

# **BUILDING A SCAFFOLDING**

## **ANALYSIS OF THE EFFECTS OF THE INSTRUMENT FOR PRE-ACCESSION ASSISTANCE ON KOSOVO'S ECONOMY**

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### **Executive Summary:**

Kosovo signed the Stabilisation and Association Agreement (SAA) with the European Union (EU) in 2015. This will lead to full market liberalisation between Kosovo and the EU within a decade. Officials from Prishtina and Brussels are hailing this as an important agreement with tremendous benefits for Kosovo's economy. They foresee an increase in exports, more foreign direct investment and more jobs for Kosovo.

There is little evidence for this optimism, however. With Kosovo's low production base and EU's high product standardisation and quality requirements, it will be difficult for Kosovo to compete in the EU market. In addition, as customs duties are gradually removed from EU products, the influx of EU imports is a challenge to the competitiveness of Kosovo producers in the domestic market as well. This threatens domestic producers and the jobs they provide.

The EU has pledged to help Kosovo with EU related reforms. For the period 2014-2020, the EU has made available 645.5 million Euro, as a part of the Instrument for Pre-accession Assistance (IPA) program. Some of this assistance is dedicated to economic reforms. This paper analyses IPA assistance to Kosovo and the impact it can have on Kosovo's economy, in the context of current economic situation and in light of the SAA. Market liberalisation in itself will not lead to sustainable growth and job creation. This paper looks at whether the reforms that are financed by IPA can make market liberalisation work for Kosovo's economy.

Four issues challenge IPA's lasting impact on Kosovo's economy: 1) the reforms supported by IPA do not address the core economic issues in Kosovo's economy, but rather the infrastructure – or the scaffolding - around these issues; 2) domestic economic

policy planning and implementation is inadequate, thus it does not provide a good bases for directing IPA toward Kosovo's most pressing needs; 3) IPA projects take many years from planning to implementation and the tool is inflexible to possible changes on the ground which could affect the projects; and 4) companies eligible to implement these funds are mainly based in the EU member states, which means that a good portion of the assistance finds its way back to the EU through salaries and other company expenses, and fails to stimulate local economy through local salaries and purchases.

As the IPA mid-term review is coming up in 2017, the time is ripe for a discussion on how to address some of these challenges in order to make IPA work for economies like Kosovo's.

### **Introduction:**

The Stabilisation and Association Agreement (SAA) and the Instrument for Pre-accession Assistance (IPA) are the two main tools that the EU uses to engage economically with Kosovo. The SAA establishes a free trade area between Kosovo and the EU. It also provides a framework for a political dialogue between Kosovo and the EU, on the reforms that Kosovo needs to undertake to achieve market liberalisation and prepare for potential EU accession.<sup>1</sup> The Instrument for Pre-accession Assistance (IPA), is a financial tool that the EU uses to assist with such reforms. One part of this financial assistance is dedicated to economic reforms, while the rest is dedicated to reforms in other areas such as the *rule of law* or *public administration reform*.

Kosovo signed the SAA<sup>2</sup> in October 2015 and it entered into force in April 2016. Kosovo is the last country in the region to negotiate and conclude an SAA. Upon signing the agreement, the EU Commissioner for European Neighbourhood Policy and Enlargement Negotiations, Johannes Hahn, made bold claims about its economic implications for Kosovo:

“This agreement...will help Kosovo make much needed reforms and will create trade and investment opportunities. It will put Kosovo on the path of a sustainable economic growth and can lead to much needed jobs for its citizens, especially the young.”<sup>3</sup>

Both EU and Kosovo officials claim that the agreement will bring economic growth through an increase in exports and foreign direct investment (FDI). However, there is little evidence to either of these claims. In fact, this narrative is reminiscent to the one

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<sup>1</sup> Five EU member states do not recognize Kosovo as a state. This puts into question Kosovo's European perspective, considering that only states can apply for membership to the EU.  
<sup>2</sup> Council of the European Union, Stabilisation and Association agreement between the European Union and the European Atomic Energy Community, of the one part, and Kosovo\*, of the other part, 2015, <http://data.consilium.europa.eu/doc/document/ST-10728-2015-REV-1/en/pdf>  
<sup>3</sup> European Council, SAA with Kosovo signed, Press Release, 27 October 2015, <http://www.consilium.europa.eu/en/press/press-releases/2015/10/27-kosovo-eu-stabilisation-association-agreement/>

about Kosovo's accession to the regional free trade zone CEFTA<sup>4</sup> a decade ago. As the Group for Advanced Studies (GAP) wrote in 2011:

“Kosovo became a member of CEFTA in a time when Kosovo was facing a huge trade deficit and had a weak economy. CEFTA membership was seen as a solution in improving this situation. People in Kosovo believed that by integrating in an open market, foreign direct investment will boost, local producers will have easiness in exporting, and that Kosovo will be one step closer toward the EU. Four years after membership in CEFTA, none of these have happened. Foreign direct investments plunged in half, trade deficit remained the same.”<sup>5</sup>

Similarly, the hype around the economic benefits from the SAA could prove to be exaggerated.

