

# **USAID/Kosovo Strategic Plan**

**2010-2014**

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## **I. INTRODUCTION**

### **• KOSOVO DEVELOPMENT CONTEXT**

The creation of Europe's newest state has proceeded on a forward path despite setbacks. Starting from virtually zero, Kosovo today is a functioning state, with a functioning government and a society that is growing stronger and more self-confident. The process of handover of Kosovo's nascent institutions from UN control to the new Government of Kosovo (GoK) has been a notable success and has highlighted the young state's growing maturity and capacity. Government institutions at the central level are establishing a track record of successful operations. The country has adopted a democratic Constitution, established a Constitutional Court, and held six peaceful elections that represented the people's will. The November 2009 municipal elections, the first elections held since independence in 2008, offer new hope for a unified, multi-ethnic Kosovo. Kosovo civil society is developing into an independent and vibrant group that is increasingly capable of holding the government accountable.

There have been important foreign policy and economic successes as well, including the historic border demarcation agreement between Kosovo and Macedonia, recognition of statehood from 65 countries to date, and the admission of Kosovo to the World Bank and International Monetary Fund (IMF). Kosovo is widely acknowledged as having one of the most open economies in the region. Economic growth rates steadily increased over the past ten years to 5.4 percent in 2008 before falling to 3.8 percent growth in 2009 during a period of global crisis, when most regional economies experienced contractions. In 2002 Kosovo adopted the euro as its official currency. Inflation has been relatively low and the country's nascent economic institutions have maintained fiscal stability.

Yet serious challenges remain. Unemployment is high particularly among Kosovo's burgeoning youth population. Two years after independence, the regional environment continues to be difficult with Serbia still following a policy of obstruction toward its southern neighbor. Although many countries have recognized Kosovo's independence, Serbia and several European Union members have not.

### **• USAID/KOSOVO ASSISTANCE UNTIL NOW**

In the beginning, USAID addressed the aftermath of the 1999 conflict with special programs targeting the return and reintegration of refugees and the rebuilding of damaged infrastructure. This assistance evolved over the past five years to help Kosovo establish a government, rule of law, civil society, and independent media. The work was largely driven by the need to create functional institutions in this young country, with a major focus on capacity building through technical advisors embedded in GoK structures. The results of USAID assistance thus far show notable successes. In partnership with other United States Government (USG) entities and the international community, USAID has made a major contribution to establishing Kosovo's modern legal framework; supporting the drafting of the Constitution; building capacity in the judicial system and the legal profession; setting up the government's economic institutions; and building a strong civil society. The private sector has also been a focus from the start. Over the last ten years, more than 7,000 businesses have been assisted and over 1,000 loans worth \$50 million were facilitated.

Despite the recent progress, Kosovo faces a long road to sustainability. Much remains to be done in areas such as economic growth, anti-corruption, and improving human capital.

### **• GOVERNMENT OF KOSOVO DEVELOPMENT PRIORITIES**

The GoK lays out its policy priorities in the Medium Term Expenditure Framework (MTEF) which serves as the national development plan. The MTEF 2010-2012 identifies the GoK's overall goal as "an economically sustainable Kosovo, being a multi-ethnic state on its path to European integration and meeting the highest standards of accountability and transparency." Top priorities include reliable energy

supply, an improved transportation network, a stronger education system, and strengthening the rule of law as key to faster integration with Europe.

The GoK has reinforced its support for Kosovo's diversity and respect for the rights of all communities, initiating infrastructure and social projects benefiting minority communities.

The GoK has also begun to recognize the severity of youth issues and has recently released the Kosovo Youth Strategy and Action Plan (KYSOK) to improve youth employment and engagement.

USAID/Kosovo is working to align its assistance with Kosovo priorities – the first ever Assistance Agreement with the GoK was signed on September 14, 2009.

## **II. OVERALL STRATEGIC APPROACH AND PRIORITIES**

### **• U.S. GOVERNMENT GOALS**

The United States Government (USG) seeks a strong and effective partnership with the GoK that builds on the close relationship between the United States and Kosovo to address regional and global challenges. USG support will focus on:

- building the institutions of Kosovo's government and society;
- encouraging a democratic process inclusive of all citizens, including all minority groups;
- promoting economic development such that all people of Kosovo enjoy the benefits of prosperity;
- ensuring that society and government are firmly grounded in the rule of law; and
- supporting the continued integration of Kosovo in the region and Europe.

### **• STRATEGIC VISION FOR USAID ASSISTANCE**

In line with USG assistance goals and Kosovo's priorities, USAID/Kosovo has formulated a strategic plan with an ambitious five-year agenda for Kosovo.

*We envision Kosovo as an effective state, with a viable economy and an inclusive democracy on the path to European integration.*

The realization of this vision will require close cooperation between USAID/Kosovo, other USG entities, the international community, USAID implementing partners, and, above all, partnership with Kosovo institutions and local stakeholders. The strategic plan is based on strong synergies throughout the portfolio to maximize impact – such as the coordination between programs to improve the business environment; to institute better contract enforcement and alternative dispute resolution methods in the rule of law sector; and to offer integrated economic growth and governance support programs in municipalities. Identifying and enhancing synergies will be a key operational goal for the next five years.

### **• USAID PRIORITY GOALS AND CROSS-CUTTING THEMES**

Throughout FY09 USAID/Kosovo assessed Kosovo's development and identified the major priorities for the future. Given the enormous and varied needs in Kosovo, we made our decision according to the following criteria: the priorities of the Government of Kosovo; the priorities of the United States in Kosovo; the opportunities for greatest impact; USAID's comparative advantage; our past successes and failures; funding levels; the planning horizon; and internal capacity.

We envision several important shifts in focus over the life of the strategy:

- New major focus on youth and education. Youth-oriented programs will have a central importance in our portfolio in the next five years. Youth and education interventions will depend critically on a cross-cutting, whole-of-government approach, and on a strong partnership with the GoK and other stakeholders.

