KOSOVO: 2014-2020 – amended December 2015

COUNTRY DEVELOPMENT COOPERATION STRATEGY

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EXECUTIVE SUMMARY

USAID's FY 2014 – FY 2020 Strategy is designed to support the achievement of the USG's central foreign policy objective of peace and stability in the Balkans. In order for Kosovo to become a successful nation, it will have to build the capacity of its governing institutions, strengthen its economy, and improve the education and skills of its citizens. Only by achieving these interconnected objectives will Kosovo be able to integrate into Western European and Trans-Atlantic structures, while ensuring prosperity and stability at home for all of its people. The intention of USAID, which enjoys exceptionally good in-country access, is to continue to work side-by-side with Kosovo institutions and other donors towards this end.

This Strategy proposes as an overarching Goal that "*Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance*". This Goal stems directly from Government of Kosovo (GOK) plans that call for advancing economic growth and strengthening institutions for the benefit of all citizens. It is in harmony with the USG's recently approved *Integrated Country Strategy for Kosovo (FY 2014-2016)* which calls for continued engagement and development assistance to Kosovo, in order to ensure *"…that this corner of the Balkans, long troubled with inter-ethnic tension and violence, joins a Europe whole, free, and at peace.*" It is also aligned with the USAID/Department of State's Joint Regional Strategy, which articulates the Administration's commitment *"…to seeing the Balkans fully integrated into Euro-Atlantic institutions as part of a democratic and prosperous Europe*."

Development Objective (DO) 1: *Improved Rule of Law and Governance that Meet Citizens' Needs*. This DO has been selected given the current state of nascent democratic institutions in the country. Despite institutional reforms, implementation shortcomings continue, even while there is in place a generally adequate body of laws and regulations. Judicial independence and Rule of Law remain weak, and continuing inefficiencies in the system prevent the judiciary from effectively playing its proper role. Members of the National Assembly have limited capacity and technical skills to conduct analysis, draft legislation, and assure oversight. Progress in the devolution of authorities and responsibilities from the center is hampered by municipal administrations that are limited in their ability to efficiently provide public services, and by civil servants beholden to political interests. Given these circumstances, DO1 will focus on enhancing the implementation capabilities of the judicial, executive/local administrative, and legislative sectors, while at the same time addressing integration issues and enhanced "voice" for civil society.

DO2: *Increased Investment and Private Sector Employment*. Kosovo remains the poorest country in the region and suffers from extremely high unemployment. It is overly dependent on imports and has a very small export base. Energy shortages hamstring the economy, and responsible utilization of the country's vast mineral base is hampered by confused, poorly implemented, or even non-existent regulatory frameworks. This DO will address the alleviation of these circumstances by promoting a more favorable business environment, by encouraging a more diversified economy lead by private sector growth, and by continuing to address the energy needs of the country.

DO3: *Enhanced Human Capital*. The education system in Kosovo fails to address the pedagogical and skills training needs of Europe's youngest population, resulting in vast numbers of unemployed youth without the skills or training required of a growing economy. This DO will continue to focus on strengthening pre-university education, provide for participant training, and – if certain pre-conditions are met – work with the University of Pristina to improve management and pedagogy in key faculties.

ACRONYMS

ADA	Austrian Development Agency
ADR	Alternative Dispute Resolution
ADS	Automated Directives System (USAID)
CBK	Central Bank of Kosovo
CDCS	Country Development Cooperation Strategy
CEC	Central Elections Commission
CEFTA	Central European Free Trade Agreement
CSO	Civil Society Organization
CSP	Comprehensive Settlement Proposal for the Kosovo Status Settlement (Ahtisaari Plan)
DCA	Development Credit Authority (USAID)
DIA	Democracy in Action (Kosovo NGO)
DO	Development Objective
EBRD	European Bank for Reconstruction and Development
EC	European Commission (also, Energy Conservation)
ECLO	European Commission Liaison Office to Kosovo (now, European Union Office)
EDVAP	Economic Development Vision and Action Plan (Government of Kosovo)
ESI	End of Supervised Independence (Kosovo)
ERO	Energy Regulatory Office (Government of Kosovo)
ESCOs	Energy Service Companies
ESI	End of Supervised Independence (Kosovo)
EU	European Union
EULEX	European Union Rule of Law Mission
FAA	Foreign Assistance Act (USG)
FDI	Foreign Direct Investment
G2G	Government-to-Government
GCC	Global Climate Change
GDP	Gross Domestic Product
GIZ	*Deutsche GesellschaftfürInternationaleZusammenarbeit* (German Organisation for Technical Cooperation, formerly GTZ)
GNI	Gross National Income
GOK	Government of Kosovo
GOS	Government of Serbia
HICD	Human and Institutional Capacity Development
HMI	Hydro-Meteorological Institute (Government of Kosovo)
ICITAP	International Criminal Investigative Training Assistance Program (U.S. Department of Justice)
ICT	Information and Communication Technology
ICO	International Civilian Office for Kosovo
IFC	International Finance Corporation
IMF	International Monetary Fund
IPA	Instrument for Pre-Accession Assistance (EU)
IR	Intermediate Result
KAEF	Kosovo American Education Fund
KAS	Kosovo Agency of Statistics
KEDS	Kosovo Electricity Distribution Company
KEK	Kosovo Energy Corporation
KESP	Kosovo Education Strategic Plan 2011-2016
KFOR	Kosovo Forces (NATO)
KfW	*KreditanstaltfürWiederaufbau* (Reconstruction Credit Institute)
KJC	Kosovo Judicial Council
KJI	Kosovo Judicial Institute
KPC	Kosovo Prosecutor's Council
KPST	Kosovo Pension Savings Trust
LGBT	Lesbian, Gay, Bisexual, and Transgender

MED	Ministry of Economic Development
MEST	Ministry of Education, Science and Technology (Government of Kosovo)
MESP	Ministry of Environment and Spatial Planning (Government of Kosovo)
MLGA	Ministry of Local Government and Administration (Government of Kosovo)
MNAO	Mitrovica/ë North Administrative Office
MOF	Ministry of Finance (Government of Kosovo)
MOJ	Ministry of Justice (Government of Kosovo)
MSME	Micro-, Small-, Medium-sized Enterprises
NARUC	National Association of Regulatory Utilities Commissions (United States)
NATO	North Atlantic Treaty Organization
NEAP	National Environment Action Plan (Government of Kosovo)
NGO	Non-Governmental Organization
OCA	Organizational Capacity Assessment
OSCE	Organization for Security and Co-operation in Europe
PAD	Project Appraisal Document (USAID)
PAK	Privatization Agency of Kosovo
PD	Office of Public Diplomacy (U.S. Embassy)
PMP	Performance Monitoring Plan
PPP	Public Private Partnership
RAE	Roma, Ashkali, and Egyptian minorities in Kosovo
ROL	Rule of Law
SAA	Stabilization and Association Agreement
SDC	Swiss Agency for Development and Cooperation
SIDA	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
Sub-IR	Sub-Intermediate Result
TIP	Trafficking in Persons
USAID	United States Agency for International Development
UNDP	United Nations Development Programme
UP	University of Pristina
USEA	United States Energy Association
UNMIK	United Nations Mission in Kosovo
USG	United States Government

MAP OF KOSOVO

I. DEVELOPMENT CONTEXT, CHALLENGES, AND OPPORTUNITIES

Development Context (Country Overview)

Since development and approval of USAID/Kosovo's FY2010-2014 strategic plan (approved by USAID/Washington in May 2010), Kosovo has continued on a forward path in terms of institution building, economic trends, and civic participation. However, progress has been uneven and many conditions remain problematic.

The 2012 end of "supervised independence" and closure of the International Civilian Office (ICO) was a success and, to date, 98 countries have recognized Kosovo's statehood. Government institutions, particularly at the central level, continue to strengthen their operations, and the devolution of authority to local municipalities[1] is reinforcing local governance and democratic development. Kosovo has a reasonably well-developed body of laws and policies, although implementation and enforcement often lag. Over the past three years, initial reforms have been instituted within the judiciary. There has been progress in administering competitive elections and these have largely been conducted in accordance with international standards, although there remains the risk that flawed elections could become flashpoints for conflict.

Yet internationally – and despite some progress – Kosovo still lacks official recognition by many countries. This has prohibited Kosovo's membership in the United Nations and other global organizations and has led the European Union to adopt a "status neutral" policy towards Kosovo that hampers its ability to fully promote the country's development. This situation is driven by Serbia's unwillingness to accept Kosovo's independence and cease support to illegal structures of governance in Kosovo-Serb majority municipalities. Recent reports of headway in negotiations between Kosovo and Serbia suggest a path towards normalization of relations[2], but progress will be hard won. To date, the "parallel" governance system in Serb majority areas remains a destabilizing factor.

Despite institutional reforms, implementation shortcomings continue, even while there is in place a generally adequate body of laws and regulations. Judicial independence and Rule of Law remain weak, and continuing inefficiencies in the system prevent the judicial branch from effectively playing its role as a counterbalance to the powerful executive branch. Members of the national legislature (Assembly of Kosovo or National Assembly) have limited autonomy, and the political landscape remains dominated by executive branch and political party leaders. In the National Assembly, there is inadequate capacity to conduct analysis, draft legislation, and assure oversight (in terms of implementing laws). Progress in the devolution of authorities and responsibilities from the center is hampered by municipal administrations that are limited in their ability to efficiently provide public services, and by civil servants beholden to political interests at the expense of constituent welfare. The education system fails to address the pedagogical and skills training needs of the youngest population in Europe; weaknesses in the system present an overarching constraint to the country's development.

[1] A municipality is the basic administrative division in Kosovo. There are 38 municipalities; ten of them have Serb majority populations.

[2] Rashiti, Naim, International Crisis Group, *Serbia and Kosovo: The Path to Normalization*, February 2013.

Kosovo remains the poorest economy in the region and struggles with high levels of poverty, massive unemployment (estimated at an average of 45% compared, for example, to 37% in Macedonia and 14% in Albania), over-dependence on imports combined with a very small export sector, and energy shortages. The country's Gross National Income (GNI) per capita is estimated at $3,520, ranked 93rd worldwide and behind Macedonia, Albania, Serbia and Bosnia and Herzegovina[3].

The economy has maintained a growth rate of 3-5% for about a decade up to 2011. The Kosovo Agency of Statistics (KAS) estimates that during the current three-year period (2013-2015), the economy will grow an average of 4.7%, the highest average estimated growth rate among Southeastern European economies. However, the pace of growth is not nearly enough to have notable effects on poverty and unemployment. For example, the World Bank estimates that Kosovo would need to more than double its growth rate to 12% per year for an entire decade to reach Montenegro's current Gross Domestic Product (GDP) per capita level[4]. In short, the income gap between Kosovo and other countries in Southeast Europe is likely to remain large despite higher growth.

Kosovo is making steady and significant macroeconomic progress in both first-stage (price liberalization, trade and foreign exchange reforms, and privatization) and second-stage (competition policy, and enterprise, banking, infrastructure, and non-bank financial reforms) restructuring. The country has largely had stable budget performance, although the budget deficit in 2011 widened to 4% of GDP. Tax collection improved by 4% during 2012, compared to the same period a year earlier. However, in 2012, Government of Kosovo expenditures exceeded revenues, resulting in a deficit of more than 2%, and the Ministry of Finance (MOF) estimates that spending will continue to exceed revenues over the next three years. This rapid increase in public expenditures is currently the major driving force behind growth in investment. Private investment has remained at 20-22% of GDP for the past five years, while public investment has increased from 5% to 12% of GDP.

Economic activity has been concentrated mostly in the services sector, which has grown through large remittance inflows and the large international presence in Kosovo. Substantial productive investment in the tradable goods sector has not taken place yet.[5]

The large current account deficit (19% of GDP in 2011) is financed primarily through aid and remittances. Indeed, Kosovo is a top ten remittance-receiving country with about 13% of GDP in annual receipts. Both of these streams are highly vulnerable to a continuing economic crisis in Europe. Although remittances have continued to be high and stable thus far, only about 11% of inward flows are used for investment, with the majority of funds going for current consumption.

While Kosovo has a very high negative international trade balance (close to 45% of GDP in 2011) exports are projected to increase faster than imports and, as a result, this imbalance should improve at least slightly. Inflation has remained low, due to the adoption of the Euro which has seen limited currency fluctuations and has contributed to relatively sound fiscal policies. The impact of the recent global financial crisis had limited impact on Kosovo's economy, due to the low level of integration of the local economy with international markets.

Although civil society is only beginning to play a proactive role in advocacy and oversight, Kosovo does have a wide range of civil society organizations (CSOs) and an active media. When citizens do engage

[3] World Bank, *2012 World Development Indicators*.
[4] World Bank, Poverty Reduction and Economic Management Unit, *Kosovo Unlocking Growth Potential: Strategies, Policies, Actions; A Country Economic Memorandum*, April 2010.
[5] Ibid.

around issues, it is primarily through political parties, and citizen- and community-based initiatives. Key issues for citizens and their advocacy groups remain the lack of economic opportunities, and frustration with Government institutions that fail to address immediate needs related to education, job opportunities, public services, and equal access for women, youth, and minorities. Improvements in the conduct of elections notwithstanding, only 17% of Kosovo citizens agree that elections in Kosovo are democratic and, in reaction, there is a decrease in the willingness to vote.[6] The incomplete integration of minorities – especially Kosovo-Serbs – limits achievement of a more inclusive government.

USAID Achievements

While such development problems as these persist, USAID nonetheless can take pride in the progress it has helped to achieve. In an environment where implementation of USAID programs is advanced by exceptionally close working relationships, the Agency has been implementing since 1999 an extensive portfolio of projects focused on encouraging the formation of democratic institutions, developing economic institutions and the private sector, improving Government's ability to manage the energy sector, and rebuilding the education system and community infrastructure.

Key technical assistance was provided to help develop a constitution, establish a constitutional court, and institute an electoral system. A methodology for reducing court case backlogs was also put in place with USAID assistance. USAID has helped Kosovo on the way to a re-invigorated civil society by assisting a training and resource center for Non-Governmental Organizations (NGOs). USAID was instrumental in establishing the Mitrovica/ë North Administrative Office (MNAO), the first GOK local institution in the northern part of the country. Assistance was provided to establish the first two independent television networks in Kosovo.

With USAID's help and starting from a very low base, great strides have been made in putting in place new economic and fiscal policies, setting the stage for transitioning from a command to a market economy. Budget and tax systems and a comprehensive pension system were created and implemented. A modem banking system was formed; a Central Bank was established, and bank supervision capabilities were instituted. USAID established a commercial bank –the American Bank of Kosovo – to facilitate investment, increase access finance, and generate employment (loans totaling $64.5 million were provided for business development, resulting in over 11,000 new jobs). A year-and-a-half later, USAID sold the successful enterprise to Raiffeisen Bank of Austria, proceeds of the sale endowing a scholarship fund (the Kosovo American Education Fund [KAEF]) that enables Kosovo residents to undertake post-graduate study in the United States. The core capacity of the Ministry of Finance was strengthened. Modern budget and treasury processes were installed, with an efficient, transparent, electronic financial management system enabling the direct credit of all Government payments. A tax administration was established ($1.2 million in taxes collected as of January 2012). The core legal framework for a functioning market economy was put in place. Together, these new economic institutions, regulatory frameworks, and financial systems have contributed to post-conflict recovery and offer the prospect of continued economic revitalization. Initial improvements to energy-related institutions were realized. And importantly, the soon-to-be realized privatization of the electricity distribution system has been made possible through intensive USAID assistance.

Since 2010, USAID in partnership with the GOK has been reforming the education system grades 1-9, which directly improves the skills and employability of graduates; an intervention that is generally understood to improve the labor market. USAID also built or rehabilitated a significant number of community infrastructures, such as schools (thereby reducing school shifts), hospitals and health clinics, water systems, and roads. Over fifty students were awarded Master's degrees at U.S. institutions, and

[6] USAID, *Conflict Assessment: Breaking Down Invisible Walls*, September 2012.

twelve minority students were provided with local undergraduate degree scholarships. Vulnerable groups such as displaced families, women, and children have been targeted for special attention.

From Stabilization to Nationhood

During the next five years, USAID will build on these successes in consonance with USG foreign policy and national security considerations, which call for continued and active USG engagement in Kosovo's independence and institutional capacity building, as a way of promoting greater peace and stability in the Balkans and of facilitating regional and Euro-Atlantic integration. Operating with the advantage of widespread pro-U.S. sentiment within the Government of Kosovo and among the population, the task before USAID is to successfully confront the challenges and take advantage of the opportunities it faces, so "*Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance.*"

Challenges

Major challenges over the CDCS timeframe relate to achieving political stability – including, importantly, resolving issues in the northern Kosovo-Serb areas – promoting inter-ethnic reconciliation and integration of all minority populations, and realizing improvements in the economic and education sectors that will lead to greater opportunity for all citizens and promote regional and Euro-Atlantic integration.

During the last decade and a half, Kosovo has achieved notable progress in the critical areas of institution building and strengthening of democratic governance; creation of a viable foundation on which to grow the economy; and institutionalizing a decentralized, modern basic education system with assessment-based, student-focused learning. Yet, in all these arenas, significant weaknesses remain that need to be addressed on an urgent basis if the people of Kosovo are to realize their full potential as individuals and as a country. During this Strategy period, USAID intends to continue and build upon its engagement in all these areas, working with the GOK and other stakeholders to overcome challenges even while carefully targeting its assistance in line with manageable interests and budget realities.

Rule of Law and Governance

USAID faces several challenges in addressing with the GOK and other stakeholders the need to vastly strengthen key institutions and improve the delivery of services (*DO1: Improved Rule of Law and Governance that Meet Citizens' Needs*).

First, continuing assistance to the judicial sector will require that the GOK remains strongly committed to leading and implementing key reforms, particularly in restructuring the courts. As noted above, Kosovo has a generally adequate body of laws but judicial performance – regarding efficiency, transparency, independence, and accountability – must vastly improve. In a recent survey, only 18% of citizens were satisfied with the performance of courts and an even lower percentage (16%) expressed satisfaction with the performance of the Prosecutor's Office. In the same survey, only 21% of citizens were satisfied with the overall work of the Government.[7]

With regard to legislative institutions, the National Assembly remains weak and, as the above-mentioned survey highlights, largely disconnected from grassroots constituencies. Without an institutional culture that emphasizes reaching out and working with citizens, improvements in legislative functions – such as research and analysis, drafting legislation, and implementation oversight – will have limited impact. This holds equally true for Municipal Assemblies.