The FDI argument is challenged by examples in the region. Bosnia signed the SAA in 2008<sup>6</sup>, during the global financial crisis. A year before, in 2007, Bosnia had attracted a record of 1.3 billion Euro in FDI.<sup>7</sup> However, already one year after the SAA was signed, as the global financial crisis spread and deepened in 2009, FDI dropped to 180 million Euro. FDI levels in Bosnia have not recovered to pre-2008 crisis levels again.<sup>8</sup>

The export argument is also difficult to make due to Kosovo's narrow production base. A 2015 Kosovo Foundation for Open Society (KFOS) study on trade between Kosovo and the EU noted:

“trade liberalisation on its own will not promote balanced trade and economic development in Kosovo...The benefits of the liberalisation depend largely on the country's internal production capacities. Kosovo's production base, although expanding in recent years, is still very narrow.”<sup>9</sup>

In addition:

“duty-free access does not mean full access to the EU market. Quality requirements and compliance within the EU will pose a significant challenge for Kosovo producers.”<sup>10</sup>

Trading with the EU means complying with stringent regulation about food standards, environmental standards, labeling standards and so on. This requires huge administrative

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<sup>4</sup> CEFTA: Central European Free Trade Agreement, <http://www.cefta.int/>

<sup>5</sup> GAP, Kosovo in CEFTA: In or Out? 2011, p.11

<sup>6</sup> The trade part of the SAA – the Interim Agreement – entered into force right away in 2008, pending the ratification of the rest of the agreement by each member state. For more see Fact Sheet: [http://trade.ec.europa.eu/doclib/docs/2008/july/tradoc\\_139478.pdf](http://trade.ec.europa.eu/doclib/docs/2008/july/tradoc_139478.pdf)

<sup>7</sup> Federalni Zavod za Progmiranje Razvoja, <http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=en-US>

<sup>8</sup> Federalni Zavod za Progmiranje Razvoja, <http://www.fipa.gov.ba/informacije/statistike/investicije/default.aspx?id=180&langTag=en-US>

<sup>9</sup> KFOS, Pugh and Gashi, *Kosovo's Trade with the European Union: Looking Beyond the SAA*, March 2015. p. 3

<sup>10</sup> *ibid.* p.16

efforts to set up or improve the institutions that will establish such standards in Kosovo (e.g. food safety agencies, laboratories for testing products). It also imposes costs for businesses that will have to implement those standards to their products (e.g. invest in less polluting production process or apply for expensive certificates).

In the case of Bosnia, for a sensitive industry such as dairy, it took 7 years from when the Interim Agreement went into force, until the first four dairy companies got certified to be able to export into the EU.<sup>11</sup> Kosovo's dairy industry is weak and can barely compete locally with dairy imports into Kosovo.<sup>12</sup> It will be difficult to imagine Kosovo's dairy industry becoming ready to export to the EU any time soon.

### **Kosovo's Economy in Key Figures:**

Kosovo's economic problems have deep roots. As a part of Yugoslavia, Kosovo was largely neglected during the initial industrialisation phase in the 1950s. The late industrialisation of the 1970s and 1980s came to an abrupt end in the 1990s, as Yugoslavia began its political decline. The repressive measures applied to Kosovo by the Serbian regime in the 1990s, included the dismissal of Albanian management and workers of socially owned enterprises, which resulted in the loss of over 90 percent of jobs.<sup>13</sup>

After the war, Kosovo was placed under international administration led by UNMIK.<sup>14</sup> The EU was in charge of economic governance. From the very outset, the key economic policy applied to Kosovo was that of mass privatisation of the socially owned enterprises. Depreciated assets, unresolved ownership issues between Kosovo and Serbia, as well as international administrative incompetence led to an unsuccessful privatisation process. International administrators put all their efforts in avoiding personal liability<sup>15</sup> and did not invest enough in finding suitable buyers. The Kosovo Government, who took over in 2008, did not manage to do a better job either. Out of hundreds of companies sold, only a handful managed to restart production and create jobs.<sup>16</sup>

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<sup>11</sup> DG Sanco,

[https://webgate.ec.europa.eu/sanco/traces/output/BA/MMP\\_BA\\_en.pdf](https://webgate.ec.europa.eu/sanco/traces/output/BA/MMP_BA_en.pdf)

<sup>12</sup> GAP, A brief assessment of the dairy industry, March 2016

[http://www.institutigap.org/documents/48456\\_Dairy%20products%20ENG\\_.pdf](http://www.institutigap.org/documents/48456_Dairy%20products%20ENG_.pdf)

<sup>13</sup> ESI, *De-industrialisation and Its Consequences. A Kosovo Story*, 2002 p.6

[http://www.esiweb.org/pdf/esi\\_document\\_id\\_33.pdf](http://www.esiweb.org/pdf/esi_document_id_33.pdf)

<sup>14</sup> For more on UNMIK see: <https://unmik.unmissions.org/>

<sup>15</sup> Rita Augestad Knudsen, *Privatization in Kosovo: 'Liberal Peace' in Practice*, Journal of Intervention and Statebuilding, 2013, 7:3, 287-307, DOI

<sup>16</sup> Group for Legal and Political Studies and Balkan Investigative Reporting Network, *Panic Selling: Assessing the main Challenges and Deficiencies of Kosovo's Privatization Process*, February 2016, <http://legalpoliticalstudies.org/wp-content/uploads/2016/03/Panic-Selling-Assessing-the-main-challenges-and-deficiencies-of-Kosovos-Privatization-Process.pdf>

Today Kosovo has the lowest employment figures in the region. The employment rate has remained stuck for over a decade at 30 percent of the working age population (20 – 64 year olds).<sup>17</sup> Although the economy has experienced consistent nominal growth since the war ended, it has failed to produce much-needed jobs. Kosovo’s economy is based mainly on consumption and imports. In 2014, Kosovo imported goods in the value of 2.4 billion Euro, while it exported only 340 million Euro worth of goods. This trade deficit of 2.1 billion Euro was financed mainly by public sector jobs and remittances.<sup>18</sup>

Exports to the EU in 2014 were a meagre 98 million Euro.<sup>19</sup> To put it in regional context, this compares to the total exports from a small manufacturing town of Gracanica (52,000 inhabitants) in Bosnia and Herzegovina. In 2014, Gracanica exported 90 million Euro worth of goods<sup>20</sup> mainly to the EU. Total Bosnian exports to the EU in 2014 were 3.3 billion Euro.<sup>21</sup>

