector. Lack of innovation in Kosovo can also be evidenced by
negligent patent applications by its residents. Croatia, Serbia and Slovenia do comparatively better, while an industrial country like Malaysia has an average of 1,000 applications each year.

Research and innovation is still a marginal undertaking in Kosovo. Basic statistics on science and technology are still lacking. The Government has attempted to establish a functional system of research and innovation through the National Research Program (2010-2014). The Law on Scientific Research Activity (2004) has enabled the establishment of the National Research Council - the body responsible for setting national research priorities and administration. The law states that up to 0.7% of Kosovo GDP should be spent on research and innovation. However, the overall absorptive knowledge and capacity for research and innovation is still limited in size, scope and quality.

The adoption of the National Research Program has marked the first comprehensive approach to identify the research priorities and also to establish the system and infrastructure for research. The program has identified five research priorities: national resources, energy and environment; agricultural production and food safety; medical research; social and economic studies; and cultural and historic studies. The key objectives of the research program are the development of human capacities for research, development of research infrastructure, internationalization of research activity, strengthening the links between research and economy and promoting excellence in research activity. Under this measure the Government of Kosovo will focus on creating the policy framework for accelerating creation of research and innovation capacity with a focus on priority sectors of industrial policy and based on improved partnerships between public research institutions, such as universities, the private sector firms, and the Government. As to the latter, a joined-up approach between various institutions will be sought. It is expected the measure will establish the basis for increased public and private spending on research and development, which requires a clear policy framework, coordination and appropriate incentives.

The Government recognizes importance of applied research; innovation and technology transfer are critically important elements for Kosovo industrial sector to progress in the value chain and contributing to increase of exports. Significant problem is the lack of even basic research and technology statistics. However, survey data, such as one by the OECD from 2013, suggest that very few firms are actually engaged in R&D activities. About 80% of surveyed firms did not actually conduct formal R&D activities, while 77% among others invested less than 1000 euros in R&D during 2009-2011. 62% of the surveyed companies that perceived themselves to be innovative did not devote any financial resources to R&D during 2009–2011. The sector with the highest share of R&D performers was manufacturing, at 47%. Innovations are mostly adaptive (acquisition of equipment, software etc.), not research driven. Slightly less than two-thirds of Kosovo's total exports are primary products such as raw materials or goods with a low level of processing and relatively low value added such as base metals.

The universities primarily engage in teaching, and their research capacity is limited, the number of graduates in science and technology (S&T) is weak, and there are very few researchers working in key priority areas of industrial development. There is an inadequate and out dated infrastructure at research centres and universities. Limited funding has been among the main constraints to implementation of the NRP. In 2014 the Government of Kosovo due to fiscal constraints could allocate only 0.1% of GDP to this field while the Law on Scientific Research
Activity requires the spending level to be at 0.7% of the GDP level. Other reasons for slow development of research capacities are to be found in the existing incentive frameworks for higher education institutions. Collaborations between research institutions and the private sector are few, and are commonly limited to training and consultancy services, as well as the use of technical facilities. The reasons for a lack of co-operation with the private sector are primarily the absence of interest from private companies and an absence of incentives. Equally, there are insufficiently developed linkages with global networks of research and innovation, including linkages with the scientific diaspora, although, advances have been made recently, as noted by the EU PR 2014.

**Measure #16: Collaboration between the industry and academia with the aim to promote innovation**

The Government of Kosovo drafted the innovation strategy which aims to progressively support innovation and research, leading to establishment of an effective national innovation system in Kosovo. Main reforms of the strategic document consist on creation of inter-ministerial coordination; design and implementation of innovation policies (establishing the Innovation National Council), Development of Sustainable Policy Framework for Research and Innovation; building stronger institutions and relevant market research (creation of consultative mechanism); adoption and drafting of the Innovation Strategy and adoption of the Law on Innovation and technology transfer. The need for further development between industry and academia is of paramount importance for a competitive and innovative market, therefore Kosovo needs to focus also on Specialisation of Higher Educational institutions, providing well diversified set of graduates with a wide range of skills as well as develop an eco-systemic approach when developing innovation system. During the next three year period the Government will focus on these activities:

- Adoption of the Law on Innovation and Technology Transfer (much needed especially when defining the royalties split between the research institution and researchers)
- Establishment of the Council for Innovation under the supervision of the Prime Minister
- Collaboration between academia and business through:
  - Innovation vouchers – 20 innovation vouchers for 2016
  - Research project grants – some 20 grants for 2016
  - Innovation competition and awareness raising campaign 2016 – 2018

**Impact to the budget:** Improved quality of research and innovation leading to understanding of the business sector needs for new technological solutions, as well as application of research and innovation concepts into the business sector. The fund for implementation of SMART specialization and advanced link with the industry will be available from IPA II in the amount of 2,000,000 EUR, which will be used on:

**Impact assessment:** Implementation of this measure will contribute to the creation of more employable workers and more efficient and productive enterprises. Social and economic effects will be long term and will be accompanied by growing income for workers and enterprises. Creating a more agile workforce will help attract foreign direct investment. Investing in
SMART specialization and research and innovation will make enterprises more innovative and thus will enable the growth of industries.

**Priority Area #6: Trade Integration**

1. **Diagnostics**

**Summary of obstacles.** In general, macroeconomic conditions are considered a binding constraint to growth, especially because inflation and other key variables, such as public debt level, are sound. Yet, significant imbalances in the current and trade accounts are a cause of serious concern. Kosovo’s capacity to export remains weak, although growing. One of the most notable, and persisting, weaknesses in competitiveness and capacity to export is the lack of compliance with EU quality standards. The inflow of FDI is comparable with the regional average, especially as a percentage of GDP, but the current levels are considered too low to have a meaningful development impact.

**Background analytical information:**

*Trade agreements* are foundational to Kosovo’s integration with the global economy and economic development through ensuring stable, smooth, and free trade flows. Kosovo is a member of the Central European Free Trade Agreement (CEFTA) and has a free trade agreement with Turkey as of January 2015. These goals are included in the Strategy for Private Sector Development 2013-2017 and the Trade Facilitation Action Plan. One of the main objectives of this measure is to increase the SEE Intra-regional trade in goods by more than 140% by reducing export and import barriers. This measure contribution toward integration of Kosovo into global economy is also to ensure that up to 20 double taxation treaties with other countries are negotiated by the end of 2017. The objective is that Kosovo gains preferential access to export markets through the single diagonal cumulation zone under the Pan-European Mediterranean Convention (PEM). In addition, a harmonization of MFN duties towards EU CET is required as well as the full transposition of the EU Directive on services by end 2017.

*Exports* Kosovo has a precarious current account (CA) balance, even though this is similar across the Western Balkan region. For the period 2009-2013, Kosovo’s CA deficit stood at around 11% of GDP, while the same was 10% in Serbia, 11.2% in Albania, 25% in Montenegro, and 2.5% in Croatia (WEO database). More specifically, the trade account deficit, as a percentage of GDP, stands at 36.3% in Kosovo, compared to 32.7% in Montenegro, 25.6% in Bosnia, 22.6% in Albania, and 19.4% in Serbia, (WEO database). For the period 2009-2012, the export of goods and services, as a percentage of GDP, stood at an average of 18.8% in Kosovo, compared to 64.7% in Slovenia, 48.8% in Macedonia, 38.5% in Montenegro, 40.8% in Croatia, 32.3% in Albania, and 26.5% in Serbia (World Bank, WDI indicators). More specifically, the share of exports related to Information and Communication Technologies (ICT), as a percentage of total service exports, put Kosovo above the regional average for the period 2009-2012. Based on World Bank WDI indicators, the share of ICT-related exports to total service exports was 22.4% in Kosovo for the period 2009-2012, while this share was 10.2% in Albania, 6.6% in Bosnia, 13.2% in Croatia, 7.8% in Montenegro, 40% in Serbia, 23% in Slovenia and 26% in Macedonia.
Regarding the ranking of Kosovo related to its bureaucratic systems on exporting, Kosovo noted a slight improvement in the “trading across borders” category of the World Bank Doing Business report for 2014, where it improved one place from being at 122 to 121. Documents to export remained at 8, the number of days to export at 15, and the cost to export (USD per container) remained unchanged at USD 1,775. Documents to import also remained unchanged at 7, the time to export unchanged at 15, and the cost to export (USD per container) at USD 1,810 (WB, DB, 2014).