Local governments are often not held accountable by their constituents and do not demonstrate sound financial management. Many local governments continue to have problems effectively delivering basic

[7] UNDP and USAID, *Public Pulse Report 4*, August 2012.

services; for example, proper water and sewerage management, garbage collection, and the provision of personal documentation such as birth certificates. Some municipalities point to certain GOK actions as moves toward recentralization, even as the Central Government expresses putative support for the devolution of authorities to local officials who are closer to citizens and the realities they face. Thus, assuring continued and effective decentralization remains a challenge.

A recent USAID assessment identified elections as a potential flashpoint for conflict.[8] The Organization for Security and Co-operation in Europe (OSCE), however, expects to change its election-related support from advising and assisting to only observation with no on-the-ground election monitoring. In this shifting context, assuring Kosovo's capacity to manage credible elections will prove difficult.

The GOK remains committed to addressing minority issues; here the challenge is resisting internal pressures and societal dynamics that emphasize the ethnic Albanian character of the state at the expense of minorities. At the same time, the Government of Serbia (GOS) continues to call on Kosovo-Serbs to operate in parallel systems with the GOS financing shadow administrations in predominantly Serb areas within Kosovo. Obviously, this works against the very integrity and integration of Kosovo.

Finally, in all these areas – judicial, legislative, administrative, electoral, and minority affairs– the desire and ability of civil society to actively engage with government and give constructive voice to their concerns also will prove a major challenge, given the current low level of active participation.

Economic Growth

Creating an environment for sustainable economic growth and improved competitiveness has been a lead focus of USAID's support for Kosovo since transitioning from crisis to a longer-term development agenda. It is the intention of USAID to continue to provide significant support to this sector (*DO2: Increased Investment and Private Sector Employment*), working closely with the GOK to face challenges and mitigate potential stumbling blocks while building a viable and broad-based economy.

The GOK institutions that are responsible for maintaining macroeconomic stability have done an admirable job in ensuring that Kosovo remains one of the most fiscally and financially stable countries in the region. Following up on a period of concentrated USAID investment, the challenge now will be to ensure that the achievements realized by these institutions are consolidated and sustained during any unanticipated shocks, that reforms are fully implemented in a transparent and accountable manner, and that improved budget management is achieved.

Significant progress has been made in the World Bank's *Doing Business Index*, with Kosovo's ranking improving from 128th to 98th in 2012.[9] This progress was achieved after much effort by the GOK, with significant technical support from USAID. However, looking at its closest neighbors and competition, it is clear that Kosovo still has some way to go; Macedonia ranks 23rd, Montenegro 51st, Albania 85th, and Serbia 86th.The challenge now is to ensure that more improvements are made in the overall regulatory environment, so that Kosovo can realize a robust private sector and attract foreign direct investment.
For instance, Kosovo still suffers from excessive Government regulation of private economic activity through the use of licenses, permits, and other inhibiting processes at the national and local levels that increase the cost of business and make Kosovo less competitive in attracting new investment. A specific example relates to inspections. In international practice, inspections are used to protect public health and safety. However, in Kosovo, there are no general principles that establish parameters for the use of inspections, and some Government agencies conduct these in a manner that goes far beyond considerations of health and safety (presumably owing to the legacy of the socialist system of the past).

[8] USAID, *Kosovo Conflict Assessment: Breaking Down Invisible Walls,* September 2012.
[9] World Bank, *Doing Business Report 2013.*

Moreover, agencies do not coordinate their inspections or share information that would enable them to streamline processes. A major challenge will be to eliminate this inspection regime that is unduly burdensome, unnecessarily time-consuming, costly, and in conflict with a policy of encouraging private economic activity. Another example relates to the construction industry and land use. Although a new law on construction introduced some positive changes in terms of reduced procedures for obtaining building permits – along with transparent permit fee calculation and other improvements – authorities at the sub-national level continue to struggle to implement the new requirements. Many municipalities do not have urban regulatory plans in several of their districts, and in such areas businesses and citizens cannot predict how land will or can be used. The challenge, obviously, is to clarify regulatory procedures down to the municipal level so that construction and expanding businesses are facilitated in an organized manner. Ensuring property rights is, of course, a major aspect of this constraint.

As noted above, Kosovo has an average unemployment rate of 45%. Youth unemployment hovers around 70%, a virtual recipe for unrest, especially given that more than half the population is under the age of 25 and about 21% are between the ages of 15 and 25. The World Bank estimates that 34% of the Kosovo population lives below the national poverty line (€45 or US$60 per month).[10] Facing this reality of unemployment and poverty, it is no exaggeration to say that Kosovo's stability and development prospects hinge to a very great extent on creating jobs.

Presently, more than 98% of businesses are family-owned, micro-, small-, and medium-sized enterprises (MSMEs). A recent UNDP report noted that Kosovo's marketplace is unbalanced. There has been a high emphasis on enterprise creation in an environment already saturated with low value-added tertiary or service sector firms. To transform this very narrow pattern of growth into a much more dynamic and encompassing private sector, the report recommends, among other things, a leap in size from micro- and small- to medium-sized businesses and including improved access to finance for new and expanding businesses, particularly those run by women and youth.[11] Encouraging an increase in the presence of medium-sized enterprises – and small-sized enterprises with the potential to grow – will be a major challenge that touches on, for example, greater value addition, improving access to credit, streamlining of regulatory frameworks, and enhancing efficiency of trade flows internally and beyond Kosovo's borders.

While addressing unemployment and the need for stronger and more sustainable enterprises, there must be a particular emphasis on increasing agricultural productivity, given that 60% of Kosovo's population is rural and mostly poor. Challenges to be faced and circumstances to be overcome include limited access to credit and markets, inadequate greenhouse facilities; weak "farm-to-fork" value added linkages, and poor quality farm inputs (seeds, fertilizers, and pesticides) and food safety infrastructures. While having the Euro as its currency simplifies monetary policy, it also closes off export-led growth based on an attractive exchange rate. Simply put, Kosovo businesses must compete on their products, services and business savvy. Constraints include scale (as discussed above), financing, market linkages, integration at firm/industry/supply/market levels, historical/cultural lag behind modern business dynamics, and interest/stakeholder group collaboration. The above-cited UNDP report found that "*Kosovo's enterprise culture has energy without organization. Businesses are regularly coming and going, without taking advantage of any regional or sector clustering*." The challenge will be to capitalize on growth-ready sectors, in order to achieve the level of increased employment that Kosovo needs.[12]

In spite of considerable support from USAID and the international donor community as well as a vast natural resource base, Kosovo is still severely challenged by an energy shortage that remains one of the most significant barriers to economic growth. A recent USAID study estimated that the cost to businesses

[10] World Bank, *2012 World Development Indicators*.
[11] UNDP, *Kosovo Human Development Report 2012*.
[12] Ibid.

is around US$456 million annually, as a result of the need to invest in generators, equipment failures, and idle time.[13] Another USAID analysis characterized the lack of a consistent power supply as a "binding constraint" to growth.[14]

Since 2008, with considerable assistance from USAID and other donors, the performance of the Kosovo electricity sector has improved steadily and losses have decreased. However, the central issue is that Kosovo's production capacity is inadequate to meet current needs and is grossly inadequate for projected future requirements at a 5% annual GDP growth rate. The Government of Kosovo, along with assistance from many donors including the World Bank and USAID, is currently planning the construction of a new thermo power plant; however, it will not start generation for several more years.

The challenge for the next five-year period will be to successfully engage with other donors and Kosovo energy-related entities in developing a comprehensive Energy Strategy and strengthening key institutions, e.g., the Energy Regulatory Office (ERO), the Ministry of Economic Development (MED), and the Ministry of Environment and Spatial Planning (MESP), so that Kosovo develops its energy sector in line with best international and environmental practices.

While there is a dearth of information on the impact of climate change, it could be said that Kosovo is sensitive to climate threats because of the significant economic role of traditionally climate-sensitive sectors, such as agriculture and forestry. Kosovo has a very limited adaptive capacity to address climate changes in a systematic way. In 2012, a UNDP project established a Greenhouse Gas Inventory to be managed by the Kosovo Environmental Protection Agency. This year it first documented greenhouse gas (GHG) emissions from 2008 and 2009. The largest emissions category is Energy Industries which produces about 82% of total national emissions of GHGs (10,507.2 million tons CO_2 eq.), mainly from the burning of carbon-based fuels, i.e. lignite and wood. Kosovo's relatively low emissions per capita are because of a lack of energy intensive industries, intensive agriculture and waste management.

Education

Kosovo continues to be plagued by an education system that at all levels fails to address the pedagogic and skills training needs of its students and the economy. The challenge for USAID will be to work effectively and in tandem with the Government of Kosovo to address major weaknesses in this nascent system so that collectively these efforts – linked to the Strategic Goal and to the Mission's other Development Objectives – will help in addressing the shortage of skilled manpower that remains a serious constraint to economic growth (*DO3: Enhanced Human Capital*).

The unofficial, pre-university system of education that existed in Kosovo during the period of conflict has been formalized. However, the system is hampered by over-crowding in urban areas, which is a result of rapid rural-to-urban migration. There is inequitable access as a result of vast disparities from school-to-school in terms of quality, a situation which is further exacerbated by poor completion rates among minorities. Despite recent gains, there is poor teacher professional development, inadequate and out-of-date curricula, and a shortage of learning materials and equipment. There are serious gender gaps in education management. Even though there are large numbers of female teachers at the primary level, there are very few appointed as directors or as education officials at the municipal level. And according to Ministry of Education, Science and Technology (MEST) reporting, the female dropout rate between grades 9 and 10 was approximately 15% in 2010. The challenge for USAID will be to carefully target its resources in these problematic areas, in order to ensure that the Agency and Kosovo are maximizing impact on what remains a critically important but still very fragile system.

[13] USAID, *Study on Effects of Irregular Power Supply on Kosovar Businesses, November 2012*.
[14] USAID, *Kosovo Growth Diagnostic: Constraints Analysis*, September 2012.

During the past several years, USAID has assisted in rebuilding schools, in reforming the education system at the primary (grades 1-5) and lower secondary (grades 6-9) levels, and – in alignment with the GOK's decentralization policies – in building the capacity of Municipal Education Departments to manage the system at the local level. However, improving early grade reading, providing quality courses in math, science and technology, addressing the lower-to-secondary dropout rate, and further enhancing school management and teaching skills remain critical need areas. The challenge will be to keep and consolidate gains made through current programming – that is aligned with sector-wide approaches supported by the GOK and the donor community – before addressing other pressing challenges.

The university level staff in Kosovo is large; however the quality of graduates is poor and out of sync with workforce requirements. This, together with slow growth of the private sector, results in low market absorption rates for graduates. At the University of Pristina, there are shortcomings in management, curriculum relevance, and pedagogy. The task for USAID will be to work with management and key faculties at the University to correct these shortcomings, by offering targeted administrative support and pedagogic improvements, and by providing U.S.-based training opportunities (in coordination with other targeted sectors).

It will be critical for USAID to align its economic growth and higher education initiatives – including educational opportunities outside of Kosovo – to ensure that not only stronger graduates are coming out of the university system but also that there will be jobs for them when they move into the labor market. Careful targeting of assistance to key university faculties and wider university management will be central to this effort.

A particular challenge for the Government of Kosovo relates to its efforts to consolidate and improve its education system while the Government of Serbia has total influence over Kosovo-Serbs' basic and higher education. While this is an issue that lies beyond USAID's control, openings will be sought for USAID involvement in support of a truly integrated Kosovo system of education.

Opportunities

The USG enjoys a very positive environment within which to assist the citizens of Kosovo in achieving their aspirations for an independent country that enjoys the benefits of a strong economy providing equal opportunities to all its citizens. At the same time, Kosovo's geographic location offers attractive openings for regional economic development. Clearly, these twin advantages will positively influence the achievement of all three USAID Development Objectives so that *"Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance."*

Rule of Law and Governance

In terms of the efficiency, transparency, independence, and accountability of the judicial system, the Government of Kosovo is committed to leading and implementing reforms, particularly in restructuring the courts. This offers a clear opening to engage in policy dialogue around key reform issues and to focus welcomed assistance on strengthening implementation of laws, oversight, management, and professional skills. Such opportunities exist within the Kosovo Judicial Council (KJC), the Kosovo Prosecutor's Council (KPC), the Kosovo Judicial Institute (KJI), and within courts themselves. While several legal reform opportunities exist, commercial law, property rights, and alternative dispute resolution (ADR) mechanisms will receive particular attention so as to spur economic development.

The National Assembly and Municipal Assemblies remain weak, particularly in term of oversight. An opportunity exists to strengthen key units within these bodies while enhancing their communication with and responsiveness to citizens' concerns. The Central Government's stated support for decentralization

suggests an opening for strengthening municipal administrations to advance to a higher level of accountability to their constituents, especially as concerns financial management and development of own source revenue. A rollback in the GOK's commitment to decentralization, however, remains a risk.

USAID's above-cited conflict assessment suggests an opportunity – indeed, a critical need – to continue building the capacity of the Central Elections Commission (CEC), thereby complementing the observation role of the OSCE and enhancing Kosovo's ability to hold free and fair elections.

The Government of Kosovo does address the issue of integrating minorities – particularly Kosovo-Serbs – and while the issues surrounding integration are highly political and sensitive at both the national and personal level, USAID and other parts of the USG have an opportunity to play an important role in encouraging integration. This is particularly so, given the esteem in which the USG is held by the GOK and the people of Kosovo generally.

Kosovo has good laws promoting gender equality; however, equitable implementation of these laws remains both a challenge and an opportunity. This legal framework affords a clear opening to press for rigorous implementation through dialogue with the Government, assurance of equal "place" within all USAID activities, and close coordination with advocacy groups. The disadvantaged position of women in inheritance proceedings and property rights, despite no discrimination in the law, poses a particular problem.

Economic Growth

Kosovo has a clear opportunity to shift towards faster, private sector-led growth, given that its products have free market access to the European Union and to Central European Free Trade Agreement (CEFTA) countries. Unleashing this potential will involve bringing into play three production factors that are now sitting partially idle: labor, land, and energy and minerals. Unleashing this potential is within the country's own grasp, because most of the current obstacles are of a policy nature.[15]

As noted above, during the past several years much has been achieved by USAID and the GOK in terms of economic reforms. Past assistance in building key ministries and Government bodies has not only left a strong legacy foundation to build upon but also a near unparalleled access to Government officials and respect for USG technical advice.

Diversifying the economy and increasing private sector contributions to growth is a concept that is increasingly understood by decision-makers in Pristina ("governments don't create growth; they create the environment for growth"). This provides USAID with the opportunity to build capacity for sound governance across the economic landscape and with regard to not only better implementing of reforms (helping to assure that the relatively good legal and regulatory frameworks are actually being fairly applied), but also improving public financial management, increasing access to credit, attracting foreign investment, increasing private sector participation in building public infrastructure and providing public services, and addressing skills training needs in targeted sectors.

Given that 60% of the population is farm-based and relatively poor, USAID intends to remain engaged in the agriculture sector, in conjunction with other program initiatives such as improving access to credit and supporting SMEs (with gradually increasing emphasis on medium-sized enterprises). Promising growth in food processing, e.g., in dairy-based and other value-added products such as jams, juices, and potato

[15] World Bank, Poverty Reduction and Economic Management Unit, *Kosovo Unlocking Growth Potential: Strategies, Policies, Actions; A Country Economic Memorandum*, April 2010.

products, suggest that there are opportunities to speed this transition so that Kosovo becomes less dependent on food imports (currently around 60-70% of food is imported). A $10 million Development Credit Authority (DCA) has been successfully applied, and the GOK has now "gifted" $3.2 million to USAID to help in establishing a new $26 million DCA to address through six local banks farmer/processor credit constraints, as identified in the *Kosovo Growth Diagnostic 2012*. This is a unique opportunity that – considering proximity to markets and when linked with opportunities to improve productivity – can significantly improve overall agriculture competitiveness.

USAID also benefits from its strong reputation and comparative advantage in competitiveness and value-chain support. For example, a previous USAID project trained IT consultants to write and market Android applications. One of the pilot applications created during the training was immediately sold to a Swedish company. (Moreover, the American University in Kosovo's Training and Development Institute has recently and independently announced a new Developing Android Applications course). Loan officers in various banks have told USAID staff that when they hear applicants had USAID assistance with their business plans, they immediately consider the request as a serious business venture. Such response to USAID involvement and support gives the Agency a strong base from which to make new connections and conduct pilots that can then be taken up by the private sector. This arena is particularly promising as an avenue for creating greater economic opportunities for women, with assistance organized through a networking organization, the Women's Chamber of Commerce, which was established in early-2013 to address the constraints to full female participation at all levels of the economy. This Chamber was the outcome of the successful International Women's Summit featuring former Secretary of State Madeline Albright along with the Kosovo President and Deputy Prime Minister for Economy. USAID will coordinate across its DOs to assure that this nascent NGO emerges as a strong voice for issues that directly impact women.

Kosovo's fragile electricity infrastructure poses challenges to the country's sustained economic growth and welfare of its citizens, as well as to social and political stability of the new country. Unreliable electricity supply has required utilities to import expensive electricity on the spot market and/or cut energy to homes and businesses – particularly in the winter when heating demands are highest. This has had huge implications on the already limited public budget. Electricity shortfalls have also resulted in a significant cost to businesses in the form of increased expenses and lost productivity, and pose a serious risk for potential investors.

In recognition of the serious energy challenges, the Government of Kosovo has adopted an energy strategy consistent with a five (5) pillar plan previously endorsed by the U.S. Government as well as the World Bank. Building on its significant past assistance to the energy sector, USAID is well placed to assist the GOK to implement the first two pillars of this five pillar plan: 1) Promotion of energy efficiency and renewable energy and 2) Rehabilitation of Kosovo B to meet EU emission standards.

The Government of Kosovo has committed to 29.47% of gross final energy consumption to be provided by renewable energy sources by 2020. Commitment is clear in its adoption of Energy Strategy of the Republic of Kosovo 2013 – 2020 and Kosovo Energy Efficiency Action Plan 2010 – 2018 with the adoption of the Law on Energy Efficiency. There is government and donor momentum to take on this global challenge.