Western Balkans Trade with the EU 2015, in mio Euro

	Export	Import
Serbia <sup>22</sup>	7,902	11,175
Bosnia <sup>23</sup>	3,514	5,084
Macedonia <sup>24</sup>	3,367	4,117
Albania <sup>25</sup>	1,162	2,527
Montenegro <sup>26</sup>	144	879
Kosovo <sup>27</sup>	104	766

Despite a very low trade volume with the EU, Kosovo still negotiated and signed the SAA. The agreement will not affect Kosovo exports much, since most products originating from Kosovo already have duty-free and quota-free access to the EU market, due to the Autonomous/Exceptional Trade Measures<sup>28</sup> that the EU applies to western

<sup>17</sup> European Commission, *Kosovo Report 2015*, p. 67, [http://ec.europa.eu/enlargement/pdf/key\\_documents/2015/20151110\\_report\\_kosovo.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2015/20151110_report_kosovo.pdf)  
<sup>18</sup> Government of Kosovo, *2015 National Economic Reform Program*, p.59.  
<sup>19</sup> Government of Kosovo, Ministry of Trade and Industry, *Trade Exchanges 2014*, p. 10, [http://www.mti-ks.org/repository/docs/Trade\\_Exchanges\\_2014\\_578997.pdf](http://www.mti-ks.org/repository/docs/Trade_Exchanges_2014_578997.pdf)  
<sup>20</sup> Federalni Zavod za Progmiranje Razvoja, *Makroekonomski Pokazatelji*, 2014, p. 37  
<sup>21</sup> European Commission, *EU Trade with Bosnia and Herzegovina 2015*, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113358.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113358.pdf)  
<sup>22</sup> European Commission, *EU Trade with Serbia 2015*, [http://trade.ec.europa.eu/doclib/docs/2008/august/tradoc\\_140028.pdf](http://trade.ec.europa.eu/doclib/docs/2008/august/tradoc_140028.pdf)  
<sup>23</sup> European Commission, *EU Trade with Bosnia and Herzegovina 2015*, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113358.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113358.pdf)  
<sup>24</sup> European Commission, *EU Trade with FJR Macedonia 2015*, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113381.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113381.pdf)  
<sup>25</sup> European Commission, *EU Trade with Albania 2015*, [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113342.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113342.pdf)  
<sup>26</sup> European Commission, *EU Trade with Montenegro 2015*, [http://trade.ec.europa.eu/doclib/docs/2008/august/tradoc\\_140030.pdf](http://trade.ec.europa.eu/doclib/docs/2008/august/tradoc_140030.pdf)  
<sup>27</sup> European Commission, *EU Trade with Kosovo 2015*, [http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc\\_147309.pdf](http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147309.pdf)  
<sup>28</sup> Exceptional Trade Measures, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3Ael0004>

Balkan countries since 2000. It will however have a huge impact on imports to Kosovo, since with the SAA, gradually over 8 years customs duties will be removed from nearly<sup>29</sup> all EU products coming into Kosovo.

Not surprisingly, Kosovo's producers are terrified that this openness of Kosovo's fragile market might damage them. They recognise that cheaper imported raw material and machinery from the EU could help expand their production and export base. However, they still fear that the surge of cheaper EU final products into Kosovo market will make their products uncompetitive in the local market. "We are not ready," said the president of Kosovo Manufacturing Club at a high level conference between the EU and Kosovo on the SAA.<sup>30</sup>

The Government of Kosovo is also not ready for the budgetary implications of the SAA. The public budget is largely collected at the customs through the taxation of imports, which will take a hit from the SAA implementation. According to an analysis by the Ministry of Finance, due to the removal of customs duties off of EU imports, in 2016 Kosovo will collect 21 million Euro less than it does today.<sup>31</sup> Ministry of Finance estimates that as the SAA gradually comes into force for different EU products, total damages to the Kosovo budget by 2024 will come up to 485 million Euro. At the same time, the implementation of the SAA requires Kosovo to undergo expensive reforms, both related to trade – such as the establishing the institutions which will conduct product standardisation and quality assurance – and to non trade issues – such as wider legal approximation with the EU *acquis*. This will further burden the public budget.

How will Kosovo cope with budgetary and competitiveness pressures from market liberalisation with the EU? According to Kosovo's prime minister, Isa Mustafa, the EU will shoulder some of the burden:

"the European Commission, will invest over 600 million Euro IPA funds until 2020, to increase Kosovo's competitive capacities for the European market."<sup>32</sup>

This is a gross misrepresentation of what IPA will be invested in and what it can achieve. The EU has foreseen some financial support for trade and economic reforms in Kosovo, however most IPA funds will be invested in other areas of interest for the EU, such as the rule of law, democracy, governance and energy. Investment in energy can of course be considered to be a contribution to the economy, but this is not the case here, as the 100 million Euro dedicated to the energy sector are earmarked only for the de-commissioning of the polluting power plant "Kosova A".

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<sup>29</sup> Annex III d of the SAA lists products on which customs duties of 10 percent will remain beyond the 10 year deadline for market liberalization: milk, yoghurt, potatoes and some wines.

<sup>30</sup> Visar Kelmendi, president of Kosovo Manufacturing Club, panellist at the EU-Kosovo conference on the SAA: *Stimulating the economy, development and creating jobs*, 17 May 2016, Prishtina.

<sup>31</sup> Government of Kosovo, Ministry of Finance, *Analysis of the effect free trade agreements with the EU and Turkey on the budget revenues*, October 2015.