**Foreign Direct Investment** The share of FDI inflows as a percentage of GDP (measured in current USD) stood at an average of 7% for the period 2009-2013. This figure compares to 2% in Croatia and Bosnia, 3% in Macedonia and Serbia, 9% in Albania, and 19% in Montenegro for the same period (World Bank, WDI indicators). Similarly, gross capital formation, as a percentage of GDP, for the period 2009-2013 stood at 30.5% in Kosovo, compared to 28% in Albania, 20.1% in Bosnia, 20.8% in Croatia, 29.2% in Macedonia, 21.4% in Montenegro, 19% in Serbia, and 22.4% in Slovenia (World Bank, WDI indicators).

Based on the 2013 foreign investors’ perception survey by the International Financial Corporation (IFC), the situation with respect to corruption and organized crime was noted by current investors as having deteriorated. More than 45% of surveyed firms by the World Bank reported “crime, theft and disorder” as a major obstacle to growth, compared to 3.8% in Albania, 4.1% in Montenegro, 6.4% in Serbia, 7.2% in Bosnia, 8.6% in Estonia, 10.4% in Slovenia (WB, BEEPS, 2013). The security costs, as a percentage of annual sales, stood at 2.6% in Kosovo, 2.1% in Albania, 1.7% in Estonia, 0.5% in Serbia and Montenegro, and 0.2% in Slovenia. Around 85% of the firms surveyed reported paying for security, compared to 20.1% in Montenegro, 32.2% in Serbia, 41.2% in Bosnia, 46.3% in Albania, but 84.9% in Estonia (WB, BEEPS, 2013).

The flagship measures under the Investment Promotion initiative include but are not limited to the development of economic zones, advancement of the scope of the joint investigation department of the Kosovo Customs and Tax Administration of Kosovo as well as the harmonization of customs legislation with EU regulations and directives. The macro issues to be addressed in the investment promotion are rooted in the Strategy for Private Sector Development 2013-2017 and National Economic Zone Plan 2014-2018. Improving Kosovo’s overall Investment Climate through FDI strategy development, strengthened intellectual property rights, online services for businesses and reduced informal economy (Ministry of Finance (MF), Tax Administration of Kosovo (TAK) and Kosovo Customs) contribute to attracting investment, improve the investment climate, and ultimately increase Kosovo’s sustainable economic growth.

**Quality Infrastructure** is a necessary and essential basis for technology development, production, services and trade. Kosovo, particularly the Ministry of Trade and Industry (MTI) needs to continue efforts in modernizing its Quality Infrastructure (standardization, conformity assessment, metrology and accreditation) to reduce barriers to trade and enable better access to the EU and international markets for Kosovo based firms. Additionally, MTI needs to emphasize increasing business awareness about the importance of standardization. Even though Kosovo’s ISO and CEN membership are blocked until the UN recognition, in the past period Kosovo has established the institutional backbone of the Quality Infrastructure.
MTI’s Division of Quality Infrastructure is the main policy body in this sphere. The Kosovo Standardization Agency (AKS), Kosovo Accreditation Directorate (KAD), and Kosovo Metrology Agency (AMK) implement Quality Infrastructure policy. The Standardization Law is in line with the EU acquis. Kosovo has already adopted over 7,000 standards. The system of metrology laboratories is being developed. Over 27 Conformity Assessment Bodies (CABs) have been accredited including testing and calibration laboratories.