In addition, the scale of the GOK's proposed energy reforms requires investments beyond the GOK's means and expertise. To rehabilitate Kosovo B there needs to be a strong enabling environment conducive to attracting private investment and the market regulator needs have the technical and manpower capacity to enforce market rules for a stable, predictable investment environment.

Education

Given its relative strengths and the "manageable" size of the education sector in Kosovo, USAID has a unique opportunity to assist in addressing human capital constraints to economic growth and to personal fulfillment. The Agency's recently completed *Human and Institutional Capacity Development Assessment: Kosovo"* provides at least a partial roadmap.

Even though progress has been made in physical infrastructure and curriculum development, more than partially as a result of USAID support, fragility still characterizes the pre-university education system in Kosovo (grades 1-12). Management systems, professionalism, pedagogy, and implementation of reforms are all weak. Student outcomes are much less than desired. Access to a quality education is skewed for minorities and rural communities. There are large gender balance challenges in the profile of teachers and school administrators. At present, USAID is involved at the central and local levels to improve these circumstances (the Basic Education Program will end in 2015). This ongoing and well-received involvement suggests that, despite the challenges, there is an opportunity –indeed, an urgent need – to remain engaged in addressing the shortcomings of the pre-university education system. As challenges are successfully addressed at the primary (grades 1-9) level, USAID will increasingly look for opportunities to address secondary school (grades 10-12) shortcomings. This will prepare students to successfully move up through the education system and, with higher level educational opportunities available, will result in citizens with advanced knowledge and life-long skills.

Currently, higher education in Kosovo fails to impart practical knowledge and skills and produce qualified graduates trained for employment. However, the above-mentioned HICD assessment identified priority areas for reform – e.g., within public administration, IT, agriculture – and this may give USAID an opportunity to assist in improving professionalism and pedagogy in selected Faculties while assuring complementarity with other program elements. Any support for selected Faculties would be combined with carefully chosen opportunities for short- and long-term international (primarily U.S.) training. These returnees will be a major force in assuring continued improvements in higher education in Kosovo. There may also be an opportunity to address university-wide management issues, given a new rector who is receptive to change and working with USAID. However, additional support to the University of Pristina beyond the embedded technical assistance in the partnerships with American schools that will also provide overseas learning opportunities will depend on achievement of certain pre-conditions, given a number of serious outstanding concerns. An Action Plan for reform is already being created through a highly-participatory process involving MEST officials, University administrators and Deans, donor and development community members. It has received considerable attention and support and there is every indication that progress is forthcoming. Progress on this Action Plan will form the basis for conditions precedent for any additional assistance. Given the high level of Government of Kosovo's contributions to USAID Kosovo education programs, at nearly 50% in both basic and higher education, there is strong partnership and support for additional work in both IRs in coming years. Additionally, the Department of State has an active Public Diplomacy programs that also provide assistance in English language, higher education curriculum and management reform, scholarships and other exchange programs.

II. DEVELOPMENT HYPOTHESES

The central premise of this Strategy is that achievement of the Development Objectives of improved Rule of Law and Governance, economic growth, and a better educated population will, ultimately, lead to a more prosperous Kosovo that offers to all its citizens the opportunity for a more satisfying and fruitful life. USAID understands that achievement of this Strategic Goal (*Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance*) will depend heavily on close in-country collaboration and the support of other major donors. Yet, based on well-tested causal relationships between these building blocks of development and the overarching aim of increased prosperity for all Kosovo citizens, the Agency is confident that the expected results – tracked by prudently selected indicators – are within its manageable interests and achievable in the context of budget realities.

DO1: Improved Rule of Law and Governance that Meet Citizen's Needs

The principal assumption relative to this Development Objective posits that by achieving its specified results (Intermediate Results [IRs] and sub-Intermediate Results [sub-IRs]), USAID will improve institutional and human capacity in entities important for democratization and a more inclusive society, i.e., Rule of Law institutions, selected Government administrative bodies, elected assemblies, and civil society organizations. USAID's Strategy will consolidate past investments by focusing on further developing these targeted institutions that are widely recognized as key to improved Rule of Law and Governance. Capacity building in these institutions will entail more than simply training; it will take a holistic approach that analyzes key barriers to performance and identifies solutions based on those gaps.[16] In promoting the inclusiveness and empowerment of ethnic minorities and improving civil society's ability to conduct more effective oversight and advocacy, USAID will continue to address well known areas of critical importance so as to assure long-term, sustainable achievements in Rule of Law and Governance.

With specific regard to IR1.1 (*More, Efficient, Transparent, Independent, and Accountable Justice Sector*), the premise is that Rule of Law will be strengthened by improving court administration and the capacity of key institutions at the center, by enhancing the skills of justice sector professionals, and by improving and implementing certain laws and regulations related to commerce, property, and alternative dispute resolution. The IR1.2 (*Strengthened Effectiveness and Accountability of Assemblies, Administrations, and Election Processes*) focus on improving the capabilities of elected bodies, local administrative entities, and electoral procedures and practices will improve answerability and, in the case of local entities, act as a counterbalance to centralized authority. Assemblies are key institutions designed to represent citizens' concerns and issues, and improving their operations is critical for greater democratization. Decentralization is a key component of the Strategy to disperse and transition power to local authorities who are closer to the citizenry, more responsive to their priorities, and can be held accountable. Local Government, however, must have the corresponding capacity to deliver effective services and exercise sound financial management. Finally, elections are a hallmark of the democratic process, providing an important opportunity for citizens to exercise their voice. The development supposition of IR1.3 (*Improved Integration of Ethnic Minorities*) is that it is necessary to proactively create conditions that enable Kosovo-Serbs and other minorities to be actively engaged in the economy

[16] USAID, *"Human and Institutional Capacity Development Handbook"*, August 2011 and USAID, *Human and Institutional Capacity Development Assessment: Kosovo*, August 2012. The handbook provides a USAID model of structured and integrated processes designed to identify fundamental causes of performance gaps in host country partner institutions. Using this holistic model will be essential in addressing institutional capacity building in a comprehensive manner, moving beyond simply viewing capacity building as training. The Kosovo HICD assessment built on this model, and served as a major resource in articulating this Development Objective.

and to increase their interaction with Kosovo institutions at the local level. This will facilitate broad-based integration into political and economic systems and address a potential root cause of conflict. Second, it will promote active political participation of minorities, ensuring they have a voice in shaping their own and their country's future. The premise of IR1.4 (*Civil Society Strengthened to Increasingly Engage Constructively with Government*) is that citizens must effectively participate in governance to assure greater accountability and responsiveness to their needs. On-going citizen engagement also contributes to sustainability of democratic reforms; specifically, the ability of people to demand change over time requires informed and empowered citizens who understand issues and effectively advocate for their priorities. Enabling voice for women, youth, and other often-marginalized groups is central to greater overall citizen participation. In summary, all of these IRs (and sub-IRs) squarely focus on assuring achievement of the Development Objective and link logically to the overall Strategic Goal of prosperity that is sustainably supported by adherence to the Rule of Law and Good Governance.

DO2: Increased Investment and Private Sector Employment

The main hypothesis of this Development Objective is that a diversified Kosovo economy along with a smaller public sector share and larger private sector share will enable faster and more sustainable economic growth than is now occurring. This is a macroeconomic premise that is well-supported by policy makers world-wide who convincingly posit that economic diversification reduces the impact of external events and fosters more robust, resilient growth over the long-term. Not only should a country's GDP be balanced among sectors, but key elements of its economy should be varied, flexible, and readily applicable to a variety of economic opportunities.[17] If there is greater diversification – buttressed by a better business enabling environment, enhanced access to credit, a more skilled labor force, and reliable energy sources – then there will be faster and more inclusive economic growth. This hypothesis is supported by the Kosovo Growth Diagnostic that, in reacting to the growth in public investment with even or even declining private investment, stated: *"…Our analysis shows that to stimulate growth and employment, private sector investment needs to increase*."[18] Similarly, the World Bank has stated that *"…In the future, sustainable and rapid economic growth will depend on more active engagement of the private sector"*.[19]

The premise of IR2.1 (*Improved Economic Governance and Business Environment*) is that governments can create a positive setting for inclusive and maintainable growth (thereby achieving IR and sub-IR results and directly supporting DO and Strategic Goal achievement). USAID has been a lead donor in establishing and strengthening the laws and regulations pertaining to the responsibilities of these institutions, e.g., the Ministry of Finance and the Central Bank of Kosovo (CBK). The challenge now is to ensure consistent implementation and make real the rhetoric of a strong enabling business environment. The proposition regarding IR2.2 (*Increased Competitiveness and Market Linkages in Targeted Private Sector Areas*) is that greater economic growth can be achieved by improving competitiveness and linkages within entire value chains and key sectors that function as drivers of the economy and produce jobs. Sectors for USAID support will be chosen with particular attention to the potential for female and youth employment. One of the target sectors will certainly be agriculture, in order to help Kosovo generate jobs in rural areas (where 60% of the population lives), develop high value crops with export potential, and enhance local production for local consumption. This approach is expected to result in increased job opportunities, import substitution, expanded exports, and facilitation of further regional and European integration. All of these are essential ingredients for success, if this Development Objective and the Strategic Goal are to be realized. Finally, and as proven many times, the

[17] Moujaes, Chadi N.; Najjar, Mazen Ramsay; Shediac, Richard; Ghaleb, Joey, *Resilient, Stable, Sustainable: The Benefits of Economic Diversification*, Booz & Company, May 2011.
[18] USAID, *Kosovo Growth Diagnostic: Constraints Analysis*, September 2012.
[19] World Bank, Poverty Reduction and Economic Management Unit, *Kosovo Unlocking Growth Potential: Strategies, Policies, Actions; A Country Economic Memorandum*, April 2010.

voice of grassroots citizen and business organizations will be integral to achieving this IR and its sub-IRs; strengthening their ability to advocate for improved policies will be an additional focus that will be linked to IR1.4 (*Civil Society Strengthened to Increasingly Engage Constructive with Government*) and will directly support the inclusiveness required for Development Objective achievement. IR2.3 (*Increased Energy Security and Diversification*) is squarely focused on assuring a more secure energy supply within the context of developing Kosovo's energy sector in a sustainable manner while meeting its obligations under the Energy Community Treaty. The hypothesis is that only if effective policies, laws, and regulations are put in place and enforced will Kosovo be able to attract the investment needed to provide a continuous, affordable source of energy that meets the demands of a growing economy.

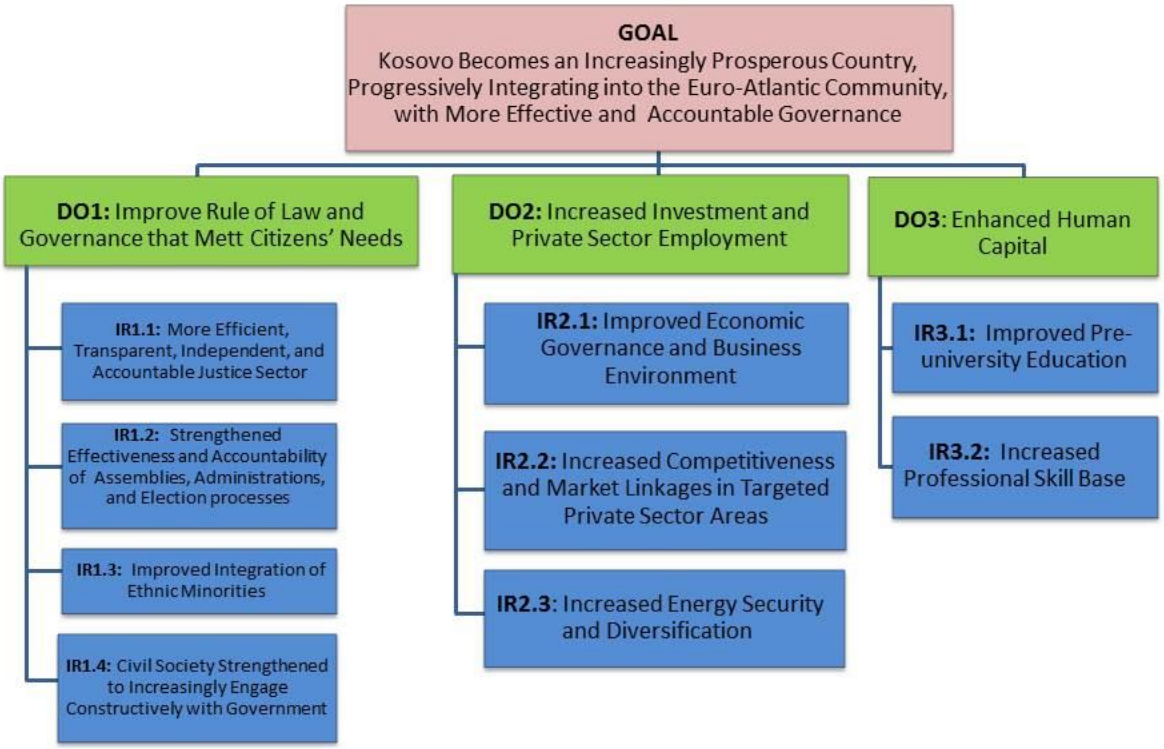
DO3: Enhanced Human Capital

The central hypothesis of this Development Objective is that the excellence of and equal access to a country's education system underpins its overall development. If Kosovo has a better educated population, well-trained in relevant skill areas, then the human resource needs of the economy will be more effectively met, the economic wellbeing of citizens better ensured, and citizens will be better equipped to engage effectively with Government. This premise is supported by a worldwide understanding most recently articulated in the Kosovo-specific *Human and Institutional Capacity Development Assessment.*[20] Thus, achievement of the Strategic Goal level will be advanced, in that a prospering country depends *inter alia* on a better-educated and trained population. Also, the linkages between this Development Objective and the other DOs is clear, i.e., improved educational opportunities will enhance citizens' ability to engage more constructively with government, the electorate generally will be better informed, minorities will have a better chance of successful economic and social integration, and improved education and training opportunities will enhance the likelihood of citizens benefitting from better skilled administrators and representatives (DO1). Similarly, education and training opportunities – particularly those focused on entrepreneurs – will advance achievement of investment and employment targets (DO2).

The premise of IR3.1 (*Improved Pre-university Education*) is that improvements in Kosovo's still fragile education system must begin at the primary (grades 1-9) and secondary (grades 10-12) levels. While the unofficial system of education that existed before independence has been formalized, the pre-university education system in Kosovo is still frustratingly inferior. The hypothesis is that by improving curricula, teaching methodologies, materials, and management of schools at the local level, learning outcomes will improve, allowing students to build on the strength of their early education as they pursue higher education and training and then enter the workforce. IR3.2(*Increased Professional Skill Base*) is centered on the premise that higher education and training opportunities in Kosovo must also be upgraded and well-linked to the needs of the economy if students are to be qualified for and able to gain employment in key sectors of the economy. The rationale behind providing opportunities for study abroad is that giving individuals such opportunities will support "new ways of thinking and doing". Over many decades, Agency participant training evaluations have supported this perspective, and USAID believes that such opportunities continue to be especially important in Kosovo, a young and small country with limited opportunities for the technical and high end needs of an economy seeking to diversity and expand. In short, improved professionalism, enhanced management systems, better teaching, and improved and expanded educational opportunities must become a reality, if this Development Objective and the Strategic Goal are to be met.

[20] Odell, Malcolm J., et.al, *Human and Institutional Capacity Development Assessment: Kosovo*, a report produced for USAID by the Aguirre Division of JBS International, Inc., August 2012.

III. RESULTS FRAMEWORK



A. Strategic Goal Statement

The overall Strategic Goal for this CDCS is:

Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance.

This Strategic Goal stems directly from Government of Kosovo plans that call for advancing economic growth and strengthening institutions for the benefit of all citizens. Specifically, this Strategy will directly support GOK efforts to strengthen its judicial, legislative, and key administrative systems (including electoral structures) and improve the participation of CSOs, women, youth, and minorities (DO1).[21] It will support the GOK's economic development priorities as set out in their *Economic Development Vision and Action Plan* (DO2)[22]. And it will continue to help in strengthening Kosovo's education systems in line with the policies and strategic approaches of the Ministry of Education, Science and Technology as laid out in the *Kosovo Education Strategic Plan 2011-2016* (DO3).

This Goal is in harmony with the USG's recently approved *Integrated Country Strategy for Kosovo (FY 2014 – FY 2016)* – the "ICS" – which calls for continued engagement and development assistance to Kosovo, in order to ensure *"…that this corner of the Balkans, long troubled with inter-ethnic tension and violence, joins a Europe whole, free, and at peace.*" The four specific ICS goals relating to economic growth, Rule of Law and Governance, inclusiveness, and Euro-Atlantic integration are all directly supported by this Strategy. The Strategic Goal is also aligned with the USAID/Department of State's Joint Regional Strategy, which articulates the Administration's commitment *"…to seeing the Balkans fully integrated into Euro-Atlantic institutions as part of a democratic and prosperous Europe*."[23]

Linkages to USAID Forward are summarized in the body of this document – along with other cross-cutting issues – and further described in Appendix 2. The Goal also recognizes and coordinates with the inputs and results of other major donors, as indicated in greater detail in below sections.

This Goal is largely measureable. The increasing strength of institutions in Kosovo is regularly monitored by European Union (EU) and other international organizations, e.g., the United Nations, international watchdog NGOs such as Freedom House and by the USG's own reporting. Economic growth is regularly tracked by the World Bank and the IMF and by USG analysis.

USAID has chosen three Development Objectives that will accelerate this transition to greater prosperity and inclusive and accountable governance during the five-year strategic period, beyond what would happen if USAID were not engaged. These Development Objectives – to be further articulated through Project Appraisal Documents (PADs) – will be designed to limit risk factors such as those related to corruption, poor planning, weak management and administrative systems in key sectors, and the constraints relative to Kosovo's landlocked position, still-limited international recognition, and the presence of illegal structures of governance in Kosovo-Serb municipalities. The DOs will maximize the

[21] Documents relevant to Government of Kosovo plans for improvements in judicial legislative, and administrative systems include: a) *Comprehensive Settlement Proposal 2007* (Ahtisaari Plan), b) Legislative Program 2013 (presented annually), c) *Implementation Plan for the New Law on Courts 2011, d)Ministry of Justice Priorities 2011-2014*, e) *GOK Report on Implementation of Decentralization 2012*, f) *Kosovo Assembly Public Relations Strategy 2012*, g) *Resolution Adopting Pristina Principles deriving from Women's Summit*, October 2012, and h) *Strategy on Local Self-Government 2012-2015.*

[22] Republic of Kosovo, *Economic Development Vision and Action Plan*, July 2011.