<sup>32</sup> KlanKosova, *Economic Development is waiting for Kosovo with the SAA*, October 2015 <http://klankosova.tv/me-msa-ne-zhvillimi-ekonomik-po-e-pret-kosoven/>

Table: IPA breakdown according to policy areas<sup>33</sup>

<b>KOSOVO</b>	<b>2014-2020</b>
<b>Reforms in preparation for EU approximation</b>	<b>236.6</b>
Democracy and governance	110.4
Rule of law and fundamental rights	126.2
<b>Socio-economic and Regional development</b>	<b>235.0</b>
Energy	100.0
Competitiveness and innovation	135.0
<b>Employment, social policies, education, promotion of gender equality, and human resources development</b>	<b>94.2</b>
Employment, social policies, education, promotion of gender equality, and human resources development	94.2
<b>Agriculture and rural development</b>	<b>79.7</b>
Agriculture and rural development	79.7
<b>TOTAL</b>	<b>645.5</b>

While it can be argued that all listed policy areas are deserving of assistance and important to reform, it is clear that most will not address competitiveness pressures coming from the liberalised market or economic issues in general.

### IPA in Kosovo:

The Instrument for Pre-Accession Assistance (IPA) was established by the EU in 2007 as the key financial tool to assist countries that aim to join the EU<sup>34</sup> with relevant reforms. For the period 2014-2020, total IPA amounts to 11.7 billion Euro.<sup>35</sup>

Kosovo has been a beneficiary of IPA since the tool was first established.<sup>36</sup> The first phase of IPA assistance committed over 630 million Euro to Kosovo over 7 years.<sup>37</sup> Even though the first phase has ended in 2014, not all of this assistance has been contracted out yet<sup>38</sup> nor have all the projects been finalised. In fact, the most common criticism of IPA concerns the delays that occur between committing, programming,

<sup>33</sup> European Commission, *Indicative Strategy Paper Kosovo, IPA II 2014-2020*, [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20140919-csp-kosovo.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-kosovo.pdf)

<sup>34</sup> Turkey and the western Balkans six: Serbia, Albania, Montenegro, Macedonia, Bosnia and Kosovo.

<sup>35</sup> European Commission, *Indicative Strategy Paper Kosovo, IPA II 2014-2010*, [http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20140919-csp-kosovo.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-kosovo.pdf)

<sup>36</sup> Before IPA, EU assistance to South East Europe was disbursed through the CARDS programme (2000-2006), which focus more on post-war reconstruction, refugee returns and establishing of democratic institutions. For more see Council Regulation on CARDS from December 2000, <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar18002>

<sup>37</sup> For annual programs as well as individual project fiches, see this website: [http://ec.europa.eu/enlargement/instruments/funding-by-country/kosovo/index\\_en.htm](http://ec.europa.eu/enlargement/instruments/funding-by-country/kosovo/index_en.htm)

<sup>38</sup> It was not possible to identify from interviews the exact projects which remain to be contracted, nor all the projects which have yet to be finalized.

contracting and implementing the assistance. The first IPA evaluation in 2013 highlighted this as a problem:

“the programming process is too long and in a transition environment projects are likely to be out of date by the time they are implemented.”<sup>39</sup>

The second IPA phase – IPA II – started in 2014 and will end in 2020. For this period, the EU commits a total of 645 million Euro for Kosovo.

The management of funds is done centrally by the EU Office in Kosovo. This means the EU Office does all project contracting, management and evaluations. The Kosovo Government is working to strengthen its structures to be able to start managing IPA, similar to countries in the region that already do so. However, this seems to be still at an early stage.<sup>40</sup>

In August 2014 the Commission finalised the Indicative Strategy Paper (ISP) for Kosovo, which broadly defines “the priorities for EU financial assistance for the period 2014-2020.” The ISP also sets out the amount of funding it dedicates to each priority policy area (also called *sectors*). For the *Competitiveness and Innovation* sector, it foresees 135 million Euro, toward:

“improving the capacity to design and implement competitiveness related policies, increasing the competitiveness of the Kosovo economy, including services, manufacturing as well as providing public services related to the needs of the private sector.”<sup>41</sup>

However, the policy *sectors* in IPA are defined very broadly to include projects that do not directly fit the description of the sector and might have only an indirect effect on improving that sector. This can be seen already in annual planning documents. The first one from IPA II – called the annual *action* program – was adopted in December 2014.<sup>42</sup> This is a document, which specifies in more detail the type of support EU plans to contract out, in order to meet its objectives in different policy sectors. The total amount planned for 2014 was 75 million Euro - 66 million coming from the EU and the rest from Kosovo sources.

For *Competitiveness and Innovation* sector, 12 million Euro were planned in 2014. Most of the assistance, however, in this sector does not address competitiveness directly. About 10 Million Euro is dedicated to municipal infrastructure projects and improvement of social service provision. Only 2 million are dedicated to an organisation

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<sup>39</sup> European Commission (Ecorys), *IPA Interim Evaluation and Meta Evaluation*, 2013, p. 5

<sup>40</sup> KCSF 2016, p. 19

<sup>41</sup> European Commission, *Indicative Strategy Paper Kosovo, IPA II 2014-2010*, p.14  
[http://ec.europa.eu/enlargement/pdf/key\\_documents/2014/20140919-csp-kosovo.pdf](http://ec.europa.eu/enlargement/pdf/key_documents/2014/20140919-csp-kosovo.pdf)

<sup>42</sup> European Commission, *Implementing Decision of 11.12.2014 adopting an Annual Action Programme for Kosovo 2014*: [http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/2014-annual\\_action\\_programme\\_kosovo.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/2014-annual_action_programme_kosovo.pdf)

that gives grants to start-ups – the Association of Regional Development Agencies (ARDA) - which could directly affect competitiveness in Kosovo.<sup>43</sup>

The “annex” specifies the dates for contracting and implementing the planned projects. First, it sets out that a “financing agreement” must be concluded between Kosovo and the European Commission, on these 75 million Euro by end of 2015. Second, it stipulates that all projects must be contracted out within 3 years. Third, they must be operational/implemented within 6 years. This means that for projects planned in 2014, final implementation will take place as late as 2020. For those planned in 2015, final implementation can be expected in 2021. And so on.

