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# PROPOSAL OF KEY POLICY PRIORITIES FOR KOSOVO GOVERNMENT'S STRATEGIC PLAN 2014-2018



GROUP FOR LEGAL  
AND POLITICAL  
STUDIES

INSTITUTE FOR ADVANCED STUDIES



## **ABOUT GLPS**

Group for Legal and Political Studies is an independent, non-partisan and non-profit public policy organization based in Prishtina, Kosovo. Our mission is to conduct credible policy research in the fields of politics, law and economics and to push forward policy solutions that address the failures and/or tackle the problems in the said policy fields.

## **ABOUT GAP**

GAP Institute for Advanced Studies is a Think Tank established in October 2007 in Kosovo. During these years GAP has been directly involved in many governmental working groups for drafting public policies. A large number of public documents that are implemented today recognize GAP's contribution and research inputs. During this period GAP has managed to publish more than one hundred different publications; GAP has provided space for research to a large number of professionals coming from different fields; GAP's publications are among the most cited documents from local media; GAP findings have been cited by international media as well as from scholars whose work focuses on public policies.

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# Proposal of Key Policy Priorities for Kosovo Government's Strategic Plan (2014-2018)

## I. Introduction

The Group for Legal and Political Studies (GLPS) and Institute for Advanced Studies (GAP) strive to assist Kosovo's transparent and comprehensive integration into the European Union. This process necessitates the inclusion of policies that adequately reflect the EU's political and economic standards, as well as the recommendations contained in the most recent European Commission Progress Report for Kosovo. GLPS and GAP seek to advise the Kosovo government on key priorities that should be included in the forthcoming Strategic Plan. Rather than paralleling the objectives set forth in the Progress Report, GLPS and GAP recommendations focus solely on key issues for Kosovo's integration into the EU. Adoption of such measures presents several challenges that require the government to demonstrate commitment to advancing policies that align with EU standards.

In pursuing these aims, GLPS and GAP seek to advise the Kosovo government on key priorities. In July, the Kosovo government concluded negotiations of the Stabilisation and Association Agreement (SAA), representing what will become the first comprehensive agreement with the EU. The SAA focuses on a number of areas, such as enhanced political dialogue and new forms of cooperation. Given the resolution of the political deadlock that has hindered progress towards EU integration, signing the SAA is crucial for Kosovo to immediately proceed on the path to integration.

The Government's Strategic Plan should prioritize key issues that centre upon EU integration, democracy and rule of law, as well as in the areas of political and economic alignment. Not only should these issues be incorporated through the necessary measures, but implementation must be ensured through the delineation of concrete objectives. Further, indicators used to measure the success and effectiveness of these objectives should be an essential part of the Government's Strategic Plan.

To achieve the realization of EU integration, the Government should implement the full range of proposals herein. First, European Integration is addressed, including a discussion of the SAA as an essential component for the Strategic Plan's success. Next, Rule of Law is considered. However, it should be noted that EU related issues are not separate from democratization, but integration is analysed as a distinct topic given the significance of integration to the future of Kosovo. Lastly, political issues and key economic criteria to be included in the Government's Strategic Plan are considered.

## II. European Integration

Kosovo has made progress towards EU integration and recently concluded negotiations on stabilisation and association. In large part, Kosovo's legislation is in line with European standards and best practices, and a viable framework has been established. However, there are challenges that the Government of Kosovo should address immediately with regard to progressing on the path to EU integration. The main issues that should be prioritized in the new Strategic Plan include the necessary reforms concerning the visa liberalisation process, stabilisation and accession, and migration.

### a. Visa Liberalisation Process

The European Commission launched a visa liberalisation dialogue with Kosovo in January 2012 and submitted to the Government, on 14 June 2012, a roadmap towards a visa-free regime. Kosovo had already implemented a considerable set of reforms in 2010 and 2011, notably in the field of readmission and reintegration, which enabled the Commission to launch this dialogue in 2012. However, citizens of Kosovo remain the only ones in the Balkans required to obtain a travel visa, which in turn restricts their willingness and ability to travel to European countries. During the last two years, Kosovo institutions have worked to reach the benchmarks listed in the visa roadmap; however, even the last report of the European Commission showed that a number of benchmarks have not been achieved.

#### a.1. Readmission and Reintegration

Objective 1: The Government should continue to implement the Law on Readmission and all Readmission Agreements with EU countries.

Objective 2: The Government should distribute the Reintegration Fund for sustainable reintegration services (education, professional training, and employment assistance) and develop a reintegration case management system that enables the tracking of service provisions for all registered beneficiaries.

#### a.2. Document Security

Objective 1: The Government should improve the functioning of the Civil Status Registration System, ensuring the quality and consistency of the data stored.

Objective 2: The Government should elaborate standard operating procedures for the storage and binding of breeder documents.

#### a.3. Border and Migration Management

Objective 1: The Government should implement all laws and regulations concerning border and migration management.

Objective 2: Kosovo's institutions should perform systematic border checks on both entry and exit lane traffic, and elaborate standard operating procedures for registering passengers in order to prevent irregular migration and trafficking in human beings.

Objective 3: Update and combine the databases on migration and asylum, and provide access to the database to all relevant authorities.

#### **a.4. Public Order and Security**

Objective 1: The Government should adopt the Law on Interception and standard operating procedures by secondary legislation, which should be in compliance with best European practices.

Objective 2: Develop an integrated case management system to track criminal cases from investigation to resolution, and to improve the exchange of information between law enforcement and judicial authorities.

Objective 3: Conclude further law enforcement cooperation agreements and strengthen operational cooperation with neighbouring countries and EU Member States, as well as continue cooperation with EUROPOL, INTERPOL and regional law enforcement bodies.

Objective 4: Establish a track record of final court rulings in cases concerning trafficking in human beings, arms trafficking, drug trafficking, corruption, public procurement and money laundering, including criminal penalties executed and criminal assets recovered.

#### **a.5. Freedom of Movement and Human Rights**

Objective 1: The Government should adopt and implement the laws on anti-discrimination and gender equality and amendments to the law on the Ombudsperson.

Objective 2: The Government should ensure that citizens have access to clear information about their rights and legal remedies.

#### **b. Stabilisation and Association Process**

Kosovo is the last Western Balkan country without an SAA agreement with the European Union. Until now, the EU has signed SAAs with Macedonia, Croatia, Albania, Montenegro, Serbia and Bosnia and Herzegovina. Each agreement identified common economic and political objectives, encouraged regional cooperation, and established a free trade area between EU and each of these countries. While the existing SAAs were tailored to individual countries, they are very similar and share the same objectives. The SAA will cover several issues of mutual cooperation between Kosovo and the EU. It will be the first contractual

agreement between the EU and Kosovo; an agreement which requires commitment of both parties regarding the course of action detailed in the SAA. In addition, Kosovo will be able to liberalise trade with all EU member states, strengthen regional cooperation by aligning its political and economic preferences with other states, and implement the most suitable institutional framework to address external competition.