- Increased focus on the private sector as engine of growth, and on civil society as means for enhanced government accountability. USAID assistance until now was focused on support for the basic building blocks of an independent Kosovo. For Kosovo to move forward, it needs to establish a clear economic base for development and to consolidate democratic achievements. Consequently, assistance will shift toward support for the private sector, which is best-positioned to determine Kosovo's comparative advantages and best able to increase incomes and jobs. With basic government functions operating with a degree of effectiveness, it is important to ensure that there is a vibrant civil society that is capable of holding the government accountable and demanding rule of law.
- Increased focus on assistance at the municipal level. Kosovo's central government institutions have achieved remarkable progress in a short period of time. While threats to these gains still remain, the focus now should be on building the capabilities of local government. Kosovo is implementing an ambitious decentralization program with substantial devolution of authorities and responsibilities to municipalities. Most municipalities are not prepared to deliver essential services and require strategic, cohesive assistance. It is also important to establish income and jobs base at the municipal level. These issues are even more urgent in the newly established municipalities and those with predominantly minority populations.
- At the center, focus will shift from establishing institutions to making them functional. Central government institutions still require support to varying degrees of involvement. Over the next five years, the task will be to consolidate and build on successes at the center, and begin to scale back support to those ministries and agencies that are capable of successfully fulfilling their mandate without full-time donor assistance.

Corruption is of increasing concern in Kosovo. USAID's new strategy addresses this concern both through systems that promote transparency (e.g., public tenders), support for entities that demand accountability of government (e.g. citizen advocacy groups and watchdog organizations), as well as assistance to institutions that serve as checks and balances (e.g., national and municipal assemblies; an independent judiciary). USAID/Kosovo will continue to seek additional opportunities to reduce corruption through specific activities throughout the portfolio.

The 2010-2014 USAID/Kosovo strategic plan is based on the implementation of three assistance objectives. Given the strong synergies among the objectives and intermediate results, USAID will continually assess the sequencing and prioritization of interventions.

**1. Youth Are More Productive and Engaged Members of a Stable Kosovo**

- Improved Capacity of Schools to Provide Relevant Skills;
- Increased Opportunities for Youth to Acquire Skills for Employment;
- Improved Youth Engagement in the Community.

**2. Increasing Private Sector-Led Economic Growth**

- Private Sector Growth and Investment is Increased;
- Kosovo Has a Reliable Energy Supply;
- Economic Institutions Ensure Fiscal Sustainability.

**3. Empowering Kosovo's Citizens to Consolidate a Functioning Democracy**

- More Effective Governance at the National and Municipal Levels;
- Improved Delivery of Justice Through Rule of Law;
- Strengthened Mechanisms for Citizens to Represent their Interests and Hold the Government Accountable;
- Increased Integration and Participation of Minorities.

All of our assistance will continue to support Kosovo's integration into Europe.

Achieving these priority goals depends on incorporating, in all aspects of the strategic plan and related activities, the following cross-cutting factors:

- Youth integration – youth issues present a fundamental development challenge that requires refocusing to this target group throughout the portfolio.
- Gender equality – development affects men and women differently throughout the world but particularly so in Kosovo, which suffers from the legacy of a patriarchal society and from severe economic constraints. Measures to increase gender equality in assistance programs are incorporated throughout the portfolio.
- Full participation of minorities – given the U.S. commitment to Kosovo as a multi-ethnic state, and Kosovo’s own commitment to multi-ethnicity as enshrined in its constitution, the strategic plan targets minorities’ integration across the portfolio, in addition to specific activities under Assistance Objective 3.
- Protection of Kosovo’s environment – USAID recognizes the severity of Kosovo’s environmental challenges as well as the possible impact of future development, especially in the energy and forestry sectors. In 2009, we prepared the Environmental Threats and Opportunities Assessment (ETOA) as a guide for planning and implementation. Based on the ETOA recommendations, the strategic plan envisions targeted support for policy reform, civic engagement, and capacity building for stronger environmental management.

- **DONOR COORDINATION AND AID EFFECTIVENESS**

USAID/Kosovo is committed to increasing the effectiveness of its assistance and strengthening donor coordination. We actively participate in Kosovo’s donor coordination mechanisms. The EU+ donor group, comprising the European Commission, the EU member states, Switzerland, and USAID, is the major donor forum, meeting monthly to discuss priorities and coordinate programs. USAID co-funded and is participating in the development of the Aid Management Platform, a joint GoK-EU project to improve assistance data collection and reporting. International financial institutions, led by the World Bank and the IMF, play an increasingly important role. The International Civilian Office (ICO) is a key partner charged with the implementation of Kosovo’s status settlement.

The GoK recently established the Ministry for European Integration (MEI) with the mandate to lead donor coordination – a process fully supported by USAID. A representative of MEI participates in the EU+ donor group.

A broad consultative process was an essential component of USAID’s strategic planning. Over the course of several months, jointly with MEI (then the Agency for Coordination of Development and European Integration (ACDEI)), we conducted a series of consultations with the GoK and the donor community. Separate consultations were also held with USAID’s implementing partners, Kosovo civil society organizations and think tanks, and NATO’s Kosovo Force (KFOR).

USAID is committed to increasing the use of country systems in delivering assistance. In 2009, USAID became one of the founding donors of a multi-donor trust fund, managed by the World Bank, to deliver direct support to the Kosovo consolidated budget based on performance against reform benchmarks.

- **ANTICIPATED RESULTS**

Success by 2014 means broad progress in Kosovo’s economic development, democratic consolidation, and European integration. Some specific successes we envisage include:

1. Energy: Kosovo Energy Corporation Network and Supply Division (KEK DistCo) privatized by 2011;
2. Fiscal sustainability: tax revenue as percentage of GDP increased by 50% by 2014 (from 2009 levels);

3. Private Sector Growth: at least five World Bank *Doing Business* indicators improve by 2011;
4. Private Sector Growth: 15,000 new jobs created by the private sector by 2014;
5. Effective Governance: increased satisfaction with municipal services by 2014 (as measured by the UNDP Kosovo Mosaic report);
6. Effective Governance: Kosovo institutions in areas with USAID assistance provide effective services;
7. Rule of Law: satisfaction with the judiciary increases by 2011 (as measured by the Court Users' Survey); and
8. Youth: At least 5,000 additional youth in full-time equivalent jobs by 2014.