**Measure #17: Change on Customs Code and Excise in line with the Acquis**

**Summary of the measure:** Ministry of Trade and Industry in cooperation with Kosovo Customs and relevant institutions, including the private sector and with the support of USAID carried out a trade facilitation self-assessment to identify gaps and specific actions that shall be taken by the respective institutions, based on the aforementioned self-assessment; MTI has prepared an action plan on trade assessment. These measure involves implementation of activities on trade facilitation, which include coordination of activities at the national and the regional level with the CEFTA with a view to negotiate and implement the Trade Facilitation Agreement; amendment of the Customs Code and Excise in line with the acquis, law on customs measures for protection of IPR, as well as accompanying secondary legislation. On the other hand, in order to promote further trade facilitation through the introduction of the Authorized Economic Operators (AEO).

**Impact to the budget –**

**Impact assessment:** Adoption of implementing provisions for the Authorised Economic Operators will enable economic operators to apply for AEO status either to have easier access to customs simplifications or to be in a more favourable position in accordance with the new security requirements. Under the framework of the security, economic operators should submit information before departure of goods entering the country. AEO security certificate allow their holders to benefit from facilitations with regard to customs controls relating to security. They also allow to benefit from mutual recognition agreements with other countries.

While the adoption of the Law on protection of IPR, which stipulates procedures for action by the Customs, in cases when goods are suspected of infringement of the intellectual property right, be that in situations where the goods are imported/exported or tyrannized.

**Measure #18: Encouraging businesses to improve quality of products**

The Government will continue its efforts for modernisation of quality infrastructure (standardisation, metrology, accreditation and conformity assessment) in order to reduce trade barriers and increase trade integration. Approximation of legislation with EU Directives for different groups of products remains satisfactory. In order to address these challenges this reform measure will focus on encouraging businesses to improve quality of products. Main interventions involve financial and technical support to certify products business with the ISO standard through:

1. Subsidising businesses in the form of vouchers for expenses that have products certified
2. Business training for the application of standards
3. Train the relevant institutions of quality infrastructure for the services that they offer to businesses
4. Further complete the legislative framework of quality infrastructure being aligned with the acquis of the EU
5. Quality infrastructure organizations improve European cooperation with relevant organizations, with the purpose of increasing the capacity of the quality infrastructure, with the best service for businesses that simplifies the certification of their products

**Impact to the budget:** Development of quality infrastructure, almost all costs are covered from the EC project Free Movement of Goods,

**Impact assessment:** Establishment / Strengthening of Quality Infrastructure is the means and the most durable boost of the competitiveness of businesses. All activities and operations of the Quality Infrastructure including harmonization of legislation, raising awareness among stakeholders, and other technical capacity building, support direct and indirect trade integration.

**PRIORITY AREA #7: EMPLOYMENT AND LABOR MARKET**

1. Diagnostics

**Summary of obstacles.** High-skilled labor—in both graduate and vocational education— is considered to be a binding constraint to growth. This is mainly due to evidence of excess demand for high-skilled occupations, and evidence of a high-skill premium. Educational outcomes strongly influence the level of unemployment across age groups and levels of education. Secondary vocational education is found to be more labor market relevant, especially in comparison to those in general education. The Public Employment Service is considered institutionally well developed, but with the exception of donor funding, there is scant public financing.

**Background analytical information**

**Lack of high skilled labor**

Lack of skilled labor is considered to be a binding constraint to growth. There is fragmentary evidence of a “high wage premium” i.e. scarcity of supply of the high-skilled labor. A survey by a local think tank (Riinvest, 2011), using enterprise-level survey, found that the average salary of individuals holding a postgraduate degree was twice as large as those holding a bachelor’s level diploma. The World Bank Business Enabling Enterprise Performance (BEEPS) survey in 2013 also unearthed the importance of an adequately educated labor force. More specifically, compared to the 2009 BEEPS survey, there was a 13 percentage point increase in the number of local firms that say Kosovo’s “inadequately educated labor force” was a constraint to growth. Meanwhile, the IFC foreign investors’ perception survey of 2013 revealed that 85% of those who identified themselves as “current foreign investors” in Kosovo considered the “availability of skilled labor” of high importance, while this figure stood at 87% for those identifying themselves in the survey as “potential foreign investors” surveyed.