Objective 1: The Government should sign the SAA within three (3) months and start the implementation of all the agreed issues.

Objective 2: The Government should draft and fully implement a new Action Plan on the SAA.

Objective 3: The Government should strengthen the institutions, capacity and means, in order to fulfil the obligations deriving from the SAA.

Objective 4: The Government should ensure that the duties of the institutions are realistic in view of the available resources.

### **c. Migration**

Habitually, due to the unfavorable economic conditions faced in Kosovo, Kosovars tend to leave the country in pursuit of better living conditions. Moreover, even though there are no official data of asylum applications, we have observed an increasing trend in the number of illegal immigrants that seek asylum in EU Member States. Kosovo citizens have used Belgrade as a way to reach EU countries and seek asylum. This seeks additional coordination with EULEX and Belgrade authorities to identify people placed in Serbia and Kosovo that coordinate illegal border crossing from Serbia to European Union countries. Additionally, the main destinations are considered to be Hungary, Germany, and Scandinavian countries, amongst others. This said, the Kosovo citizens more willing to migrate are residents of Mitrovica, those who live in rural areas, individuals dissatisfied with their current living conditions, individuals aged 15-24, and individuals with monthly income up to 200€.

Objective 1: The Government should introduce a substantive and continuous information strategy that informs people on the migration policy of the EU. This information gap needs be addressed by the Government through several awareness campaigns, which will in turn improve the 'willing to migrate' indicator.

Objective 2: The Government should concentrate on providing special short-term employment start-ups for individuals aged 21-35 in order to change the perception that the EU is the most attractive destination for start-up

employment. Specific attention should be paid to education-related programs which advise participants regarding labor market orientation.

Objective 3: Tackle unemployment in rural areas by placing a high priority on creating educational opportunities, especially professional education. Special emphasis should be given to the regions of Mitrovica, Gjakova and Skenderaj, as well as those regions with lower employment opportunities.

### III. Rule of Law

In order for Kosovo to succeed as a democracy, the Rule of Law must be strengthened. While Kosovo's legislation is largely in alignment with European standards, implementation remains a significant issue. In ensuring that the Rule of Law is sufficiently addressed in the Government's forthcoming Strategic Plan, three crucial areas should be tackled including: organized crime, illicit wealth, money laundering, political corruption, and asset declaration. These matters should not only be included in the Government strategy, but should be sufficiently assessed to ensure the implementation of the aims set forth by the Government of Kosovo.

#### a. Organized Crime

Organized crime is a threat to stability and security in Kosovo, and is defined by the Criminal Code as a serious crime committed by a structured group in order to obtain, directly or indirectly, a financial or other material benefit.

Objective 1: The Government should strengthen and support institutions (especially investigative units within police and executive institutions) that deal with organized crime by providing comprehensive training within six (6) months of introducing the new Government Strategic Plan. There should be evaluation of comprehensive statistics and evaluation of institutional trainings, with consideration to anonymous feedback provided by participants.

Objective 2: The Government should give attention to the prevention and detection of organized crime by raising awareness of institutional staff and the general public by conducting educational campaigns within one (1) year of the Strategic Plan's finalization. There should be evaluation of changes in both institutional staff and the general population's perception of organized crime, as well as the number of tips reported in relation to complex cases of organized crime.

Objective 3: Cooperation and coordination should be improved among institutions addressing organized crime through the introduction of a shared information database within one (1) year of the introduction of the Strategic Plan. Attention should be given to the number of arrests and convictions that

were achieved through cooperation of various institutions, with special attention to the number of convictions involving high level Government officials.

## **b. Illicit Wealth**

The problem of illicit wealth must be effectively dealt with by the Kosovo Government to support the fight against organized crime and political corruption. Although the laws concerning confiscation of illicit wealth are in alignment with European standards, implementation is lacking.

Objective 1: A non-conviction based system should be legislated in order to target the confiscation of illicit wealth and to deprive individuals of ill-gotten gains. In evaluating the effectiveness of this law, consideration should be given to whether high level public officials are prosecuted (in cases where there are reasons to believe that certain public officials are unduly exempted from prosecution).

Objective 2: A shifted burden of proof should be permitted by law in confiscation cases, whereby defendants are required prove the legitimate origin of the assets in question. Incorporating a shifted burden of proof into law would indicate that the Government has succeeded in this matter. Further consideration should be given to the number of cases and convictions for illicit wealth, and should evaluate not only numbers but the severity of the crimes being prosecuted.

Objective 3: A time limit on the sequestration of assets should be introduced into law to ensure that measures to combat illicit wealth are efficient and timely, thereby encouraging the increase in prosecution of such cases.

## **c. Money Laundering**

Kosovo's current legislative framework on money laundering encounters various loopholes which hinder the proper combat of this well-known and sophisticated economic crime. Not only do numerous gaps exist in the law, but there is a lack of adequate and sufficient protection measures for relevant employees and officials, there is no mutual database for institutions fighting money laundering, there are few prosecutors dealing with money laundering issues and more prosecutorial training is needed, and there are significant delays in reporting from financial institutions. While there is cooperation between anti-money laundering entities in Kosovo, improvement is needed.

Objective 1: Amend the law on Prevention of Money Laundering and Terrorist Financing within the first three (3) months after the formation of the Government.

Objective 2: Provide an open way for financial assistance in order for the Prosecutorial Council to hire, as soon as possible, additional specialized prosecutors and provide more advanced training to the prosecutors and all other officials in charge of fighting money laundering offences.

Objective 3: Draft an administrative instruction for proper legal punishment towards the financial institutions which delay reporting suspicious transactions to the Financial Intelligence Unit.

Objective 4: Create a Mutual Database for all institutions dealing with money laundering offences in order for them to be more informed about the cases reported, analyzed, investigated, dismissed, and prosecuted.

#### **d. Political Corruption**

Changes should be made to address the ongoing and severe problem of political corruption in Kosovo. Party financing should be made open and transparent so that special interests that donate to political parties are not able to unduly influence the election process (on this particular issue refer to the financing of political parties section).

Objective 1: Elections should be conducted in accordance with international standards and the Government should pass a law which includes specific details regarding counting, tabulation, certification of elections results, procedures for nullifying election, and notification of public events.

