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ANNEX

Kosovo Annual Action Programme 2006

1. IDENTIFICATION

Budget heading:	22 05 03 Aid for the Reconstruction of Kosovo
Budget year	2006
Total cost:	EC contribution: € 46.5 million
Legal basis:	Council Regulation 2666/2000 Council Regulation 2667/2000
Contracting	All contracts must be concluded after the signature of the Financing Agreement and within 36 months following the date of the budgetary commitment.
Implementation	The Final Date of Implementation of projects under this proposal is 31.12.2014. Therefore, all activities, including contracts, payments, monitoring, audits and evaluations must end by 31.12.2014.
Annual programming/ implementation	Indirect Centralised Management by the European Agency for Reconstruction € 46.5 million

2. KOSOVO UPDATE

Political

In June 1999 the United Nations Security Council passed Resolution N° 1244, establishing the United Nations Interim Administration Mission in Kosovo (UNMIK). The 'Constitutional Framework for Provisional Self-Government', promulgated in May 2001 by the UN Special Representative of the Secretary General (SRSG), defines the 'Provisional Institutions of Self-Government' (PISG), and the division of responsibilities between UNMIK and the PISG.

Many administrative and legislative powers are 'transferred' to the PISG, while some specific powers are 'reserved' to UNMIK pending Kosovo's final status. The SRSG retains final say on all issues in order to safeguard UNSCR 1244. Further competencies are expected to be transferred to the PISG, and in July 2005 the SRSG announced the creation of new ministries for justice and public order.

In October 2005, the UN Security Council published Ambassador Kai Edie's comprehensive review of the situation in Kosovo. The review calls for further progress in the implementation of the UN *Standards for Kosovo*. The review also advocates initiating the process to determine future status. In October, the UN Security Council endorsed the start of talks that will lead to the settlement of Kosovo's status. UN Secretary General appointed Mr Martti Ahtisaari as UN Status Envoy.

A European Future for Kosovo

The European Union is actively supporting UNMIK and the PISG to facilitate Kosovo's progress towards the creation of a democratic and multi-ethnic society adhering to the values and standards of the EU. The Stabilisation and Association process (SAP) is the policy framework for advancing the EU perspective of the Western Balkans, including Kosovo, as confirmed in the Thessaloniki Declaration of June 2003.

The new *European Partnership* covering Kosovo¹ sets out the priorities to move closer to the European Union. The Partnership reflects the Commission's *2005 Progress Report on Kosovo*. The Kosovo authorities will draft a new *Kosovo action plan for the implementation of the European Partnership*. The Kosovo SAP Tracking Mechanism (STM) is a forum to discuss Kosovo's progress in implementing the European Partnership. It is designed to assist the PISG and UNMIK in driving the wider reform and institution building process in an EU-compatible manner, and to increase understanding on EU policies and standards.

The Office of European Integration Processes (OEIP) within the Prime Minister's Office plays a key role – supported with EC assistance - in coordinating and monitoring the implementation of policies and legislation in line with the European Partnership and its Action Plan. The PISG OEIP works closely with the UNMIK OEIP.

The Commission's Communication *A European Future for Kosovo* (April 2005) makes Kosovo's long-term European perspective more tangible. The Commission has committed itself to further advancing Kosovo's progress within the SAP. The resources and expertise mobilised under the 2006 Action Programme for Kosovo address the actions identified in the communication, particularly those to enhance economic development, institutional capacity building and regional integration.

Economic & social

Basic infrastructure has been rebuilt and some economic progress has been made in Kosovo since 1999 as a result of the interventions of the international community, together with the efforts of the entrepreneurial local population, the diaspora and the PISG. However, Kosovo remains the poorest region in the Western Balkans. Poverty remains widespread at 37% of the population, according to the World Bank, but is relatively shallow. Per capita income is estimated at around €1,250 p.a.. Unemployment is estimated at around 42%. Foreign investor confidence is weak. There is a substantial trade deficit reflecting a low capacity to export.

The conditions for the foundation of a multi-ethnic society remain grim. The overall returns process has virtually come to a halt. There is a need for a more flexible policy of assistance to support the return of people to where they can live and not only where they have lived.

3. SUMMARY OF THE ACTION PROGRAMME

The 2006 Action Programme for Kosovo focuses on institution-building, promoting good governance and economic development – for all of Kosovo's communities - in order to further advance Kosovo's transition to a market economy and closer integration within both regional and wider European contexts, in line with the Stabilisation and Association process (SAP). The programme builds on and

¹ Approved by the EU Council of Ministers in November 2005

consolidates previous phases of EC assistance to Kosovo. The programme was planned and will be implemented in cooperation with PISG, UNMIK, and donors, particularly the EU Member States. The programme will be implemented in conjunction with the regional and other national CARDS programmes. This Action Programme reflects the priorities of the European Partnership, as reflected in the Multi-Annual Indicative Programme 2005-2006 (MIP) for Kosovo. Cross-cutting development issues, particularly the promotion of gender equality and the participation of ethnic minorities, is mainstreamed in the design, implementation and monitoring of the actions described in this annual programme. Taking the priority sectors of the MIP as headings, the Action Programme is summarised as follows. Further details are available in a separate set of Sector Fiches.

Democratic Stabilisation (approx. €5.6 million)

The programme will continue to support employment generation and community development in disadvantaged minority communities, directly assist the returns process in coordination with the PISG and UNMIK and assist the reconstruction of Kosovo's religious sites damaged in March 2004. The skills and professional standards of journalists and media professionals in Kosovo will be strengthened.

Good governance and institution building (approx. € 15.3 million)

The programme will further build the institutional capacity of the PISG to more effectively perform their governance roles and to strengthen the rule of law, in line with European Partnership priorities and EU best practice approaches and in the context of the transfer of additional competencies from UNMIK and preparations for future status. Priority interventions focus on: institution-building assistance to the Office for European Integration Processes and the Ministry for Public Services; building the professionalism of the civil service; improving public finance management; strengthening local government; sectoral support to build the capacity of Kosovan institutions in the justice sector; reforming the juvenile justice system; and further strengthening border and boundary management.

