

5. ECONOMY

“The legal framework for a sustainable, competitive market economy is in place and implemented. The minimum essential conditions are a legal and institutional basis which functions without discrimination against any individual or company; a regulatory system conducive to business that is capable of holding Government officials and the private sector accountable; a tax regime that sustains the essential functions of Government; and infrastructure that provides basic services and facilitates investment. The goal is to move Kosovo towards the achievement of European standards.”

Current Situation

Since 1999, substantial progress has been made to lay the foundations for a market economy in Kosovo. A stable macro-economic framework has mainly been achieved through the introduction of the Euro as the currency in use, and the inability for the Kosovo Budget to run a deficit. The establishment of the Banking and Payments Authority of Kosovo (BPK) has allowed for the development of sound banking and insurance supervision, a prerequisite for a stable emerging financial sector. Basic economic legislation has been put in place, and the tax system was built in a simple and transparent way that does not put a heavy burden on enterprises. Exports are duty free, the average import tariff of 10 % is low, and amendments promoting investment are discussed. Moreover, key infrastructure has been rehabilitated, both in social facilities (housing, education and health care) and general infrastructure (roads, railways, water, waste, and energy). Local institutions have readily and effectively taken up significant responsibilities in the economy sector. The violence of recent weeks has also created an urgent need for funds for rebuilding and rehabilitation.

Challenges Ahead

For the next 16 months, the main challenges are to further develop the legal and institutional framework, to attract foreign direct investment, and to overcome the structural deficits of the Kosovo economy. The “Standards for Kosovo” do not constitute a comprehensive economic development plan for Kosovo, but rather prioritise key areas for improvement in consolidating the legal and institutional basis for sustainable economic development. Considerable progress has been made in building the necessary legal structures and developing policy initiatives, however capacity for economic policy planning, implementation and action in these areas must be strengthened. Furthermore, Kosovo institutions must follow through on political commitments and quickly allocate appropriate KCB funds for the recovery efforts in the wake of violence in March 2004, as well as immediately undertake physical reconstruction efforts.

A key role of the international community is to support Kosovo’s progress towards European standards, with an emphasis on ensuring non-discriminatory policy development and implementation. Joint UNMIK-PISG activities, such as the creation of trade policy and the establishment of the joint Energy Office, will have to be in line with recommendations of international development institutions and the Constitutional Framework. Constructive

support from Kosovo's institutions in the areas of reserved authority to UNMIK will remain critical to ensuring progress.

Priority Actions

While many issues important for Kosovo's economic development fall outside the scope of the Economy Implementation Plan, the PISG must make complementary efforts in these areas, such as local economic development planning and job creation, in parallel with work on the Kosovo Standards. Enhancing public awareness of the complex economic issues involved in these areas will be key to build public support and enable Kosovo's institutions to move forward.

Future progress for Kosovo's economy is dependent on a number of developments, including necessary improvements in the investment climate through legislative and institutional efforts, as well as fiscal and budget policies favouring investment and supporting the private sector. Improvements in the provision of public utilities, particularly electricity, and development of the financial sector are also necessary.

Accordingly, priority responsibilities and actions for the PISG over the next 16 months lie in the following areas:

- Immediate action to **establish and implement the recovery and reconstruction fund** in the aftermath of the mid-March violence. The PISG's political commitment to allocate appropriate funds from the Kosovo Consolidated Budget must be translated into concrete actions, which not only reaffirm Kosovo leaders' condemnation of violence and physical destruction but also demonstrate a commitment to a multi-ethnic future.
- **Action plans** in the fields of (i) **economic legislation**, (ii) **institution building**, and (iii) **provision of statistics**, including adequate prioritising, to demonstrate an increased capacity of the PISG to plan and implement economic policy and legislation aimed at enhancing economic growth. Important elements include promoting private sector development and attracting foreign investment. UNMIK should assist in providing complementary legislation. The Implementation Plan emphasises the urgent development of action plans, which should be finalised after three months, with implementation starting thereafter.
- **Sound management of the budget process**, drawing on lessons learned from the KCB 2004 experience, will demonstrate the PISG's increased capacity to act in the crucial area of public finances management. The Implementation Plan outlines a series of important and measurable steps in handling the budget process, such as the development of an expenditure framework and sector spending plans.
- Efforts aimed at **proceeding with privatisation and the restructuring of POEs**, carried out by UNMIK under the reserved powers, include essential support actions by the PISG and should demonstrate the PISG's cooperative approach to economic development. The