Evidence of absence of high-skilled labor being a binding constraint to growth emerges out of the analysis of the Labor Force Survey done by the World Bank (Public Finance Review, 2014).
This analysis suggests that there is excess demand in the labor market for individuals with graduate and postgraduate education, and vocational secondary education, including for such occupations as machine operators, technicians and other professionals. Meanwhile, there is excess supply for individuals with only primary and general secondary education, and such occupations as clerks, sales services, craft, managers and agricultural workers.

**Education and labor market**

Unemployment is substantially linked to educational outcomes: the unemployment rate among individuals with tertiary education stood at 15.6% in 2012, compared to 44.6% among those with only primary education completed, 28% for those with secondary vocational education (lower than the national unemployment rate of 30%), and 38.8% for those with general secondary education (LFS, 2013, 2012).

An interesting part of the LFS analysis is the fact that individuals with secondary vocational education are more likely to be employed in the private sector than the public sector, but the opposite is true for those that have completed tertiary education. Moreover, as a potential sign of the growing importance of relevant labor market training, labor force participation among those with vocational education was the highest across all age groups. For instance, in 2012, labor force participation among those with vocational education across all age groups stood at 41% (as a share of the labor force), compared to only 21% for those with tertiary education (across all age groups).

**Public Employment Service**

Kosovo operates a Public Employment Service (PES). In 2014, PS helped find 4,729 jobs for jobseekers, while the number of people trained by it was 2,093. Public expenditure for PES in Kosovo amounts to around 0.16% of the GDP, but there is an extensive donor support for the active labor market measures, which is estimated at up to of 0.30% of GDP in 2014. Besides the PES, there are 8 Vocational Training Centers and 6 Mobile Centers (under the MLSP) providing short-term modular trainings to unemployed. There are also numerous private sector providers of training services; however, the licensing is not fully developed. Informality in employment remains high.

**Vocational Education**

In Kosovo there are 61 VET schools. These are subordinated to municipalities but funded mostly through the grant from Kosovo budget on per capita basis. Allocations per student in VET, amounting to 23 Euro per year, are not sufficient to cover even the basic needs. This, among other aspects, restrains investment in school infrastructure, equipment and workshops for specific skills. Many programs do not sufficiently reflect the needs in terms of relevance, and the quality of teaching needs to be improved. Besides, there is the need to tackle reluctance of companies to cooperate with schools in terms of professional practice. Only 63% of VET schools offer practice opportunities in enterprises while less than 20% do not provide practice opportunities neither within the school nor outside.
As to the current policies to tackle the above-described problems, the National Qualifications Authority (NQA) has set up procedures for validation of occupational standards and accreditation of VET institutions. It has made progress approximating the National Qualifications Framework with the European Qualifications Framework. The Agency for Vocational Education and Training and Adult Education (AVETAE) became operational during the spring of 2014. It manages VET institutions in terms of financial and human resources, construction and infrastructure. 4 Centers of Competence under the MEST (construction, tourism, economy, health) have been made operational, and 2 more are planned (auto mechanics and metalworking). They provide short and longer-term training courses, and are generally better equipped than the VET schools.

2. Country specific recommendations

The recommendations from the Ministerial Council meeting between the EU and Western Balkan countries, in regard to area of employment and labour market for Kosovo were: higher effectiveness of the Public Employment Service; education system to respond better to labour market requirements; modernization of vocational education; and provision of incentives to reduce the level of undeclared labor.

The achieved progress so far of the above recommendations is the following: the regulatory framework for the Public Employment Service is on finalizing stage; the package that refers to licensing non Public Employment Service providers has been prepared; the draft Law on social enterprises is in the process of opening to the public discussion; the Strategic Development Plan for the Labour Inspectorate is prepared; and the review of five vocational training programs is under completion.

Measure #19: Better linkage between educational programs and required skills for the labour market.

Unemployment is a major problem in Kosovo, it remains the highest in the region. The data from the Labour Force Survey for 2014 notes that unemployment increased to 35.5 % from 30.0 % in 2013, whereas in 2014 the level of youth unemployment reached 61%. Funding for employment services as well as training and re-training remains insufficient and fragmented in some subjects.