Economic and Social Development (approx. €23.7 million)

The programme aims to promote sustainable economic development. Assistance will be provided to: increase domestic and foreign direct investment; develop a quality standards infrastructure to improve industrial competitiveness and exports; support enterprise development in disadvantaged areas and among marginalized groups; strengthen corporate finance; and incorporate public owned utilities. The rural economy will be targeted through further institution building support to the Ministry of Agriculture, Forestry and Rural Development, the development of local rural economy development strategies, and improving natural resource management. Kosovo's participation in the Energy Community of South East Europe will be strengthened. Kosovo's transport policy will be developed further. EC assistance will develop a demand-driven vocational education and training system for Kosovo.

GTAF and Programme Reserve (approx. €1.9 million)

The General Technical Assistance Facility (GTAF) allows project preparation to proceed in a quick and effective manner. The Programme Reserve will be used to cover 2006 programme related priorities and expenditures that are currently unforeseeable.

The 2006 programme is designed to have the flexibility necessary to respond to Kosovo's priority needs in 2006 and 2007, particularly in the context of progress towards future status, and the ever strengthening EU role and presence in Kosovo.

The Annual Programmes are published on the web-site of DG Enlargement as well as on the web-site of the EAR. All international calls for tender and calls for proposals are published on the web-site of Europe-Aid and all local calls on local newspapers and on the web-site of the EAR.

3.1. DEMOCRATIC STABILISATION (approx. €5.6 million)

This section proposes programmes on: minority rights and returns, and the media.

3.1.1. Returns, Integration & Minority Rights (approx. € 5,2 million)

Background & cooperation related policy of Kosovo

Sustainable Returns and the Rights of Communities is a key priority under the UN 'Standards for Kosovo' and emphasises that members of all communities must be able to participate fully in the economic, political and social life of Kosovo and that all displaced persons who wish to return to Kosovo be enabled to do so in safety and dignity.

In July 2005, the SRSG and the Prime Minister launched the *Strategic Framework on Communities and Returns* and established a High Level Task Force on Returns. The framework confirms the government's position on the return of all IDPs. It identifies three priority areas: the promotion of safety and freedom of movement; the creation of sustainable conditions for returns; and the enhancement of institutional support for returns. The implementation plan for the framework is articulated in the *Programme of Action on Communities and Returns* which is expected to be published in spring 2006.

The Ministry for Communities and Returns (MoCR) has been operational since February 2005. The ministry is expected to assist the PISG to fulfil increasing responsibility in the area of returns and minority communities. EC assistance under the 2005 programme is available to assist the PISG and the MoCR.

In cooperation with the European Commission Liaison Office in Pristina, the Agency is undertaking an assessment of the barriers to return and the performance of past EC assistance for returns in order to contribute to the development of an effective returns policy and best practice, and to enhance the targeting of the 2006 programme. The programme also addresses the recommendations of the EAR evaluation and builds on previous EC assistance for returns and the integration of minority communities into mainstream economic development. The programme is complementary to the range of on-going actions by the EU Member States, particularly Germany, Italy, Netherlands and Sweden, and by other stakeholders including the US, Norway, UNHCR and UNDP.

The Council of Europe (CoE) has requested EC assistance to support the continued operation of the *Commission for the Reconstruction of Religious Monuments* to ensure that it can effectively complete its importance and politically sensitive mandate to oversee the rehabilitation of the 34 Serbian religious monuments that were damaged during the March 2004 violence.

Coherence with EC cooperation policy and the MIP

The programme responds to the *European Partnership* emphasis on creating a climate for sustainable multi-ethnicity that is conducive to returns and ensuring the viable existence of minority communities and their non-discriminatory participation in society.

Identified projects

3.1.1.1. Community stabilisation and returns

To create the conditions necessary for sustainable returns to Kosovo as well as developing the institutional capacity of the PISG at central and municipal levels and community leaders to contribute to the stabilisation of all communities through the following inter-linked components:

- Further direct support for the resettlement of returnees in their communities, in coordination with UNMIK and the PISG. Support may include the return of the Roma community to Roma Mahala in Mitrovica. Assistance will be provided for multi-sectoral approaches that aim to increase the sustainability of the returns projects. The programme will link to the cross-boundary information activities under a previous Action Programme for Serbia.
- To promote further employment generation and socio-economic development within disadvantaged minority communities in Kosovo, including a specific focus on the Roma. Actions are likely to cover; small enterprise development, agriculture, community development, small scale infrastructure and the development of inter-community linkages.
- To further support the rehabilitation of Kosovo's religious monuments through support to the Council of Europe for the operation of the *Commission for the Reconstruction of Religious Monuments*.

3.1.2. Media (approx. € 0,4 million)

Background & cooperation related policy of Kosovo

Following the violence of March 2004, Kosovo's media was strongly criticised for inflaming ethnic-tensions, biased reporting, and low standards of journalistic behaviour.

The Independent Media Commission and the Press Council are responsible for developing media policies for Kosovo and to set journalistic standards. The OSCE Pillar of UNMIK has been entrusted with the development of the Kosovo media sector. The OSCE in conjunction with the local media established the Kosovo Media Institute (KMI) in October 2005 to raise journalistic standards. Most media sector stakeholders such as the Independent Media Commission, the Press Council or the KMI will require assistance for the immediate future.

Note: The implementation of the 2004 and 2005 civil society programmes (totalling €2 million) will continue in 2006. Therefore, further assistance under the 2006 programme is judged to be premature.

Coherence with EC cooperation policy and the MIP

The *European Partnership* calls for Kosovo to consolidate the media self-regulatory system. The MIP includes support for civil society organisations and raising media standards. Civil society and media are vital parts of the *UN Standards for Kosovo*.

Identified projects

3.1.2.1. Support to media training

The programme aims to further develop the media sector to operate as an independent, responsible and efficient service for all of Kosovo's communities. Specifically the programme will develop the skills and professional standards of journalists and media professionals through actions such as supporting the Kosovo Media Institute to become an effective training institution.