Implementation Plan focuses on joint UNMIK-PISG responsibilities in the KTA Board, the joint Energy Office, and in resource allocation for public utilities.

- Actions geared towards the **strengthening of financial sector supervision**, revenue generation and tax compliance aim at demonstrating PISG commitment to a transparent and reliable fiscal regime. The Implementation Plan outlines concrete steps towards the establishment of independent staffing, procurement and review procedures.

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Standard	Action	Responsible Authority	Supported By	Timeline
<p>1. Basic economic legislation is in place and enforced</p>	<p>1.1 Presentation of inventory and action plan for new economic legislation, as well as adoption and implementation, in the transferred areas identified through consultation with IFIs, STM, taking into account European and international standards and norms including those on gender equality, and implementation capacities in Kosovo; including legislation on:</p> <ul style="list-style-type: none"> • Domestic Trade • Competition • Employment promotion • Intellectual property • Dangerous goods • Road traffic • Spatial planning (Also covered in Property Rights section) • Use of agricultural lands (Also covered in Property Rights section) 	PISG	OLA, PIV	May 2004 or sooner, and in accordance with time frames specified in the action plan
	<p>1.2 Presentation of an action plan for the remaining new economic legislation in the reserved areas, as well as adoption and implementation, identified through consultation with IFIs, STM, taking into account European and international standards and norms including those on gender equality, and implementation capacities in Kosovo; including legislation on:</p> <ul style="list-style-type: none"> • Transfer of SOE land right titles under liquidation (privatisation) • Railways • Civil Aviation 	PIV	OLA, PISG	May 2004 or sooner, and in accordance with time frames specified in the action plan

Standard	Action	Responsible Authority	Supported By	Timeline
	1.3 Completion of the fiscal legislative framework in cooperation with other development partners, including: <ul style="list-style-type: none"> • Profit Tax to be extended to cover the presumptive taxpayers; and • the adoption of a new ‘tax administration and procedures’ law consolidating all previous tax administration laws • The adoption of a comprehensive personal income tax- introducing tax on income beyond wages 	MFE	PIV-FAO, OLA	December 2004
	1.4 Achievement of access to international finance through: <ul style="list-style-type: none"> • The creation of a legal base for loan agreements acceptable to IFIs (EIB and others); • The finalisation of agreements with these IFIs; • The development of institutional capacity to evaluate and handle investment projects and financing sources; and • The preparation of bankable projects for co-financing 	PIV, OPM, MFE, Assembly PIV MFE, PIV MFE, KTA	OLA OLA, MFE PISG, PIV PISG, PIV	August 2004 August 2004 Ongoing Ongoing
	1.5 Drafting and establishment of a regulatory framework for the energy sector, in accordance with the Athens Memorandum, and taking part in the regional energy regulatory body.	PIV-CRU, PISG, Assembly Committee on Trade and Industry, OPM Energy Office	KTA, OLA, OPM	October 2004
	1.6 Drafting and establishment of a regulatory framework for Mines and Minerals, aiming to have the Kosovo mining industry approach European standards where appropriate.	PIV-CRU, OPM, MTC	KTA, OLA	January 2005
	1.7 The drafting and promulgation of a Kosovo Tariff. ¹	UNMIK Customs	MFE, MTI, PIV	January 2005

¹ The schedule classifying traded goods for customs purposes, based on the EU Combined Nomenclature.