Objective 2: The Government of Kosovo should implement a code of conduct for all politicians, and the existing code of conduct for members of the Assembly should be enforced through the creation of a review body within one year of the establishment of the new Strategic Plan. A code of conduct should be embodied in legislation to pressure politicians to behave in an ethical manner, and a review body overseeing the Assembly should be created.

#### **e. Asset Declaration**

Kosovo is ranked as a highly corrupt state by international evaluations including the Perception Corruption Index by Transparency International, and reports such as European Union Report which assesses Kosovo's progress towards European integration. Therefore, the development of an anti-corruption framework which consists of asset declarations policy should be a priority. Currently, this policy is highly underdeveloped; although, the issue is of high importance due to the heavy accumulation of unexplained wealth amongst public officials, and the common perception among Kosovar citizens that public officials (particularly, those directly elected) represent the richest social strata. There are many problems identified within the asset declaration system in Kosovo, including

inconsistent vocabulary used to complete the forms, determination of property values without regard to market value, lack of a clear verification process or guidelines that assess the accuracy of declarations, lack of an unbiased procedure to decide which declarations to evaluate and lack of legislation and guidelines that identify a course of action for handling public officials with excessive wealth that cannot be properly accounted for.

Objective 1: Ensure that the Anti-Corruption Agency establishes mechanisms to determine property value. This would deter public officials from providing inaccurate property values that do not correlate with the current market value or the accrued value of the property.

Objective 2: Ensure that the Anti-Corruption Agency establishes clear guidelines for the verification of asset declarations.

Objective 3: Ensure that the Anti-Corruption Agency and other relevant institutions (including Ministry of Interior Affairs) establish international cooperation for the exchange of information. Kosovo should prioritize cooperation with countries in the region, given that such illicit activities may take place in other Balkan countries due to proximity, familiarity with the culture and procedures, and close networks.

#### **f. Financing of Political Parties**

The legislative framework on the funding of political parties and its proper implementation are of crucial importance for transitional democracies. In Kosovo, the financing of political parties has fallen victim to allegations of corruption and fraud; hence, it has become a major concern and continuous reform and legislation is needed in this regard in order to ensure the legitimacy and stability of the political system. As of now, many irregularities, instances of malpractice, as well as misuse of public offices and resources by political parties in Kosovo have been evidenced.

Objective 1: The Government of Kosovo should strengthen and support the relevant institutions, and provide mechanisms to fully/properly implement and enforce the new amended Law on Financing of Political Parties by both political parties and other actors involved, especially during electoral campaigns.

Objective 2: A standardized form for financial reporting should be mandated by law within 6 months, and any party that fails to comply with the law should be sanctioned. There should be consideration as to whether there is an increase in the number of sanctions imposed for inaccurate/inconsistent reporting.

Objective 3: The Government of Kosovo should provide means, capacity and resources for the Central Election Commission, in order for the latter to efficiently perform its duties. This would enhance implementation of the monitoring process over the daily operation of the political parties and their conformity with the legislative framework.

Objective 4: It is essential for the Government of Kosovo to incorporate other institutions that would receive, investigate and examine the financial reports of the political parties. More precisely, the democratization fund ('public money') allocated to political parties should be audited, both by the private auditor as well as the Auditor General or other entities competent in examining and auditing the public money.

Objective 5: The Government of Kosovo should, within six to twelve (6-12) months of introducing the new Government Strategic Plan, establish a system which discloses a list of impermissible and permissible donors, as well as a list of the private entities in a contractual relationship with the institutions of the Republic of Kosovo for the provision of goods and services. This would enable the responsible institutions to control the influence of money over politics and avoid private funding irregularities.

#### **IV. Political Issues**

While Kosovo's political efforts have been focused on the resolution of the recent political deadlock, it is important for the Government to push forward with crucial political reforms in order to make improvements to the government structure, its image, and its ability to serve Kosovar citizens. Important issues to be addressed by the Strategic Plan are the: local government, public administration reform, fiscal stability and transparency of public finances, foreign policy, and improvements to social/employment policies.

##### **a. Local Government**

The basis of the local government in Kosovo were established under the UN International Administration, whereas in 2007 partial changes have been introduced, and later implemented upon entry to force of the new Constitution. Although representatives of municipalities have expresses the need to initiate a broad and meaningful local government reform in order to increase efficiency and avoid the normative gap, such reforms were not introduced so far. The reform would include amending the legal status of Prishtina as the capital city, creation of new municipalities, reorganization of employees, as well as fiscal and financial reforms.

The Constitution of Kosovo, article 13, outlines that the status and organization of the capital town shall be regulated by a special law. A draft of

the law was submitted in the Assembly in 2009 and passed the first reading in July 2010, but following the review in the Committee for Public Administration, Local Government and Media, it was returned to the Government for additional amendments. Although the draft law was incorporated in the legislative strategy of the Government since then, the Assembly did not receive a new draft of the law. Between April and September 2014, the Ministry of Local Government Administration established a working group comprised of experts, representatives of civil society and municipality of Prishtina to harmonize the views in terms of the content of the law. Failure to have the law adopted is estimated to cause significant financial losses for the capital, and prevent its administrative empowerment.

Objective 1: The Law on Prishtina must provide for asymmetric position of the city, in relation to other municipalities.

Objective 2: The Law on Prishtina should specify the obligation of the central government to allocate additional funds for Prishtina, in accordance to its legal status as the capital city. The budget allocated by the central government should not be less than 4% of the overall grant for municipalities. These additional funds must be spent only on capital investments.

Objective 3: The draft law must envisage creation of a separate police unit that serves the city of Prishtina, particularly in the area of traffic, construction, public property and noise in the late hours.

### **a.1. New municipalities**

Tendency to establish new municipalities across Kosovo, after 2010, was in general a politicized process not based on proper legal and budgetary analysis. Creation of new municipalities under the current circumstances increases the number of civil servants, at a time when IMF recommendations call for a significant decrease, creates problems for the budgetary circles for municipalities, lowers the level of municipal revenues, and creates municipalities that remain financially dependent from the central level, which is contrary to the goal of empowering municipalities and ensuring financial independence in relation with the central government.

Objective 1: Existing decisions of the government for establishment of new municipalities must be annulled.

Objective 2: The Government should not decide on creation of new municipalities unless a full feasibility study has been conducted. The Ministry of Local Government Administration, the Ministry of Finance and other ministries must review the request of every association of villages aiming to organize into

a new municipality and assess if the new municipality would fulfill the basic legal criteria, financial sustainability, whether it creates additional burden for the budget, but also the situation with education, health and economy in general.

Objective 3: Municipalities, in cooperation with the central government, should enable provision of administrative services and capital investments in rural areas, particularly in areas far from urban centers which feel discriminated by budgetary allocations, as well as administrative, education and health services.