3.2. GOOD GOVERNANCE & INSTITUTION BUILDING (approx. €15.3 million)

This section proposes programmes on: justice and home affairs; integrated border management; and public administration reform.

3.2.1. Justice & Home Affairs (approx. € 5.9 million)

Background & cooperation related policy of Kosovo

In December 2005, UNMIK established the Ministry of Justice, the Ministry of Internal Affairs and the Kosovo Judicial Council. This represents the first phase of UNMIK's strategy for the re-organisation of the overall justice system and the gradual hand-over of powers in the area of police and justice to Kosovan institutions. Operational competencies would be progressively transferred to the ministries, but with final say on all matters retained by the SRSB until the definitive resolution of Kosovo's status. EC assistance under the 2005 programme will support the establishment of the ministries.

The new ministries as well as the existing justice institutions, including the Office of Public Prosecutor, the courts, the Kosovo Police Service and the probation service, require substantial capacity building assistance to effectively fulfil their current and future mandates.

The Juvenile Justice Code (April 2004) has introduced alternative sentences to institutional punishment for juveniles. However many judges, prosecutors, social workers are not familiar with the juvenile code. Capacity building is therefore required.

Coherence with EC cooperation policy and the MIP

The programme responds to the European Partnership and MIP priorities for: developing capacity free from political interference to take on competencies in the areas of justice and interior; the further development of legal education and training; and strengthening the courts and the Prosecutor's Office. The sector programme has been developed in partnership with Pillar I (Police and Justice) and will be implemented in coordination with other organisations and donors, particularly UK/DFID, OSCE, Council of Europe, USAID, US Department of Justice, IOM, OHCHR and UNICEF. Programme actions will also be closely coordinated with the CARDS Regional Programme, particularly the regional police and judiciary projects.

Identified projects

3.2.1.1. Programmatic support to the rule of law system in Kosovo

The programme aims to assist the development and strengthening of effective justice and home affairs policies and structures. Specifically, the programme will:

- Build the substantive, methodological and physical capacities of institutions in the area of justice, police and home affairs (including ministries and oversight bodies) to effectively perform their mandates and implement obligations under international treaties.
- Support the reform of a juvenile justice system based on the rights of children/adolescents and evidence based research that will offer alternatives to detention and promote a juvenile crime prevention programme and social rehabilitation of juveniles. This component is likely to be implemented through a grant agreement with UNICEF, given its leadership in the area of juvenile justice in Kosovo.

3.2.2. *Integrated Border Management (approx. € 1.5 million)*

Background & cooperation related policy of Kosovo

Responsibility for operational border management is currently divided among a range of Kosovan and international actors, including: the Border and Boundary Police element of UNMIK Police (Pillar I); UNMIK Customs Service (Pillar IV); Department of Rural Affairs and Forestry (Pillar II); the Kosovo Police Service (KPS); the Ministry of Agriculture (PISG); and KFOR. UNMIK is currently developing transition plans for the reserved powers under Pillar I, II and IV.

To enhance coordination between the border control authorities, UNMIK in coordination with the PISG is currently developing a coordinated integrated border management (IBM) strategy that is expected to be in line with the EU's *Guidelines for Integrated Border Management in the Western Balkans*. A key priority for the agencies is to improve the level of inspection and border control to address Kosovo's acknowledged status as a significant European transit route for smuggled weapons, cigarettes and drugs, as well as human trafficking.

Previous EC assistance has documented the physical and technical state of Kosovo's border/boundary crossings. To complement on-going EC technical assistance for IBM, UNMIK Pillar I and IV are requesting assistance to refurbish and equip additional border/boundary posts in order to improve the effectiveness of border/boundary controls.

Coherence with EC cooperation policy and the MIP

The *European Partnership* calls for Kosovo to strengthen co-operation between border/boundaries management agencies. The MIP identifies priority programmes for improvement of cross-border/boundary contacts through upgrading road and rail border posts, in particular the borders with FYROM and Albania to strengthen regional cooperation. The programme complements on-going EC assistance to strengthen the integration and co-ordination between the UNMIK and PISG institutions involved in border/boundary management, and the development of the border/boundary element of the Kosovo Police Service. The programme is complementary to the CARDS Regional Integrated Border Management Programme. The programme will be coordinated with the ongoing assistance (CAFAO programme) provided to UNMIK Customs and with OSCE, UK and USAID.

Identified projects

3.2.2.1. Infrastructure support for integrated border management

The programme aims to facilitate the flow of goods and people in the region while improving the level of inspection and border/boundary control, in coherence with the *Guidelines for Integrated Border Management in the Western Balkans* and EU standards. The programme will improve the functioning of selected border/boundary

posts through upgrading their physical infrastructure. The programme will work with the Kosovo institutions to ensure that the EC funded works are done in coordination with any necessary complementary works and measures on the other side of the Kosovo's borders/boundaries.

3.2.3. *Public Administrative Reform (approx. € 7.9 million)*

Background & cooperation related policy of Kosovo

Kosovo needs to continue to build functioning and accountable institutions at central and municipal levels that provide leadership and deliver effective services to its citizens. Kosovo's institutions must successfully align reforms, policies and legislation to meet the requirements of the Stabilisation and Association process (SAP) and the priorities of the European Partnership.

The PISG's draft *Capacity Building Action Plan* identifies the need to develop skills, procedures and systems in a number of functional areas to address the lack of expertise across Kosovo's institutions, particularly in the line ministries and municipalities. The Kosovo Institute of Public Administration (KIPA), which is responsible for training civil servants, is expected to play a central role in managing a coordinated response to these needs.

Greater efforts are needed to increase transparency and accountability in public administration, through such actions as improving communication infrastructure and IT systems. Other challenges to improving the civil service include: better informing civil servants of their rights and responsibilities; increasing minority and gender representation across the PISG and tackling political and clan patronage.