Standard	Action	Responsible Authority	Supported By	Timeline
2. Relevant Government institutions and services are functioning	2.1 Identification of existing and planned governance structures related to economic development, and development of an action plan for the development and implementation of their institutional capacity, including: <ul style="list-style-type: none"> • Ministries • Business Registry • Investment Promotion Agency • Anti-Corruption Agency • Vocational training centres 	PISG	PIV, KTA	July 2004, and in accordance with time frames specified in the action plan
	2.2 Development and implementation of an action plan to enhance the efficiency and flexibility of a competitive domestic market, in accordance with the Constitutional Framework with particular emphasis on: <ul style="list-style-type: none"> • a regulatory framework, • market incentives, and • an investment climate 	MTI, MFE	PIV	July 2004, and in accordance with time frames specified in the action plan
	2.3 Successful establishment of the Energy Office, including an energy information system and energy inspectorate.	OPM, PIV	PIV-CRU	June 2004
	2.4 Telecommunications Regulatory Authority (TRA) established, regulating commercial operators through licensing and carry through a tender for a new mobile phone operator.	MTC, TRA	PIV, CRU-KTA	Ongoing, licensing finished and tender carried out by early 2005
	2.5 Telecommunication Regulatory Authority and UNMIK Frequency Management Unit establish joint projects for frequency management and monitoring in Kosovo.	PIV-CRU, TRA	PISG	Ongoing
	2.6 Civil society institutions of all ethnic communities, including business associations, are involved in policy advice mechanisms, such as the Private Sector Advisory Group, Advisory Council on SMEs etc.	MTI, MFE	PISG	Ongoing

Standard	Action	Responsible Authority	Supported By	Timeline
	2.7 Continued efforts are made to address local economic development throughout Kosovo.	Municipalities	MLSW, MFE, MTI, PIV	Ongoing
	2.8 Recovery and reconstruction assistance , including allocation of funding from the KCB and active implementation of reconstruction efforts, is undertaken in an appropriate and timely manner.	MFE, OPM, MESP	PISG, PIV, ORC	March 2004 and ongoing
3. The budget process is functioning and meeting all legal requirements	3.1 The adoption of the Kosovo Consolidated Budget (KCB) 2005 and annual budgets thereafter in full compliance with fiscal and budget regulations and the Law on Public Financial Management and Accountability, satisfying all conditions for SRSB promulgation including sufficient attention to reserved areas, taking recommendations on IMF and other development partners into due account.	MFE	PIV-FAO, EFC, Budget Commission, Grants Commission, Assembly	December 2004, and ongoing
	3.2 Development of a Medium Term Expenditure Framework, including integration of the public investment plan, which is non-discriminatory and takes into account the priorities of the Government and reserved areas.	MFE, MTI	PIV-FAO, EFC	November 2004
	3.3 Improvement of sector spending plans and dialogue between the Ministry of Finance and Economy and other Budget agencies, with due consideration given to the priorities of women.	MFE	OPM, PIV-FAO	Ongoing
	3.4 Improvement of the implementation of the budget timetable to ensure timely presentation of the Mid-Year Review.	MFE	PIV-FAO, EFC	July 2004, 2005
	3.5 Allocation of surplus funds concentrates on investment needs, considering the needs of all Budget Organisations including the reserved areas.	MFE	PIV-FAO, EFC	April 2004, 2005
	3.6 Compliance with the Law on Public Financial Management and Accounting, and the Budget 2004 and 2005 Regulations, is monitored, with reporting following the timelines set out in this legislation.	MFE	PIV-FAO	Ongoing

Standard	Action	Responsible Authority	Supported By	Timeline
	3.7 Strengthening of public expenditure management in maintaining fiscal discipline and efficient allocation of resources	MFE	PIV-FAO	Ongoing
4. Economic statistics are available and regularly published, including on GDP, inflation, trade and unemployment	4.1 Identification of the present system and development and implementation of action plans for: <ul style="list-style-type: none"> • Collection and distribution of vital economic statistics with efforts to incorporate gender related data; • approximation of Kosovo's statistical system with European standards; • timely publication of economic statistics and their availability to the general public; • Regular publishing, including posting on the internet, of macroeconomic bulletins and other documents 	PISG PISG PISG MFE, OPM	PIV, BPK, Customs PIV PIV PIV	October 2004 Ongoing Ongoing July 2004
	4.2 Enhancement and strengthening of the capacity of the Statistical Office of Kosovo (SOK).	PISG	PIV	Ongoing
5. Privatisation and liquidation of SOEs are well advanced; Municipal authorities and relevant governmental structures support a	5.1 Continued progress in privatisation of SOEs, demonstrated through quarterly reports which include target numbers of SOEs to be privatised, and increased numbers of SOEs ready for tender.	KTA	PISG, PIV	March 2004 and ongoing