This shows that the issue of delays between programing, contracting and implementing assistance, remains a problem for IPA II, just as much as it was for IPA I. As the assistance cannot be dispatched quickly, it will not be able to make a quick impact. In the case of Kosovo, unless a way is found to shorten this process considerably, IPA will not be able to help with the budgetary and competitiveness pressures from the SAA, which Kosovo is already facing in 2016 and more so in the coming years.

### **IPA and the SAA:**

IPA funds were used to assist Kosovo with the SAA process, many years before Kosovo concluded the SAA. To name one project, in 2011, IPA financed a project of 2.8 million Euro in technical assistance to the Ministry of Trade and Industry, which consisted of drafting the Impact Assessment of the SAA and building capacities within the Ministry to negotiate the deal.<sup>44</sup>

With IPA II, while there are no specific projects/actions designed to assist with SAA implementation directly, there are actions planned which address different SAA requirements. In 2014, 4 million Euro were planned for Food Safety, Sanitary and Phytosanitary Controls. The project plans to:

“address implementation of the EU compliant food safety and health control system at all stages, including import, export, production of food, transport, processing, and retail.”<sup>45</sup>

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<sup>43</sup> European Commission, *Implementing Decision of 11.12.2014 adopting an Annual Action Programme for Kosovo 2014*: [http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/2014-annual\\_action\\_programme\\_kosovo.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/2014-annual_action_programme_kosovo.pdf)

<sup>44</sup> For more on this project see EU Trade Policy Project, [http://www.eustrade-ks.eu/kosovo\\_nodecontent\\_3594782.html](http://www.eustrade-ks.eu/kosovo_nodecontent_3594782.html) or the overall project document that includes this assistance: [http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2009/080509\\_ipa2009\\_pf07\\_trade\\_and\\_regional\\_development\\_en.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2009/080509_ipa2009_pf07_trade_and_regional_development_en.pdf)

<sup>45</sup> Action: *Food Safety, Sanitary and Phytosanitary Control 2014*, [http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/18.ipa-2014\\_food-safety-and-health-control\\_20141027.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/18.ipa-2014_food-safety-and-health-control_20141027.pdf)

This aims to assist building the administrative capacities of the government to offer food safety related services for businesses.

Another 8 million Euro are planned for a Legal Approximation Facility,<sup>46</sup> which aims to strengthen:

“technical and administrative capacity of the Kosovo administration in relation to the European integration process, and to support the effective and efficient management and absorption of EU pre-accession funds.”

In 2015, 14 million Euro planned in 2015 as continued support for the development of Agri-Rural Sector and Food Safety. This ‘action’ foresees more tangible activities, such as grants for farmers and intervention in irrigation systems.<sup>47</sup> In addition, 5 million are earmarked for continued support for EU legal approximation planned for 2015.<sup>48</sup>

Evaluation reports of the first IPA phase claim that:

“assistance has been most effective when it has been driven by a clear *acquis* as this provides a politically accepted institutional structure and professional mandate.”<sup>49</sup>

Assistance in meeting Food Safety criteria in Kosovo or undergoing other Legal Approximation with the EU fall under this category and could prove effective in assisting Kosovo meet the SAA legal and administrative criteria.

However, very little assistance is designed to directly help the business community and local producers to make better use of the SAA. The 2014 project supporting the Association of Regional Development Agencies (ARDA)<sup>50</sup> with over 2 million Euro, which foresees grants for start-ups, is a good start. This is not sufficient, however. Kosovo producers need a lot more assistance to be able to survive the increased competitive pressures from the liberalised market with the EU.

In 2014, the Government of Kosovo has foreseen the creation of an Investment Fund to:

“support the establishment or expansion of businesses, especially those involved in production.”<sup>51</sup>

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<sup>46</sup> Action: *EU Legal Approximation Facility*,  
[http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/04\\_ipa\\_2014\\_eu\\_legal\\_approximation\\_20141027.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/04_ipa_2014_eu_legal_approximation_20141027.pdf)

<sup>47</sup> Action: *Further Support to Kosovo's Development of the Agri-Rural Sector and Food Safety*,  
[http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/ipa2015\\_ks\\_07\\_agri\\_vet.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/ipa2015_ks_07_agri_vet.pdf)

<sup>48</sup> Action, *EU Approximation Facility*,  
[http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/ipa2015\\_ks\\_01\\_eu\\_approximation\\_facility.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/ipa2015_ks_01_eu_approximation_facility.pdf)

<sup>49</sup> European Commission (Ecorys), *IPA Interim Evaluation and Meta Evaluation*, 2013, p. 6

<sup>50</sup> Action: *Support to Regional Economic Development*,  
[http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/14\\_ipa\\_2014\\_support\\_to\\_red\\_20141027.pdf](http://ec.europa.eu/enlargement/pdf/kosovo/ipa/2015/14_ipa_2014_support_to_red_20141027.pdf)

<sup>51</sup> Government of Kosovo, *2015 National Economic Reform Program*, p.9.

The Fund has not been established yet and it will most likely not be established, due to the budgetary constraints facing Kosovo, especially in the coming years as the SAA comes into force. Since this project will be of vital importance for the business community in Kosovo, consideration should be given to establishing this fund with IPA money. This would be an effective way to use IPA funds toward assisting Kosovo's economy after the SAA.