#### **a.2. Local government financial reform**

A key problem highlighted at the local level is of financial nature, not in terms of the financial inability of municipalities to invest, but in terms of management of financial capacities and usage of financial resources. These problems are mainly related to numerous procedures and influence of the central government in decision making. Thus, the essence of reforms in the local level, consist on financial reform.

Objective 1: Ministry of Finance of the Government of Kosovo should amend the legal basis and allow municipalities to plan the overall amount of municipal revenues and the manner in which they spent them. The Ministry of Finance should remove “ceilings” in municipal revenues, in order for them to be independent in setting the limits for revenues throughout a fiscal year.

Objective 2: Ministry of Finance of the Government of Kosovo should amend the legal basis and envisage that fiscal period for capital investments is extended from 12 months to 24 months. This will avoid situations where municipalities carry over funds to coming years, or initiate various projects just to ensure that funds are spent.

Objective 3: Ministry of Finance and Ministry of Local Government should create an asymmetric system of salaries in the municipal level. Salaries of Directors of Directorates, Chairs, Deputy Chairs and local councilors should be set in accordance with the size of the municipal territory, number of inhabitants, number of services, and the amount of annual revenues.

Objective 4: Ministry of Finance and other relevant ministries should modify the manner (areas and sectors) in which municipalities collect revenues, in order to strengthen the financial basis of municipalities and lower the percentage of the central budget allocated to municipalities.

#### **b. Public Administration Reform**

Public administration reform is essential for Kosovo in terms of state functioning and organization as well as it succeeding to undertake reforms in order to meet the obligations under the SAA. In terms of strategic framework for

public administration reform, it is largely in place, but its implementation remains very weak. Besides the EC progress report for Kosovo, public administration reform is one of the three pillars of the EC enlargement strategy 2014-2015. In order to ensure public administration reform, three priorities must be addressed: downsizing the Government, organization of the public administration, and decreasing the number of civil servants in public institutions.

### **b.1. Downsizing the Government**

The Government of Kosovo has a large number of ministries which have been increasing since its establishment in 2001. From nine (9) ministries in 2001, today there are nineteen (19) ministries and one (1) minister without portfolio. Besides the number of ministries, the Government of Kosovo currently has five (5) deputy-prime ministers and most ministries have at least two (2) deputy ministers. This large number of ministries, deputy-ministers and deputy-prime ministers results mainly from the lack of the law on Government which would set up strict regulations on the establishment of new ministries. In order to address this priority, two (2) objectives should be met including establishing a law on the Government and restructuring/downsizing of the Government.

Objective 1: A law on the Government has to be drafted and approved by the Assembly. Among other aspects, the law should specifically address two (2) issues: 1) the establishment of new ministries (where the Assembly would have to be the final authority on the establishment of new ministries), and 2) the law should specify the tasks of the Government in place.

Objective 2: The actual size of the Government should be restructured and downsized. The number of ministries should be reduced from nineteen (19) to thirteen (13) ministries, from five (5) to one (1) deputy prime minister, and one (1) or two (2) deputy ministers per each ministry (depending on the size of the ministry's portfolio).

### **b.2. Organization of the public administration**

Organization of the public administration has never been addressed although it has been part of the Government program 2011-2014. Besides the large number of ministries discussed above (which imply an increase in the public administration structure and bodies), ministries establish their own executive agencies which in most cases create double structures with the ministries. There are around sixty-eight (68) public bodies referred to as agencies or executive agencies (mainly as part of ministries) which are not regulated by any specific laws. In order to address the organization of public administration, the

legal basis for agencies and executive agencies should be reviewed and superfluous agencies should be eliminated.

Objective 1: A clear legal base for the establishment of agencies or executive agencies as part of ministries should be assessed. The law on the state administration must be reviewed, and it should not be used as the legal basis for the establishment of such agencies. A distinction should be made between state administration and public administration.

Objective 2: A certain number of such agencies should be abolished. A study should review the mission of these agencies, and their mandate should be defined. If the review process determines that a specific agency has no clear mandate, the latter should be abolished.

### **b.3. Decreasing the Number of Public Servants**

Besides the large number of ministries and public bodies in public administration, there are also a large number of public servants. There are around 78,752 public servants employed in public administration at the central and local levels. Public servants are not distributed according to the needs and responsibilities of a certain ministry or agency. For instance, the Department of Civil Service Administration as the central unit for civil service policy design within the Ministry of Public Administration (MAP) and has twenty-five (25) employees (civil servants) while the Agency of Information Society also part of MAP, has sixty (60) employees. These issues should be addressed as key priorities in the Government's Strategic Plan.

Objective 1: The Government, through MAP, should establish a plan to decrease the number of public servants. One proposal is not to recruit new public servants for a vacant position - when a public servant retires at age sixty-five (65). The responsibilities and duties of such positions should be allocated to existing staff, and new public servants should not be recruited. According to statistics provided by MAP, 5,867 public servants will reach the age of retirement during 2014-2018. This plan will lead to a gradual decrease of the number of civil servants working for the public administration in Kosovo, and will help increase its efficiency.

Objective 2: A redistribution of public servants (along with the organization of the public administration) should be part of the plan. Actual need and workload of the institutions should be the impetus for recruiting new public servants.

### **c. Fiscal Stability and Public Finance Transparency**

So far the Government of Kosovo has managed to maintain a stable fiscal policy. However, public sector employees' wages have been increased just

before the national elections two (2) times without explanation or justification. On the other side, accountability of budget organizations with regard to budget expenditure is at its lowest levels. As an example, most of the budget organizations do not fulfil legal obligations with regard to publishing quarterly financial reports.

Objective 1: In order to avoid fiscal instability and the use of public money for political purposes, a rule which regulates the increase of public sector employees' wages must be included in the Law on Public Financial Management and Accountability (LPFMA). In order to ensure that Kosovo's economy remains competitive and wages are set according to the level of the productivity, the rule must be based on real economic growth.

Objective 2: The Government of Kosovo should ensure that budget organizations fulfil their legal obligation with regard to transparency of public expenditure. In addition, the LPFMA must require that each budget organization publishes on its official web-page an "Analytical Card of Account (Kartelën Analitike të Kontos)". Documents should be published in "excel sheets" so that they can easily be adapted for analytical and monitoring purposes by relevant stakeholders.

Objective 3: The Law on Budget does not include any objectives with regard to budget lines. In addition, the Law on Budget includes ambiguous budget line appropriations which make it inaccessible and difficult to monitor. In order to make easier for parliament members and other stakeholders to monitor budget spending effectiveness, the Government of Kosovo should introduce Program Budgeting. The main advantage of program budgeting is that budget lines are structured according to the objectives of the Government, therefore, making it easier to understand and monitor.