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smooth and reliable transfer of property rights	5.2 Full support of the privatisation process by the PISG and KTA Board members, on the basis of the existing legal framework (add footnote: The KTA Regulation and the guidance provided by UN HQ), demonstrated by: <ul style="list-style-type: none"> • Agreement on legally and commercially sound Operating Policies; • Constructive approach of KTA Board members in the decision making process; • Public awareness campaign to improve media coverage of privatisation process and ensure public support, including role of the Special Chamber as an appeal mechanism for KTA related matters. 	KTA Board	PISG, PIV, PII	February 2004 Ongoing Ongoing
	5.3 Establishment and enforcement of KTA control over SOE's, including land and non-land assets, including assets usurped by municipalities and individuals.	PISG, Municipalities	KTA	Ongoing
	5.4 Achievement of smooth land property rights transfer to owners after privatisation.	Municipalities	KTA, PISG	Ongoing
6. Restructuring of POEs, based on independent audits, is progressing and fully backed by the PISG	6.1 Endorsement and implementation of an action plan on incorporation and restructuring of POEs, taking into account audit findings and ensuring non-discriminatory hiring practices.	KTA Board	PIV, PISG	December 2004 and in accordance with time frames specified in the action plan
	6.2 Full support, in line with legal requirements, for professional, effective, and apolitical governing structures of POEs	PISG	KTA, PIV	Ongoing
7. Supervision over commercial banking, insurance and pension scheme is reliable and effective.	6.3 Adequate and planned allocation of funds from KCB for successful restructuring.	PISG-MFE	KTA, PIV-FAO, SRSG, EFC	November 2004, and ongoing
	6.4 Commitment to restructuring process and sustainability of POEs is clearly demonstrated with a particular emphasis on POEs which have received significant donor support, such as KEK.	PISG, KTA Board	PIV	Ongoing

Standard	Action	Responsible Authority	Supported By	Timeline
	7.1 Strengthening and further development of financial sector supervision, including aspects supporting economic development, through the creation of: (a) a Credit Information System; (b) an Insurance Communication Platform; and (c) Non-cash Payment Methods, including electronic banking and electronic bill payment	BPK	MFE	October 2004
	7.2 Develop and implement early warning mechanisms to enable pre-emptive enforcement actions.	BPK	PISG	May 2004
	7.3 Integration of BPK into economic policy analysis, including management of monetary instruments to achieve economic objectives.	BPK	MFE	Ongoing
	7.4 Full commitment to the independent role and multiethnic composition of BPK, including appointments of apolitical independent representatives to the Governing Board of BPK.	PISG	PISG	Ongoing
	7.5 Fostering development of local financial markets to allow for an increasing amount of local savings to be invested in the Kosovo economy, without posing a threat to asset security.	BPK	PISG	Ongoing
	7.6 A review of the appointment procedure to the Kosovo Pension Savings Trust and of the reporting regime is undertaken.	BPK, KPST	PISG	June 2004
8. Kosovo-wide billings approach 100% of the services provided by KEK, PTK and water sector utilities and approach the levels of neighbours	8.1 Establishment of appropriate and non-discriminatory regulatory and judicial procedures to support bill collection by public utility service providers.	PI, MPS (DJA), PIV	KTA, PIV, PISG	January 2005
	8.2 Implementation of action plan with strong PISG participation for bill collection and enforcement (<i>revenue collection strategy</i>).	PISG, OPM	KTA, PIV	April 2004, and ongoing
	8.3 Broad public awareness campaign regarding importance of paying bills.	OPM, PISG	KTA	Ongoing