### **Prioritising and Implementing:**

The planning of assistance – defining policy areas and programming actions - is done in cooperation between the European Commission in Brussels, the EU Office in Kosovo, and a strong involvement by the Kosovo Government. The National IPA Coordinator (NIPAC) - a unit within the Ministry of European Integration - is playing an increasingly more important role in the planning and coordination of IPA.<sup>52</sup>

This is an improvement from the first IPA phase, which was criticised for not including the beneficiary in planning the assistance. In 2013, IPA evaluation reports noted that “beneficiaries have had very limited involvement in programming”<sup>53</sup> and “a major finding is that the design of projects sometimes lacks collaboration with the beneficiary.”<sup>54</sup> One evaluation suggested:

“now that the beneficiary has built some capacity, design of projects should be done more in collaboration with them, and even within the beneficiary's structure.”<sup>55</sup>

Interviews in Prishtina and Brussels confirmed that this is already happening more with IPA II. However, the input that the Government provides suffers from lack of clear prioritisation and implementation plans. The Government, supported by foreign assistance (including IPA), has produced many sectoral strategies, which are stand alone documents and do not fit into a nation-wide strategy for Kosovo's development.

As the planning for IPA II was taking place in 2012 and 2013, Kosovo Government was advised to draft national development strategy and plan, which sets out the vision and objectives for long term development of the country, and the concrete activities that will achieve that vision. According to the advisors, this would be the best way to channel IPA funding toward Kosovo needs.<sup>56</sup>

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<sup>52</sup> For a detailed description of the institutions and processes which go into planning IPA, please see GIZ, *National Assessment of Current Situation for Programming and Absorption of IPA funds in Kosovo 2014*; and KCSF, *Challenges for Absorption of EU pre-accession funds in Kosovo*, 2016.

<sup>53</sup> European Commission (Ecorys), *IPA Interim Evaluation and Meta Evaluation, Country report Kosovo 2013*, p.33

<sup>54</sup> European Commission contracted *Evaluation of sustainability of EU CARDS and IPA funded works and supplies projects, Final Report*, April, 2013

<sup>55</sup> European Commission contracted *Evaluation of sustainability of EU CARDS and IPA funded works and supplies projects, Final Report*, April, 2013

<sup>56</sup> GIZ, *Strengthening the Coordination of Donor Assistance in Kosovo*, 2012, p. 15

The lack of a national development strategy has been flagged as an issue in Kosovo for over a decade. In 2004:

“Over the last two years the Government, UNMIK and the international community have developed an impressive number of economic policy and strategy documents...One essential link is, however, still missing – a consolidated, comprehensive development strategy that would gather all economic policy actors around a common analysis of the economic challenges Kosovo is facing, a vision for its future development, as well as the necessary policy and spending priorities.”<sup>57</sup>

In the decade since this was written, the lack of a national development strategy became the mantra for what is lacking in the efforts toward economic development in Kosovo, as well as making use of donor money to that effect.

To address this issue, the European Commission in 2013 awarded over 2 million Euro IPA funds to a consortium of consulting companies<sup>58</sup> led by a Latvian company, to support the Kosovo Government write the National Development Strategy (NDS), and other policy planning documents. The NDS was published in 2016,<sup>59</sup> however, it does not measure up to what it promised.

This 55-page document describes four priority areas for addressing Kosovo’s socio-economic challenges. It does not, however, provide concrete measures for how to address each priority area, nor hard timelines and budgets, thus inspires little confidence that those priority areas will truly be addressed. The writers of the NDS knew this, so they included a “disclaimer” to the document, pointing out that the NDS will have to rely on new sectoral strategies in order to be implemented:

“Detailed, ready solutions to all challenges cannot be a requirement for producing a framework strategic document such as NDS. There where solutions remain more generic, at least the need for intervention has been set out as a priority, therefore the strategy as such should be seen as a living document, something to be complemented during the coming years through specific sectoral policies and strategies.”<sup>60</sup>

This is not surprising. In order to write an useful development strategy, it is the government who should take the lead, as they have a better overview of all policy areas,

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<sup>57</sup> ESPIG, *Toward a Kosovo Development Plan: The State of the Economy and possible ways forward*, August 2004, [http://www.esiweb.org/pdf/esi\\_document\\_id\\_58.pdf](http://www.esiweb.org/pdf/esi_document_id_58.pdf)

<sup>58</sup> The consortium was led by Corporate and Public Management Consulting Group (CPM). For basic tendering and contracting documents for this project see here: <https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?ADSSChck=1462190827123&do=publi.detPUB&searchtype=AS&zgeo=35484&debpub=01%2F01%2F2012&orderby=upd&orderbyad=Desc&nbPubliList=15&page=19&aoref=133790>

<sup>59</sup> Government of Kosovo, *National Development Strategy 2016-2021 (NDS)*, 2016, [http://www.kryeministri-ks.net/repository/docs/National\\_Development\\_Strategy\\_2016-2021\\_ENG.pdf](http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf)

<sup>60</sup> *ibid.* p. 6

country needs and have decision making power to allocate funds where needed. Foreign consultants can assist with their expertise, but they cannot replace the government, as was the case here.

To give a sense of how “generic” the document really is, here is a short example. The first priority area is Human Capital, with the rationale that in order to attract FDI:

“the labour force in Kosovo needs to be as productive and skilled as in developed countries.”