In the other hand, informality in the labor market is very high, a significant proportion of economically inactive persons are in fact discouraged workers and the public employment services have an evident need for reform and modernization and better linkage with the labor market.

Discrepancy between labor market needs with the knowledge and skills gained in higher education and vocational education are identified as huge gap of more than 2/3 of existing and potential investors in Kosovo - about 25 % of firms in Kosovo still complain that the workforce has inadequate skills; low level of expenditure for students in VET and at least a quarter of VET schools do not offer practical work either in school or outside school; no system for predicting the skills required in the marketplace.
There is no system for forecasting the skills required in the market. The process of drafting the professional qualification standards is slow as well as the implementation of the Curriculum Framework. Enterprises do not have clear incentives associated with the provision of jobs for graduates practice as well as the education system does not provide proper career guidance.

ERP 2016 aims to strengthen the links between educational programs and labor market needs through the establishment of professional standards and priority areas, and implementation of the core curriculum and teacher training, which will be achieved through:

As a response to the existing situation, the Government will take the following activities:

- Further strengthen public employment services through operationalisation of the Employment Agency and completing necessary legislation in line with the reform process of PES – (which includes also lincesning and monitoring of non-public employment providers);
- Development and implementation of the National System of forecasting skills needs, ensuring its linkage with career guidance mechanism (system) within schools and employment services/ lifelong learning, and the promotion and creation of conditions for services and accompanying studies to track progress in their careers.
- Providing opportunities for training and employment – through on job-training, institution and enterprise based training, internships and apprenticeships programmes, self-employment programmes, etc. Active labour market measures THIS NEEDS TO BE SPOECIFIC

WAGE SUBSIDIES FROM EMPLOYMENT FUND

- Determination of priority areas of VET in consultation with Kosovo's development policies (clusters/groups approach). Development/implementation of the core curriculum in a modular format according to the priority areas of VET and realization of the program for the training of VET teachers for those sectors, based on the standards of the profession. Implement pilot VET system’s mixed with elements of dual learning (combination of learning in schools and enterprises) starting with priority areas and continuing VET according to Core Curriculum. Coordination with wage subsidy system in those areas, in order to achieve better integration of VET graduates to the labour market;

Impact of the structural reform in budget

- Functionality and strengthening of the capacities of the Employment Agency of the Republic of Kosovo; 80,000 for 2016 (from Budget of Kosovo) and continuing for the years 2017 to 2018 with the same amount planned per each year; from IPA 2016 funding 1,250.000 euro are provided for the years 2016 to 2018.
- Provision of equipment to new centers and existing ones, as well as the recruitment of a number of trainers for planned workshops, for 2016 are planned 580,000 euros.
- Ensuring the quality of trainings, the review of the curriculum and accreditation of new ACA Qualification: 30,000 for 2016 form the budget of Kosovo, also for 2017 and 2018 30,000 euros per each year.
Provision of training and employment opportunities, covered by IPA 2016 for the years 2016-2018 with the amount of 1,500,000 euros. Also, from IPA funds, through grants, in 2016 are planned 13,250,000 euros, and for the years 2016 to 2018, from the Kosovo budget are planned 2,000,000 euro.

In the VET sector, for the training and professional development of teachers, paragraph 13, according to the budget plan for the 2016 and budget estimates for 2017-2018 are planned 66,000.00 euros per each budget year.

According to the budget planning for 2016 and budget estimation for 2017-2018 for each budget year for the curricula are planned around 50,000.00 euros.

**Expected impact on competitiveness:** Reforming and modernization of the Public Employment Service, will have positive effects in increasing competitiveness and improving the quality of market demand and the needs of jobseekers. In particular, licensing of the non-public employment service providers will help reduce the cost of this service, the expansion of its service and in the medium term will lead to an achievement of larger targets to alleviate unemployment.

