

**TENTH MEETING OF THE STABILISATION AND ASSOCIATION PROCESS
TRACKING MECHANISM**

CONCLUSIONS

PRISTINA, 14 JULY 2006

The tenth meeting of the Stabilisation and Association Process Tracking Mechanism was held in Pristina on 14 July 2006.

The meeting was attended by representatives of the provisional institutions of self-government, of UNMIK and by all EU actors in Pristina.

The European Commission expressed its desire to continue a constructive dialogue with the Kosovo authorities.

It encouraged them to step up their reform efforts and stressed its support of rapid implementation of standards in general and the contact group's 13 priority standards in particular.

European Agenda

European Partnership Action Plan

All sides underlined the importance of the European agenda for Kosovo. The Commission also stressed the importance of continued standards implementation and reiterated its support to the swift implementation of the 13 priority standards.

Kosovo authorities briefed the Commission about progress in preparation and the adoption of the European Partnership Action Plan. **The Commission acknowledged that the Action Plan was comprehensive, well-structured and represented a considerable improvement over the first action plan prepared in 2005. A key implementation challenge would be to identify appropriate financial resources to carry out the identified actions. It was crucial to establish a strong linkage between the action plan on the one hand, and budgetary planning and donor coordination on the other, notably in relation to the MTEF and KDSP. The Prime Minister pledged that the Government will adopt the European Partnership Action Plan by the end of July 2006.**

Progress on the Strengthening of the European Integration Structures

The PISG reported on the progress of strengthening the European integration structures.

The agency for European integration had now been established. The agency is directly linked to the prime minister's office. The PISG expressed the expectation that the agency's chief executive officer CEO would be appointed soon. The PISG expected the Agency to be fully staffed by the end of the 2006. The agency would also support the PISG standards office. The PM announced the establishment of the six additional working groups that would complement the existing Standards working groups in coordinating the implementation of the European Partnership Action Plan. These new *acquis* related working groups would mainly coordinate the implementation of the European Partnership priorities in sectoral areas such as transport, energy, agriculture, environment, internal market and trade, customs and taxation. The EC welcomed the initiative for establishment of these *acquis* related working groups.

The Commission added that the agency for European integration must be allowed to enhance its capacity. The Agency would have to coordinate a growing work-load connected with the European Partnership Action Plan, as well as increased ownership in relation to the new Instrument of Pre-accession Assistance. It should build up sectoral expertise allowing it to act as a credible partner of ministries and other Kosovo institutions. Moreover, the agency would inherit part of the work currently performed by the PISG Standards Office.

Political Requirements

Census

The PISG presented an update on the preparation of the census and the pilot census. The recommendation of steering committee to hold census in October had been followed and the pilot would be organised accordingly. A definition of the concept of resident population had now been provided and was being translated into an administrative directive.

The Commission stressed that the results of the census would form an essential input for the future production of reliable economic statistics. At the same time, everything had to be done to ensure that the results would be accepted by all the different communities living in Kosovo. It was important to ensure that the census will be carried out according to international standards. The joint monitoring operation would work intensively with the Statistical Office of Kosovo and other relevant institutions to ensure that the planned pilot census and the full census could take place in accordance with international standards.

The Commission stressed that the professional independence of the Statistical Office of Kosovo must be ensured and its capacities further developed. The pilot census should reflect as much as possible the conditions that will prevail during the full census. For this reason, the maximum should be done to ensure the participation of a municipality with a Kosovo Serb majority.

Economic Requirements

Medium Term Expenditure Framework and Budgetary Developments

The PISG presented progress on the Medium Term Expenditure Framework. The MTEF had become a key exercise in identifying expenditure and sectoral priorities, financial resources foreseen and the financing gap of Kosovo - within the budget but also off-budget with the Public Investment Programme.

The Commission underlined several challenges. The MTEF had to be regularly updated and the prioritisation of expenditure improved in line with development priorities identified in the KDSP and the European Partnership Action Plan. Post-status settlement elements had to be factored into the MTEF, e.g. debt servicing. The Commission stressed that work on the KDSP and the MTEF should be mutually reinforcing and deliver fully compatible results.

On budgetary developments, the Commission voiced its concern over the possible significant costs to the budget of the new draft pension law and the war martyr's law. The Commission stressed that every new law approved should have a financial statement attached with its budgetary implications. It should not be approved without proper consultation of the Ministry of Finance and availability of the required financing needs.