To achieve the skill level of “developed countries” NDS foresees seven interventions, one of which is:

“Improved quality of teaching in the primary and secondary education. This is a prerequisite for better success of the education system and strengthening the skills of youth for the labour market.”<sup>61</sup>

This intervention has five concrete activities, of which:

“Expand the adoption of the new curriculum in the remaining schools. Simultaneously, carry out assessment of effectiveness of pilot schools (10%) and introduce systemic changes to curriculum, as appropriate” and “review of existing textbooks for suitability and develop new textbooks in accordance with expected learning outcomes.”<sup>62</sup>

This is an important activity and key to improving education in Kosovo. However, who, when and how this will be done, is left to be planned and decided upon at a later stage, in a different document.

What is most striking, however, is that these are old measures already planned in 2011 and had IPA funding dedicated to implementing them. The education strategy 2011-2016 foresaw these measures to be implemented by 2016.<sup>63</sup> Since they were not implemented, they found their way in the NDS, but without specific instructions how to finally implement them now. So now they are shifted to the next education strategy for 2017-2021, which will most likely have more IPA funding attached to it.

The problem with the new curriculum is as old as the curriculum itself. In 2009, the Ministry of Education Science and Technology (MEST), supported by IPA funding, started the process of drafting a new curriculum for Kosovo. In 2011, MEST produced a Kosovo Curriculum Framework (2011)<sup>64</sup> and in 2012 it produced Core Curricula for pre-university education. As these are abstract policy documents, they require subject

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<sup>61</sup> ibid, p. 10

<sup>62</sup> ibid, p. 12

<sup>63</sup> MEST, *Kosovo Education Strategy Plan 2011-2016*,  
[http://www.entwicklung.at/uploads/media/2c\\_Kosovo\\_Education\\_Strategic\\_Plan\\_EN\\_FINALE\\_DRAFT.pdf](http://www.entwicklung.at/uploads/media/2c_Kosovo_Education_Strategic_Plan_EN_FINALE_DRAFT.pdf)

<sup>64</sup> MEST, *Kosovo Curriculum Framework 2011*,  
[http://www.ibe.unesco.org/curricula/kosovo/kv\\_alfw\\_2011\\_eng.pdf](http://www.ibe.unesco.org/curricula/kosovo/kv_alfw_2011_eng.pdf)

curricula and textbooks in order to be implemented. MEST, however, decided to go ahead and pilot it without subject curricula and textbooks, starting from 10 schools in 2014 and then some 80 more in 2015. Their plan, supported by foreign consultants, was to give schools autonomy (as they perceived is done in EU countries) to draft their own subject curricula and ask teachers to use materials other than textbooks, available online.<sup>65</sup>

This plan did not work, of course. Kosovo schools and teachers are not equipped to plan their own curricula or find teaching materials. There are no resources: libraries, computer labs or even financial means for teachers to go to nearest town library to find materials. Some teachers are also not well trained and do not have the research skills to find the appropriate materials or be able to write own subject curricula. In addition, online and library resources in Albanian for many subjects are very scarce. The teachers were left frustrated and not knowing what to do, they resorted using the old curricula and textbooks in their classrooms.

In 2013, a Finish public education organization was awarded a 3 million Euro IPA project<sup>66</sup> to help the government implement the new curriculum. This was a twinning project<sup>67</sup> - which brings together expertise from the public sector in EU member states to the beneficiary countries - therefore their work mainly consisted of workshops and trainings for teachers, school directors and municipal education staff. Some 3,000 teachers from 134 schools participated in 2 days trainings on “new teaching methods” on mathematics, science, language and communication or ICT. More than 70 education experts from Finland and Austria were brought to Kosovo for this purpose.<sup>68</sup> The project ends in December 2016.

Despite all these activities, the project did not manage to achieve its main goal of implementing the new curriculum in Kosovo. This was because the Government, together with the IPA financed education project that drafted the new Curriculum, failed to develop implementing steps – namely, subject curricula and textbooks. Thus the Finnish project dealing with the implementation of the Curriculum was left to improvise an implementation process, which did not yield the necessary results.

Similarly, the project supporting the Kosovo government with policy planning, did not manage to produce a good national development strategy. Both projects together used up more than 6 million Euro of IPA-I funds.

IPA II projects risk having the same fate if the Government does not change the input it provides to IPA programming. Government participation in IPA planning and programming is most useful if the government can set out clear priorities for development

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<sup>65</sup> Interviews with MEST officials over the course of 2014 – 2016 and school visits during the implementation of the new curricula.

<sup>66</sup> Omnia, [https://www.omnia.fi/sites/default/files/kosovo\\_pre\\_university\\_sector\\_development\\_project.pdf](https://www.omnia.fi/sites/default/files/kosovo_pre_university_sector_development_project.pdf)

<sup>67</sup> Twinning: [http://ec.europa.eu/enlargement/tenders/twinning/index\\_en.htm](http://ec.europa.eu/enlargement/tenders/twinning/index_en.htm)

<sup>68</sup> Interview with project leader in Prishtina, May 2016.

and channel IPA funding toward them. This has to be done by the government and not foreign consultants. Unless the government – and relevant ministries and agencies – are able to define exactly the kind of assistance they need, IPA II will not be spent in a useful way. In addition, the Government must be able to define not only the priorities for development, but also the concrete steps for implementation, with realistic budgets attached to it. IPA funding can then be used toward those implementation steps.

The general sentiment among EU officials interviewed for this paper is that the EU cannot replace the national government. Big political decisions about the future of the country have to be taken in Prishtina. This way also EU funding can be put to better use, toward implementing decisions that the government has ownership over.

While this is true, it omits the important role that the EU plays in influencing government policy and prioritisation. The influence comes through the reforms it demands from Kosovo, which have a strong focus on rule of law and a less stronger focus on economic issues, and the size of the assistance it dedicates to those reforms. It also comes from the consultants it finances with IPA funding to help the Government write development strategies and plans, or implement core projects such as those in education.