There is a need to further strengthen skills and operational performance in financial planning, budgeting and control systems to ensure the proper use of public funds. In particular, the PISG Internal Audit function requires improved administrative capacity. The Ministry of Economy and Finance (MEF) needs to continue to develop its institution capacity. The Office of the Auditor General (OAG) was set-up by UNMIK with EC assistance. However, the Office is still under-resourced, inadequately skilled, lacks an agreed development strategy and has yet to achieve a credible audit record.

Municipal services and infrastructure have improved since the first local government elections in 2000. Effective EC assistance has contributed to these improvements. The Ministry of Local Government Administration was established in late 2004. It has produced a *Local Government Reform Strategy* in 2005, a medium term plan for developing the role of local government. The Association of Kosovo Municipalities provides a forum for cooperation and joint action between the municipalities and with the central ministries and aims to promote the principles of the European Charter of Local Self Government. Municipalities are also hampered by lack of own resources (revenues) as a result of low collection rates for property taxes. Accountability to citizens, dialogue with civil society, the inclusion of minorities and transparency in decision making also need to be improved.

The PISG Office of European Integration Processes (OEIP) is the leading PISG institution for coordinating and monitoring the PISG in the adoption and implementation of reforms, policies and legislation in line with SAP and the European Partnership. The Office works in partnership with the UNMIK Office of European Integration and the UN Standards Coordinator in the Office of the SRSG. The Prime Minister is already considering upgrading the OEIP into an executive agency, and

eventually into a ministry to strengthen the political profile of Kosovo's EU perspective agenda.

EC assistance is already supporting scholarships in EU universities for young civil servants who are then obliged to return to the PISG for at least three years. The OEIP has requested a continuation of this programme.

Coherence with EC cooperation policy and the MIP

The programme responds to the MIP and to the *European Partnership* which call for: establishing a professional and accountable public administration; developing the Kosovo Institute for Public Administration; advancing the reform of local self-government; reinforcing the structures dealing with European approximation; developing internal audit capacity; and strengthening the Supreme Audit Institution. The European Commission communication *A European Future for Kosovo* emphasises the need for EC assistance to support "building institutional capacity" and "public administration reform across the board".

Identified projects

3.2.3.1. Strengthening public administration reform and EU integration at central and municipal levels

The programme aims to promote an effective and professional public administration that can better meet the demands of a functioning society in a transparent and accountable manner, and is capable of fostering the participation of Kosovo in the Stabilisation and Association process (SAP). The programme will focus on the following inter-connected areas:

Support civil service reform through building the administrative and management capacities of the civil service. Institution building assistance will be provided to the Ministry of Public Services in such areas as: the formulation of policies for civil service development; and the development of an IT strategy for the PISG. Support will also be provided to the Kosovo Institute of Public Administration as the lead training organisation for the civil service.

Improve public expenditure and financial management systems at central and municipal levels through further assistance to the Ministry of Economy and Finance and the Office of the Auditor-General.

Develop a more efficient, effective and accountable local government. Institution building assistance will be provided to municipalities, including those involved in the decentralisation process, to improve management and financial competencies, service delivery and dialogue with citizens. This component will be designed and implemented in coordination with the Ministry of Local Government and the Association of Kosovo Municipalities.

Strengthen European approximation in all levels of government. Actions will typically cover: further building the capacity of the Office for European Integration; developing inter-ministerial coordination of EU integration issues; increasing awareness on Kosovo's EU perspective within Kosovo's institutions and society; scholarships for civil servants; preparation for future participation in selected EU Community Programmes.

3.3. Economic & Social Development (approx. € 23.7 million)

This section includes programmes in the areas of economic strategy and enterprise development; rural economy; energy; environment; and vocational education.

3.3.1. *Economic Strategy & Enterprise Development (approx. € 8.5 million)*

Background & cooperation related policy of Kosovo

The Ministry of Trade and Industry's *Private Sector Development Strategy* aims to reduce unemployment and improve the competitiveness of the Kosovo economy. The Strategy proposes a number of reform measures to attract local and foreign investment, grow the SME sector, and expand exports. The need for substantial progress in these areas is also emphasised in the Commission's *Kosovo - 2005 Progress Report*.

The current level of domestic and foreign investment in the private sector remains low. The Private Sector Development Strategy recommends the further development of the Investment Promotion Agency to provide better support to existing and potential investors and promote exports. Ongoing EC assistance is supporting the Ministry of Trade and Industry to formulate appropriate strategies for the Agency.

Kosovo lacks an adequate quality infrastructure - industrial standardisation, certification, testing, accreditation, metrology and market surveillance. This results in poor quality outputs and a constraint to export growth both with the surrounding region and with the EU, with which it enjoys preferential access. The Private Sector Development Strategy identifies the need to develop Kosovo's quality infrastructure in line with the *acquis* and similar initiatives elsewhere in the region. The Ministry of Trade and Industry has established a Kosovo Standardisation Agency with EC assistance and has undertaken an assessment of actions and resources required for the development of an effective quality infrastructure. This plan forms the basis for the 2006 assistance phase.

The World Bank's *Poverty Assessment Report* advocates more direct economic development support for marginalized groups (youth, women and minorities), to better mainstream their participation in existing PISG and donor initiatives. Poverty alleviation will form an integral part of the upcoming *Kosovo Development Strategy & Plan*. The Ministry of Trade and Industry has established Regional Offices that support local activities, including small scale manufacturing, entrepreneurship and job creation. EC assistance to the ministry is supporting a number of pilot projects to create jobs and increase incomes in areas of high unemployment. The 2006 programme provides an opportunity to expand and leverage the lessons learnt from previous support for economic development in disadvantaged areas.

There is an absence of skills in auditing and accounting in the industrial and private sector, and the lack of a credible regulatory environment for financial reporting. The (draft) 2005 Corporate Financial Reporting Law is in line with EU requirements. However, these requirements are more comprehensive than the current education and training programmes provide. Assistance is required to ensure that all stakeholders in the financial reporting system build technical skills, professional competence and ethics.

The Publicly Owned Utilities administered by the Kosovo Trust Agency constitute a very important part of the economy. A priority objective of KTA is to incorporate the utilities into clearly defined legal entities. The incorporation of the utilities will consolidate previous EC assistance in the water and waste sectors. Germany/KfW is already developing concepts for the incorporation of water and waste companies and the EAR will work in close collaboration with this effort.