The Commission stressed that the international community would not automatically finance Kosovo's budget deficits and cautioned that expansionary fiscal policies would not only add to the financing gap, but jeopardize the disbursement of EC budget assistance. The release of EC budget support assistance of €50 million would be subject to a strict conditionality framework, including satisfactory cooperation with the IMF and compliance with respective policy commitments agreed in the October 2005 Letter of Intent.

Kosovo Development Strategy and Plan (KDSP)

The provisional institutions of self-government presented progress on the Kosovo Development Strategy and Plan. The plan would present a development vision till 2020 and be complemented by sectoral strategies. Consultations were ongoing with ministries and Kosovan society. The final plan has been delayed but would be presented towards the end of 2006.

The Commission stressed the need to establish clear development strategies. The KDSP would be the vehicle for the Kosovo authorities to implement a comprehensive reform program aiming at sustainable economic and social development and preparing for EU integration and to demonstrate its commitment to reforms to donors. The Commission stressed that the KDSP must be fully consistent with the European agenda, in particular with the European Partnership and the Action Plan. The Commission welcomed the draft Macroeconomic Framework for Kosovo for the period 2007 – 2013. It was the first step towards - and the framework for the KDSP.

European Standards

Report from the Workshop on Rural Development

The STM meeting took note of the conclusions of the technical workshop on rural development, held on 28 June 2006 in Pristina. The Commission commended the well-prepared meeting and stressed the usefulness of first technical discussions on a variety of issues in this sector of particular importance for Kosovo.

The conclusions are attached as annex to the STM conclusions.

EU Fiscal Benchmarking Exercise

The PISG presented progress in the tax administration. A draft VAT law had been prepared and was expected to be implemented in 2007.

The CAFAO mission presented the EU fiscal benchmarking exercise as agreed at the ninth STM meeting. The gap analysis found weak areas where improvements were necessary: human resources management, administrative cooperation and mutual assistance, fraud and tax avoidance and information technology and communications. CAFAO would now assist the tax administration of Kosovo to fill the gaps identified. CAFAO would report back at the next STM meeting.

The Instrument for Pre Accession Assistance:

The Commission presented the first multi-annual indicative planning document under the Instrument for Pre-accession Assistance

The Commission explained that the multi annual indicative planning document aims to ensure the overall coherence and coordination of actions undertaken under the two IPA components available to Kosovo. All priorities identified in this MIPD responded to European Partnership priorities. The Commission underlined the strategic nature of the multi annual indicative planning document. It would serve as a basis for the annual programming exercises in 2007, 2008, and 2009.

Three overarching objectives would define EC assistance to Kosovo. EC assistance would orient itself on the stipulations of any future status settlement and be used to support Kosovo to develop into a stable, modern, democratic and multi-ethnic society based on the rule of law. EC assistance would also enhance Kosovo's socio-economic development and be used in support of developing Kosovo's economy and enhancing the wider socio-economic environment. Furthermore, EC assistance would support and accompany Kosovo's European vocation as a regionally integrated part of the whole Western Balkans region.

The Commission reiterated the importance of increased ownership. Kosovo authorities were given a copy of the multi annual indicative planning document. As part of a wider consultation exercise, Kosovan authorities were asked to consult internally and prepare comments to be submitted at the latest by 14 August.

The Commission stressed the importance of appointing a Kosovan IPA coordinator. The function was essential to ensure greater ownership, better articulation of Kosovan assistance needs and furthermore coordination within the PISG. The PISG informed that the head of the agency for European integration should be nominated during the month of August. The head of the agency would also be the Kosovo IPA coordinator.

Other issues

It was agreed that the next STM meeting would be held in late September.

The proposed topics for the following STM technical workshops were phyto-sanitary and veterinary issues, environmental issues or integrated border management.

ANNEX
WORKSHOP ON RURAL DEVELOPMENT
CONCLUSIONS

The workshop was **held** in Pristina, Kosovo on 28th June 2006.

Participants:

From the **PISG**: The Ministry of Agriculture and Rural Development (MAFRD), the Agency for European Integration (AEI), the Kosovo Food and Veterinary Agency (KFVA).

From **UNMIK**: The Kosovo Trust Agency (KTA), the Economic Policy Office, UNMIK Liaison to the MAFRD, UNMIK Customs Service and the UNMIK Office of European Integration.

From the **Commission**: Representatives from DG AGRI, DG Enlargement, the European Commission Liaison Office and the European Agency for Reconstruction (EAR).