[23] Department of State/Bureau of European and Eurasian Affairs and USAID/Europe and Eurasia Bureau, *Joint Regional Strategy, FY2014 – FY 2016.*

considerable Government of Kosovo funding inputs, e.g., in pre-university and higher education and for a DCA, that clearly demonstrate active host country engagement and support. Gender data and sex disaggregated information will be required, to the maximum extent possible, in establishing baselines and tracking indictors for all DOs and related activities.[24]

Relationship of DOs to Strategic Goal

DO1: *Improved Rule of Law and Governance that Meet Citizens' Needs.* This DO directly addresses a major aspect of the Strategic Goal, i.e., effective and accountable governance. While Kosovo has made progress in establishing the policies and laws that will lead to achievement of this objective, major weaknesses remain in key sectors that must be addressed, not only to realize this objective but as a basic requirement necessary for overall economic growth.

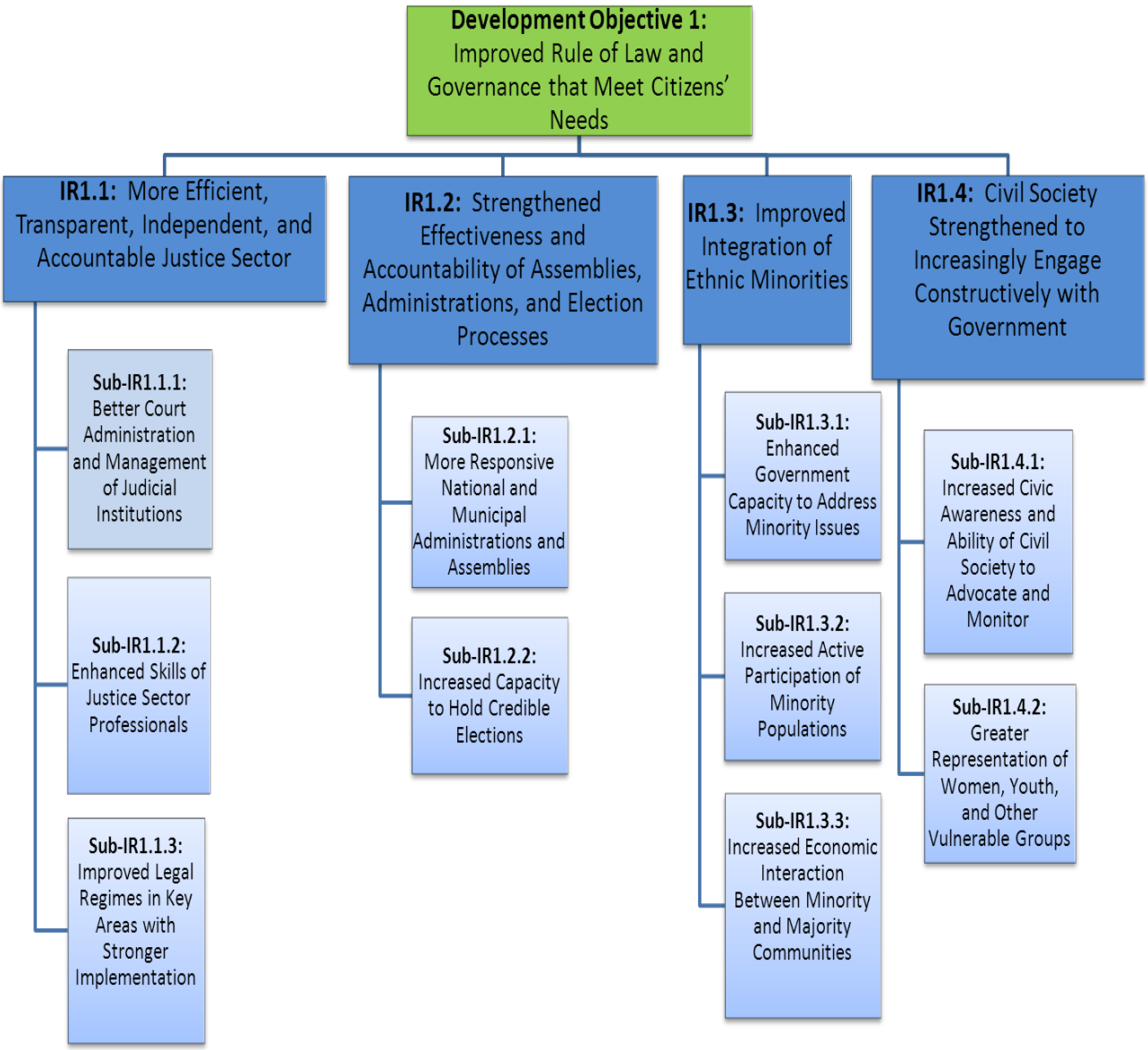
DO2: *Increased Investment and Private Sector Employment.* Supported by progress in terms of strengthened institutions (DO1) and a better educated and trained population (DO3), this Development Objective will promote equitable growth of the economy, which is central to the achievement of the Strategic Goal. Kosovo currently ranks as the poorest country in the Balkan region and, without dramatic economic growth, a standard of living more commensurate with greater Europe will remain elusive and stability will be threatened.

DO3: *Enhanced Human Capital.* This DO will contribute directly to realizing a more prosperous Kosovo – and achievement of DO1, DO2 and the Strategic Goal – by helping to ensure that the country has a population better-equipped educationally to ensure that key institutions function efficiently, that the skill needs of a changing economy are met, that citizens are better able to achieve voice in terms of demanding accountability and transparency in their public bodies, and that individuals can better realize their own desires for a rewarding career and a more economically secure and satisfying personal life.

In the context of achieving these Development Objectives and the Strategic Goal there are several cross-cutting priorities that will be addressed at every level, namely, USAID Forward (see Appendix 2), women's empowerment, human and institutional development, anti-corruption, youth, and minority integration.

Since this CDCS was originally developed in 2013, a number of cross-cutting issues have either recently emerged or have risen in importance or consequence. Countering Violent Extremism has emerged as a new and significant priority. International reporting shows that Kosovo has the highest per capita number of foreign fighters (in places like Syria) of any European nation, making Kosovo very vulnerable to long-term instability and conflict. Two cross-cutting issues that were included in the original strategy have risen is importance and urgency; namely, Corruption and Youth, specifically youth unemployment. The Mission will build consideration for these cross-cutting issues into new and continuing programs, which may influence program focus on target groups, geographic areas, and/or level of effort. However, there is no change to the original development hypotheses or the CDCS goal and development objectives. Effects of a more intense focus on these cross-cutting issues will be more evident at the indicator level.

[24] In addition to those documents indicated in Appendix 3: Bibliography, an updated list of all evaluations, assessments, and reports 2009 – February 2013 that provided insight and background information for the preparation of this CDCS is available from USAID/Kosovo (kosovoinfo@usaid.gov). Not all of these documents have been made public.


Development Objective 1: Improved Rule of Law and Governance that Meet Citizens' Needs
IR1.1: More Efficient, Transparent, Independent, and Accountable Justice Sector
IR1.2: Strengthened Effectiveness and Accountability of Assemblies, Administrations, and Election Processes
IR1.3: Improved Integration of Ethnic Minorities
IR1.4: Civil Society Strengthened to Increasingly Engage Constructively with Government
Sub-IR1.1.1: Better Court Administration and Management of Judicial Institutions
Sub-IR1.1.2: Enhanced Skills of Justice Sector Professionals
Sub-IR1.1.3: Improved Legal Regimes in Key Areas with Stronger Implementation
Sub-IR1.2.1: More Responsive National and Municipal Administrations and Assemblies
Sub-IR1.2.2: Increased Capacity to Hold Credible Elections
Sub-IR1.3.1: Enhanced Government Capacity to Address Minority Issues
Sub-IR1.3.2: Increased Active Participation of Minority Populations
Sub-IR1.3.3: Increased Economic Interaction Between Minority and Majority Communities
Sub-IR1.4.1: Increased Civic Awareness and Ability of Civil Society to Advocate and Monitor
Sub-IR1.4.2: Greater Representation of Women, Youth, and Other Vulnerable Groups

B. Development Objective 1

Improved Rule of Law and Governance that Meet Citizens' Needs

USAID's proposed DO1 Strategy will focus on assisting the GOK to become more effective, accountable and inclusive in responding to citizens' needs and priorities. This DO reflects several important precepts: a) effectiveness is defined as the ability of Government to provide quality services in an efficient and timely manner; b) in order to be accountable and responsive, Government must institute open and transparent mechanisms to encourage citizens' participation and to ensure that their perspectives ultimately influence decision-making; and c) inclusiveness – particularly as it relates to Kosovo-Serbs, women, and youth –is a key element necessary for the country to succeed as a peaceful democracy in the long-term. This DO will consolidate past investments by focusing more comprehensively on developing target institutions that are the key to sustainability while, at the same time, promoting the integration of ethnic minorities and improving civil society's ability to conduct more effective oversight and advocacy.

This DO directly supports the Agency's 2012 *Strategy on Democracy, Human Rights, and Governance* and, more specifically, goals #2 and #3 of the USG's *Integrated Country Strategy for Kosovo.*[25]

Critical Assumptions and Risks for DO1

Achieving this Development Objective will depend on Government of Kosovo resolve in actively pursuing reform in certain critical arenas. The DO Strategy assumes that the GOK: a) will remain committed to leading and implementing the reform of the justice sector, particularly in restructuring the courts; b) will continue to devolve financial, administrative, and political authority to local municipalities to assure success in terms of decentralization and the transfer of authorities and responsibilities to the level where citizen needs are best understood and met; c) will remain unswerving in its commitment to integrating minorities into society and the body politic; and d) will finalize electoral reforms so as to successfully hold its first general elections under a revised election law in 2014, as well as hold its first direct presidential elections in the coming years.

Related to the last point, this DO Strategy assumes that USAID and other USG entities will increasingly engage in strengthening the ability of the GOK to conduct free and fair elections, especially as the OSCE shifts exclusively to an observer role. This DO Strategy also assumes that the USAID, in coordination with other USG agencies, will remain poised – and with budget – to assist Kosovo-Serb municipalities, as opportunities arise.

Other Donors

USAID will continue to coordinate closely with the European Union (EU) and several bilateral donors. Of particular note, the Government of Norway and USAID will complete co-funding for the

[25] ICS Goal #2: *Kosovo's society and Government are more strongly grounded in the Rule of Law and better promote transparent, accountable institutions of a democratic society, including civil society*. ICS Goal #3: *Kosovo is a country where all its diverse people, especially Kosovo-Serbs, contribute to and benefit from Kosovo's democratic institutions and economic growth, while being more integrated and accepted by society as a whole*.

refurbishment of all the courts in Kosovo through USAID's Effective Rule of Law Project (2011-2015). As the EU's Rule of Law Mission (EULEX) phases out, USAID will work with the EU, especially as concerns legal reforms, to help ensure that existing and new laws are EU-compliant. The planned Contract Law Enforcement Project (2013-2016) and Property Rights Project (2014-2016) will require an enhanced level of donor coordination with the EU and the World Bank.

In addition to other donors, USAID will continue to work closely with the U.S. Department of Justice's International Criminal Investigative Training Assistance Program (ICITAP), by assisting with institutional strengthening of the Kosovo Prosecutor Council. Regarding the Kosovo-Serb municipalities in the North, USAID will work with the Embassy to provide support for the expansion of the Kosovo judicial system to this region, if and when the Government of Serbia disbands its parallel structures of government.

What's Different from the Current Portfolio?

The dramatic reduction in funding represents an obvious difference from the past. The DG Strategy will no longer support a stand-alone independent media program, and most of the infrastructure work for water projects, hospitals and health clinics, pediatric emergency centers, and schools will conclude. Assistance to law schools and the bar will end. The Mission has exited from domestic violence/anti-trafficking in persons (TIP) shelter support and will now channel assistance through IR1.4.2 (*Greater Representation of Women, Youth, and Other Vulnerable Groups*). Support to the Office of the President will end. Compared to previous years, relatively little assistance will be provided for drafting laws and establishing new institutions.

DO1 represents a consolidation of past investments by making institutions more effective and better at implementing reforms. It focuses on further developing the systems and processes already in place in many institutions and sectors that USAID previously invested in, while simultaneously addressing new areas deemed essential to achieve the Mission's Strategic Goal. The new Strategy increases assistance to the "demand side" of assistance by targeting CSOs.

The DO1 Strategy will make the justice sector institutions that the Mission helped establish become more effective, even while support for "hardware" will be reduced since the majority of court house infrastructure, equipment, and information technology upgrades will have been done. At the same time, this DO will address second generation ROL reforms such as commercial law and property rights, both in terms of women rights (and inheritance) and in terms of issues that impact the effectiveness of the courts in dealing with private sector and economic growth issues (i.e., enforcement of judgments). ROL work will shift from a broad civil law perspective to a narrower commercial law focus that will improve the investment climate. This DO will also incorporate a more comprehensive and strategic approach for human and institution capacity development by supporting the Kosovo Judicial Institute to increase its practical skills training for judges and court staff.

The focus of somewhat reduced Local Government assistance will be on integrating minority communities into Kosovo society. However, support to Kosovo-Albanian municipalities will not entirely end as they still require improvement, and to avoid a situation where Albanian communities perceive that they are being ignored and that other communities receive disproportionate assistance. Such a situation could be a conflict driver. The Strategy will also specifically focus on government accountability. This entails accountability to constituents and accountability in financial management.

Intermediate Results

IR1.1: More Efficient, Transparent, Independent, and Accountable Justice Sector. Several assessments, including the EU progress report[26] and the *Feasibility Study for a Stabilization and Association Agreement*[27] have identified strengthened Rule of Law as a key priority for Kosovo. This IR primarily addresses the "supply side" of justice sector reform, but also has "demand side" initiatives. Effective justice institutions are essential for improving public confidence in government and laying a foundation for economic growth and a democratic society, particularly in post-conflict settings. In Kosovo, the judiciary remains the weakest of the three branches of Government. Beginning in 2000, the United Nations Mission to Kosovo (UNMIK) and then EULEX controlled the judiciary and judicial reform did not begin in earnest until 2008. USAID's Strategy will improve: a) efficiency by implementing a case backlog methodology and applying time standards; b) transparency and accountability by making court operations more open to the public and user friendly; and c) independence by increasing professionalism and reducing political influence. It is important to emphasize that an independent justice sector does not mean an unaccountable justice sector. The sector can become more accountable by formal mechanisms that discipline judges and informal mechanisms such as watch-dog organizations and the media. A justice sector that is more efficient, transparent, independent and accountable will help achieve the Mission Goal of *"…More Effective and Accountable Governance*".

Sub-IR1.1.1 (*Better Court Administration and Management of Judicial Institutions*) will focus on strengthening capacity "upstream" in key national institutions that govern the justice system. Specifically, USAID will strengthen the capacity of the Kosovo Judicial Council (KJC) to fulfill its oversight, discipline and management roles; support institutional development of the Kosovo Prosecutor's Council (KPC) to fulfill its mandate of administration, discipline and management; improve the Ministry of Justice's (MOJ) capacity to handle international legal assistance and represent the GOK in legal matters; enhance the capacity of the Kosovo Judicial Institute (KJI) to lead the process of training judges, prosecutors, and court personnel; and, finally, will assist in improving court administration processes and procedures and case management in all Kosovo courts. Examples of expected improvements include using information technology (IT) to better enable the judiciary in managing caseloads, to have access to accurate data in developing budgets (and not depend on the executive branch), and to enhance transparency by making cases available on line.

Sub-IR1.1.2 (*Enhanced Skills of Justice Sector Professionals*) will increase the capacity of justice sector professionals to carry out their roles and responsibilities more effectively. USAID will also implement activities to institutionalize mandatory continuing legal education for a range of justice sector personnel, including judges, court staff, prosecutors, and lawyers. This assistance will also include law school students. All training will focus on developing practical skills in the areas of responsibility for these legal professionals.

Sub-IR1.1.3 (*Improved Legal Regimes in Key Areas with Stronger Implementation*) will address the need to amend some Kosovo laws to make them more implementation-oriented and/or harmonized with other laws. While, in general, Kosovo does have many modern laws, problems persist regarding implementation/implementing regulations, the lack of secondary legislation, court directions, and rules of practice. In addition, facilitating implementation will necessitate increased civic awareness and civil society advocating for and monitoring the proper implementation of laws (see sub-IR1.4.1, *Increased Civic Awareness and Ability of Civil Society to Advocate and Monitor*). For instance, some gender-related property laws are good on their face, but tradition and customary practice have prevented women from exercising their inheritance rights (see sub-IR1.4.2, *Greater Representation of Women, Youth, and*

[26] European Union, *Kosovo 2011 Progress Report*.
[27] European Union, *Feasibility Study for a Stabilization and Association Agreement between the European Union and Kosovo*, Brussels, 2012.

Other Vulnerable Groups). This affords an example of how improved public awareness and new court directions that change legal presumptions can have impact. The implementation of second generation legal reforms – particularly regarding enforcement of judgments and property rights – will address obstacles to economic development, investment and trade (strongly linked to DO2, *Increased Investment and Private Sector Employment*), while also reducing the largest categories of case backlog in the courts.

IR1.2: *Strengthened Effectiveness and Accountability of Assemblies, Administrations, and Election Processes*. This IR will promote greater efficiencies in assemblies (including the National Assembly and Municipal Assemblies), Local Governments, and elections processes. In terms of National and Municipal Assemblies, effectiveness refers to their ability to represent their constituency with the passage of applicable laws and to play an effective oversight role. In terms of municipal governance, effectiveness refers to the ability to provide quality services at a reasonable cost. Elections are considered effective when they are held in a manner that coincides with international standards. Accountability refers to responding to constituents and improved financial management.