### III. DETAILED DISCUSSION OF ASSISTANCE OBJECTIVES

#### ASSISTANCE OBJECTIVE 1: YOUTH ARE MORE PRODUCTIVE AND ENGAGED MEMBERS OF A STABLE KOSOVO

##### A. SITUATION ANALYSIS

The growing youth population that is unemployed, disengaged, and disconnected is emerging as an urgent issue for the newly independent Kosovo state. Kosovo has the youngest population in Europe, with 50% under the age of 25, and 19.1% considered youth (15-24).<sup>1</sup> Approximately 35% of young people leave school early (10% of those before they reach secondary school).<sup>2</sup> Of those who finish secondary school, 10%-20% go to university. The rest look for gainful employment. With unemployment rates ranging from 50%<sup>3</sup>-75%<sup>4</sup> for youth, and the likelihood of employment significantly lower for those who do not finish secondary school, the majority of young people, at some point, enter the group of unemployed youth. According to World Bank estimates, it takes approximately 10 years for young people to transition from school to full-time, permanent work.

The serious issues faced by youth are inextricably linked to the systemic issues of Kosovo's education sector. The education sector is plagued by poor governance, lack of quality assurance and teacher evaluation mechanisms, and a dire lack of learning materials that would develop practical skills, such as textbooks focused on applied learning, laboratory and physical equipment. There are wide disparities in per student funding among municipalities leading to questions about equitable access to education. There are also considerable and increasing differences in drop-out rates for girls and boys, and for students from ethnic minorities or with disabilities. Assistance to the education sector will be critical for addressing some of the root causes of youth disengagement.

Despite the serious risk their disaffection presents to Kosovo, at present youth want to build their country and have not lost their enthusiasm for it. They vote at higher rates than their counterparts in neighboring countries. Young people are still optimistic – there is a window of opportunity to mobilize them around a positive vision.

##### B. ASSISTANCE APPROACHES

USAID/Kosovo believes that it is critical to focus explicitly on **engaging young people in support of a stable Kosovo**. Therefore, the strategic plan includes a specific youth-related Assistance Objective (AO), as well as the inclusion of young people as a cross-cutting theme.

USAID assistance will focus on achieving three major intermediate results where we have identified critical gaps preventing youth from becoming productive and engaged members of society.

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<sup>1</sup> GoK Employment Strategy

<sup>2</sup> UNDP data

<sup>3</sup> International Labor Organization data

<sup>4</sup> World Bank data

**INTERMEDIATE RESULT 1.1: IMPROVED CAPACITY OF SCHOOLS TO PROVIDE RELEVANT SKILLS**

For the past ten years, USAID has limited its participation in the education sector to infrastructure rehabilitation and expansion. Over the next five years, USAID assistance will support education interventions that develop and implement partnerships to encourage accountability, the effective use of resources, local decision making, and the empowerment of parents, communities, civil society, and the private sector to play an expanded role in improving their schools. Other donors and the GOK have welcomed USAID's deeper involvement in the sector.

**1.1.1: GoK Improves its Planning and Evaluation Practices in the School System**

USAID will target impacts in the medium-term by providing technical assistance and support to the Ministry of Education, Science and Technology (MEST) via capacity building for performance management and quality improvement. Our assistance will have three main objectives: 1) to ensure that MEST has the capacity to continuously monitor and improve education system performance; 2) to ensure that MEST can plan for and provide continuous professional development for teachers, as well as implement a system of teacher licensing; and 3) to ensure that MEST has the capacity to plan strategically and monitor outcomes.

**1.1.2: Improved Management of Schools in a Decentralized Environment**

USAID will target direct impacts at the local community/school level, consistent with the strategic focus on municipal/local level assistance. The objectives are to strengthen the management capacities of school directors, school boards and municipal education departments (MEDs); develop and implement partnerships with the local communities to encourage accountability, the effective use of resources, and local decision making; and empower parents, communities, civil society, and the private sector to play an expanded role in improving their schools.

**INTERMEDIATE RESULT 1.2: INCREASED OPPORTUNITIES FOR YOUTH TO ACQUIRE SKILLS FOR EMPLOYMENT**

Employers and youth complain that students are not prepared to enter the workforce. Interrupted education and drop-outs mean many unemployed youth have few skills to help them find employment. USAID will focus on building skills that can be applied across fields, as the demands of the labor force may change rapidly. We will focus especially on building functional partnerships with the private sector and other employers in order to deliver interventions consistent with the needs of the labor market.

**1.2.1: Reduced Time of School-to-Work Transition**

USAID will work through local institutions and the private sector to encourage the development of youth-owned businesses through entrepreneurship training, facilitation of access to finance, and support for new businesses. It is clear that there are not a sufficient number of jobs available in Kosovo now or in the near future. Young people can participate in creating jobs themselves through innovation and entrepreneurship and provide products and services that are in demand in a young and dynamic society.

**1.2.2: Improved Services to Link Youth to Available Jobs**

USAID will support the systems that facilitate employment matching for youth through community partnerships for youth employment. Assistance will include flexible multi-sector skills development and community-based programs that link youth workforce development initiatives to the local job market.

**INTERMEDIATE RESULT 1.3: IMPROVED YOUTH ENGAGEMENT IN THE COMMUNITY**

While young people in Kosovo vote at higher rates than youth in surrounding nations, the widespread perception of corruption negatively affects their belief in Kosovo's future and fuels a sense of apathy that may begin to erode participation. USAID will target the next generation of Kosovo leaders who can inspire youth to become active and engaged community members who can present a positive vision for the future.

**1.3.1: Increased Youth Participation in Constructive Processes**

We will target opportunities for youth to participate in decision-making processes at the local and national level. Illustrative activities include the establishment of mentorship programs, programs to assist youth to engage with institutions in public forums, and to advocate for their interests. USAID will work with the State Department's Public Affairs Office to maximize synergies with their outreach programs.

**1.3.2: Youth Provide More Services for Their Communities**

Currently, most young people have few opportunities to be involved in their community. Only a small number of youth are engaged in civil society or other out-of-school activities. Youth are very often isolated with nothing to do. We will seek to reinvigorate a spirit of public service via grass roots youth initiatives, so that young people can contribute to their community and towards a positive future vision of Kosovo.

**C. CROSS CUTTING THEMES**

The threat of interethnic violence has decreased over the last 10 years. To sustain this trend and reduce the prevalence of parallel institutions, it is critical to include minorities when possible, so they feel part of a future Kosovo. USAID's assessment is that there are opportunities to promote interethnic interaction, particularly among Kosovo Albanians and Kosovo Serbs because some youth no longer feel burdened by rivalries and tensions that occurred in their early childhood.