Coherence with EC cooperation policy and the MIP

The programme will assist Kosovo institutions to meet the *European Partnership* priorities for creating the conditions for investment, trade and economic growth, and developing policies to address poverty. The programme addresses elements of the *Standards for Kosovo* in the areas of Economy and Rights of Communities. In line with the MIP, the programme will reinforce the institutional capacity of the PISG to plan and implement economic policy; promote local economic development in areas with socio-economic problems; enhance quality control certification; improve the business environment for SMEs; and attract foreign investment. The programme further develops an enabling environment for the private sector as advocated in the European Commission's *A European Future for Kosovo*. The programme is complementary to the CARDS Regional Programme and on-going donor actions, particularly: GTZ, KfW, UK/DFID, USAID, EIB, IMF, the World Bank, Switzerland and the UNDP. The programme is linked to the 2006 rural economy programme (see section 3.3.2.1.), particularly the local rural development strategies component.

Identified projects

3.3.1.1. Promoting economic development in Kosovo

The programme aims to further support the transition of UN administered Kosovo to a competitive market economy and to promote sustainable economic development. Specifically, the programme aims to:

- Support the development of domestic and foreign direct investment in Kosovo through the institutional support to the Ministry of Trade and Industry and the Investment Promotion Agency.
- Assist Kosovo institutions to develop a competitive industrial sector and increase exports through the development of a quality infrastructure in line with the *acquis* in the areas of measuring, standardisation, testing and quality. Actions are likely to include: the strengthening the Kosovo Standardisation Agency, updating the legal metrology infrastructure and the development of testing, certification and accreditation facilities. Twinning with an EU institution will be explored for the implementation of this component.
- Support entrepreneurs, micro-enterprises, and SMEs, enabling marginalized groups to participate more actively in the economy, particularly in areas of high unemployment. The programme will typically include the provision of technical assistance and grants to entrepreneurs for business-start-ups, the launch of productive initiatives, and business expansion. The programme will be implemented in collaboration with the Ministry of Trade and Industry's Regional Offices, municipalities and local civil society organisations.
- Develop the accountancy and corporate finance profession in Kosovo, strengthen financial reporting systems, and enhance compliance with the Corporate Financial Reporting Law through such actions as building the institutional capacity of the Society of Certified Accountants and Auditors of Kosovo.
- Improve the corporate governance, management and creditworthiness of the publicly owned utilities through assisting the Kosovo Trust Agency to incorporate these enterprises, particularly in the water and waste sectors and the provision of management assistance, where required.

3.3.2. Rural Economy (approx. € 5 million)

Background & cooperation related policy of Kosovo

- The rural economy is recognised as one of the key sectors for economic growth and employment. The *Rural Development Plan for 2007-13* (RPD) is being developed by the Ministry of Agriculture, Forestry and Rural Development (MAFRD) with EC assistance. The Plan will be linked to the *Kosovo Development Strategy and Plan* and the Public Investment Programme.
- The Plan emphasises the need to create employment and increase incomes in rural areas; expand import substitution and exports in the food sector; and enhance EU compatibility. It recommends: improving the competitiveness of producers and processors in the agri-rural sector; promoting farm diversification; improving natural resource management; meeting EU standards related to the environment, hygiene and animal welfare; investments in physical infrastructure in rural areas; and building the administrative and institutional capacity at central and municipal levels. MAFRD requires also further institution building assistance.

The RDP also recommends the preparation and implementation of municipal and community development strategies by representatives from local government, the private sector and civil society. This approach is being implemented in six pilot municipalities with EC assistance and informed by similar programmes in Poland and Lithuania. The current strategies focus on the development of local institutions, market linkages and natural resource management. There is now an opportunity, based on lessons learnt and experiences to date, to expand local rural development strategies to other municipalities.

Forestry is an economic, social and environmental resource for Kosovo. However, forest area has been lost due to illegal cutting, and silviculture management is poor as a result of limited resources and low capacity.

The 2006 programme builds on past EC assistance to the MAFRD in the areas of policy, statistics and legislation. The programme is linked to the 2006 economic development programme (see section 3.3.1.1.) for enterprise development in disadvantaged areas, and is complementary to action supported by other donors, particularly Sida/Sweden, USAID, Norway, Switzerland, the FAO and the IBRD.

Coherence with EC cooperation policy and the MIP

The programme responds to the *European Partnership* priorities for the design and implementation of a rural development policy. The MIP also emphasises the need for: better planning, management and use of agricultural and forest land; increased harmonisation with EU standards; and enhancing the capacity of MAFRD.

Identified projects

3.3.2.1. Further development of the rural economy

The programme aims to develop the rural economy and the livelihood of its population through:

Strengthening the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development (MAFRD), particularly in the areas of: EU integration and harmonisation with the *acquis*, improving operational efficiency.

Employment creation and income generation in rural areas, with particular attention given to supporting women and minorities, through assistance for the development and implementation of municipal/community level rural economy strategies.

Improvement of natural resource management on a sustainable basis, particularly of forestry resources and rural irrigation systems.

3.3.3. *Energy & Transport (approx. € 5.7 million)*

Background & cooperation related policy of Kosovo

Energy

The Athens Memorandum and the Energy Community of South East Europe Treaty (ECSEE), under the auspices of the European Commission, aim to incorporate the region – including Kosovo - into the internal energy market and to create regional security of supply, investment and planning capabilities, in compliance with EU Directives in the energy and environmental fields. UNMIK signed the ECSEE Treaty on behalf of Kosovo in October 2005.

A key PISG and UNMIK policy for the development of the energy sector is to meet the requirements of the ECSEE. The Ministry of Energy and Mining (MEM) has prepared the *Energy Strategy of Kosovo 2005-2015* which has been approved by the Kosovo Assembly. The ministry requires further expert assistance to ensure the successful implementation of the strategy.