Another dimension of this measure has to do with expanding opportunities for beneficiaries of different categories, especially for younger age groups that will benefit through training on entrepreneurship and more importantly will benefit from projects related to labor market active measures and projects that support the creation of new jobs through small grants by respective ministries. Another positive effect relates to actions targeting informality and resulting in better implementation of law, higher budget revenues, which related to active measures and social scheme will result even on greater budget savings and promotion of the culture of social activism, economic and business performance,

And finally, the promotion of employment services by providing greater access to job seekers and employers in the public and private employment, will affect growth increased competition and institutional and public accountability in this regard.

Implementation of this measure will contribute to the creation of more employable workers and enterprises more efficient and productive. Social and economic effects will be long term and will be accompanied by growing income for workers and enterprises. Creating a more agile workforce will help attract foreign direct investment. Investing in smart specialization and R & I will make the most innovative enterprises and thus will enable the growth of industries.

**Expected social impact:** The development of these activities will have a positive impact on social policies, especially in the sense that the beneficiaries of social assistance category II will benefit from the transition from social assistance schemes to sustainable employment.

Provision of additional training, the adaptation of curricula and similar actions will influence the improvement of vocational training resulting in greater harmonization of supply and demand in the labor market, and therefore contributing to higher employment and citizens’ welfare.
**Priority Area #8: Social Inclusion**

*Fostering social inclusion, combating poverty and promoting equal opportunities*

This section will cover public policies modernising social protection systems to provide effective, efficient, and adequate protection throughout all stages of an individual’s life, fostering social inclusion, promoting equal opportunities including for women and men, and addressing inequalities. This includes social protection systems promoting social inclusion by encouraging people to actively participate in the labour market and society, and covers sustainability and adequacy of pension systems and access to quality services such as childcare, education, training, housing, health services and long-term care.

2. **Diagnostics**

**Summary of obstacles:** Kosovo’s current demographic trends imply that aging does not present a risk for the pension system sustainability in the foreseeable future. In relation to the health sector, Kosovo is unable to provide meaningful universal health care access, and available health services are of weak quality. The public health system is under-financed, with the total public spending from the budget being low for both regional and EU standards. A new health financing law has been approved which is meant to address the level of funding and ensuring an expansion in quality health care services.

**Background analytical information**

**Pensions**

Kosovo has a young population; the median age was 28.2 years in 2011 and the share of population over 65 years was only 6.9%. Based on SAK demographic projections, the old-age dependency ratio in Kosovo will not reach the current average level of the EU-28 countries before 2040. This indicates that ageing does not present a major risk for pension system sustainability in the foreseeable future. Accordingly, apart from some operational improvements, no comprehensive pension reform is planned nor needed in current circumstances.

Basic pensions are paid directly from the budget and they are estimated at 119 millions of euros (about 2.2% of GDP) in 2015, including supplements for special categories of beneficiaries. A fully funded mandatory pillar 2 pensions system is also in place. Contribution rate is 5% for both the employer and the employee. The funds are held in individual accounts managed by the Kosovo Pensions Savings Trust (KPST). Since this second pillar is fully funded (with funds managed by a professional body and largely invested abroad), it does not require budgetary financing and is considered sustainable.

**Health**

Kosovo is currently unable to provide meaningful universal access to health services, while the quality of such services is low. Kosovo has an under-financed public health system, in which total public spending from the national budget, and as a percentage of GDP, are low based on the regional and EU average. This relates both to total health expenditure and to the health share of the government budget. Spending on health in 2012 stood at 2.6% of GDP, while
health accounted for 9% of total government spending in that same year. The EU average in 2011 stood at around 13% of the general government spending and 5% of GDP.

The recent Law on Health introduced a mandatory contribution of 3.5% for both employers and employees that will finance the newly established Health Fund and is expected to start being collected in 2016. This will increase the scope of services provided by the public health system and improve its financial sustainability. Financing improvements in the health system by a newly introduced and ear-marked contribution will not put additional pressure on the budget.

In part because of limited public health spending, out of pocket (OOP) spending is high and is a key factor in impoverishment. Based on the estimations by the World Bank using the Kosovo Budget Household Survey data from 2011, the high level of OOP spending is estimated to have contributed to a 7% increase in the poverty headcount associated with OOP payments. The high OOP spending comprises of especially large spending on drugs; increasing their affordability is critical to improve health outcomes and the quality of care. Public spending on pharmaceuticals is very low: 12.5 euro per capita per year in 2012.