Research shows that women are more likely to be victims of human trafficking and domestic violence. The strategy recognizes the importance of including young women, particularly under workforce development and employment. Currently, young women attend vocational school at much lower rates than men (38% vs. 57%)<sup>5</sup>. There are a number of reasons for this: parents are less likely to commit economic resources to a woman's education; few vocational schools are in fields attractive to women; and traditional norms prevent women from traveling for their education. By tying job opportunities more closely to education and to the local community, USAID's planned interventions will alleviate some of these barriers to women's participation. USAID will target vocational and workforce development fields attractive to women, recognizing that young women face much higher unemployment and poverty rates than men.

The ETOA recommends a multi-pronged approach to address Kosovo's critical biodiversity and environmental needs. Under this Assistance Objective, the Mission will work to improve youth understanding of biodiversity as a resource for sustainable development and will support youth initiatives that target the conservation of Kosovo's environment and biodiversity.

**F. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR**

Relevant ministries are the Ministry of Culture, Youth, and Sports (MCYS), the MEST and the Ministry of Labor and Social Welfare (MLSW), which is responsible for some aspects of workforce development, as well as for the implementation of the GoK Employment Strategy. Together with the Prime Minister's Office, these ministries are responsible for implementing the Kosovo Youth Strategy Action Plan (KYSAP) as well as education reform. A number of donors support these institutions, including: World Bank, OSCE, GTZ, SIDA, UNICEF, UNDP/UNV, UNFPA, and UNIFEM. UNICEF is also considering working on parts of the KYAP, particularly the Youth Councils and Youth Centers. With a small budget and a diffuse range of activities (employment; education; human security; participation; culture; sports; and recreation), there is room for additional support. Given USAID's plans to work with municipalities,

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<sup>5</sup> UNDP

there is a strategic advantage for USAID to also work with schools at the municipal level and other local institutions.

A critical issue for the success of USAID's youth strategy is the engagement of as many allies as possible in order to reach youth and provide them with positive role models. The role of the Kosovo private sector will be central. The strategy depends heavily on mentoring, internships, career counseling, etc. The private sector could play an active role in school interventions as well, through public/private alliances. Finally, increasing the number of jobs being created by the private sector is critical for sustainability.

## **G. ANTICIPATED RESULTS**

The issues faced by youth in Kosovo are urgent and cut across sectors and priorities. USAID's strategy will produce tangible, people-level impacts. The long-term success of USAID's assistance will depend critically on external factors, as well as on the GoK making youth a top priority. Success by 2014 means an increase in employment for young women and men, as well as an increase in youth-owned enterprises. Success also means a school system managed for results, with a teacher licensure system in place, and capable of providing children and youth with practical skills and a civic education.

## **ASSISTANCE OBJECTIVE 2: INCREASING PRIVATE SECTOR-LED ECONOMIC GROWTH**

### **A. SITUATION ANALYSIS**

USAID has played a central role in establishing economic institutions and systems in Kosovo. The basic institutions, laws, and regulations are in place, as is a sound financial system. Through our technical assistance and partnership with other donors, much progress has been made in building the capacity of central GoK institutions, such as the Ministry of Finance and Economy (MFE), the Ministry of Energy and Mines (MEM), the Central Bank of Kosovo (CBK), the Tax Administration of Kosovo (TAK), the Privatization Agency of Kosovo, the Kosovo Trust Agency (KTA), the Kosovo Pension Savings Trust (KPST), Kosovo Energy Corporation (KEK), Energy Regulatory Office (ERO), and others. Several, such as the CBK, the KPST, and the privatization agency, now function at a level of proficiency that does not require ongoing donor support. The country has continued to maintain fiscal and macroeconomic stability during a period of global financial crisis.

However, Kosovo is far from reaching its economic potential. The economy grew at approximately 3.8% in 2009. Kosovo has weathered the global crisis primarily because it remains isolated from the world economy and is largely dependent on remittances and foreign aid, with each contributing approximately 10% to GDP. This is not a model for sustainable growth and, moreover, it is not sufficient to create jobs for the roughly 45% unemployed and the 30,000 new entrants to the labor market each year. Lack of reliable energy, lack of an enabling business environment, poor infrastructure, and an unskilled workforce are among the major constraints facing Kosovo's economy. Kosovo has a highly import-dependent economy, with exports comprising less than 10% of GDP in 2008 – the lowest proportion of exports to GDP in any transition economy in Europe and Eurasia.

Kosovo's productivity in the agriculture sector has declined to the point where the country is not able to feed itself. Despite its history as an agricultural producer, Kosovo currently runs a trade deficit of over €144.6 million in agricultural products. A significant amount of arable land (34%) is in meadows and pastures or lies fallow. One-third of farmers do not cultivate all of their land. With an unemployment rate in rural areas running higher than the national average, the development of agriculture is a key priority for poverty reduction and economic growth.

### **B. ASSISTANCE APPROACHES**

Kosovo urgently needs to reduce unemployment and poverty rates. To achieve this, the International Monetary Fund (IMF) estimates that Kosovo's economy must grow at least 7% a year, while it is currently projected to grow at about 5% a year over the next five years. Assistance under this objective will see increasing focus on the private sector as the best and most sustainable engine of growth and job creation – all intermediate results support this objective.

USAID assistance will help to adopt and implement economic legislation and regulations in accordance with the European Union (EU) Acquis Communautaire. This is a key prerequisite for EU membership.

### **INTERMEDIATE RESULT 2.1: PRIVATE SECTOR GROWTH AND INVESTMENT IS INCREASED**

Kosovo has high unemployment (over 40%), a large youth population (50% below 25 years), and a high poverty rate (45%). It needs long-term, sustainable economic opportunities that can only be created by the private sector. We will focus on four major elements of private sector development – the enterprises that make up the private sector, the people that are needed to run the enterprises, the capital that is required to finance business operations, and the environment in which they all operate.