Objective 4: On a national level, only about 15%-20% of the budget of municipalities' incomes is made of own-source revenues, while the rest is made of grants from the central level. The high dependence of municipalities on grants is a burden for the central budget which also distorts incentives for municipalities to generate their own-source revenues. Further, there are a number of initiatives for establishment of new municipalities, yet there are no feasibility studies to demonstrate financial sustainability. Taking into account these facts and figures, the Government of Kosovo should decentralize local level finance. In addition to decreasing dependency on grants, municipalities should have more competences with regard to tax collection.

#### **d. Foreign Policy**

In order to protect Kosovo's interests in the international arena, the Government must ensure the recognition of Kosovo's independence, establish relations with states and relevant institutions, as well as focus on key issues such as Chapter 35 in Serbia's negotiations with the EU, and Kosovo's accession to the Council of Europe. All of these issues are essential to promoting Kosovo's political and economic interests, thereby protecting and representing the interests of Kosovo's citizens.

##### **d.1. Relations with the European Parliament**

Good relations with the European Parliament are essential, especially as the European Parliament has the power to reject the SAA and reset the negotiation process, setting Kosovo's European integration back years. This Parliament must assent to not only the final SAA, but also to visa liberalization.

Objective 1: The Government should seek to improve the image of Kosovo within the European Parliament. Kosovo should respond positively in communications with the Parliament.

Objective 2: Kosovo should conduct lobbying within the new European Parliament through both formal and informal routes. The Government should cultivate good relations through such means as conducting meetings between Kosovar and specific members of the EU committees.

Objective 3: The Government of Kosovo should build a more coherent and ongoing presence in Brussels in order to engage constructively with stakeholders. Good relations with the Parliament is essential if Kosovo is to proceed as smoothly and quickly as possible on the enlargement

##### **d.2. Advocate for Kosovo's Interests in Chapter 35 Negotiations**

The Government must ensure that Kosovo's interests are represented at negotiations as the outcome will impact the standing of Kosovo both regionally and internationally. Particularly, Chapter 35 of the negotiations between Serbia and the EU will influence Kosovo-Serbia relations.

Objective 1: The Government should take a stance with regard to the issue of Chapter 35 of the negotiation between EU and Serbia. In this process, the Government should make possible that Serbia agrees that it will not block a future accession by Kosovo to the EU, as well as a commitment to the territorial integrity of Kosovo.

Objective 2: Lobby the European Commission to involve Kosovo as a condition in negotiations of EU with Serbia, so that Kosovo's interests can be properly represented at the discussions. To ensure regional cooperation, Kosovo must

be included in regional organizations as part of normalizing relations between Serbia and Kosovo, as well as not obstructing Kosovo to proceed on the path towards EU integration.

**Objective 3:** Invite civil society to take part in discussion and debate regarding Chapter 35 issues, to better inform the public and reflect public opinion on this issue. Within 6 months, the Government should hold a conference at which Chapter 35 issues are addressed and discussed by members of civil society.

### **d.3. Support Accession to the Council of Europe**

Kosovo should prioritize activities to join the Council of Europe, which will legitimate Kosovo's status as an independent state. Not only will this allow Kosovo to assert its sovereignty, but also allow Kosovo to join international organizations.

**Objective 1:** The Government should improve relations with the Council of Europe. Kosovo should respond positively in documentation and reports to Commission requests and requirements.

**Objective 2:** Kosovo should lobby stakeholders to promote its successful application to the Council of Europe. Kosovo's integration into international organizations would not be complete without membership in the Council, making it a foreign policy priority.

**Objective 3:** Kosovo should request the legal opinion of the Venice Commission (which helps member states assess their democratic institutions and legislation), in order to align existing and draft legislation with European standards. Within 3 months submit for legal opinion three separate laws already in force or in draft form to the Venice Commission.

## **e. Social Policies**

Employment and social welfare has never been a top priority for any government coalition up until now. The rate of structural unemployment remains very high, social assistance is insufficient compared to the increase in prices of common goods, and there is a mismatch between educational programs and the job market. A new employment strategy and better social policies should be key priorities in the new Government Strategic Plan.

### **e.1. New Employment Strategy**

Although the data from the Statistical Office show a decline in the unemployment rate from 30.9% to 30.0% within the last year, the number of registered job seekers has increased. The total number of registered job seekers in June 2014 was 272,093, a number that has increased by 2.5% compared to last year. Another major concern is that the number of jobseekers

with university education has increased by 16.7% within a year according to the data from Ministry of Labor and Social Welfare. This shows that job creation is of paramount importance for Kosovo.

Objective 1: The Government of Kosovo should establish a new employment strategy within one (1) year of the issuance of the new Plan. This strategy should include clear and measurable objectives to increase the scale of employment and to provide plans and tools for reaching the objectives. The strategy should specify the number of jobs it aims to create over the next years, number of trainings and professional development activities, number of businesses that will become formal (registered) and number of families that will be removed from social assistance schemes following the employment of a family member.

Objective 2: The Government of Kosovo should enter into contractual relations with employers in order to increase the number of employees. The Government should allocate a grant as a stimulus package aimed at increasing the number of employees in very small businesses, as well as in small and medium enterprises. The stimulus package should be clear, including applications procedures. This grant allocation scheme should be established within one (1) year.

Objective 3: The Government of Kosovo should allocate a significantly larger budget for employment policies. The current budget for active employment policies is very low (0.026% of Kosovo Budget) and inefficient to tackle the problem of structural unemployment. The Government should increase the budget for employment policies during the next phase of budget planning.

## **e.2. Better Social Policies**

The Government should create mechanisms in order to ensure the employee's rights are fully respected. This includes full implementation of the Labor Law, the increase of labor inspectorate's human and technical resources, the enhancement of social dialogue, and the improvement of the social assistance scheme.

Objective 1: The Government of Kosovo should make a proper analysis of the functioning and implementation of the Labor Law. Certain observations show that major articles of the Law have not been properly implemented especially in the private sector, such as the issuance of written working contracts, the use of maternity leave and medical leave, and the respect for working hours. A proper analysis of the implementation of the Law would show if there is a need for amending certain parts of the Law, or for strengthening the oversight bodies, such as the labor inspectorate. Such analysis should be conducted within the three (3) months of establishing the new Strategic Plan.

Objective 2: The Government of Kosovo should increase the human and technical capacities of the labor inspectorate, as the main body responsible for overseeing the implementation of the Law. The current number of labor inspectors is insufficient, and therefore their effectiveness to regulate labor conditions is hampered. Additionally, the Government should review the budget for Labor Inspectorate and find opportunities for increasing its annual budget or finding models for generating self-income revenues. In the next budgetary phase, the Government should allocate funds for additional labor inspectors by increasing funds for the Labor Inspectorate and/or propose an avenue and comprehensive plan for the Inspectorate to generate funds.