The reliability of the Kosovo transmission network must be improved, in compliance with ECSEE requirements. The unreliable electricity supply is a major constraint to performance by local enterprises. The World Bank has identified priority investments in Kosovo's transmission network. However, due to lack of funds, the energy utility (KEK) has been unable to finance many of the urgently required projects, including the upgrading of the 'Kosovo B' and 'Pristina 4' relay protection system.

After 2010, the existing coalmines, due to their depletion, cannot meet demand from the existing Kosovo A and B power plants. A shortage of coal will result in more frequent power-cuts, significant disruption to enterprises, and a constraint to economic development. This situation would also negatively impact Kosovo's beneficial participation in the Energy Community Treaty. The opening of a new coal mine is an urgent priority within the Beneficiary/KEK Financial Recovery Plan developed by the KEK turn-around management team, and is endorsed by the Ministry of Energy and Mining (MEM).

Previous EC assistance has built the capacity of the KEK Training Centre and the development of technical skills training for KEK employees. The *KEK Training Plan* identifies the need for further training courses that are beyond the scope of the previous assistance. A further phase of assistance is required to consolidate previous EC assistance and to further anchor the capacity of KEK to meet its training needs.

KEK has benefited from an international Turn-Around Management (TAM) team with full executive responsibility since July 2004. The current contract is funded from the Kosovo consolidated budget (KCB) for KEK. The contract expires in June 2006. The view of UNMIK, the European Commission and several donors, including the Swiss Cooperation Office (SECO), KfW, and USAID is that a six month extension of this management contract is necessary to provide management continuity, and improved performance on revenue collection. Both SECO and KfW have indicated that the continuation of the TAM management contract is likely to be a conditionality for their

continued support to the Kosovo energy sector. However, the MEM/PISG maintains a different view to UNMIK on the performance of the TAM contract. The PISG's position is that no funding would be made available from KCB for a contract extension but agreed to the Pillar IV proposal for an extension of six months, up to December 2006, if funds are provided by donor community. EC assistance is required to meet the remaining gap in the necessary funding for the TAM extension.

The 2006 energy programme builds-on previous EC assistance for the World Bank's Power lignite initiative in Kosovo, and will be implemented in close coordination with the MEM, UNMIK Pillar IV, the Energy Regulatory Office, KEK, and donors/IFIs particularly the World Bank, KfW, UK/DFID and USAID .

Transport

In June 2004 the Western Balkan countries and the Commission signed a Memorandum of Understanding (MoU) on the development of the South East Europe Core regional transport network. The aim of the MoU is promoting regional cooperation in the field of transport. Technical assistance is provided through the technical secretariat/South East Europe Transport Observatory (SEETO) in Belgrade. Currently the MoU Steering Committee in which Kosovo/UNMIK participates actively as one of the signatories of the MoU is preparing a regional multi-annual development plan, including a short list of priority projects and measures. The plan is scheduled for adoption in April 2006.

The Ministry of Transport and Communications is responsible for the development, implementation and maintenance of the transport infrastructure and to ensure that all important transport demands to support economic development are met. In 2005, the Ministry developed a Multimodal Transport Strategy to identify and respond to the key priorities for the development and management of the transport infrastructure (roads, rail and air). Building on the achievements of past EC assistance, the Ministry has requested further assistance to support the further development of its strategy, and to ensure its successful implementation. The programme will be implemented in cooperation with the MTC and donors, particularly GTZ, Switzerland and the World Bank.

Coherence with EC cooperation policy and the MIP

The programme reflects the *European Partnership* and MIP priorities for Kosovo to: implement commitments under the Energy Community Treaty; ensure the viability and sustainability of the electricity company; and implement a transport policy framework. The Communication from the Commission *A European Future for Kosovo* stresses the importance of Kosovo's participation in the Energy Community and the MoU on the Development of the South East Europe Core Regional Transport Network to support Kosovo's full integration into the regional economy.

Identified projects

3.3.3.1. Implementation of Kosovo strategies for energy and transport

The programme aims to create a viable and financially self-sustaining energy sector that is a functioning participant in the Energy Community of South East Europe. Specifically the programme will:

Improve the security and reliability of the Transmission System and Market Operator (TSMO) through upgrading key elements of the relay protection and control system.

To further develop technical and management skills at KEK, including women and minorities, in line with the KEK Training Plan.

Support an extension of the KEK Turn-Around Management contract, subject to a number of conditions², including co-financing from other donors and/or the Kosovo budget.

Ensure the sufficient coal supply to the existing power plants after the depletion of the existing mines and includes the mechanical and electrical overhaul of the existing bucket wheel excavator SRs 1300 for overburden removal and the existing spreader A2RsB 4400.60/13218/19 in order to increase the reliability and safety in operation of the machines and prepare those for the safe and reliable operation in the new Sibovc SW mine.

Support the PISG programme for the implementation of Kosovo's Energy Strategy. Actions may include an environmental impact assessment and environmental management study for the coal mines, and a study on the promotion and use of energy renewable sources and energy efficiency.

The programme also aims to develop and gradually implement a transport policy framework, including the multi-modal transport strategy, through building the Institutional capacity of the Ministry of Transport and Communications to develop and manage and Kosovo's transport infrastructure, consistent with the development of the South East Europe Core regional transport network.

3.3.4. Environment (approx. € 3 million)

Background & cooperation related policy of Kosovo

The Ministry of Environment and Spatial Planning (MESP) is the environmental regulator, responsible for preparation and implementation of environmental law. The Ministry's Water Department has responsibility for the management and control of water resources to ensure that all demands (domestic, industrial and irrigation) are met so that public health is protected and economic development encouraged.

Since 1999 insufficient progress has been achieved with regard to the development and management water resources. Water abstraction from rivers and underground sources by water utilities and enterprises is unregulated. The extraction of minerals from rivers is poorly managed, often illegal, and without consideration of environmental issues. The discharge of effluent to water courses is not managed satisfactorily and there is no process of measuring and controlling discharges. The situation is leading to the over-exploitation, pollution and degradation of water courses, threatening public health.