#### **2.1.1: Improved Enabling Environment for Business Growth**

While Kosovo has a fairly modern legal and regulatory framework on paper, implementation is weak and the business climate is essentially poor. The policies and processes that shape the business enabling environment (BEE) are among the biggest impediments to economic growth and job creation in Kosovo. The devolution of central government powers to Kosovo's municipalities presents an opportunity to improve BEE at the local level. We will work with national authorities, targeted municipalities, and private sector groups to develop administrative procedures for commercial laws and regulations; create incentives for national and local government to improve the business climate; strengthen the capacity of business chambers and associations to lobby; and enhance the capacity of the GoK and private sector to utilize Kosovo's trade interests and opportunities to increase its economic integration into Europe. Activities will be implemented at both the national and local level in close coordination with programs on contract enforcement, alternative dispute resolution, and support for municipal governments.

#### **2.1.2: Targeted Sectors More Competitive in Domestic and International Markets**

Assistance will strengthen the competitiveness of targeted sectors with high growth potential by improving the quality and efficiency of locally produced goods and services. The goals are job creation, increase in exports, and further integration into the region and Europe. One of the key targeted sectors is agriculture, where USG assistance could help Kosovo meet its consumption needs through local production, rather than imports; generate jobs outside Pristina, thus mitigating migration to the capital; and develop high value crops with export potential. Programs will assist Kosovo businesses and sectors with clear end-market opportunities through discrete initiatives that help them increase sales, exports, and/or employment, attract foreign direct investment, move up the value chain, and align their output with European Standards (EN).

#### **2.1.3: Increased Affordable and Accessible Credit**

The financial sector in Kosovo is relatively stable and well-supervised by the Central Bank but offers a limited range of products to clients. Interest rates are higher than in neighboring countries, putting local firms at a competitive disadvantage. Activities will support new and improved credit products for secured lending, including to key industries such as agriculture; improvements in the credit information system; and expanded use of the credit registry.

### **INTERMEDIATE RESULT 2.2: KOSOVO HAS A RELIABLE ENERGY SUPPLY**

Energy security is a significant vulnerability for Kosovo with far-reaching consequences. The lack of reliable energy supply is currently the most important impediment to private sector development and economic growth. The electricity sector is a major drain on the budget due to persistent subsidies and the need for power imports. Power shortages continue to be a daily occurrence and technical and financial

losses are high. After ten years, Kosovo is not yet integrated into the regional energy market. Overall sector reform, including privatization, is essential and will best be achieved by attracting financially strong and technically experienced private sector investors. As a signatory to the Energy Community Treaty for South-East Europe (ECT), Kosovo's energy sector reform and restructuring will comply with ECT requirements and obligations and with EU obligations for markets and environmental standards. USAID will address to varying degrees the three key strategic elements to achieve energy security: diversification of supply, development of domestic resources, and energy efficiency.

### **2.2.1: Improved Operation of the Electricity Sector**

Assistance will target the effective commercialization of Kosovo Energy Corporation's Network and Supply Division (KEK DistCo) and preparation of the proper deal structure for its successful privatization. USAID is also engaged in a feasibility study on the future of Kosovo B. This requires close collaboration with the World Bank, which is supporting the parallel transaction for KEK's mining and generation assets to ensure overall energy sector reform and restructuring. We will also support reform to the legal, regulatory and market framework, including ensuring the highest environmental standards. Activities will include technical assistance to establish KEK DistCo as a separate corporate entity, improve KEK's commercial operations, and strengthen the capacity of the Energy Regulatory Office (ERO), the market operator and environmental monitoring.

### **2.2.2: Improved Efficiency of Energy Used**

The sustainability of energy supply will be greatly enhanced by the more efficient use of energy. Starting in the second half of the strategy period, USAID will assess opportunities to assist municipalities to reduce energy used in district heating and increase energy efficiency to ease the fiscal burden on municipalities and reduce the environmental impact.

## **INTERMEDIATE RESULT 2.3: ECONOMIC INSTITUTIONS ENSURE FISCAL SUSTAINABILITY**

In order for the economy to develop and grow, the GoK needs to transform from an agent of control to an agent of empowerment. Fiscal sustainability is a key building block for private sector development and economic growth. Both domestic and international investors make their decisions based on the stability and predictability of the business environment. USAID assistance will focus on sustaining macroeconomic stability and will aid achievement of criteria established by the European Council as preconditions for EU Accession.

We will target three main areas: (1) provide capacity building to key economic institutions and municipalities so that they are able to maintain fiscal stability without full-time donor assistance; (2) ensure that sufficient capacities are in place to optimize public revenue generation; and (3) ensure that investment in public infrastructure is prioritized and funded in accordance with international best practices and with emphasis on private sector participation.

### **2.3.1: GoK Institutions Design and Implement Economic and Fiscal Policies in Accordance with International Best Practices**

USAID will assist GoK institutions to: 1) maintain a solid institutional and policy framework; 2) develop and implement policies and a legal framework that will foster robust private sector growth; and 3) support and sustain systems for effective public financial management at both central and local levels. Possible activities will include technical assistance to key economic policy institutions with the goal to strengthen systems for macroeconomic stability, and capacity building to extend and deepen the level of competence in the Budget and Treasury departments of municipalities. USAID will coordinate its economic growth and democracy and governance activities to ensure that municipalities are equipped with adequate tools for sustainable fiscal decentralization.

### **2.3.2: Enhanced Institutional Capacity for Professionalism, Transparency, and Effectiveness of the Tax Administration of Kosovo (TAK)**

USAID will assist TAK to maximize voluntary compliance; provide professional, transparent and effective service to taxpayers; ensure fair and uniform application and enforcement of tax laws; and collect revenues for the government budget in an efficient and cost-effective manner. We will provide technical assistance in areas that directly impact revenues, such as: tax evasion policies and procedures; management information systems; capacity building in enforcement and taxpayer services; e-filing; and public awareness campaigns.

### **2.3.3: Private Investment Becomes a Viable Option for Funding Public Infrastructure**

USAID will assist the GoK in pursuing Public Private Partnerships (PPPs) as a mechanism for the financing and management of priority public infrastructure projects. Activities will include: 1) provision of technical assistance for capacity building of the PPP unit; 2) technical assistance to Project Implementation Units (PIUs) within responsible GoK ministries; and 3) assisting municipalities with the implementation of municipal PPPs.

## **C. CROSS-CUTTING THEMES**

Youth will be specifically targeted with interventions throughout this Assistance Objective – for instance, through internships and trainings with U.S.-supported businesses, through assistance to youth businesses, and through support for policies that place youth integration at the center of GoK economic planning.