Objective 3: The Government should urgently review the social assistance scheme. Overall, the amount of social assistance should be increased so that it is sufficient to meet family's basic needs. In addition, there should be stricter control of the beneficiaries to ensure that individuals who are not eligible for such benefits do not take advantage of social assistance. Within one (1) year, the Government should provide training to relevant institutions and should review their effectiveness in assessing the need and legitimacy of social assistance applicants. In the upcoming budget, the Government should increase the amount of social welfare for families, in order to ensure that basic needs are met.

Objective 4: There is an urgent need to improve the quality of dialogue between employers and workers in Kosovo. The Government and the Social and Economic Council (SEC) should find a new model of dialogue that brings more concrete results. Within three (3) months there should be an assessment of the General Collective Agreement's implementation and challenges. If necessary, a new model of SEC should be proposed, with a different composition.

## **V. Economic Issues**

In order for Kosovo to improve the functioning of the economy, several efforts must be undertaken by the Government. Consideration to the current energy policy is essential, as well as halting and resolving issues stemming from the privatisation processes, addressing the status of the Trepca mining company, public procurement, trade related issues, and foreign direct investment all require immediate attention.

### **a. Economic Development**

Kosovo's economy is facing continues high level of unemployment followed by a GDP per capita which is the lowest in the region. Lack of a proper strategy which would focus the scarce resources toward the economic development is one of the reasons toward this condition. On the other side, though Kosovo has improved doing business environment, contract enforcement as one of the main

factors which affects domestic and foreign investment is among the lowest ranked in the world.

Objective 1: Government of Kosovo should draft a detailed strategy of economic development which includes specific objectives and measures for each sector. Strategy must provide a clear cost and should be implemented in drafting the national budget.

Objective 2: Contract enforcement is a very important factor which affects a wide range of economic issues starting from: interest rates, foreign direct investment, prosperity of existing businesses etc. World Bank ranked Kosovo in the 138 place out of 189 countries in the world in contract enforcement. GoK should set clear and immediate goals with regard to measures that will take in order to improve this important aspect of doing business. Among the first things to do, is the increase of the budget for the justice system.

Objective 3: Human capital is on the most important factors which affects well-being and economic development of the country. Well educated workforce brings direct added value to the economy, in the same time, is an important factor of foreign direct investment attraction. Taking into account that Kosovo has one of the youngest population in Europe, investment in education must be considered of strategic importance. So far, national budget has spent large part of capital investment in road infrastructure while education has gained much less from these investments. For example, in 2013 only about 14% of the budget was spend in education. In order to increase the quality of education, government of Kosovo should significantly increase spending on all level of education and professional training as well.

Objective 4: Though Kosovo's tax system is favorable to the businesses, with taxes being the lowest in the region, its administration presents one of the biggest challenges to doing business. The tax which brings the most revenues, Value Added Tax, is still collected in the border, before the product is sold. This manner of collecting taxes not only presents a technical difficulty in paying taxes, but also blocks the capital from the businesses since they have to pay for the tax prior to selling the product. This practice is decreasing the liquidity in the economy and limiting businesses' capacity for investment.

Objective 5: Informality presents one of the fiercest challenges to the operation of the free market in Kosovo. It is estimated that it contributes up 35 percent of GDP. The widespread problem of informality, not only creates unfair competition between firms in the market (especially small and medium enterprises, which contribute the most to employment), but also creates room for arbitrary and politically-influenced decisions from Kosovo Tax Authority. Since informality is so

widespread in the economy, it necessitates that regular firms do cooperate with informal sector, and doing so makes them vulnerable to tax authorities. Hence, tax authority can punish almost any business. This phenomenon increases the cost of doing business, since businesses also have to account for bribes of political favors.

Objective 6: Government of Kosovo should change the practice of establishing Free Trade Zones. First and foremost, the Government should not establish new zones without first approving a proper feasibility study, where the applicant should justify the initiative from an economical, fiscal, legal and administrative perspective. The practice of establishing free trade zones without a feasibility study and in ad-hoc basis as it was the case with establishing the territory of Gjakova, Mitrovica and Prizren as free trade zones in March 2014 should not be repeated. The Government should also review the status of current free trade zones in Kosovo, as many of them function as free zones although their status is not properly defined. Moreover, the Government should come up with a new promotion campaign of free trade zones to reach foreign and local investors, by clearly emphasizing the financial and non-financial benefits as foreseen in the Law on Free Trade Zones.

#### **b. Publicly-Owned Companies**

Publicly Owned Companies in Kosovo provide essential services for the well-being of citizens and economic development as well. Their services include sectors such as: energy, drinkable water, wastewater management, waste management, urban transport, telecommunication etc. However, most of the companies are faced with huge commercial and distribution losses, large inefficiencies, lack of improvement with regard to operative objectives etc. The main causes for the abovementioned problems are: difficult business environment and political interferences.

Objective 1: According to research done by GAP Institute, one of the main factors that has resulted with overstaffing of the publicly-owned companies is influence of politics in the board of directors elections process. In order to decrease influence of politics, GoK needs to amend Law on Publicly Owned Companies by including articles which ensure transparency of the process. Good transparency practices suggested by OECD include: a) online publication of the names of candidates for board members and methodology of evaluation; b) involvement of the specialized recruiting agencies; c) involvement of the civil society in the process in the supervision role.

Objective 2: GoK should draft a plan which foresees gradual decrease of the number of people employed in publicly-owned companies. This would: a)

increase the efficiency of the companies therefore the value; b) avoid massive firing in case of privatization therefore increasing the number of people under social benefits. Staff cutting plans should involve employees in the draftin phase and also compensate them through: money, retraining or repositioning in other institutions.

Objective 3: In order to improve corporate governance in both central and local level companies, GoK should increase human capacities at the Unit for Policy and Monitoring of Publicly-Owned Companies under Ministry of Economic Development.

Objective 4:Gok and Publicly-Owned Companies should draft plans together with public and private universities in order that their professional staff gets easily replaced as there are skills shortages in the labor market with regard to the professions demanded by POCs.

### **c. Privatization**

The privatization process in Kosovo has been observed with strong criticism. It has been often referred as ‘mass privatization’ since irrespective of their importance, privatization covered all SOEs which were to be sold hurriedly to private (‘strategic’) investors via a tendering procedure. In general, the aim has been to sell SOEs without a clear long-term strategy accounting for its benefits and consequences with regard to employees or the economy in general. It can be argued that it was solely concerned with transferring the property rights to private owners and not necessarily to achieve its commonly promoted economic goals. Generally the process has been characterized by several problems among which lack of serious investors, foreign ones in particular, corruption, symbolic sale prices, high rate of job losses as well as freeze of privatization funds. This said, though the privatization process is about to conclude, only few privatized enterprises can be considered successful. Yet, overall, the process is has failed to meet perceived expectations.