Sub-IR1.2.1 *(More Responsive National and Municipal Administrations and Assemblies)* will focus on building the management and operational capacities of Assemblies both at the national and municipal levels to play an effective oversight role. USAID will concentrate on supporting Assemblies to better ensure that representatives reach out and work with constituents in response to their needs. While this IR will focus on the ability of Government to listen to and represent citizen interests, it will be important to simultaneously focus on IR1.4 *(Civil Society Strengthened to Increasingly Engage Constructively with Government),* both in terms of citizen engagement and political party development. Efforts to achieve administrative improvements will concentrate on support for municipal capacity building, especially as concerns financial management and consolidating previous USAID input to enhance the ability of Local Governments to address the needs of its citizens. Continuing these efforts will prove particularly important, given that a number of Kosovo's municipalities are fairly new, having been established only after independence in 2008. In this regard, USAID will support municipal administrations to: a) increase the quality of their services and ease access to these services, e.g., street security, sanitation, obtaining official documentation and permits; b) enhance their self-reliance by improving the collection of own source revenue; and c) implement 'accountable governance' initiatives that will increase transparency and trust at the local level.

This sub-IR strongly links to IR2.1 *(Improved Economic Governance and Business Environment)*, with the former focused on administration at the local level and the latter focused primarily on central level institutions and national-level economic policies. In essence, effective municipalities responsive to citizens serve as an important platform for broad-based economic growth, so a logical connection exists between the two and progress in both arenas is critical. Municipalities must focus on local economic development, entailing such matters as reducing rent-seeking, developing e-governance, generating own source revenue, and improving financial management – all elements of accountability. Moreover, the focus on municipal financial accountability will support USAID Forward G2G initiatives.

Sub-IR1.2.2 *(Increased Capacity to Hold Credible Elections)* will focus on providing support for continued strengthening of the Central Elections Commission (CEC), thereby augmenting previous USAID support to the CEC. USAID will fill the gap resulting from OSCE's shift from an "advisory role" to a "monitoring role" of political processes with no specific election monitoring. The Europeans will provide only political support and no project support. USAID's four areas of concentration will entail drafting new election laws, improving overall elections administration, helping to assure follow-up on post-election complaints and appeals, and engaging youth on civic responsibilities. The latter

component has strong linkages with DO3 (*Enhanced Human Capital*) and sub-IR1.4.1 (*Increased Civic Awareness and Ability of Civil Society to Advocate and Monitor*).

IR1.3: *Improved Integration of Ethnic Minorities*. Given the importance of integrating minorities – especially Kosovo-Serbs – into Kosovo society and the body politic, USAID will treat this issue as both an independent IR and a concern addressed across the entire portfolio. While other components of DO1 focus in a balanced manner on target groups and entities, this element of the Strategy will focus primarily – although certainly not entirely – on Kosovo-Serb integration. Kosovo-Serbs must engage with and participate in Kosovo institutions and society, particularly in the Serb majority municipalities, as mandated by the Constitution and the Ahtisaari Plan.[28] This IR closely links with IR1.2 (*Strengthened Effectiveness and Accountability of Assemblies, Administrations, and Election Processes*) in that it will have local administration initiatives that seek to integrate the various ethnic communities, both minority and majority.

From a politico-economic point of view, integration is marked by higher school enrollment and employment rates, stronger linkages between minority and majority markets, and increased voice and political participation. This reality highlights the importance of providing assistance to the GOK to better improve its ability to address minority issues in a sustainable manner, and support will be programmed by USAID not only within the context of this IR but throughout the portfolio as programs and projects are designed and opportunities arise in the North. The attention on Kosovo-Serb integration will *not* be at the expense of attention to other minority groups, i.e., Ashkali, Bosniaks, Egyptians, Gorani, Roma, and Turks. Moreover, if Kosovo-Serb integration can be realized, there will be a positive "pull effect" for other minorities.

Sub-IR1.3.1 (*Enhanced Government Capacity to Address Minority Issues*) will concentrate on the supply side of the democracy equation. USAID will support the GOK's institutional capacity to address minority issues and concerns over the long-term. As suggested by in-depth analysis, this will include improving systems and processes to ensure that mechanisms are in place for minority input into decision-making and to inform service delivery.[29]

Sub-IR1.3.2 *(Increased Active Participation of Minority Populations*) represents the demand side of the democracy equation. Activities will improve the ability of minorities to participate in local governance and to demand services that reflect their priorities. This will include support to community initiatives to enrich the quality of life in targeted municipalities through capital investments; support to increase minority representation in Kosovo's public sector; implementation of the Law on Use of Language (protection of language rights) and functionalization of the Office of the Language Commission; and, where applicable, support to address the large, unemployed minority youth population, who also need political and community engagement. The extent to which such activities can be supported in the North will depend on the withdrawal of Serbian parallel structures.

Sub-IR1.3.3 (*Increased Economic Interaction between Minority and Majority Communities*) will create linkages between the minority and majority markets, for example, through: a) expansion of their comparative advantages in agriculture production and strengthening linkages to majority wholesalers; b) promotion of loan and business development services to small- and medium-sized enterprises (SMEs); and c) support to local private-sector-led initiatives that focus on economic and employment opportunities in sectors (beyond agriculture) that create linkages and have a substantial and positive

[28] The Ahtisaari Plan, formally the Comprehensive Proposal for the Kosovo Status Settlement (CSP), is a status settlement proposal covering a wide range of issues related to the Kosovo status process. Basically, it sets in place Kosovo's internal structure and statehood.

[29] Malazogu, Leon and DusanPavlovic, *Kosovo Serb Communities—From Stabilization to Sustainability*, June 2012.

impact on the minority community. Such linkages will help Serbs, in particular, to integrate their businesses into the broader market where the greatest opportunities for growth and expansion exist. This sub-IR will operate at the "micro-level", targeting specific minorities in contrast to DO2 (*Increased Investment and Private Sector Employment*), which will operate primarily at the "macro-level". This sub-IR links with and will support sub-IR2.2.2 (*Increased Agricultural Productivity and Marketability*).

IR1.4: *Civil Society Strengthened to Increasingly Engage Constructively with Government*. While USAID will support improved effectiveness of key Government institutions, it must, at the same time, enhance the ability of citizens to voice their concerns and effectively engage with decision-making structures so that Government becomes more responsive to citizens' needs. This represents the demand side of Rule of Law and Governance. While formal mechanisms for public participation in Government decision-making exist, they are under-utilized or ineffective. During this Strategy period, the Mission will focus on CSO capacity-building– including developing stronger CSO-internal management systems and exploring means to achieve financial stability – and improving their advocacy and oversight capabilities on issues related to their own platforms. There will be a particular focus on promoting greater representation of women; youth; the lesbian, gay, bisexual, and transgender (LGBT) community; and other vulnerable groups. While this is a discrete objective that contributes to the entire DO1, it is also a critical cross-cutting objective not only within Rule of Law and Governance, but also Economic Growth (DO2) and Education (DO3). In addition to CSO support provided under this IR, the other DO1 IRs support CSOs to work on the demand side through USAID Forward initiatives.

A key component of sub-IR1.4.1 *(Increased Civic Awareness and Ability of Civil Society to Advocate and Monitor)* will focus on strengthening citizen advocacy and oversight, to reach out to communities and build awareness of and support for reforms. Rather than using a broad capacity building approach, USAID will focus assistance strategically on CSOs that are most relevant to the institutions with which it works and on the issues that are of highest priority throughout both the Democracy and Governance and Economic Growth portfolios.

Sub-IR1.4.2 *(Greater Representation of Women, Youth, and other Vulnerable Groups)* will specifically target these groups, which are often marginalized and traditionally outside normal Kosovo power structures. Efforts will be made to ensure that the issues affecting these groups are better represented in the public sphere, including within political parties and Government institutions and, indeed, within civil society organizations that can more strongly advocate on their behalf. While specifically a focus of this sub-IR, strengthening these groups is a cross-cutting theme supported throughout the portfolio, particularly IR3.1 as it pertains to youth (*Improved Pre-university Education)*.

DO1: CROSS-CUTTING INITIATIVES

USAID FORWARD priorities will be supported under DO1 with a particular emphasis on diversifying the base of implementing partners, increasing implementation through local organizations, and using GOK systems to a greater extent. This renewed emphasis will directly support USAID Forward's Implementation and Procurement Reform Objective #1 (strengthening partner country capacity to improve aid effectiveness and sustainability) and Objective #2 (strengthening local civil society and private sector capacity to improve aid effectiveness). USAID will focus on sustainable development of local capacities while cooperating with local entities in implementing USAID-funded projects, and also through use of local policy research and development expertise. These efforts will improve the enabling environment, provide capacity building for NGOs and associations, and strengthen Government entities such as Municipalities, the Assembly of Kosovo, the Ministry of Justice, the Kosovo Judicial Council, and the Central Election Commission. Innovation and technology initiatives will be applied whenever possible across the DO1 portfolio.

WOMEN'S EMPOWERMENT is addressed on multiple levels and informed by the recently completed USAID gender study.[30] Rule of Law programs will focus on ensuring the enforcement and implementation of laws and regulations related to gender equality. USAID will work with women-led CSOs to monitor courts on issues of special importance to women, such as divorce and inheritance. This DO will also focus on improving the implementation of property rights laws which prevent women from receiving property or inheritances to which they are entitled. Quotas in the National and Municipal Assemblies require that women comprise 30% of the legislatures; USAID will build the skills of these women to enable them to function more effectively. USAID also will continue to focus on supporting women's caucuses that work across ethnic lines to address women's issues. Support for women's caucuses at the municipal level will emphasize using the existing national caucus as a model. Activities will also support expanding the number of women in political parties and civil society organizations, encouraging greater political involvement and with a particular focus on rural, young and minority women (who are most marginalized).

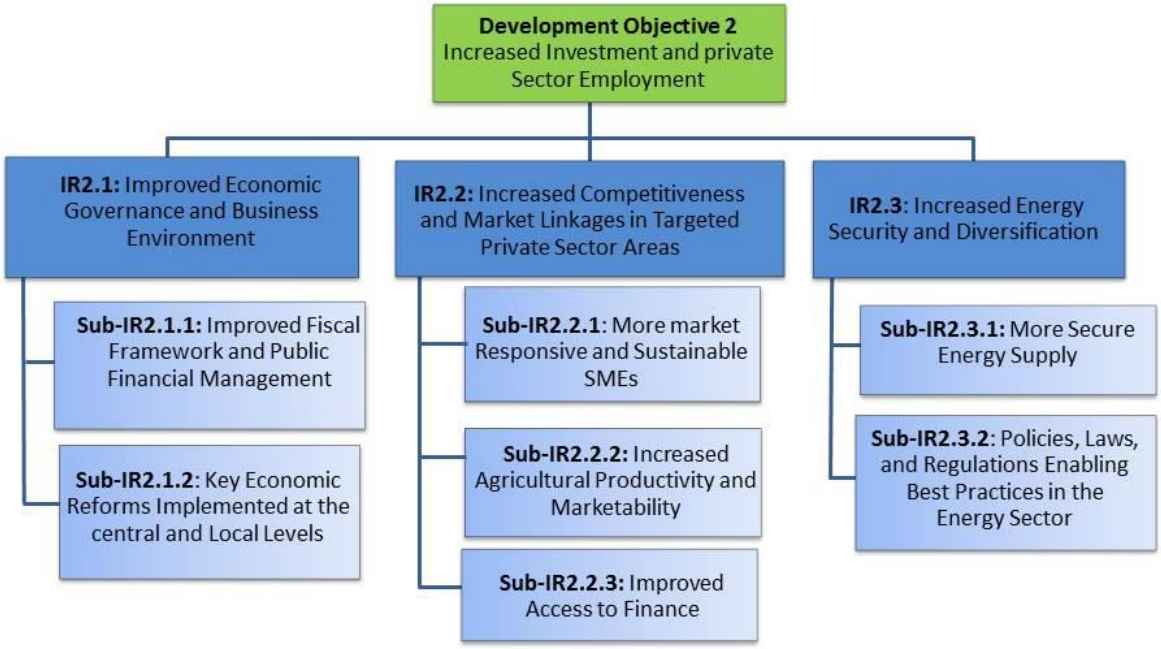
The End of Supervised Independence (ESI) phase in Kosovo presents a compelling opportunity for **HUMAN AND INSTITUTIONAL CAPACITY DEVELOPMENT (HICD)**. Activities under this DO will support strengthening of the technical leadership and human capacity in targeted governance and technical sectors such as public administration and Rule of Law in close collaboration with the wider-Mission HICD objectives. Concerning public administration capacity building, the Mission will directly support local organizations that provide such training. The Kosovo Judicial Institute constitutes the primary training counterpart in the justice sector (i.e. trains judges, prosecutors and court staff). The Bar's mandatory continuing legal education program and law school legal clinics will receive limited assistance focused on enhancing practical legal skills.

ANTI-CORRUPTION is addressed in a multi-pronged way. First, programming to address human institutional capacity development will incorporate attention to ethics and good management systems and processes to reduce corruption. Second, assistance will support e-governance, to increase transparency within courts, Local Governments and other institutions. Third, increased awareness efforts will include an emphasis on citizens and CSOs conducting effective oversight of alleged rent-seeking activities. Assistance to enhance transparent and sound financial management system will support the USAID Forward G2G initiative and Local Capacity Development initiatives.

USAID will continue to support the capacity of CSOs and political parties to reach out to and better represent **YOUTH** and their specific issues, with particular emphasis on civic education programs and providing oversight of municipal services. In the National Assembly, USAID will continue to support training and capacity building of a youth caucus.

How USAID will support **MINORITY INTEGRATION** through DO1 is described in IR1.3 (*Improved Integration of Ethnic Minorities*). Put briefly, efforts to integrate minorities will include programs to provide internships, assistance to start new businesses, and sports. This is, of course, a cross-cutting issue that must – and will – be addressed (and coordinated) throughout the Mission's portfolio, increasingly so as opportunities open up in the North.

[30] Cozzarelli, Catherine, *2012 Country Gender Assessment for USAID/Kosovo, August*, 2012.


Development Objective 2
Increased Investment and private Sector Employment
IR2.1: Improved Economic Governance and Business Environment
IR2.2: Increased Competitiveness and Market Linkages in Targeted Private Sector Areas
IR2.3: Increased Energy Security and Diversification
Sub-IR2.1.1: Improved Fiscal Framework and Public Financial Management
Sub-IR2.1.2: Key Economic Reforms Implemented at the central and Local Levels
Sub-IR2.2.1: More market Responsive and Sustainable SMEs
Sub-IR2.2.2: Increased Agricultural Productivity and Marketability
Sub-IR2.2.3: Improved Access to Finance
Sub-IR2.3.1: More Secure Energy Supply
Sub-IR2.3.2: Policies, Laws, and Regulations Enabling Best Practices in the Energy Sector

C. Development Objective 2

Increased Investment and Private Sector Employment

Development Objective 2, which centers on diversifying the economy and increasing the private sector's contributions to economic growth, is closely aligned with the three core principles of the Agency's economic growth policy, namely: a) programs should seek large and systemic impacts (such as the policy and legal reform efforts of IR2.1 and IR2.3); b) where systemic reform is not achieved, catalytic impact is essential (illustrated in the comprehensive approach of IR2.2); and c) close attention to the politics of economic change that is important for results (IR.2.3).Further, this DO supports the first two of three recommended approaches for broad-based growth that includes women, minorities, and other underserved populations: a) develop well-functioning markets, and b) enhance access to productive opportunities for the poor, women and other disadvantaged groups.[31]

In working with key Government institutions on building a stronger growth-oriented business enabling environment and with the private sector on becoming more market-oriented and competitive, USAID will be applying key aspects of all these principles and approaches.

Critical Assumptions and Risks for DO2

Achieving this Development Objective will depend on the Government of Kosovo continuing to maintain financial and political stability. In fact, USAID is confident that the Government is committed to preserving fiscal sustainability. The GOK has conducted fiscal impact assessments, worked within budget limitations, and incorporated economic incentive criteria in decision-making,[32] and this DO will further support continued financial stability. Assuring political stability is of course closely linked to financial stability. Forty-seven percent (47%) of citizens surveyed in recent study ranked unemployment as the highest priority problem for the country,[33] so the ability to increase economic growth and job opportunities will address an important political priority as well. In order to realize long-term stability, the will for reform among decision-makers must remain high.

Other Donors

Activities under DO2 will be closely coordinated with other donor projects and activities that have complementary objectives and interests that facilitate the achievement of this DO and the Strategic Goal. Of particular importance will be coordination with World Bank and International Finance Cooperation (IFC) projects aimed at improving and modernizing Kosovo's public sector, improving financial management in line ministries, and other activities aimed at improving the business enabling environment in Kosovo, specifically in trade. Coordination and cooperation with the IMF will also be sought with regard to maintaining fiscal stability, and strengthening revenue generating institutions and systems. Coordination with the European Union Office (formerly, the European Commission Liaison Office to Kosovo [ECLO]) will focus on public procurement, trade and customs, and legal frameworks in compliance with EU directives. Coordination with the Swedish International Development Cooperation Agency (SIDA) is expected to significantly improve the property tax system and expand the tax base. In addition, with regard to private sector competitiveness, USAID will continue to coordinate closely with a number of other interested international donors, stakeholders, and multilateral institutions, most particularly the European Bank for Reconstruction and Development (EBRD), the Swiss Agency for Development and Cooperation (SDC), UNDP, the Austrian Development Agency (ADA), GIZ (German Organization for International Development, formerly GTZ), the Reconstruction Credit Institute (KfW,

[31] USAID, *Securing the Future: A Strategy for Economic Growth,* April 2008.
[32] World Bank, *Country Partnership Strategy*, May 2012.
[33] UNDP and USAID, *Public Pulse Report 5*, February 2013.

KreditanstaltfürWiederaufbau), and the European Union. EBRD and SDC, in particular, have approached USAID concerning collaboration on activities that address competitiveness and workforce development.

Related to IR2.3 (*Increased Energy Security and Diversification*), the World Bank has identified several areas for support in the coming years: energy sector clean-up and land reclamation, loan support for energy efficiency and renewables, and water supply projects. The European Union Office in Kosovo will be involved in water/water treatment, waste management, nationwide air quality monitoring (not specific to a planned power plant), energy efficiency, Kosovo A Thermal Power Plant decommissioning, Kosovo B rehabilitation feasibility study, and forest management institutional reforms. KfW will remain involved in supporting the electricity transmission operator, specifically with regard to the planned 400 kV line to Albania. The EBRD, UNDP and IFC also provide some support in this sector. USAID will provide assistance in areas where other donors are not working (transaction support for the rehabilitation of Kosovo B) or in areas that complement other donor support (improved policy, legislative, and regulatory envorinment for clean energy projects). USAID remains committed to working with all stakeholders to ensure harmonization as it strives to achieve this DO.