Women, including girls, face an especially difficult set of circumstances in Kosovo’s economic environment and have rates of unemployment and poverty roughly double that of men. USAID will implement activities specifically focused on improving economic outcomes for women, such as promoting gender equality in leadership and management positions, supporting women entrepreneurs with loans and business training, and creating job opportunities and skills building for women.

All USAID activities are designed to specifically include businesses and individuals in minority areas where feasible, and to promote international best practices and standards in environmental protection.

USAID’s energy sector strategy reinforces the Agency’s support for clean energy by reducing net greenhouse emissions. A privatized KEK DistCo that is charging market prices will reduce greenhouse gases since people will use less energy. A more efficient, cleaner Kosovo B and/or a new generation plant will emit less greenhouse gases compared to the current generation plants, Kosovo A and B. Forestry was selected as a key sector for USAID support because the evidence shows that unsustainable logging is severely degrading Kosovo’s biodiversity and damaging Kosovo’s environment. We will work to create economic incentives and develop standards for sustainable forestry management.

## **D. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR**

Sustainable economic growth is the GoK’s top priority. USAID will continue to work closely with GoK partners, led by the Prime Minister’s Office and the Ministry of Finance and Economy (MFE), in the setting of assistance priorities, as well as in the design and delivery of programs.

The program will be coordinated with major regional and international donor partners, including the World Bank, the IMF, the European Commission (EC), the International Civilian Office (ICO), and the UK Department for International Development (DFID), and the Royal Norwegian Embassy – Business Development Office. In the energy sector, USAID will continue to work with the EC and the World Bank in implementing a coordinated approach to reform.

The strategy envisions a particularly strong focus on working with the private sector, including with local stakeholders, such as the Kosovo Chamber of Commerce, the Alliance of Kosovo Businesses, AmCham Kosovo and others, and with local and Diaspora-owned businesses. In addition to assisting the GoK in

implementing PPPs, USAID will explore Global Development Alliance (GDA) initiatives in the delivery of U.S. assistance.

## **E. ANTICIPATED RESULTS**

Success by 2014 is defined as an energy-secure Kosovo with strong economic growth, declining unemployment and poverty, and fiscal stability. It includes a GoK capable of setting priorities, maintaining fiscal discipline, delivering services, and promoting a private-sector led economy.

### **ASSISTANCE OBJECTIVE 3: EMPOWERING KOSOVO'S CITIZENS TO CONSOLIDATE A FUNCTIONING DEMOCRACY**

#### **A. SITUATION ANALYSIS**

In the last ten years, USAID played a vital role in laying the foundations for democratic governance and the rule of law. At present, Kosovo has a structure of governance and a body of laws that encourage citizen participation, a free media, checks and balances on power, and an independent justice system. Despite these strong foundations, there are persistent problems with how the institutions function in practice. The court system remains inefficient and has yet to demonstrate its independence from the organs of the state. Progress is uneven with regard to the devolution of power to municipal governments as outlined in the constitution. With public perception of corruption growing, citizens are losing faith in their government. The Government of Serbia continues to call on Kosovo Serbs to boycott the institutions of the Kosovo state and to finance shadow local administrations in Kosovo Serb-majority areas.

Over the next five years, making government work in an accountable and effective manner for the people of Kosovo is critical to attracting foreign investment, inspiring confidence in citizens that they can and should take an active role in their country's development, and easing Kosovo's path to European integration. USAID/Kosovo's strategy in democracy and governance will shift from the establishment of the foundations for democracy, which has been the aim over the last ten years, to making democratic governance function. This requires having an impact on both the supply and demand sides of democratic governance by helping to make government more effective and open to accountability as well as strengthening the mechanisms through which citizens can represent their interests in government and hold state institutions accountable. Additionally, it necessitates a substantial investment in assisting the justice system to deliver justice more efficiently and independently of government influence or corruption. USAID/Kosovo will have a particular focus on the implementation and accountability of governance at the local level where most of the work of government should take place once the constitutionally-mandated devolution of authorities is complete. Finally, we will continue to assist with the integration of minorities into all aspects of society and on fostering a common vision for Kosovo as home to all its people.

#### **B. ASSISTANCE APPROACHES**

We will target strengthening and consolidating the gains of democratic governance in Kosovo through a four-pronged approach, represented by the four targeted intermediate results.

### **INTERMEDIATE RESULT 3.1: MORE ACCOUNTABLE AND EFFECTIVE GOVERNANCE AT THE NATIONAL AND MUNICIPAL LEVELS**

Our objective will be to build the capacity of both the executive and legislative branches of governance at the municipal and national level. Assistance will go beyond the establishment of institutions to their effective performance.

**3.1.1: Increased Capacity of Local Governments to Advocate Their Interests, Manage Resources and Provide Services**

USAID assistance will work with municipal governments to advocate for the devolution of authorities to municipalities and the allocation of resources needed to fulfill those authorities. Activities will build the capacity of municipal governments to deliver services to their citizens and to manage their resources in a transparent and participatory manner. USAID assistance will help municipalities become an effective balance of power to the central government and implement local government's responsibilities in service delivery, economic development, budget management, and constituent relations. USAID assistance to municipalities will directly support GoK objectives under the European Partnership Action Plan 2009.

**3.1.2: National and Municipal Assemblies More Effective in Government Oversight and Legislative Review**

USAID will concentrate more deeply on the National Assembly, while adding a new dimension of assistance to municipal assemblies. We will work closely with both the national and municipal assemblies on increasing their capacities to exercise their authorities in a productive and effective manner. This will require capacity building for deputies and staff as well as assistance in the development of procedures and expertise in specific areas of legislation and oversight.

**3.1.3: National and Municipal Assemblies More Open to Citizen Input**

Assistance will help both the national and municipal assemblies to regularize mechanisms for incorporating citizen input into the processes of legislative review and government oversight. Activities, such as capacity building, will be delivered in close coordination with programs that build the professionalism of civil society organizations (CSOs) and private sector associations to advocate with assemblies in policy formulation and government monitoring.

**INTERMEDIATE RESULT 3.2: IMPROVED DELIVERY OF JUSTICE THROUGH RULE OF LAW**

Our assistance will be based on three overall objectives: 1. improving access to the rule of law; 2. increasing demand for the rule of law; and 3. strengthening respect for the rule of law.