Objective 1: Suspend the privatization process, even though it is approaching its end, in order to prevent further problems, irregularities and corruption deeds stemming from the process.

Objective 2: Fully investigate the previous privatization cases of SOEs and advise the rule of law institutions to adopt a more proactive approach in investigating the corrupt cases (the aforementioned course of action must be concluded within one (1) year).

Objective 3: Within one (1) year, in cooperation with the Parliament, create a Strategic Plan on how to proceed with the remaining un-privatized SOEs.

Objective 4: The Government should ensure that the monitoring process is more effective and the investors that fail to meet the conditions set forth should be punished properly. Moreover, the authorities should issue guidelines, within two (2) months, on more effective ways to collect fines, otherwise issuing fines will be ineffective given investors will not be driven to comply with the obligations deriving from the contract.

#### **d. Trepça Mining Complex**

Trepça Mining Complex represents an important and valuable economic giant which holds exceptional importance for Kosovo's future economic development. Nevertheless, it encompasses many problems stemming from lack of investments, technical and technological stagnation, lack of professional staff, unresolved ownership status, and destructive management approaches by the Serbian Government. Trepça, enterprise under the administration of Privatization Agency of Kosovo, consists of eleven (11) mines and only four (4) of them are active. The mines have experienced a massive drop in production and produce only concentrates of lead of zinc resulting in lower prices and lower profits. Moreover, Trepça has inherited various social, technological and environmental problems, which have had a negative impact on Trepça's operations.

Objective 1: Within six (6) months, the Government should draft a specific law on Trepça, which would provide solutions to the issues of ownership, mines, creditor claims, minerals and exploitation rights, potential investment, social programs and employee rights and compensation, amongst others.

Objective 2: Request the assistance of international financial institutions (experts) to perform an assessment of the current state of the Trepça Mining Complex including the Trepça's core and non-core assets, explored and unexplored natural resources, its accumulated financial liabilities and environmental impact. The overall assessment must be completed within six (6) months.

Objective 3: Secure domestic and foreign investments, as soon as possible, in order to start the stage of revitalization of Trepça.

#### **e. Energy Priorities**

The energy sector is in dire need of care and attention from the Government of Kosovo. The sector is in shambles and risks social and economic instability if not prioritized. So far, much has been discussed but little has been done. The pollution coming from Kosovo A thermal power plant is a concern that should be urgently addressed by closing down the plant. The increase in price of electricity has already caused social unrest and is threatening to cause more protests. On

the other hand, the energy debate in Kosovo has focused on the electricity side of energy, neglecting the issues of energy efficiency, heating and cooling. Taking these matters in consideration, the Government of Kosovo's forthcoming Strategic Plan should focus and tackle issues in these areas in the field of energy including electricity generation, focusing on heating and cooling and improving energy efficiency.

### **e.1. Electricity Generation**

Electricity generation is one of the most important subfields of energy in Kosovo. Thus, it should be given the required attention as its issues are consequential not only for the sector but for the whole of the society.

Objective 1: The Government should work on closing down of the Kosovo A thermal power plant by 2017, due to its tremendous pollution issue and unreliability in terms of both energy generation and safety for its workers. Any delay in the closing down of Kosovo A will not only worsen the environmental situation and risk workers' safety, but also violate the commitments to the EU and Energy Secretariat to close down the plant by 2017.

Objective 2: Closure of Kosovo A and the rising demand for energy require an urgent need to refurbish Kosovo B, implement drastic energy efficiency measures, and invest in new generation (alternative) capacities. The gap between supply and demand for energy presents the threat of a blackout regime, where there will be unsteady supply of energy. Moreover, in an attempt to resolve the energy gap, Kosovo will need to import energy, which is costly due to the lack of sufficient energy generation in the region. The high price of import will drain Kosovo's national account and raise the price of electricity.

Objective 3: Kosovo should aggressively encourage and develop renewable energy resources. The current portion of energy which is being generated by renewable energy (2% of the total energy generation) should be increased. Furthermore, Kosovo should pursue the 20/20/20 targets set by the EU. This increase should be encouraged through easing procedures and permits, and establishing feed-in tariffs for all renewable energy sources.

### **e.2. Increase Energy Efficiency**

Energy efficiency is one of the weak links in the energy chain. The Government of Kosovo has only recently started to focus more on the issue of energy efficiency. However, there is plenty of room for improving energy efficiency in generation, transmission, and end use.

Objective 1: Reduction of technical and commercial losses in the distribution system should continue to be a Government priority, regardless of the fact that

distribution and supply network was privatized with the main aim of reducing losses. The newly privatized KEDS should continue to receive the help of the Government of Kosovo in reducing the commercial losses.

Objective 2: The little debated issue of end-use energy efficiency should be prioritized in the Government agenda and policies. Surveys and analysis conducted in this field show staggering results. A large portion of houses are not properly insulated and appliances are generally old and inefficient. The Government should tackle this problem through creation of an Energy Efficient Fund, conducting energy efficiency auditing, as well as by amending the construction law to account for energy efficiency.

Objective 3: Municipalities in the north of Kosovo generally remain out of the reach of Kosovo institutions. Kosovo institutions still do not have full control over the region of the north of Kosovo. In turn, all of the energy injected in the grid remains unbilled. Furthermore, the hydropower plant of Gazivoda and the important substation of Vellaç are located in the north. Although, this objective does not belong in the category of energy efficiency proper, extending Kosovo's institution in the north will undoubtedly improve billing and dispatching of energy, which in turn would also increase energy efficiency.

### **e.3. Focus on Heating and Cooling**

The issue of heating and cooling has never properly made it into the public debate or the Government agenda. When winter comes, the issue of winter tariffs immediately makes it into the fiery debates, however the underlying causes are barely mentioned. Therefore, Government of Kosovo should start focusing more on heating and cooling and find ways to solve the heating problem.

Objective 1: The Government of Kosovo must urgently seek a solution to the heating problem. Reliance on firewood and electricity is not a viable and sustainable solution. Due to overconsumption of firewood, forests are suffering from a high level of deforestation. Furthermore, with the introduction of two national parks in Rugova and Sharri mountains, where firewood can no longer be obtained, other forests will be in greater risk of deforestation. On the other hand, using electricity for heating is not only inefficient but also creates a peak in the demand for energy which cannot be covered by domestic generation capacities.