Therefore, should the EU aim to make an impact on Kosovo's economy with IPA funding, it should consider prioritising economic issues and directing most IPA funding to addressing those issues. It should also consider financing less projects, which only produce policy documents (such as the NDS) and less twinning projects, which may bring expertise and advice from the EU, but are unable to assist Kosovo with the implementation of major reforms (such as the new Curriculum).

### **Who implements IPA?**

IPA contracts can be in the form of grants, purchase of supplies, purchase of services and (construction) works. For all these forms of contracts, tendering specifications are so demanding that Kosovo or regional companies often cannot even apply for them.

For instance, a *service contract* specification for technical assistance to support the Kosovo Government with policy planning (the one which produced the NDS) requires that:

“the average annual turnover of the candidate for the last 3 years (2009, 2010, 2011) shall amount to 4 million Euro...[and]...the candidate has provided services during the last 3 years in at least 2 projects”<sup>69</sup> in supporting government with strategic planning and the value of each service was least 2 million Euro.

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<sup>69</sup> EuropeAid, Service Contract Notice, *Support to Kosovo's policy and strategic planning Location*, IPA 2013, Publication reference: EuropeAid/133790/C/SER/XK

Tendering specifications for a big “works” - construction - contract:

“Shall have completed in the last 5 years at least two (2) Design – Build projects of similar nature and complexity, with a value that exceeds Euro 15 million each.”<sup>70</sup>

As a result, most companies and organisations that apply and win these tenders come from EU Member states. Even though they sometimes do create consortiums with local companies or organisations to implement the project, most of the funds are absorbed by expensive foreign expertise in the form of salaries or other company running cost. This means that a considerable part of IPA money finds its way back to the EU country where the company or the experts are from.

There is no easy way to assess how much of the IPA money stays in the country and how much gets back to the EU. One would need to study hundreds of individual contracts for projects implemented in Kosovo<sup>71</sup>, and even then not be able to fully assess how much of the money was spent in local or foreign consultants or in products originating in Kosovo or the EU.

However, a quick look at the country of origin of the companies or organisations that have won the tenders over the years, can give some broad indication of this. The EU’s Financial Transparency System<sup>72</sup> allows for this table to be created, with the amounts of assistance awarded to companies/organisations originating in EU member states and in Kosovo:

Table: Financial Transparency System (FTS)

	All	Kosovo	Percentage of all
2009	129,052,358	21,872,727	17
2010	92,937,047	19,595,887	22
2011	93,160,854	20,912,443	23
2012	85,186,621	15,006,552	18
2013	65,890,266	21,083,857	32
2014	70,838,792	36,460,178	51

This breakdown has flaws as not all companies/organizations listed as originating in Kosovo are local. For example, in 2009 the FTS shows that close to 22 million Euro were implemented by companies/organisations based in Kosovo. However, looking at the individual projects it quickly becomes apparent that almost half of this amount was spent on the “International Civilian Office” – an international body with mainly international staff, set up to supervise Kosovo’s independence. The ICO cannot be considered a Kosovo organisation.

<sup>70</sup> EuropeAid, Contract Award Notice, *Construction of the Palace of Justice...* 2011/S 108-176746, Publication reference: EuropeAid/128972/D/WKS/XK.

<sup>71</sup> Europeaid, Calls for Proposals and Procurement Notices, <https://webgate.ec.europa.eu/europeaid/online-services/index.cfm?ADSSChck=1463501749422&do=publi.welcome&userlanguage=en>

<sup>72</sup> Financial Transparency System, [http://ec.europa.eu/budget/fts/index\\_en.htm](http://ec.europa.eu/budget/fts/index_en.htm)

IPA assistance could have an important direct impact in stimulating the local economy, through local salaries and purchases. However, as this table indicates, only a fraction of IPA is could have this effect, as most of it is implemented by companies based outside of Kosovo. Reviewing tendering specifications to allow more local and regional companies to compete for IPA implementation contracts, could increase the effect it has on directly stimulating local economy.

### **Recommendations:**

The implementation of the SAA brought to the fore new challenges for Kosovo. The budgetary and competitiveness pressures coming from trade liberalisation with the EU will strain Kosovo's budget and local producers.

The EU can help ease the burden if it adjusts its financial tool – IPA – to meet Kosovo's economic needs. EU officials in Brussels indicated that rule of law – not the economy - remains a priority for IPA II. In addition, even the projects that address economic issues, mainly address the legal and administrative requirements stemming from the SAA. Which for a country as poor as Kosovo, will not be sufficient to ease the budgetary burdens of the SAA implementation, let alone make a direct impact on the economy.

This should change. It is of crucial importance that the remaining assistance, which has not yet been programmed, is directed toward projects with a more direct impact on Kosovo's economy.

*Kosovo Government must* clarify key priorities for economic development and define concrete measures for implementation and realistic budgets. This has to come from within the government – highest political level - and cannot be done by foreign consultants.

*The EU must* already in 2017 shift substantial part of the assistance it programs for Kosovo toward projects that will assist Kosovo companies with meeting quality standards for export into the EU. This means less technical assistance implemented by consulting companies, and more money available in the form of grants to really help the Kosovo businesses undergo the expensive upgrades. This will have two results: it will keep the assistance in Kosovo (as opposed to have it go back to the EU through expensive experts) and it will have an impact on Kosovo's economy by helping companies grow and create jobs.

One way to do this is through the establishment of an *Investment Fund* which helps Kosovo producers to expand their manufacturing capabilities in order to be able to put products in the newly liberalised market, both domestically and in the EU. Since the entry into force of the SAA, in the short and medium run it is important to help businesses export to the EU market.

In order for IPA to make a direct impact in the local economy through salaries and purchases, *technical specifications for contracts must be revised* to allow for more local and regional companies to implement these funds.

### **About the Author:**

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