**3.2.1: Increased Capacity of Justice Sector Professionals**

The Mission will work to institutionalize continuing legal education (CLE) for judges, court staff, prosecutors, and lawyers while also better preparing the next generation of legal professionals and providing public education in targeted areas of newly established legal reforms, such as alternative dispute resolution and enforcement of court judgments. Activities will include work with the Kosovo Judicial Institute (KJI) to establish mandatory CLE for judges, prosecutors, and court staff, and with the Kosovo Chamber of Advocates (KCA) to establish and implement mandatory CLE for advocates as well as a system of disciplinary actions for legal and ethical violations.

**3.2.2: Increased Independence and Accountability of Judicial System**

Assistance will focus on the Kosovo Judicial Council (KJC), building its capacity to administer the judicial system, establish and enforce disciplinary actions against judges and court staff, and represent the interests of the judiciary vis-à-vis the executive and legislative branches of government. Our assistance will help the KJC to institutionalize a sustainable system for the appointment and vetting of future judges for the courts. We will build the KJC's capacity to draft legal acts, ensure uniformity in court procedures and regulations, and enforce disciplinary actions related to judges and court staff. We will also target an improved understanding and respect for rule of law principles by the general public.

**3.2.3: More Effective Operation of the Justice System**

USAID will support targeted reforms both in the courts and in the wider justice system through revisions to the legislation regulating the systems for enforcement of judgments and contracts. These interventions will be supplemented by targeted technical assistance and training for judges and court staff on unified and effective court procedures and the enforcement of judgments. Interventions in the justice system will

ensure compliance with European standards and best practices. We will engage relevant Kosovo institutions to establish and make operational mechanisms for Alternative Dispute Resolution (ADR) and scaling-up the best practices of model courts for more effective court procedures.

**INTERMEDIATE RESULT 3.3: STRENGTHENED MECHANISMS FOR CITIZENS TO REPRESENT THEIR INTERESTS AND HOLD GOVERNMENT ACCOUNTABLE**

Kosovo needs its citizens to believe that their interests are being represented in government and that government is accountable to them, the constitution, and the rule of law. To strengthen public confidence, it is crucial to bolster the mechanisms that offer citizens voice in and oversight over governance, including civil society organizations, media, political parties, and elections.

**3.3.1: Increased Professionalism of Citizen Groups and Watchdog Organizations to Monitor Government Activities and Influence Policy**

USAID will assist targeted citizen groups in their advocacy campaigns and watchdog activities at the national and local levels. Activities will facilitate more effective demand for rule of law, advocacy for transparency in government, as well as enhanced professionalism in CSOs' policy contributions. This may be accompanied with work to support investigative journalists to bolster their professionalism and help aid in their legal protection.

**3.3.2: Political Parties Better Represent Citizens' Interests**

Assistance will shift from organizational development and capacity building to increasing parties' capacity to be effective instruments of representative governance. We will work primarily with minority parties and political groups. Activities will focus on parties' interactions at the national and local level and will include consultations, facilitation of policy forums, and capacity to formulate strategies and effectively influence local and national policies.

**3.3.3: Increased Capacity of Kosovo's Citizens and Government to Hold Free and Fair Elections**

Assistance will include capacity building for the Central Election Commission (CEC) and non-partisan domestic election monitors through support for streamlining electoral laws, capacity building in the management of elections, and support to the CEC to ensure its independence.

**INTERMEDIATE RESULT 3.4: INCREASED INTEGRATION AND PARTICIPATION OF MINORITIES**

There has been a nascent breakthrough in the integration of minorities, as demonstrated in the November 2009 elections and recent developments in the energy sector. Kosovo's minorities, especially Kosovo Serbs, have recently shown a greater willingness to engage on practical issues that address daily life in Kosovo. This willingness must be met with a vigorous effort to improve their access to services, enhance their political participation, and increase their economic opportunities.

**3.4.1: Improved Livelihoods of Minorities**

USAID will assist minorities, such as Kosovo Serbs, Turks, Roma, Ashkali, and Egyptians, with employment opportunities, access to services and to GoK funding, in order to strengthen their integration in the economy of Kosovo and the region. We will work to strengthen the competitiveness of minority-owned businesses; support for joint ventures between minority and majority producers; and improving employment opportunities.

**3.4.2: Increased Confidence in a Viable Future in Kosovo among Minorities**

USAID will work to strengthen interactions and access of minorities to Kosovo institutions, especially to local institutions. We will assist minority groups and leaders to integrate their opinions and interests in municipal and central decision-making processes. The objective is to build satisfaction and confidence among minorities that Kosovo is their home and Kosovo institutions are responsive to their needs.

**C. CROSS-CUTTING THEMES**

USAID will work specifically with youth political groups and youth CSOs to strengthen their capacity to advocate and participate meaningfully in the political process. At the same time, the Mission recognizes that little will be achieved if the assemblies, institutions, and other decision-makers are not responsive to young people's participation and ideas. The program will address both the supply and demand issues of youth engagement in the democratic process.

USAID will incorporate specific interventions targeting women's CSOs and political organizations, female journalists, and women judges, prosecutors, and advocates. Assistance to municipal governments will place special emphasis on building the capacity of municipal departments for gender equality and on the use of gender-disaggregated statistics in municipal reporting. Recognizing that women from minority groups and rural areas face especially difficult challenges in obtaining government services and justice, and in advocating for their rights, the Mission will emphasize enabling their participation. USAID assistance will be implemented within the context of GoK's National Action Plan for Women.

USAID assistance will be specifically targeted to minority groups to enable them to more effectively participate in governance. This will include work with minority CSOs and investigative journalists, as well as assistance for minority political organizations.

Given the high level of environmental degradation in Kosovo, assistance to municipalities and citizen groups will enable them to advocate for environmental protection and for conserving Kosovo's biodiversity; to hold relevant parties accountable; and to improve public awareness of environmental issues.

#### **D. ROLE OF HOST COUNTRY/REGIONAL ORGANIZATIONS/PRIVATE SECTOR**

Consolidating the achievements of democracy in Kosovo will require the full participation of the GoK, Kosovo civil society, and Kosovo's independent judicial institutions, such as the KJC. The key GoK partners are the Office of the Prime Minister, the Ministry of Justice, the National and Municipal Assemblies, the CEC, and Kosovo's municipalities.