The management capacities of the institutional architecture that governs health services are low, and are compounded by institutional fragmentation between the central and local levels. Responsibilities for the primary and secondary care are fragmented between central and municipal levels. Hospital care is under the responsibility of the Ministry of Health, while primary care service delivery is under the responsibility of the municipalities. Such a fragmentation complicates the effective oversight of primary care services by the Ministry of Health and appropriate incentive structures and coordination mechanisms are required.

As a developing country, Kosovo struggles with its lagging health outcomes.

The life expectancy at birth is 70.2 years, but this is 10 years lower than the EU average. Based on the most updated data, the Infant Mortality Rate stands at between 9 and 11 per 1,000 live births, which are double the EU average. The epidemiological patterns imply that health care services at the primary level are critical to improve these health outcomes. An expanded coverage of health education, counselling and testing services at the primary level are critical to improve health results. Strengthening the system of health care is also important in the context of health insurance.

3. Country specific recommendations

The Government of Kosovo during this period has been focused on fulfilling the secondary legislation and operational infrastructure, regarding the provision of services that are directly influenced from the measure. Activities that have been implemented in the course of second half of this year include: approval of secondary legislation for implementation of state funded pension schemes, and secondary legislation for implementation of the law on war categories; verification of the status of veterans and starting implementation of pension schemes for war veterans; approval of the increase of social assistance, approval of the regulation on internal organisation of Health Financing Agency; drafting secondary legislation for commencing implementation of premiums for health insurance; developing software for the Health
Information System; addressing gender equality through capacity building for an inclusive decision-making as well as rational distribution of human and financial resources.

**Masa #20: Improve social and health services, and empower women economic activity**

The objective of this measure is to tackle main areas of social protection with the aim of alleviating poverty and supporting marginalised groups. In particular, the measure with focus on further strengthening existing social protection schemes, implementation of legislation on health insurance as well as related activities to support marginalised groups, as well as increase investments in pre-school and pre-primary education. Main activities of the reform measure are:

1. Improve municipal social and family services through amendment of the Law on Local Finances and inclusion of specific grant on social services; Developing a financing formula for social and family services.
2. Implementation of health reforms through introduction of health insurance, while ensuring coverage of the cost of premiums for sociale categories.
3. Improve enrolment and inclusiveness in pre-school education: The action should involve increasing enrolment in pre-school education for at least 5000 children (0-5) and increasing enrolment in pre-primary education with an additional 5000, including children with Special Education Needs (SEN) and children from Roma, Ashkali and Egyptian community (RAE), and strengthening inclusiveness related to legislation and support.

**Expected impact on budget:** Covering the cost of premiums for social categories will include 151 million euros, whereas collecting premiums from citizens will cost 60-80 million euros.

**Impact assessment (competitiveness and social):** As activities of this measure are linked with the measure on employment, implementation of this measure would enable decreasing dependence from social schemes, in a way that when possible conditioning social assistance with active labour of beneficiaries and participation in education and training programmes. This would enable greater economic empowerment and integration. Implementation of these activities will have positive impact in increasing the welfare of different social categories and improved health services, which would have impact into equal treatment and inclusion of marginalised groups. The reform of the health sector financing represents real opportunity for substantial improvement of the situation in the health sector without impacting on the country's fiscal sustainability. Fund revenues collected from these sources will enable significant improvement in the quality and quantity of health services in the country, optimizing access to poor categories of citizens in the health services of high quality; and above all by providing financial protection to all citizens of the Republic by the high cost of treatment in case of illness or injury.

The combined result of the above activities will be increased involvement in preschool and primary education. Another indirect effect and will be to improve the success of students at primary and other levels. Another indirect effect will be to increase the participation of women in the labor market. Improving student success will enable strengthening the skills of the
workforce, which in the long run will enable greater economic growth and opportunities for higher incomes.