Objective 2: The Government of Kosovo should seek ways to connect to the Trans-Adriatic Pipeline (TAP), a natural gas pipeline which will pass through Albania bringing natural gas from Azerbaijan. However, such a connection requires gas infrastructure, which is currently lacking in Kosovo. Hence, the

Government of Kosovo should plan on building the required gas infrastructure, while seeking a way to connect to TAP.

#### **f. Public Procurement**

Public Procurement accounts for about one fifth of GDP and is considered an important driver of Kosovo's economy. However, procurement processes are faced with two main problems: lack of transparency and lack of accountability, amongst others. Various instances of malpractice have also been evident in national and international reports including the European Union Report. This report acknowledges problems faced with contract management and capacity building by the procurement system in Kosovo. Moreover, there are numerous other gaps in legislation and implementation including the quality of professionalism amongst procurement staff, lack of political will to push forward policy reforms, lack of the country's capacity to conduct policy advising and structure decision making, cartel-bidding, vaguely defined procedures, unlawful setting of technical criteria, lack of needs assessment and sufficient funds, extremely low offers, evaluation of tenders, falsification of official documents by economic operators, project implementation delays, and the lack of central procurement.

Objective 1: Ensures that each contracting authority (budgetary organization) sets fair technical criteria as one of the most important pre-requisites for ensuring fair and transparent usage of public money.

Objective 2: Ensure the establishment of the reference price list which currently is not regulated by Law on Procurement. We suggest the creation of a list of articles based on current market prices. Therefore, when economic operators apply with their offers, contracting authorities can refer to the prices in the list when evaluating offers.

Objective 3: Ensure the establishment of a list of common commodities for central procurement should take place according to the Law on Procurement, with the help of the Assembly. Therefore, the Agency should carry out all commonly used items with the purpose of contributing to efficiency by lowering transaction costs and prices through reduced production costs (economies of scale) and through aggregation of demand which enhances management information.

Objective 4: Ensure the creation of an administrative instruction which restricts post-contract price increases to 3-5 percent. A 3-5% increase allowance provides for small, unplanned expenditures or for any small changes or unforeseen costs that arise during implementation.

Objective 5: Implement e-procurement which would serve as a mechanism to prevent, detect, and sanction corruptive behaviors. All documents would be saved in the system, and any attempt to edit anything would be easily tracked through the system. E-procurement enables online processing of all procurement activities from purchase requests to payment.

#### **g. Trade Related Issues**

Kosovo, during the last decades, has been characterized by poor trade indicators -low coverage ratios, high trade deficits and weak production base- which demonstrate the poor economic situation in Kosovo. The high dependence on imports has been negatively affecting the overall GDP and the current account deficit in Kosovo. In 2013, the share of the current account deficit to total GDP decreased by 1.1 percentage points compared to the previous year, amounting to precisely 6.4% of GDP. The trade deficit in 2013 decreased by 2.5 percentage points compared to the previous year, amounting to precisely 31.6% of GDP. However, during the first seven months of 2014, the exported goods decreased by 0.4% and imports increased by 1.2%, leading to an overall increase of the trade deficit.

Objective 1: Kosovo should change its economic policy, which currently depends on imports and budget revenue collection, by using the tariffs to prioritize and protect specific sensitive sectors and industries which would lead to economic growth and sustainability. In the mid-term period, Kosovo should gradually establish the necessary tax reforms to generate Governmental revenues and replace the budget losses resulting from the free trade area, which according to institutions will amount to € 20 million per year.

Objective 2: Kosovo's institutions should meet all the necessary requirements during the transitional period granted to products and industries -especially those with economic potential- by the SAA. Once the trade barriers are removed, the Government and institutions of Kosovo should exercise market examinations and control procedures on regular basis, strengthen its position in the domestic market, enhance its strategies and implement the necessary standards.

Objective 3: The Government of Kosovo should meet all the Sanitary and Phytosanitary requirements and standards which pose a significant market access barrier for food and agricultural products. The Government of Kosovo should adopt the SPS measures in order to reduce trade barriers without jeopardizing the ability of imposing and enforcing such measures needed to protect the animal, human and plant life.

Objective 4: The Government of Kosovo should try to narrow the large trade deficit and increase the coverage ratios by closely cooperating with the business community and proposing realistic reforms and awareness campaigns which would incentivize the businesses to invest in production capacities in order to strengthen/enhance the overall production base of the country.

#### **h. Foreign Direct Investment**

Kosovo's ability to attract foreign investors remains limited. Apart from the lack of awareness concerning the investment potential in Kosovo, foreign investment inflows have been hindered also by high degrees of corruption, slow effective business environment reforms, lack of transparency, economic inactivity in many sectors, negative perception and image by the foreign investors and Diaspora, and also failure of the institutions to implement and achieve their set objectives.

Objective 1: The Government of Kosovo and relevant institutions should concentrate on four main policy orientations in order to increase the foreign investments: reduce obstacles to FDI by undertaking further reforms in business environment and by ensuring higher effectiveness and implementation of the existing reforms; increase the attractiveness of the core sectors by offering well designed, innovative policies, regulations and modern infrastructure; focus on targeting specific types of FDI with greater beneficial potential for the country, especially in less developed regions; and increase Kosovo's competitiveness for attracting FDI in the region by offering incentive programs.

Objective 2: The Government should develop sound and innovative policies, regulations and infrastructure to increase the competitiveness and attractiveness of the core-targeted sectors (Business Process Outsourcing, Renewable Energy, Wood and Metal Processing, Agribusiness-Food Processing and Packaging, and Textile). The Government must increase efforts in anticipating and responding to investors needs in these sectors and reduce obstacles in doing business and perceived risk.

Objective 3: The Government of Kosovo should design FDI incentives and policies which should meet country's economic development objectives and make them available to the potential investors both foreign and domestic. The Government should consider enriching the fiscal incentive package by introducing other incentives such as tax holidays' investment, tax allowances and tax heaven or Export Processing Zones.

Objective 4: The Government of Kosovo should ensure the right business environment and incentives which would channel the foreign investments

towards the core-targeted sectors and not only to consumption which in the future might 'spell balance of payment problems'.

## VI. Conclusion

In summation, the government of Kosovo must address challenges hindering Kosovo's progress in the areas of European integration, Rule of Law, as well as improving the political and economic climate. These issues are intertwined and require not only comprehensive legislation, but implementation of appropriate legislation in order to be eradicated. Key indicators must be considered in order to measure the success and degree of implementation. Such indicators should include statistics, but need to also evaluate the quality indicators. The government should consider the resolution of all of the issues discussed within this recommendation paper as imperative to the future of Kosovo.