What's Different from the Current Portfolio?

This Strategy will focus on consolidating previous investments and on effective implementation of reforms. As a Mission-wide, cross-cutting approach, there will be greater focus on addressing inequalities between women and men and outreach to underserved groups. There will be less focus on micro-sized business startups – except perhaps with regarding to minorities, women, and youth – and single event or generic assistance unaligned to a particular sector goal, with a correspondingly greater emphasis on encouraging related small- and medium-sized enterprises that can create growth and generate jobs. (There are other donors involved in new business start-up such as the Innovation Center funded by the Norwegians and the Eye Foundation started by returned diaspora.)

USAID's economic growth-related approach has been focused on support for the basic building blocks of an independent Kosovo. The Agency has been a lead donor in helping to put in place key institutions, laws, and regulations and in establishing a sound fiscal and financial system; and much progress has been made in building the capacity of institutions such as the Central Bank of Kosovo (CBK), the Kosovo Pension Savings Trust (KPST), and the Privatization Agency of Kosovo (PAK). These now function at a level of proficiency that considerably limits the need for ongoing donor support.

In the previous portfolio, USAID Kosovo had a robust program in economic policy, public financial management, and tax administration. With strong capacity built through USG assistance to the Ministry of Finance and the Tax Administration of Kosovo, future assistance will narrow considerably to concentrate on public financial management and decentralization, including municipal level financial management. There will be more concentration on creating catalytic impact by assisting entire value chains to the next level of productivity. These efforts will focus in particular on engagement of women, minorities and excluded populations.

With specific regard to the energy sector, USAID previously provided substantial support to the privatization of the Kosovo Electricity Distribution and Supply (KEDS) division of the Kosovo Electricity Company (KEK), which was accomplished in 2013. Direct operational support to KEDS will no longer be provided, except insofar as assistance may be needed by GOK entities overseeing this major contract. Assistance will move to supporting the next phase of energy sector reform – the rehabilitation of Kosovo B and the introduction of new clean energy projects (renewables). USAID will not engage directly in those activities that are being led by other donors (see section immediately above), although the Agency will play an important coordinating role.

Intermediate Results

IR2.1: *Improved Economic Governance and Business Environment.* Recognizing, as noted above, that key institutions can now function without further donor support, USAID will focus more directly during this Strategy period on enhancing the enabling business environment for the private sector. Maximizing economic growth and prosperity requires entrepreneurship operating in a clear, minimally-intrusive legal framework. In concert with the Government, private sector, and donor partners, USAID will concentrate on promoting free market reforms and removing barriers to business creation and operation.

This IR will directly support achievement of three of the five GOK economic development priorities as set out in their *Economic Development Vision and Action Plan* (EDVAP): a) maintaining macroeconomic stability; b) creating a stronger business environment focused on increasing investments and supporting the private sector; and c) developing public infrastructure.[34] Key counterparts are expected to be the Office of the Prime Minister, Ministry of Trade and Investment, Ministry of Environment and Spatial Planning, Ministry of Finance (including Tax and Customs), municipalities, and various private sector organizations, associations, and research institutions. Further, the activities that will be implemented under this IR will leverage the advocacy work of the Department of State for better economic policies and technical assistance of the U.S. Department of Treasury in financial markets, insurance reform, and housing policy. Training provided by the U.S. Department of Commerce's Commercial Law Development Program will complement USAID efforts in contract enforcement and trade facilitation. Finally, there is an important link between this IR and sub-IR1.2.1 (*More Responsive National and Municipal Administrations and Assemblies*) in that improvement to the systems and processes which underlie good public administration will directly impact business-related targets.

Tied to the development hypothesis that governments can create a positive setting for inclusive and maintainable growth (see section 2, Development Hypotheses), the intended impact of this IR is that Kosovo's business environment will be improved, as reflected in daily business operations and acknowledged by international surveys, e.g., the World Bank's *Doing Business Index*. This IR will, *inter alia*, assist in establishing: a) a modern, permissive system that restricts regulatory actions to legitimate concerns of public health and safety; b) an inspections system that utilizes a risk-based approach with an emphasis on compliance rather than on sanctions; c) an efficient business registration nexus between the Kosovo Business Registration Agency and the Tax Administration of Kosovo (along with elimination of business licenses in the municipalities that still charge such fees); d) a simplified property registration mechanism; e) enhanced national and municipal public financial management; and – especially important – f) a sustainable capability to successfully manage stress in the economy resulting from any external financial shocks or macroeconomic/structural imbalances.

Sub-IR2.1.1 (*Improved Fiscal Framework and Public Financial Management*) will build the capacity of key institutions to implement good policy and financial management at both the central and local municipal levels. USAID will work with target institutions–mainly the Ministry of Finance and municipalities – to continue development of an effective institutional and policy framework in support of private sector growth. Public-private partnerships (PPPs) will be promoted for infrastructure and other public services (such as waste management, urban transport bus services, and public parking) not only to provide more space for private business expansion but also to decrease pressure on public budgets.

Sub-IR2.1.2 *(Key Economic Reforms Implemented at the Central and Local Levels)* will expand the advances made in the business enabling environment. This will include promoting key reforms for doing business, such as removing unnecessary Government restraints on economic activity, the elimination of the excessive license and permitting requirements, and the development of a modern inspections system.

[34] Government of Kosovo, *Economic Development Vision and Action Plan (EDVAP)*, April 2011.

IR2.2: *Increased Competitiveness and Market Linkages in Targeted Private Sector Areas.* Capitalizing on USAID's acknowledged comparative advantage in this sector, this IR will increase competitiveness of the private sector in targeted areas with high growth potential by improving the quality and efficiency of local firms, by improving market linkages, by harmonizing the skills of the workforce with the needs of the private sector, and by improving access to finance needed for businesses to grow. Given the magnitude of the unemployment problem in Kosovo, it will be essential to focus concurrently on employment generation. This will mean improving competitiveness within key sectors that will function as drivers of the economy and produce jobs, while also targeting areas that can engage women and youth. Activities will assist businesses to take advantage of the reforms instituted under IR2.1 (*Improved Economic Governance and Business Environment*) and, of course, there are obvious linkages here to DO3 (*Enhanced Human Capital*).

This IR will support one of the GOK's five economic development priorities, namely, regarding investments, the investment environment, and private sector support.[35] Key counterparts are expected to be the Ministry of Trade and Industry, including its SME Agency, Kosovo Chamber of Commerce, American Chamber of Commerce, and business organizations such as the Kosovo Center for Business Support, Kosovo Association of Wood Processors, Community Development Fund, and the Women's Chamber of Commerce. The Embassy's Economic Section is a key partner in identifying business opportunities and creating linkages between American and Kosovo companies. While USAID certainly will continue its own relationships with these entities, the Economic Section has particular representation on the American Chamber of Commerce Board and strong ties to the Kosovo Chamber of Commerce.

This IR draws on the hypothesis presented above (see section 2. Development Hypotheses) that improving competitiveness of an entire value chain will lead to transformational growth. Prior experience indicates that an integrated and multi-dimensional approach, one that centers on meeting the real needs of businesses and which can reach a broader mass of industries/sectors, stimulates faster economic results. Assistance will focus more on this broader approach rather than on smaller, individual opportunities. It is expected that this approach will result in increasing not only job opportunities but also import substitution and exports, while facilitating further regional and European integration. Sectors for focus will include continuing to promoting sustainable agriculture so that Kosovo can better meet its consumption needs through local production rather than imports, generate jobs in rural areas, and develop high value crops with export potential. Activities will strengthen the capacity of local financial institutions in identifying viable investments opportunities and will increase the diversity of credit instruments and financial assistance that stimulates enterprise growth. Activities will address the needs of women, minorities, and other excluded groups through improved access to finance and financial assistance that is tailored specifically to their needs. All activities will be designed to meet FAA (Foreign Assistance Act) 119 Biodiversity conservation requirements.[36]

Sub-IR2.2.1 (*More Market Responsive and Sustainable SMEs*) will assist Kosovo businesses and sectors with clear end-market opportunities through initiatives that help them increase sales, exports, and/or employment, attract foreign direct investment, and align their output with European standards. This will contribute to competitiveness, the acceleration of sustainable job creation, and growth in enterprise sales through increased financing and investments along with the emergence of strong industry clusters. A key input will be labor, and USAID will work with local vocational centers, companies, NGOs and other entities to develop the skills of the workforce in targeted sectors. This work will include internships and

[35] Ibid.

[36] USAID, Kosovo: *FAA 119 Biodiversity Analysis, Part Two: Meeting Biodiversity Conservation Needs in 2013-2018*, October 2012.

apprenticeships, training programs in related sectors, and other skill-enhancing activities to improve employment opportunities, in coordination with DO3 (*Enhanced Human Capital*).

Sub-IR2.2.2 (*Increased Agricultural Productivity and Marketability*) will increase economic growth through expanded, environmentally sustainable production and sales of value-added agricultural products by enabling producers and processors to compete regionally and globally. This will be achieved by linking products and farmers to markets, diversifying and increasing agricultural products, improving food quality and safety, making credit more accessible, and improving coordination and commercialization within the agricultural sector. Given the large rural population (60%), particular attention to this sector is warranted.

Sub-IR2.2.3 (*Improved Access to Finance*) will address financial sector weaknesses. The financial sector in Kosovo offers a limited range of products to clients. Interest rates and collateral requirements are higher than in neighboring countries, putting local firms at a competitive disadvantage. There is a lack of generally available financial instruments, such as leasing and purchase order financing. There is a need to address the financial requirements of seemingly riskier but viable borrowers, i.e., entrepreneurs, farmers, processors, and women and minorities with less experience, size and fixed asset collateral. Building on its successes in creative uses of Development Credit Authority noted earlier, USAID will continue to identify other opportunities to build permanent local capacity and facilitate new guarantees and financing options to provide additional incentives for the banking sector to increase private sector lending. Further, USAID will provide technical assistance through local partners to assist private businesses so they are better able to obtain credit.

IR2.3: *Increased Energy Security and Diversification.* Kosovo is vastly short of energy, a major economic issue that must be addressed if the country is to progress economically. A stable energy supply will certainly be a major factor for businesses, thus supporting IR2.2 (*Increased Competitiveness and Market Linkages in Targeted Private Sector Areas*). Better management of royalties and revenues generated from this sector will add to prudent financial management in support of IR2.1 (*Improved Economic Governance and Business Environment*). This IR will focus on improving the enabling environment for investment in renewable energy generation and energy efficiency – with regulatory, legislative and policy assistance to establish the foundation for low carbon systems.

Activities under this IR will avail the advantages of USAID's current and very positive relationship with the Government of Kosovo. USAID's relationship with local counterparts is bolstered by Embassy engagement in critical energy policy discussions, and USAID coordinates its work on an almost daily basis with the Political and Economic Section along with the U.S. Department of Treasury's Office of Technical Assistance. The Department of Treasury in Washington also carefully tracks the Kosovo energy sector, because of the very important financial implications. USAID coordinates with and also benefits from expert advice from the Department of Interior, the United States Energy Association (USEA), and the National Association of Regulatory Utilities Commissions (NARUC). These working relationships will continue during the Strategy period.

Also tied (as IR2.1) to the development hypothesis that governments can create a positive setting for inclusive and maintainable growth, this IR represents the next step in assistance after notable successes in the energy sector. USAID support (in compliance with FAA 119 Biodiversity) has helped to increase the Government's ability to monitor pollution (equipment and training in data collection and analysis provided for air monitoring at the Hydro-Meteorological Institute [HMI]). Better electricity billing and collection – also through USAID support – has meant that the state-owned power company has had revenues to invest in new electro-static precipitators for the generation units at Kosovo A, thus greatly improving air quality. And, importantly, the sector anticipates the successful privatization of the distribution company, KEDS. With this success, there will no longer be a need for the previous, large

USG-supported management contracts providing direct operational assistance to KEDS. (In fact, partially due to this expected achievement, USAID Kosovo has seen its budget in this area already reduced.)

USAID focus on legal, policy and regulatory frameworks will include attention to the energy sector in areas related to what is needed to attract investment to the rehabilitation of Kosovo B and to pave the way for Renewable Energy Source projects. Design work will outline the balance between these two sub-IRs and ensure that there is enough assistance for a secure energy supply and that the scope of policy/legal/regulatory work is then defined in a manner that is achievable and leverages USAID's comparative advantage and other USG and donor contributions.

Sub-IR2.3.1 *(More Secure Energy Supply)* will address the need for a consistent and reliable energy supply, which is absolutely critical to the overall quality of life in Kosovo as well as economic growth. This will consist of highly targeted technical assistance to develop an efficient and financially stable energy sector that can attract private sector investment to ultimately support a foundation for a low carbon energy system. It will focus on "policy reforms that draw attention to damages from pollution, negative economic impacts of energy imports, and the adverse effects of subsidies and import tariffs, while creating opportunities to maximize use of domestic energy resources" as part of the Mission's support to the Agency's Climate Change and Development Strategy 2012 IR1.1. A March 2013 study[37] identified the enabling environment as the largest obstacle to renewable energy development in Kosovo noting lack of a clear, harmonized, and comprehensive legal framework; absence of institutionalized processes; arbitrary application review; cumbersome permitting processes; and lack of spatial planning for energy purposes. These activities will support the Presidential Initiative of Global Climate Change (GCC) objectives, although Kosovo is not a designated GCC country for USAID.

Assistance related to the creation of already-planned new generation, or Kosovo C, will continue providing technical assistance to the involved GOK entities to ensure a smooth transaction. When this CDCS period begins with the start of FY 2014, the distribution system of Kosovo most likely will have been under private management for six months, following USAID and other donor engagement in its successful privatization. During the Strategy period, USAID will continue to provide technical assistance to those related Government bodies to ensure proper management and implementation of this contract, as it will be engaged with those same entities for the Kosovo C power plant transaction. USAID envisions providing support to the GOK in managing current electricity generation – Kosovo A and B – primarily through support for a "Strategy Advisor" to assist the Government with the concession or sale of either Kosovo B or Kosovo A and B. However, USAID will no longer provide assistance for the day-to-day general operation of the generation or distribution entities. Looking forward, the Mission – in coordination with USAID/W's regional energy project – will assist integration into the regional energy market and continued development of an Energy Strategy to broaden and diversify supply, including renewable energy generation. USAID's work in the energy sector to ensure an adequate supply of electricity directly responds to the FAA 119 Biodiversity analysis recommendation to develop alternative heating sources to reduce fuel wood demand.

Sub-IR2.3.2 *(Policies, Laws, and Regulations Enabling Best Practices in the Energy Sector)* will help to ensure that the Government of Kosovo begins to establish the proper framework for environmentally sound and responsible development of the sector. Capacity of the regulatory bodies will be a key focus. This is clearly linked to Sub-IR2.3.1. In order to ensure Kosovo continues to develop its energy sector in a strategic and transparent manner, the various ministries and regulatory authorities – such as the Energy Regulatory Office and the Ministry of Economic Development – need strengthening through primary and

[37] USAID Kosovo, *Analysis of Financial Incentives and Non-financial Barriers to Renewable Energy Development in Kosovo* (draft presentation), March 29, 2013.

secondary legislation as well as licensing procedures. Activities will develop the business environment, thus helping to sustainably create wealth and jobs while strengthening the state budget and reversing the growing trade deficit.

DO2: CROSS-CUTTING INITIATIVES

The **USAID FORWARD** initiative – in particular, Local Solutions – will be applied throughout all DO2 activities as an important element in achieving the overall objective of strengthening GOK capacities in delivering development assistance through its own procurement systems, and supporting local non-governmental organizations and other institutions. Activities under this DO anticipate working directly with GOK ministries, entities, and municipalities, and a number of business associations, NGOs, advocacy groups, and local private consulting companies to strengthen their capacities through establishing direct relationships with USAID in delivering USG assistance via Kosovo's own legislative framework. In pursuing this and other USAID Forward "topline indicators" there will be a focus on working directly with mixed ethnicity entities, and women-owned and minority-owned businesses and organizations, as well as with other vulnerable groups. (See Appendix 2 for more details.)

WOMEN'S EMPOWERMENT will be prominent throughout the Development Objective. The Mission's recent gender assessment[38] noted that nearly all respondents cited the lack of economic empowerment as a critical, if not the most important, gender equality issue facing Kosovo women. It is seen as leading to low decision-making power in households, economic dependence, inability to escape domestic violence, and a constraint to political and civic participation, among other issues. In response, all economic growth-related activities must and will work to ensure prominent participation by women.

Certainly, women in Kosovo are noticeably absent from top management positions. USAID will work with the "Women's Chamber of Commerce" to establish its effectiveness in networking among women in business, and to link all of the various activities and actors from among donors and civil society. This organization seeks to develop opportunities to create mentoring programs for potential female business leaders and managers, pairing them with established female leaders and managers.

Additionally, IR2.2 (*Increased Competitiveness and Market Linkages in Targeted Private Sector Areas*) will focus on one or more sectors that employ large numbers of women and have a high potential for women to assume leadership and decision-making positions. The number of female entrepreneurs in Kosovo is the lowest in the region. Women-owned businesses also tend to be micro-businesses; these generally operate with lower profit margins, employ fewer people, and have lower levels of capitalization in comparison to those owned by men. At the same time, female entrepreneurs in Kosovo face very significant barriers to accessing credit because they do not possess the necessary collateral. USAID will implement mechanisms to extend credit to women who wish to start or grow an enterprise. This may include targeting a certain amount of loan guarantees specifically for women-owned businesses.