Introduction:

The Commission explained the rationale behind the workshop, stressing that these are technical discussions in the framework of the STM the purpose of which is to take stock on developments and notably to review progress towards accomplishment of the European Partnership priorities. The Commission also expressed its intention to establish a more frequent and substantive technical dialogue between the Commission services and the Kosovo institutions.

The workshop provided for an excellent forum for discussion on the most recent developments in the field of rural development.

The conclusions of this workshop will be presented at the 10th STM meeting on the 14th of July and will also be an annex to the overall STM conclusions.

Overview of presentations and discussions:

The Ministry of Agriculture and Rural Development (MAFRD) presented the first draft of Kosovo's Agriculture and Rural Development Plan for 2007-2013 (ARDP 2007-2013) that approximates EC Guidelines. Eight measures have been included in the ARDP 2007-2013 that cover support for vocational training, restructuring of the agricultural sector, irrigation, agro-businesses/food quality, natural resource management and the environment, rural diversification, rural infrastructure and local community development. The drafting process has been fully inclusive, involving Farmers' and Agro-Processors' Associations, as well as other key stakeholders in civil society.

Furthermore, the MAFRD gave an update of the state of fulfilment of the European Partnership priorities, progress in harmonisation with the *acquis communautaire*, agricultural statistics as well as an overview over the identified priority projects to be funded by donors for 2007-2013, and particularly for the period 2007-2009. In addition, the KTA informed the workshop on the progress in the privatisation of agricultural land owned by SOE's. The European Commission presented the principles of the Common Agricultural Policy, the EU Rural Development Policy and notably the pre-accession aid for rural development.

Conclusions:

- The European Commission acknowledged the very good preparation undertaken by the Kosovo institutions for the workshop and welcomed the exchange of views.
- It was highlighted by the Kosovo institutions and the Commission that agriculture, forestry and rural development are very important for the overall socio-economic development of Kosovo.
- The European Commission noted Kosovo's progress in starting to:
 1. address key bottlenecks holding back the development of the agro-rural sector, particularly access to finance; and

2. align Kosovo with the EU rural development strategy.
- The MAFRD expressed its commitment to:
 1. implement identified measures and actions within the Draft Action Plan for the implementation of the European Partnership; and
 2. report such implementation in a timely manner to the European Commission via the Agency for European Integration.
 - The Commission highlighted the high ambition and EU compatibility of the ARDP. However, given the limited financial and institutional capacities of the MAFRD, the Commission suggested that the Ministry focuses on a number of well-defined and achievable priorities of the ARDP.
 - It was recognised that further EU support for the modernisation of Kosovo's agro-rural sector (in compliance with EU standards and criteria) will be necessary, to increase Kosovo's food self-sufficiency, improve competitiveness in crops, livestock and forestry, and diversification of the agricultural sector.
 - The Commission underlined the need for good quality documentation in the field of rural development, which implies improvements on the sector's statistical information, namely through the realization of an agricultural census and from using data resulting from other activities which can provide valuable statistic information like land registers and land cadastre and which is in line with major strategic documents, notably the Kosovo Development Strategy and Plan (KDSP), ahead of a potential Donor Conference.
 - The MAFRD pledged to make the second draft of ARDP 2007-13 that is currently under preparation, available to the EC for information and to present a final approved draft by the end of 2006 together with the KDSP. Furthermore, the MAFRD committed itself to bring the ARDP 2007-2013 in line with both the Kosovo Development Strategy and Plan 2007-2013 and assistance possibilities that will be available to Kosovo under IPA. The MAFRD recognized the need to fully address minority and gender issues in the ARDP 2007-2013.
 - The MAFRD pledged to work with all donors to facilitate transition in its agro-rural sector, and to ensure that all support is coordinated properly.
 - The Commission took note of the MAFRD's suggestion to establish a Rural Fund to support farmers and agro-processors.
 - The MAFRD proposed to implement a series of small-scale pilot projects at municipality level using all possible potential financial resources, namely those that will be available under the Technical Assistance and Institution Building component of IPA.
 - The MAFRD identified eight questions that it would like the Commission to respond to formally, in order to facilitate ongoing bilateral discussions. Such questions cover a large range of issues namely the possible links to be established between MAFRD and EUROSTAT, the possibility of MAFRD's staff to benefit from traineeship opportunities in the Commission. It was agreed that a formal written request will be send by MAFRD to the Commission, in due course.