USAID works with a number of multi-lateral partners, primarily the European Union, the ICO, and the Organization for Security and Cooperation in Europe (OSCE). In rule of law, we closely coordinate with EULEX, a European agency that has a mentoring and advisory role. Several bilateral donors have substantial programs as well. USAID will continue to lead the donor working group on local governance. USAID/Kosovo will coordinate regularly with donor partners and with Kosovo stakeholders in an effort to implement an integrated approach to assistance and reduce redundancies and overlap.

#### **E. ANTICIPATED RESULTS**

Success by 2014 is defined as local governments capable of delivering services effectively, a legislative branch that is active, well-informed, and serves as a check on and balance to the executive branch, and a political process that contributes to free and fair elections. Success is also a sustainable and involved civil society, capable of advocating for the citizens' interests and holding the government accountable; increased professionalism and responsiveness in the judicial sector; and greater public confidence in the judiciary. Finally, success is defined as meaningful engagement and integration of minorities in all aspects of Kosovo society.

## **IV. RESULTS FRAMEWORK**

# Kosovo: an effective state with a viable economy and an inclusive democracy on the path to European integration

## Youth More Productive and Engaged Members of a Stable Kosovo

Improved Capacity of Schools to Provide Relevant Skills

Increased Opportunities for Youth to Acquire Skills for Employment

Improved Youth Engagement in the Community

## Increasing Private Sector-Led Economic Growth

Private Sector Growth and Investment is Increased

Kosovo Has a Reliable Energy Supply

Economic Institutions Ensure Fiscal Sustainability

## Empowering Kosovo's Citizens to Consolidate a Functioning Democracy

More Effective Governance at the National & Municipal Levels

Improved Delivery of Justice through Rule of Law

Strengthened Mechanisms for Citizens to Represent Their Interests and Hold the Government Accountable

Increased Integration and Participation of Minorities

# Assistance Objective 1: Youth Are More Productive and Engaged Members of a Stable Kosovo

## Critical Assumptions and Risks:

- Private sector growth will lead to job creation
- Workforce development will be in relevant sectors
- Private enterprises are willing partners in education and workforce development
- GOK collaborates with USG in engaging youth
- Continued high perception of corruption further increases youth apathy

## Illustrative Indicators:

- Number of youth in full time equivalent jobs
- Percent of vocational trainees employed
- Performance monitoring indicators for the education system
- Percent of teachers properly licensed
- Satisfaction of private sector employers with skills training in schools
- Number of youth participating in volunteer activities funded by USAID

### IR 1: Improved Capacity of Schools to Provide Relevant Skills

**1.1: GoK Improves Planning, Management and Evaluation of the Education System.**

**1.2: Communities and Schools Establish Functional Partnerships to Use Resources Effectively and Accountably.**

### IR 2: Increased Opportunities for Youth to Acquire Skills for Employment

**2.1: Reduced Time of School to Work Transition**

**2.2: Improved Services to Link Youth to Available Jobs**

### IR 3: Improved Youth Engagement in the Community

**3.1: Increased Youth Participation in Constructive Processes**

**3.2: Youth Provide More Services for Their Communities**

## Assistance Objective 2: Increasing Private Sector Led Economic Growth

### Critical Assumptions and Risks:

- Political actions do not undercut economic reforms
- Rule of law and enforcement of judgments improved
- Regional cooperation stabilizes
- Kosovo makes progress toward accession to the EU
- Informal economy remains large
- Global crisis inhibits foreign direct investment

### Illustrative Indicators:

- Value of private investment
- Value of own source revenues as percent of GDP
- *Doing Business* indicators
- Value of exports, disaggregated by sector
- Number of jobs created in targeted sectors
- Progress toward electricity company privatization

### IR 1: Private Sector Growth and Investment is Increased

1.1: Improved Enabling Environment for Business Growth

1.2: Targeted Sectors Compete in Domestic and International Markets

1.3: Increased Affordable and Accessible Credit

### IR 2: Kosovo Has a Reliable Energy Supply

2.1: Improved Operation of the Electricity Sector

2.2: Improved Efficiency of Energy Used

### IR 3: Economic Institutions Ensure Fiscal Sustainability

3.1: GoK Institutions Design and Implement Economic and Fiscal Policies in Accordance with International Best Practice

3.2: Enhanced Institutional Capacity for Professionalism, Transparency & Effectiveness of the Tax Administration

3.3: Private investment becomes a viable option for funding public infrastructure

# Assistance Objective 3: Empowering Kosovo's Citizens to Consolidate a Functioning Democracy

- Critical Assumptions and Risks:
- GOK will devolve authorities to municipal level
  - Civil society can provide meaningful input to policymaking
  - Courts retain independence
  - GOK continues to promote free and fair elections
  - Central gov't does not allot sufficient funds to municipalities
  - Kosovo Serbs in North do not engage with Kosovo institutions

- Illustrative Indicators:
- Citizen confidence in democratic processes and institutions
  - Satisfaction with municipal services
  - Professionalism score in Media Sustainability Index
  - Ranking in Judicial Framework and Independence (*Nations in Transit*)
  - Number of minority entities that participate in elections
  - Number of joint ventures between Kosovo Albanians and Serbs

## IR 1: More Effective Governance at the National and Municipal Level

**1.1: Increased Capacity of Municipal Governments to Advocate for Their Interests, Manage Resources, and Provide Services**

**1.2: National and Municipal Assemblies More Effective in Government Oversight & Legislative Overview**

**1.3: National and Municipal Assemblies More Open to Citizen Input**

## IR 2: Improved Delivery of Justice

**2.1: Increased Capacity of Justice Sector Professionals**

**2.2: Increased Independence and Accountability of Judicial System**

**2.3: More Effective Operations of the Justice System**

## IR 3: Strengthened Mechanisms for Citizens to Represent their Interests and Hold the Government Accountable

**3.1: Increased Professionalism of Citizen Groups & Journalists to Monitor Government Activity and Influence Policy**

**3.2: Political Parties Better Represent Citizen's Interests**

**3.3: Increased Capacity of Kosovo's Citizens and Government to Hold Free and Fair Elections**

## IR 4: Increased Integration and Participation of Minorities

**4.1: Improved Livelihoods of Minorities**

**4.2: Increased Confidence in a Viable Future in Kosovo among Minorities**