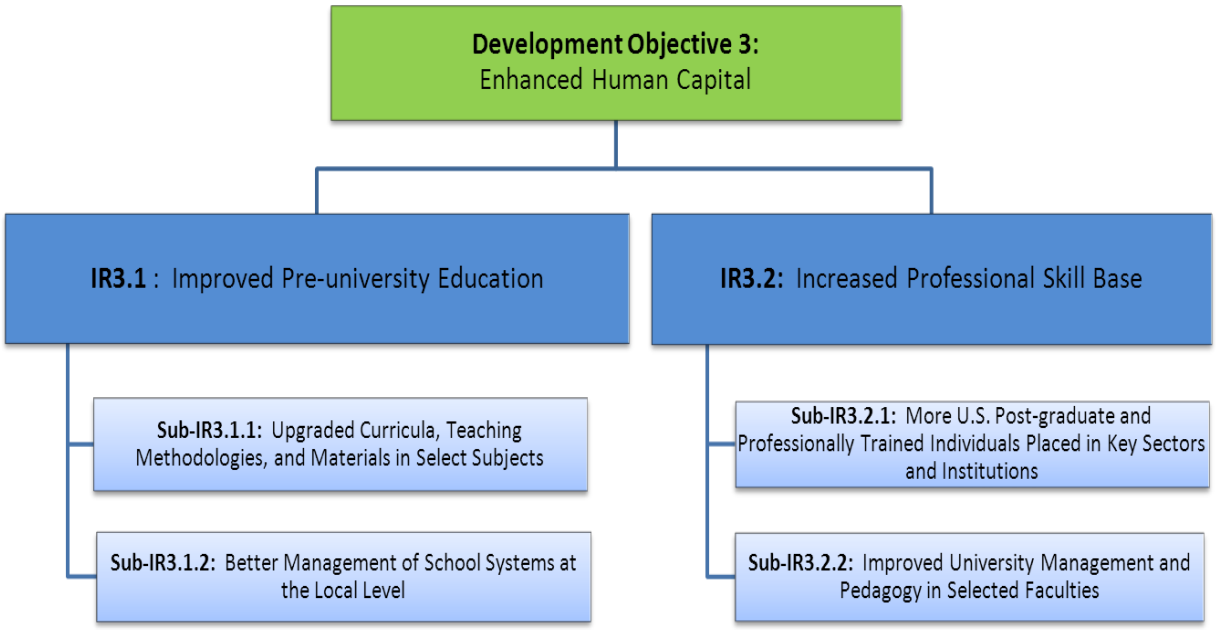
This Development Objective places greater emphasis on addressing **HUMAN AND INSTITUTIONAL CAPACITY DEVELOPMENT (HICD)** than economic growth strategies in the past. In collaboration with wider-Mission HICD objectives, this DO will contribute to country systems strengthening as it pertains to economic growth by permanently closing performance gaps in the most highly prioritized partner institutions in alignment with the CDCS.

[38] Cozzarelli, Catherine, *2012 Country Gender Assessment for USAID/Kosovo*, August 2012.

ANTI-CORRUPTION will be addressed through several activities.IR2.1 (*Improved Economic Governance and Business Environment)*will provide assistance on public financial management to improve the GOK's ability to transparently plan and execute a budget, in order to decrease opportunities for graft. Support for improving the business enabling environment will increase transparency. Capacity building in procurements through public private partnerships (PPPs) will also reinforce competitiveness, transparency and fair treatment of all applicants. The ability of the private sector to advocate for fair treatment will be supported under IR2.2 (*Increased Competitiveness and Market Linkages in Targeted Private Sector Areas*).

Kosovo has a growing **YOUTH** population that is unemployed, disengaged, and disconnected. The country has the youngest population in Europe with 50% under the age of 25. It conjunction with DO3 efforts to prepare youth for employment by providing critical and relevant education, USAID will work under this DO through local institutions and the private sector to encourage growth in areas that can utilize younger workers, coupled with relevant training to develop the specific skills needed by potential employers.

With regard to **MINORITY INTEGRATION**, DO2 management will ensure that all citizens benefit from its economic growth initiatives. All activities will include specialized outreach to ensure participation from those traditionally excluded. This will be done in coordination with IR1.3 (*Improved Integration of Ethnic Minorities*) and, particularly, sub-IR1.3.3 (*Increased Economic Interaction between Minority and Majority Communities*).


Development Objective 3:
Enhanced Human Capital
IR3.1 : Improved Pre-university Education
IR3.2: Increased Professional Skill Base
Sub-IR3.1.1: Upgraded Curricula, Teaching Methodologies, and Materials in Select Subjects
Sub-IR3.1.2: Better Management of School Systems at the Local Level
Sub-IR3.2.1: More U.S. Post-graduate and Professionally Trained Individuals Placed in Key Sectors and Institutions
Sub-IR3.2.2: Improved University Management and Pedagogy in Selected Faculties

D. Development Objective 3

Enhanced Human Capital

USAID's proposed DO3 Strategy is based on the principal that human capital is a cornerstone of economic growth and development and, in this sense, is closely linked with and supports all Mission objectives and the Strategic Goal, i.e., increased prosperity cannot be achieved without improved education. This DO will center on continued strengthening of the pre-university system of education that was so negatively impacted by conflict, and on providing international (primarily U.S.) post-graduate education and training opportunities that will result in a larger pool of talented personnel ready and able to effectively address Kosovo's development priorities. Depending on achieving certain benchmarks, assistance – aimed at management and pedagogical improvements – may be given to the University of Pristina.

This DO directly supports the GOK's own vision for education, as expressed in the *Kosovo Education Strategic Plan 2011-2016(KESP) "to create an inclusive education system and provide all citizens with equal access to quality education at all levels."* Ongoing primary education activities align with the first goal of USAID's Education Strategy, namely, "*Improved reading skills for 100 million children in primary grades by 2015*". By improving teaching and assessment methodologies, and with the introduction of "early grade reading" in the Albanian language, activities are currently and will continue into the Strategy period to directly contribute to improving reading skills in primary grades. Potential secondary level interventions will address the weaknesses in the current secondary curriculum, especially those that have been cited as significant contributors to workforce readiness. The importance of life skills such as creative thinking, analytical skills, and interpersonal skills, so highly valued in a market driven, competitive economy, remain weak in the current secondary curriculum. . Proposed higher education activities support the second goal of the Education Strategy, that is, "*Improved ability of tertiary and workforce development programs to generate workforce skills relevant to a country's development goals*." By strengthening local capacity through scholarships, internships, exchanges and partnering with U.S., regional, or local institutions, activities will provide for a higher level of human capital to support Kosovo's economic growth and reform efforts.[39]

Critical Assumptions and Risks for DO3

Achieving this Development Objective will depend on Government of Kosovo buy-in, particularly with regard to increased autonomy. Concerning pre-university education, there is continued unease regarding appointment decisions at the school management level that are neither being made locally nor resulting in the selection of best candidates. A similar issue exists at the university level where management decisions are often made by non-university officials and with limited regard for objectivity and academic excellence. In order to improve this situation, there must be the will to bring in stronger human resources-related policies, regulations, and procedures. More broadly, the findings of USAID's recent HICD assessment highlighted other priority areas for reform which, in order to be realized, must of course enjoy strong GOK and University of Pristina backing.[40]

Other Donors

The Government of Kosovo and, in particular, the Ministry of Education, Science, and Technology remains heavily dependent on the international community for continued financial and technical assistance. The World Bank aims to strengthen systems, institutions and management capacities needed for education quality improvements; and, the EU is providing support for curriculum development,

[39] USAID, *Education Strategy: Education Opportunity Through Learning, 2011*.

[40] Odell, Malcolm J., etc., *Human and Institutional Capacity Development Assessment: Kosovo*, a report produced for USAID by the Aguirre Division of JBS International, Inc., August 2012.

teacher development and implementation of quality assurance measures. All efforts in higher education will be implemented within the framework of the Bologna Process, a series of agreements among European countries designed to ensure comparability in the standards and quality of higher education. Sweden and Austria are the other major bilateral donors. Multiple university and other institutional partnerships have been formed and exchanges sponsored. Substantial numbers of scholarships for out-of-country study are provided every year by donors. Overlap is avoided and collaboration ensured through close coordination on annual donor work plans and through bi-annual monitoring workshops.

What's Different from the Current Portfolio?

This DO focuses squarely on helping to ensure that Kosovo will have a better educated and skilled manpower base on which to draw as it works to strengthen its economy and democratic institutions, even while providing more and better job opportunities, especially for youth, women, and minorities. Building on past strategies and achievements, this DO applies a more comprehensive HICD approach than articulated in the past, more carefully targeted on institutions across Development Objectives and based on the above-mentioned assessment.

With the number of classroom shifts reduced from three to two and with the Ministry of Education having budgeted plans to reduce to one shift, USAID will no longer be involved in constructing or rehabilitating school buildings. USAID will also not be involved in wide-scale reform of the higher-education system. Assistance, if given, will be to targeted faculty within the University of Pristina. There are no plans to address private universities or the overall certification and monitoring of universities by the Ministry of Education. As the largest provider of higher education, the University of Pristina (UP) represents the most suitable partner for long-term sustainability. While there are a growing number of private institutions, they are disjointed and still represent a very small percentage of offerings. New public institutions are opening and planned but still quite nascent.

Intermediate Results

IR3.1: *Improved Pre-university Education.* This IR will capture achievements being realized by the existing USAID Basic Education Program, and on USAID's strong relationship and leadership in support of primary education. Kosovo is in a situation with regard to its pre-university education system that is unusual in the European context. Seriously compromised during the years of conflict, an essentially new system is being built, albeit with numerous outstanding concerns. Through this IR –and drawing on vast worldwide USAID experience in education – critically timed assistance will be provided to continue improving management, teaching methodologies, and materials. This will be done in the context of a clear understanding that pre-university education is a basic and essential building block of development.

Sub-IR3.1.1 (*Upgraded Curricula, Teaching Methodologies, and Materials in Select Subjects*) will focus on improving syllabuses, pedagogic skills, and learning materials in a number of key subjects including mathematics, science, reading, and information technology. These project interventions will improve learning outcomes and, in this way, better prepare students – currently highly frustrated along with their parents by the quality of basic education – for entry into the university system, into job training programs, or directly into the job market. As the Basic Education Program winds up in 2015, assistance to primary education may continue in very specific areas identified in an end-of-project evaluation; however, emphasis will shift during the Strategy period to greater focus on secondary (grades 10-12) level quality issues and opportunities for life skills training and curriculum enhancement.

Sub-IR3.1.2 (*Better Management of School Systems at the Local Level*) will address institutional and management capacity in the education sector–including at the Ministry of Education, Science, and Technology (MEST) – in alignment with trends in global education and European Union standards. USAID will play a role along with other donors in a large Government of Kosovo education reform effort the will move forward the vision expressed in the *Kosovo Education Strategic Plan 2011-2016*(KESP*)*.

USAID will also seek to strengthen the transparency and efficiency of management systems at the local level, facilitating increased community engagement in decision-making through parent-teacher associations, local school boards, and student councils. This latter effort is closely linked to IR1.4 (*Civil Society Strengthened to Increasingly Engage Constructively with Government*).

IR3.2: *Increased Professional Skill Base.* This IR will increase short- to medium-term scholarship opportunities for students to study abroad in various prominent international universities, particularly in the United States. All participants will be obliged to sign a pre-departure agreement regarding their return to Kosovo to take up work related to their completed studies. English language immersion training along with college preparatory classes will be offered to those who have had limited access to high-quality undergraduate studies, in order to broaden and make more equitable the eligibility pool of candidates for overseas studies. These scholarship opportunities will be linked directly to the targeted project interventions of all three Development Objectives and particular attention will be given to scholarship opportunities for women and minorities. This IR builds upon USG experience and is based on the development hypothesis that students exposed to study abroad opportunities will support "new ways of thinking and doing". The expected impact is a significant number of Kosovo citizens with improved skills contributing to Kosovo's future. These activities will be well coordinated with the Embassy's Office of Public Diplomacy (PD) participant training programs that support an average of three master's degree candidates a year, while shorter-term training and exchange programs benefit another 15 individuals annually. (Purpose and selection criteria differ with each PD program, and beneficiaries range from high school through post-graduate scholars.)

Sub-IR3.2.1 (*More U.S. Post-graduate and Professionally Trained Individuals Placed in Key Sectors and Institutions*) will provide scholarships for medium-term (usually two years) study that result in a degree (usually a master's degree), and for short-term international technical courses. Support will be provided for courses that are directly related to the work of the proposed participants. These offerings will be coordinated with other USAID activities; beneficiaries will be selected mainly from the same institutions or sectors (public or private) that are also receiving USG assistance under other projects. This coordination will help to ensure that participants will return to an improved and favorable work environment, leveraging impact and decreasing the monitoring burden.

Sub-IR3.2.2 (*Improved University Management and Pedagogy in Selected Faculties*) will, potentially, provide support for strengthened management and selected faculties at the university level. The politicization and lack of independence of the University of Pristina is a notable challenge. Despite some new and positive changes in leadership, it remains an uncertain situation that USAID continues to watch. Activities under this sub-IR will initially be embedded in the partnerships with American educational institutions that house the scholarships under Sub-IR 3.2.1 and will be highly targeted and selective. Additional assistance will be based upon progress in reforming the University. By the time this CDCS period begins in FY 2014, USAID will have completed an assessment of the administration at the University of Pristina, including an action plan for reform. Assistance under this IR will be tied to achievement of benchmarks laid out in that action plan. If the University of Pristina makes progress, this IR will enhance the University's ability to manage partnership directly, leading to additional work with selected Faculties in developing innovative curricula that will enhance the employability of graduates. In addition, teaching methods will be improved and teacher training programs instituted to incorporate a focus on employability.

DO3: CROSS-CUTTING INITIATIVES

USAID FORWARD has been successfully addressed in the ongoing (through 2015) Basic Education Program which is jointly managed with the Government of Kosovo through a trust fund with GOK monies. Work plans for this fund are agreed to annually and there is joint monitoring of implementation. This is a clear fore-runner of USAID Forward host country capacity building, and such similar cooperative efforts will be undertaken during the Strategy period. (See Appendix 2 for more details.)

WOMEN'S EMPOWERMENT is gradually being achieved in that women have gained a majority among student bodies within Kosovo's institutions of higher learning and are slowly beginning to assume leadership roles. Yet only 29% of women are active in the labor market, which is the lowest rate in the Europe and Eurasian regions. This DO will address gender inequality issues in education through both curricula and management reforms in the context of support for the *Kosovo Education Strategic Plan (KESP) 2011-2016*, which envisions an inclusive education system that provides all citizens with equal access to quality education at all levels. In coordination with the Mission's other Development Objectives, DO3will support and foster greater female participation, to help ensure that women are increasingly applying their education and training in high level and decision-making positions. For example, ICT is a field where USAID can increase educational opportunities to ensure greater female participation. USAID will also support the recruitment of female students in computer engineering, computer sciences, business, and mathematics fields for scholarships abroad.

The Mission will use the Agency's **HUMAN AND INSTITUTIONAL CAPACITY DEVELOPMENT** framework to work across Development Objectives and targeted institutions to improve capacity in a more comprehensive and sustainable manner. With regard to DO3, this model has certainly been applied in the design of the basic education activities that are reforming the educational system from the Ministry of Education to parent teacher associations and school boards. In the higher education sector, certain institutional reform within select faculties of the University of Pristina may be conducted. If such assistance is provided, it will be based upon an Action Plan consistent with HICD theories and in line with the recommendations of the HICD analysis recently undertaken by USAID Kosovo.

ANTI-CORRUPTION efforts focus on producing a cadre of individuals with strong professional skills and a sense of ethics. With particular regard to DO3, improvements in education-related administration and management will allow fewer opportunities for rent-seeking activities and favoritism in hiring. Increased engagement and oversight of citizens – through parent-teacher association, school boards, and student involvement – will create greater accountability.

YOUTH is obviously **a** focal point of this Development Objective. Improvements in Kosovo's pre-university and university systems will better prepare young people to meet the needs of the market place and help them to achieve their own personal ambitions.

Increasing **MINORITY INTEGRATION** is a key objective of this Development Objective and of the *Kosovo Education Strategic Plan 2011-2016* (KESP). Together, the GOK and USAID will work towards equitable access to quality educational opportunities and, in particular, will seek greater Kosovo-Serb integration whenever and wherever possible. This effort links of course to other Development Objectives' efforts to promote greater inclusion.

IV. MONITORING, EVALUATION, AND LEARNING

Overview

The Mission will implement a comprehensive and robust Monitoring, Evaluation and Learning (MEL) process to track results and progress towards achieving the Strategic Goal and the three Development Objectives and will provide the Mission and its partners with timely and essential management and decision-making information.

Performance monitoring will continue as an on-going process that will help clarify and focus DOs, serving as an early warning system if progress is not proceeding as expected, allowing for reliable reporting, and promoting continuous learning, adaptation and adjustment during implementation. In line with Agency policy, evaluation will focus on accountability to stakeholders and learning to improve effectiveness and help ensure longer-term sustainability. Accountability will measure project effectiveness, relevance and efficiency, disclosing those findings to stakeholders and using findings to inform resource allocations and other management and programmatic decisions. Learning from evaluated projects that are well designed and effectively executed will generate knowledge about the magnitude and determinants of project performance, permitting those who design and implement projects, and who develop programs and strategies – including USAID staff, host governments and a wide range of partners – to refine designs and introduce improvements in future efforts.

Together, the monitoring and evaluation processes will identify and inform decisions regarding any gaps that may be found during implementation in the assumptions and analyses that underlie the DOs and development hypotheses. This "learning process" will be undertaken in collaboration with development partners to ensure that, collectively, what works is being underscored and what does not work is being retooled or terminated.

Performance-based Management System

The Mission's Monitoring, Evaluation, and Learning (MEL) process will be implemented to measure achievement of the outcomes tentatively indicated in the Results Framework to ensure achievement of the outcomes tentatively indicated in the Results Framework, and thus will clarify and help ensure that focus remains on realizing those results. All Mission technical team members will be involved in the MEL process, as well as other relevant stakeholders (national counterparts, beneficiaries, and implementing partners) whose participation will ensure access to first-hand knowledge, promote "ownership" of the process, better adjust and guide implementation, and build monitoring and evaluation skills among counterparts. A specific requirement will be included in all evaluation statements of work requiring evaluators to review and, in the reporting process, comment upon progress in building local capacity for monitoring and evaluation.

Performance-based Monitoring

The design of the MEL system will include a Mission-wide Performance Management Plan (PMP) to monitor results and progress over the life of this Strategy. The PMP will finalize indicators, set targets, and establish the monitoring tools, including the regime and frequency of data collection for overall progress against DOs. At the DO level, the PMP will institute a formalized and consistent, multi-year monitoring process that will expand on the definition of each indicator, describing the utility of tracking specific information, and laying out the unit of measure, source and method of data acquisition/analysis, frequency of collection, baseline and target information, and data quality assessment plans. By so specifying each indicator in detail, the Mission will help ensure that data is collected and reported consistently throughout the life of this Strategy.