The Water Law promulgated in 2004 is guided by European Water Directives. The Law requires the establishment of two River Basin Authorities to manage and be accountable for water resource management and development within defined river catchment boundaries. The Water Department of MESP will provide the technical support to these bodies.

Municipalities are responsible for enforcement of environmental law. However, enforcement is inadequate chiefly due to a lack of capacity.

Coherence with EC cooperation policy and the MIP

² A full set of the conditionality associated with support to the KEK TAM is described in the sector fiche

The programme is consistent with the European Partnership priorities to prepare a comprehensive environmental action plan, particularly relating to public health issues, and approximating with the EU acquis. The MIP identifies the need to provide further institutional development support to the Ministry of Environment and Spatial Planning and to the water sector in particular.

Identified projects

3.3.4.1. Further institutional support to the environment & water sector

The programme aims to bring continued and sustainable improvement of environmental conditions including the management and control of water resources, to meet EU standards, particularly in relation to public health and economic development of Kosovo. Specifically, the programme will focus on:

Further institutional strengthening of the Ministry of Environment and Spatial Planning (MESP), including the Water Department.

Institutional development of River Basin Authorities, including the Drini I Bardhe River Basin Authority

Improved enforcement of environmental laws and regulations, particularly at the municipal level.

3.3.5. *Vocational Education and Training (approx. € 1.5 million)*

Background & cooperation related policy of Kosovo

The vocational education and training (VET) sector includes a wide range of stakeholders, in particular the Ministry of Labour and Social Welfare (MLSW), Ministry of Education, Science and Technology (MEST), the Ministry of Trade and Industry (MTI), the social partners including the Chamber of Commerce and, to an increasing extent, non-governmental organisations. Current priorities of the MEST include the development of qualification and certification frameworks for education, including VET. The MLSW is responsible for providing training for the unemployed and job seekers. The Council for VET, which includes the key stakeholders, aims to assist the gradual development of an integrated policy approach to workforce development, borrowing on core EU policy instruments (employment, life-long learning and entrepreneurship).

Kosovo lacks an integrated demand-driven skills and training infrastructure. MEST and the MLSW mainly focus the provision of 'supply' driven VET services through secondary schools and adult training centres. Training is not effectively based on business needs. The current situation means that enterprises are not able to rely on the VET system to meet their needs for skilled employees. In some sectors, employers are taking the initiative to establish training programmes themselves.

Links between public and private VET providers and employers need to be strengthened to ensure training is based on labour market demands and to create better job prospects for VET 'graduates'. The VET system needs to provide better access for marginalized groups (youth, women and non-Serb minorities) to facilitate access to viable long term employment

The new system for gathering and disseminating labour market information also needs further support. VET provision must also be linked to emerging economic development strategies, such as the Kosovo Development Plan.

The 2006 programme will consolidate previous EC assistance to develop an effective VET system for Kosovo. The programme is closely related to the actions of other donors/actors, principally GTZ, Swiss Contact, Luxembourg, ILO, USAID, Canada and the OSCE. The programme has been developed in consultation with the European Training Foundation (ETF).

Coherence with EC cooperation policy and the MIP

The *European Partnership* stresses the need to improve the quality of vocational and educational training. In line with the MIP, the programme will continue the modernisation of Kosovo's vocational education and training system. The programme is also in line with the measures in the *European Charter for Small Enterprises* to promote education and training for entrepreneurship and small enterprise skills.

Identified projects

3.3.5.1. Further modernisation of Kosovo's Vocational Education and Training system

The programme aims to continue the reform and modernisation of the vocational education and training system in Kosovo for both youth and adults, in line with economic development priorities and with due reference to key EU policies. Specifically, the programme will further assist Kosovo institutions, notably the VET Council, the Ministry of Labour and Social Welfare, the Statistical Office of Kosovo and the Kosovo Chamber of Commerce, in collaboration with the private sector, to develop integrated VET policies and deliver demand-driven skills development programmes, based on labour market needs.

3.4. Other (approx. € 1.9 million)

3.4.1. *General Technical Assistance Facility (GTAF) and Programme Reserve (combined total of approx. €1.9 million)*

The main purpose of the General Technical Assistance Facility (GTAF) (€0.5 million) is to allow project preparation to proceed in a quick and effective manner. The GTAF will support the preparation and early implementation of activities under the Annual Programme. Actions to be supported are likely to include: (i) recruitment of short-term technical assistance (local and international) for activities typically including feasibility studies, inputs to terms of reference and specifications, and tender evaluations; and (ii) audits, monitoring and evaluations.

The Kosovo 2006 Programme Reserve (€2.1 million) will be used to cover additional programme related priorities and expenditures that are currently unforeseeable. This arrangement is particularly important for enabling EC assistance to maintain a flexible capacity to respond to Kosovo's priorities as it prepares for future status, and moves ever closer to the region and the EU. Such EC assistance is intended to be targeted particularly but not exclusively towards such areas as refugees and minority communities, justice, police, local government reform and economic development as well as the development of institutional capacity to address the preparation of projects/programmes for financing under future pre-accession funds. In addition, the Programme Reserve may also be used, inter alia, to ensure the follow-up of short-term measures launched under the Rapid Reaction Mechanism during the course of the year.

4. PAST EC ASSISTANCE AND LESSONS LEARNT

Between 1998-2005, the EC committed over €1.6 billion to Kosovo. These funds were used for humanitarian, reconstruction and development activities and for exceptional financial contributions to the Kosovo Consolidated Budget, made up as follows:

- CARDS programme for Kosovo, including funds managed by the EAR €1,111 million³
 - Pillar IV of UNMIK €102 million
 - Exceptional financial assistance €65 million
 - Humanitarian assistance (through ECHO for the period 1999-2002) €375 million⁴
- Total €1,654 million⁵**

These figures do not include funds under the CARDS Regional Programme nor EC core contributions to the UN (outside of Pillar IV support) and the Stability Pact that have benefited Kosovo.