Standard	Action	Responsible Authority	Supported By	Timeline
	8.4 Non-discriminatory provision of services and treatment by public utilities providers.	KTA	PISG, PI, PII, ORC	Ongoing
9. Tax revenue fully funds the recurrent budget, and an increasing share of the public investment	9.1 Increased percentage of the KCB 2005 investment budget funded by tax revenues compared to KCB 2004.	MFE	PIV	December 2004
	9.2 Recurrent spending trend in line with recommendations of IMF and other development partners.	MFE	PIV, PISG	Ongoing
10. Tax compliance indicators are substantially improving.	10.1 Development of a system of measuring compliance indicators with Kosovo's taxes and customs duties complemented by detailed compliance estimates produced on a semi-annual basis.	PISG, MFE	PIV-FAO, PISG	July 2004
	10.2 Implementation of property tax and profits tax, in compliance with the European Convention on Human Rights (ECHR).	MFE	PIV-FAO	Ongoing
	10.3 Effective and functioning internal excise tax and enforcement regime in place.	Customs	PISG	December 2004, and ongoing
	10.4 Internal VAT system is operating and following the EU Directive on VAT.	MFE	Customs	July 2004, and ongoing
	10.5 The operation of VAT rebate system is reviewed and improved.	MFE	PIV	July 2004
11. Revenue raising is free from political influence	11.1 Multi-ethnic and increasingly professional Customs service in place, free from political interference, demonstrated through: <ul style="list-style-type: none"> • Monitoring of appraisals and reported performance of ethnic communities monitored for discrimination; • Non-interference by political institutions in matters relating to staffing and competencies 	Customs	PIV, PISG	December 2004

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	11.2 Multi-ethnic and professional Tax Administration in place, free from political interference, demonstrated through: <ul style="list-style-type: none"> • Opening of TA offices in all ethnic areas; • Employment of all ethnic communities in TA offices 	MFE	PIV-FAO	March 2004 onwards
	11.3 Fair and equitable implementation of the tax system across business sectors, regions of Kosovo and ethnic communities.	MFE	PIV-FAO	Ongoing
	11.4 Transparent and efficient procurement processes demonstrated through independent external audits performed on a regular basis.	MPS	PIV	Ongoing
	11.5 Regular publication of public accounts including POE's.	PISG	PIV-FAO, KTA	Ongoing
	11.6 Advertisement of Government procurement processes in all official languages.	PISG-MPS	PII, PIV	January 2004, and ongoing
	11.7 Measures undertaken by the Government to fight corruption and fraud.	PISG-OPM	PIV, PI	Ongoing
	11.8 Establishment of an independent Tax and Customs Review Tribunal, to act as a second level appeals tribunal against administrative actions and decisions bearing a fiscal impact by UNMIK Customs Service and the Tax Administration of Kosovo.	PISG-MFE	PIV, OLA	July 2004

GLOSSARY:

BPK	Banking and Payments Authority of Kosovo
EFC	Economic and Fiscal Council
EIB	European Investment Bank
GDP	Gross Domestic Product
IFI	International Financial Institution
IMF	International Monetary Fund
KEK	Kosovo Electric Company
KTA	Kosovo Trust Agency
MFE	Ministry of Finance and Economy

MPS	Ministry of Public Services (DJA: Department of Judicial Administration)
MTC:	Ministry of Transport and Communications
MTI	Ministry of Trade and Industry
OLA	Office of the Legal Adviser, UNMIK
OPM	Office of the Prime Minister, PISG
ORC	Office of Returns and Communities, UNMIK
PIV-FAO	Pillar IV- Fiscal Affairs Office
PIV-CRU	Pillar IV- Central Regulatory Unit
POEs	Publicly Owned Enterprises
PTK	Post and Telecommunications Kosovo
SMEs	Small and Medium Enterprises
SOEs	Socially Owned Enterprises