As required by ADS 203.3.4.3, the PMP will disaggregate data by gender and will include gender-sensitive indicators that are designed to show how the program has contributed to gender equality and/or helped to overcome barriers to women's empowerment in each sector. Minority integration will be similarly tracked. Specific technical team members responsible for collecting the data will be indicated.
To provide the comprehensive coverage needed for program progress review, early warning/ troubleshooting, and management, the MEL process will track the following types of performance: a) *Country Context Indicators* will be used to monitor changes – "game changers" – in Kosovo and within the Balkan region that will affect DO implementation, and will serve to inform whether adjustments/corrections to the DO will be required. These are broad conditions that are beyond the Mission's control but could evolve to impede strategy implementation. b) *Key Performance Indicators* will measure the effects of program outcomes and results. This will give feedback to USAID decision-makers, as well as national counterparts, on DO performance and impact, supporting them in identifying areas where implementation strategies may need to be adjusted. As noted above and whenever possible, indicators will be disaggregated by gender and other factors. The MEL process and the PMP will cover the entire duration of this Strategy. Any adjustments in the plan will be fully documented.

Data Sources, Collection Methods, and Quality Control

The Mission will collect data, at the minimum, by fiscal year to facilitate USAID reporting. Data on all indicators will be gathered from a variety of sources including implementing partners (contractors), national counterparts, and other development organizations. Implementing partners will be required to report sex-disaggregated data and to utilize gender-sensitive indicators in all projects where gender issues have been revealed in the course of the ADS-mandated gender analyses. When data inconsistencies appear, verifying data against original sources will be sought.

The instruments/measurements that will be used to track progress of indicators will include but not necessarily be limited to the following:

DO1: *Improved Rule of Law and Governance that Meet Citizens' Needs*

- EU, *Annual Progress Report*
- Freedom House, *Nations in Transit*
- *NGO Sustainability Index*

DO2: *Increased Investment and Private Sector Employment*

- Growth in Foreign Direct Investment
- Private Sector Share of GDP
- Ratio of Public-to-Private Sector Employment

DO3: *Enhanced Human Capital*

- Improvement in Skill Level of USAID-supported and Employed Graduates
- Increase in National Achievement Scores (after grade 9)

Evaluations

In line with Agency policy, the Mission will conduct during the Strategy period the Mission will adhere to the large project and pilot project requirements in line with the Agency's Evaluation Policy.

The Mission has identified an opportunity to conduct an impact evaluation within each DO. For DO 1, the Mission will consider conducting an impact evaluation in Rule of Law to test the effect of USAID interventions in reducing caseloads which will serve as the cornerstone of the results necessary to achieve the DO and a key part of bringing effective governance. In DO 2, USAID will consider conducting an impact evaluation of its private sector competitiveness activity. This activity will lay the foundation for achieving the overall Development Objective. For DO 3, USAID will consider conducting an impact

evaluation on its higher education activity to assess progress in USAID/Kosovo's efforts to strengthen Kosovo's human and institutional capacity, as well as how the project has improved employment outcomes in priority areas and resulted in sustainable economic growth in the country.

Performance evaluations will measure the achievement, at the intermediate point and at the conclusion of an implementation period, of several activities and or projects over the life of the Strategy. The following questions are illustrative, and are subject to revision after discussions between the contractor and the USAID team. Final questions for each performance and impact evaluations will be analyzed and elaborated on in greater depth at the time of any given evaluation. Key questions will include, but are not limited to:

DO1: *Improved Rule of Law and Governance that Meet Citizens' Needs*

1. Has the program had a substantial impact on improving processes, transparency and trust in the Justice and Governance systems? To what extend is this associated with improved scores on indexes of democratic freedom and EU progress reports?

2. To what extent are any improved public perceptions of responsive Rule of Law and Governance associated with: a) perceptions of a more efficient, transparent, independent, and accountable Justice Sector; b) perceptions of strengthened effectiveness and accountability of Assemblies, Administrations, and Election Processes; c) perception of improved integration of Ethnic Minorities; and d) perceptions of increased and constructive engagement of civil society with the Government?

3. To what extent has the commitment of the GOK (critical assumption) had an effect on achieving impact under this Development Objective? (This is relevant for all DOs.)

DO2: *Increased Investment and Private Sector Employment*

1. To what extent have efforts to improve the business enabling environment translated into increased competitiveness of Kosovo's private sector? Have public-private partnerships increased the quality of services to the public while decreasing the burden on Government budgets?

2. How has the implementation of reforms improved and yielded results in terms of overall economic growth?

3. Are program results translating into an increase of individual income for all citizens, including women and those from vulnerable groups?

DO3: *Enhanced Human Capital*

1. To what extent have curricula and management improvements resulted in better learning outcomes of pre-university students?

2. What is the percentage of graduates from USG-supported tertiary education programs that have reported themselves employed? Are these U.S.-returned participants finding work opportunities in environments conducive to use of their newly acquired skills/learning?

3. Have improvements in selected faculties at the University of Pristina increased job opportunities for graduates?

Learning Plan

Evaluations can provide evidence to inform real-world decision-making only if they are well designed and executed systematically. The main reason for conducting an evaluation is to generate knowledge

about the magnitude and determinants of project performance and /or impact. Learning from evaluated projects will confirm links between the Strategic Goal, DOs, and IRs and their supporting programs and projects, and, if not confirmed, will provide recommendations for program/project changes.

Therefore, upon completion of every evaluation, the Mission will:

- Facilitate and coordinate the exchange of experiential knowledge internally and with external stakeholders;
- Ensure that new lessons learned and performance information gained through monitoring and evaluation inform Strategy implementation and Mission decision-making; and
- Identify factors and conditions that are beyond its control but could evolve to impede Strategy implementation on the Goal, DO, and/or IR level.

Appendix 1: Performance Indicators (Illustrative)

Goal: Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance

1. EU, *Annual Progress Report*
2. Freedom House, *Nations in Transit*
3. Growth in real Gross Domestic Product (GDP) per capita

DO1: Improved Rule of Law and Governance that Meet Citizens' Needs

1. % of citizens in target areas who feel that target Government institutions are addressing their priorities
2. # of changes/actions resulting from CSO advocacy or monitoring/oversight activities
3. Progress on the *Democratization and Participation Index*

IR1.1: More Efficient, Transparent, Independent, and Accountable Justice Sector

1. % of court users who believe the court would handle their case fairly
2. # and % of civil cases enforced as a result of USG assistance
3. Progress on implementing recommendations from the *EU Progress Report on ROL* (milestone scale)

Sub-IR1.1.1: Better Court Administration and Management of Judicial Institutions

1. # of USG-assisted courts with improved case management
2. # of cases heard and resolved within 24 months

Sub-IR1.1.2: Enhanced Skills of Justice Sector Professionals

1. # of person/days of training
2. % of judges, lawyers and court staff trained with USG assistance
3. # of legal courses or curricula developed/upgraded with USG assistance

Sub-IR1.1.3: Improved Legal Regimes in Key Areas with Stronger Implementation

1. # of laws, secondary legislation, strategic plans and procedures to improve the contracts law and property rights system adopted with USG assistance
2. # of Alternative Dispute Resolution (ADR) agreements concluded and enforced
3. # of cases resolved through new procedures introduced with USG assistance (i.e., bailiff system, disputes)

IR1.2: Strengthened Effectiveness and Accountability of Assemblies, Administrations, and Election Processes

1. % of citizens who are satisfied with select services
2. % increase in main areas of own-source revenues as prescribed in law
3. Progress toward more effective and accountable oversight (on a milestone scale)

Sub-IR1.2.1: More Responsive National and Municipal Administrations and Assemblies

1. Index rating of the openness and transparency of central and local Assemblies
2. # of sub-national Government entities receiving USG assistance to improve their performance

3. Index rating capacity of Municipal Administrations

Sub-IR1.2.2: Increased Capacity to Hold Credible Elections

1. Index rating the degree to which election monitors assess the electoral processes as credible and fair
2. Index rating of the capacity of Central Elections Commission
3. # of people receiving civic and voter education

IR1.3: Improved Integration of Ethnic Minorities

1. % of minority population that has confidence in key Government institutions
2. Value of sales of minority owned SMEs
3. # of long-term and short-term jobs created in target minority population areas

Sub-IR1.3.1: Enhanced Government Capacity to Address Minority Issues

1. % of minority respondents participating in community-based organizations who report being able to effectively approach GOK institutions
2. # of priority minority issues addressed by Local Governments

Sub-IR1.3.2: Increased Active Participation of Minority Populations

1. # of people attending USG-assisted facilitated events that are geared toward strengthening understanding and mitigating conflict between groups
2. # of jointly implemented minority-majority NGO projects
3. # of citizens involved in monitoring service delivery in partner municipalities (average per municipality)

Sub-IR1.3.3: Increased Economic Interaction between Minority and Majority Communities

1. # of new minority members in private business associations as a result of USG training
2. # of minority micro-enterprises linked to majority markets and larger-scale firms (value chain)
3. # of new jobs created as a result of USG assistance

IR1.4: Civil Society Strengthened to Increasingly Engage Constructively with Government

1. Milestone scale measuring progress toward more effective engagement of citizens in Government (based on specific criteria)
2. NGO sustainability index (advocacy score)

Sub-IR1.4.1: Increased Civic Awareness and Ability of Civil Society to Advocate and Monitor

1. # of USG-assisted advocacy issues which are receiving heightened public attention
2. # of civil society oversight initiatives identifying key gaps between regulatory provisions and actual practice of the executive and judiciary
3. # of political parties with issue-based platforms assisted by USG

Sub-IR1.4.2: Greater Representation of Women, Youth and Other Vulnerable Groups

1. # of women with increased leadership capacity as result of USG assistance
2. # of actions to affect Government policy brought by USG-assisted groups representing marginalized and vulnerable constituencies

DO2: Increased Investment and Private Sector Employment

1. Growth in Foreign Direct Investment

2. Private sector as share of GDP
3. Ratio of public-to-private sector employment

IR2.1: Improved Economic Governance and Business Environment

1. Progress on the World Bank *Doing Business Index*
2. Formal sector employment as a % of total employment
3. # of businesses registered that submit tax declarations

Sub-IR2.1.1: Improved Fiscal Framework and Public Financial Management

1. Government revenue (tax and non-tax), excluding foreign grants, as a % of GDP
2. Person hours of training completed in fiscal policy and fiscal administration as a result of USG assistance

Sub-IR2.1.2: Key Economic Reforms Implemented at the Central and Local Levels

1. # of municipal regulations and administrative procedures that have been simplified as a result of USG assistance
2. Key policy, legislation, and structural reforms implemented at the central level (milestone indicator)
3. Person hours of training completed in business enabling environment supported by USG assistance

IR 2.2: Increased Competitiveness and Market Linkages in Targeted Private Sector Areas

1. Increased sales in targeted sectors
2. Increase in private sector investment in targeted sectors

Sub-IR2.2.1: More Market Responsive and Sustainable SMEs

1. Amount of investment in improved technologies as a result of USG assistance
2. # of jobs created as a result of USG assistance

Sub-IR2.2.2: Increased Agricultural Productivity and Marketability

1. Total value of sales in the agriculture sector as a result of USG assistance
2. # of new markets entered for target value chain products

Sub-IR2.2.3: Improved Access to Finance

1. Domestic credit to the private sector as a percent of GDP
2. Interest rate spread (percentage points)

IR2.3: Increased Energy Security and Diversification

1. Organizational Capacity Assessment (OCA) score of energy regulator (ERO)
2. Cost to business of unreliable energy supply
3. Quantity of greenhouse gas emissions, measured in metric tons of CO2 equivalent, reduced or sequestered as a result of USG assistance.

Sub-IR2.3.1: More Secure Energy Supply

1. # of procedures simplified for licensing of energy projects
2. # of megawatts licensed by the regulator

Sub-IR2.3.2: Policies, Laws, and Regulations Enable Best Practices in the Energy Sector

1. # of policy, legal, and regulatory reforms that support best practices in the energy sector drafted and presented for stakeholder consultation as a result of USG assistance
2. # of policy, legal, and regulatory reforms that support best practices in the energy sector adopted as a result of USG assistance
3. # of people receiving USG-supported training in energy sector fields

DO3: Enhanced Human Capital

1. Increase in national achievement scores (after grade 9)
2. % of beneficiaries who received USG-supported scholarships (including for certificates) utilizing improved skills/knowledge (based on employer survey)
3. % of beneficiaries who received short-term, in-country public service training utilizing improved skills/knowledge (based on employer [GOK department heads] survey)

IR3.1: Improved Pre-university Education

1. # and proportion of primary school students who after 2 years show improved reading skills

Sub-IR3.1.1: Upgraded Curricula, Teaching Methodologies and Materials in Select Subjects

1. % of primary schools utilizing learning assessment methodology as a result of USG support
2. # of teachers certified using nationally agreed assessment standards

Sub-IR 3.1.2: Better Management of School Systems at the Local Level

1. # of School Boards functioning to MEST Standards
2. # of teachers/educators trained with USG support

IR3.2 Increased Professional Skill Base

1. % of graduates from USG-supported tertiary education programs reporting themselves as employed (including in-country public service training)

Sub-IR3.2.1: More U.S. Post-graduate and Professionally Trained Individuals Placed in Key Sectors and Institutions

1. % of graduates from USG-supported scholarship programs completing the two-year community service requirement
2. # of person days of short-term, in-country public service training

Sub-IR3.2.2: Improved University Management and Pedagogy in Selected Faculties

1. # of tertiary institution faculty or teaching staff whose qualifications are strengthened through USG-supported tertiary education programs
2. Actual improvements in University of Pristina management as a result of USG interventions (milestone indicator)

Appendix 2: USAID Forward

DO1: *Improved Rule of Law and Governance that Meet Citizens' Needs*

Significant opportunities continue to exist at both the central and local levels to partner with and provide direct assistance to Government of Kosovo institutions, NGOs, civil society watchdog organizations, media, professional and business associations, and think tanks. Graduating many of these historical recipients of USAID capacity building assistance and sub-grants to their direct implementation will have a meaningful impact, particularly in terms of sustainability and "graduation".

Starting in September 2012, the Mission initiated USAID Forward efforts that include direct implementation through host country systems at the municipal level and expansion of the existing portfolio with direct awards to local organizations. These initial activities support the best performing Municipality of Istog and two local CSOs to lead grassroots-based court monitoring and Rule of Law awareness efforts.

During the initial strategy period (FY 2014-FY2016), USAID will continue building the capacity of municipal governments, local CSOs, and private sector associations to expand an existing portfolio of direct grants. These efforts will increase public awareness and foster government accountability so that citizens can proactively engage with the various branches of government. In addition, this expanded partnership will include direct local awards to CSO coalitions such as Democracy in Action (DIA) to support independent and unbiased domestic election monitoring, direct awards to think tank organizations conducting parliamentary research, and direct support to leading business associations such as Kosovo Chamber of Commerce (KCC) and the Kosovo American Chamber of Commerce (KACC) to strengthen their respective arbitration tribunals through professional training, case management systems and outreach to the business community. Organizations that support the most vulnerable populations (women, disabled, youth, and LGBT) and minorities will receive special emphasis, particularly with regard to their advocacy initiatives and initiatives that enhance their position in the society.

Over the full strategy period and under this DO, the Mission will prioritize using GOK systems to directly implement a significant portion of its portfolio, wherever possible. This will include direct awards to central institutions; for example, to the Ministry of Justice (MOJ) as the potential GOK lead on developing a property rights strategy, including priority policies, laws and regulations. Awards may be made to Local Governments/Municipalities to achieve individually-devised tasks demonstrating good governance practices, sound financial management, accountability, and increased inter-ethnic tolerance and cooperation. Local Government systems will also be considered for developing and implementing a shared pilot information system among courts, civil registries, tax authorities and municipal cadasters that will enable citizens to complete all property transactions in a single location.

DO1 will also advance USAID Forward goals related to evaluation, talent management, and innovation, science and technology. Regarding innovation, e-governance at the local level will be supported and expanded.

DO2: *Increased Investment and Private Sector Employment*

Direct assistance to Government of Kosovo institutions at the central ministerial level and at the municipal (local) level – as well as direct assistance to local for-profit and not-for-profit NGOs, private companies, and possibly academic institutions and training providers – will be one of the key DO2 implementation features aimed at strengthening local capacities so that core Government and private sector organizations can provide quality services in a sustainable manner. This will gradually decrease

dependence on international technical assistance, and allow for limiting donor assistance – including during USAID's Strategy period – to those areas where support is still required for complex policy, legislative, and transactional support.

All activities under this DO will include Government-to-Government (G2G) assistance that will increase GOK responsibilities (and capabilities) in managing USG technical assistance funds aimed at increasing Kosovo's attractiveness for foreign direct investment through an improved business enabling environment and a more stable and sustainable macroeconomic and fiscal position. In addition, G2G arrangements with the Ministry of Agriculture, Forestry, and Rural Development will support the development and implementation of agricultural policies that will increase product competitiveness and increase employment in this sector. Other anticipated G2G counterpart institutions include the Ministry of Finance, Ministry of Trade and Industry, Ministry of Environment and Spatial Planning, Tax Administration of Kosovo, and selected municipalities.

In the area of increasing private sector competitiveness, direct assistance to non-governmental advisory institutions will strengthen their capacity to deliver consulting services that encourage increased private sector growth. Such non-governmental institutions will also include non-bank financial institutions that facilitate increased bank lending to the private sector through a variety of mechanisms, including partial loan guarantees. An important consideration in this respect will be to encourage and support local organizations that encourage women-owned/led and minority-owned/led businesses and organizations.

In addition to G2G, other USAID Forward objectives – such as monitoring and evaluation; talent management; and innovation, science, and technology – will be included to the extent possible in all DO2 activities. In particular, there will be an increased focus on measuring the impact of USAID assistance overall, including the impact of G2G activities both at the central and local levels.

DO3: *Enhanced Human Capital*

While DO3 does not currently have any planned direct USAID Forward procurement reform initiatives, it is well grounded in the underlying principles of Forward – building long-term local capacity with the stated objective of Enhanced Human Capital. Beneficiaries of USAID-provided educational opportunities will become the local talent that will take Kosovo into its future. With satisfactory progress on a clear reform action plan, assistance may be given directly to the University of Pristina, a public local organization, as described in the Development Objective narrative.

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