As of 10 February 2006, the Agency's global rate of contracting for combined EC 1998-2005 programme funds for Kosovo, totalling €1,041 million, was 91% of commitments, with a payment rate of 85% of commitments; while the corresponding percentages for 2005 programme funds (€51.5 million available since July 2005, plus the additional EC €25 million added to the programme in December 2005) were 28% contracted and 10% paid, as of the same date.

Lessons Learnt

Some of the more important lessons learned from EC and other donor programmes in Kosovo and applied to the 2006 programme, are as follows:

- Redressing gender inequalities in Kosovo is essential for political stability, economic growth and reducing poverty. The Agency is taking steps to more effectively mainstream gender into all EC funded assistance programmes. Agency monitoring reports assess gender inclusion during programme implementation and recommend remedial actions. The Agency's Advisor for Monitoring and Social Development advises on gender inclusion throughout the programme life-cycle. Where necessary the Agency also implements actions, including under the 2006 programme, that specifically target women.

³ Includes cumulative programme funds managed by the European Agency for Reconstruction, funds managed directly by the European Commission (TEMPUS, Customs), and the Agency's cumulative administrative expenditures. Excludes funds from the Kosovo Consolidated Budget/UNMIK under EAR management, and recycled 'counterpart' programme funds.

⁴ This figure is the emergency and non-emergency assistance provided by ECHO inside Kosovo for the period 1999-2002 and in the region in response to the 1999 Kosovo crisis. ECHO's regional contributions to the Red Cross and UN agencies are not included.

⁵ All figures are rounded to the nearest € million.

- Increasing local ownership of EC assistance to Kosovo is essential for the effective targeting of that support, and achieving the agreed results in line with EU standards. The EAR has completed a number of sectoral assessment studies to recommend priorities for the programme (e.g. in justice and public administration reform). Workshops involving the PISG, UNMIK and donors were organised to review the proposed sector programmes (e.g. on private sector development and local government). EC assistance under the 2006 programme will assist Kosovo's institutions to meet their priorities as described in such plans as the *Kosovo Action Plan for the Implementation of the European Partnership*, the draft *Capacity Building Action Plan*, the *Private Sector Development Strategy*, and draft *Kosovo Development Plan*. To further strengthen ownership during the programme implementation phase, the PISG review and endorse project terms-of-reference, participate in steering committees and are part of the programme monitoring and evaluation exercises.
- EC assistance must be in line with and reinforce the EU policy for Kosovo and the Western Balkans. The 2006 programme has been developed in close consultation with the European Commission, chiefly DG Enlargement and the European Commission Office in Pristina, and the liaison offices of the EU Member State in Pristina. The planning process was also closely coordinated with the PISG and UNMIK Office for European Integration Processes, and reflects their inputs. The programme is in line with European Partnership, but also reflects the SAp Regular Report and the Commission's recommendations developed through the SAp Tracking Mechanism process – in which the EAR also participates.
- Experience in other countries indicates that appropriate planning in time with due advance and vis a vis operational capacity is of crucial importance in view of the future context of assistance under IPA.

5. COMPLEMENTARY ACTIONS

The EC 2006 Action Programme for Kosovo builds on the results of previous EC assistance programmes to Kosovo and is complementary to components of the EC Action Programmes for Serbia, Montenegro and FYROM. The 2006 programme is also complementary to programmes under the EC's Regional Strategy 2002-2006, particularly the CARDS Regional Programmes, and initiatives of the Stability Pact and the Council of Europe. The programme will coordinate with the Commission's Technical Assistance Information Exchange Unit (TAIEX), especially in the area of public administration reform and European approximation. The Agency's own guidelines on social inclusion and gender mainstreaming have also informed the design and implementation plans of the proposed 2006 Action Programme.

6. DONOR COORDINATION

Close co-ordination of programmes with the donor community remains crucial to maximising the benefits to Kosovo from the combined international assistance effort, sustaining broad-based economic growth and poverty reduction. Some of the major donors with significant on-going or planned activities in the sectors covered by the EC 2006 Action Programme for Kosovo include a range of EU Member States, the IMF, World Bank, USA-USAID, and UNDP. A number of the EC 2006 projects have been developed in close partnership with the Member State offices and other donors.

The regular Agency-chaired coordination meetings with EU Member States and the Pillar IV continue to provide an opportunity for coordination on EU funded actions during the planning and implementation stages of the 2006 programme and the adoption of common positions on issues of mutual concern. The Agency also regularly organises focused sector and project specific coordination meetings. Increasingly, the Agency is supporting PISG institutions to assume this coordination responsibility. Such meetings also facilitate on-going coordination with other non-EU donors, UN organisations and the IFIs (including EIB, World Bank and the EBRD).

7. COST AND FINANCING

The Programme will be financed through a Community grant of **€46.5 million**, allocated among the following sectors:

Priority Sectors	€ million (+/- 20%)⁶
1. Democratic Stabilisation	5.6
1.1 Minority rights & returns	5.2 [+0.2]
1.2 Civil society & media	0.4 [-0.1]
2. Good governance & Institution Building	15.3
2.1 Justice & Home Affaires	5.9 [-0.1]
2.2 Integrated Border Management	1.5
2.3 Public Administration Reform	7.9 [-0.1]
3. Economic and Social Development	23.7
3.1 Economic Strategy & Enterprise development	8.5
3.2 Rural economy	5.0
3.3 Energy & Transport	5.7 [+0.8]
3.4 Environment	3.0
3.5 Vocational Education and Training	1.5
4. Other	
4.1 General Technical Assistance Facility & Programme Reserve	1.9 [-0.07]
TOTAL	€46.5 million

The Programme will be implemented by the European Agency for Reconstruction. The Programme total does not include the estimated administrative expenditure of

⁶ Individual financial allocations are subject to fluctuations of up to $\pm 20\%$ over the programme's lifetime.

the EAR in 2006, which is the subject of a separate Financing Proposal. The mode of contributions payable to the EAR is governed by a Financing Agreement between the European Commission and the EAR.

The Programme does not include CAFAO and Tempus, for which a separate Financing Proposal will be prepared. The total amount envisaged for these two programmes in Kosovo is € 3 million: € 2 million for CAFAO and € 1 million for Tempus.