



USAID
FROM THE AMERICAN PEOPLE

KOSOVO | GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 DECEMBER 2010

Contract Number EEM-I-00-07-00005-00, Task Order 09

This publication was produced for review by the United States Agency for International Development. It was prepared by Matthew Smith, Chief of Party; Deloitte Consulting LLP.

KOSOVO | GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 DECEMBER 2010

CONTRACT NUMBER EEM-I-00-07-00005-00 TASK ORDER 09

DISCLAIMER:

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

CONTENTS

1	CHIEF OF PARTY REPORT	1
2	CROSS-CUTTING THEMES	1
3	REPORTS AGAINST RESULT AREAS	2
3.1	OBJECTIVE 1	2
3.2	OBJECTIVE 2	3
3.3	OBJECTIVE 3	11
4	PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS	12
5	MAJOR UPCOMING ACTIVITIES.....	13

1 CHIEF OF PARTY REPORT

During the quarter, the national government suffered a no-confidence motion and early elections were held in December. It is expected a new government will be formed in early March. During this time, the project focused its attention to the municipal governments and in doing so, made substantive progress in the areas dealing with PEFA, PPP and municipal financial management.

On PEFA, an official launch was held in October led by the Minister of Finance and Economy and attended by Mayors of the relevant municipalities. Following the successful launch, the GFSI team held a retreat with the five municipalities and representatives of the DEMI project to educate the municipal representatives on the PEFA methodology. As a result, each municipality team is now conducting their PEFA assessment with continued project support and with excellent progress being made.

The project continued to cooperate closely with the Auditor General in the quarter. Project advisors began to work as a conduit between Treasury, the Auditor General (AG) and the municipalities to improve their financial statements, reconciliation and management practices, while at the same time feeding back to the AG and Treasury areas of concern, common errors and/or misunderstandings that need to be resolved. Several visits were made to the municipalities during the quarter and following these visits a paper on common *Actions to Improve Financial Reporting* was drafted for comment by AG prior to dissemination.

In Budget, prior to the Assembly being dissolved significant legislation was enacted including the Labor Law, Law on War Martyrs etc which will place the budget under some strain in 2011 and beyond. GFSI advisors are formulating recommendations for the incoming Minister on how to address these challenges and on implementing election commitments while remaining within the IMF Program.

Preliminary property tax collection suggests approximately 20% increase in revenue in 2010. As of end-November, 11.7 million euro was collected, which represents about 2 million euro increase as compared with the same period in 2009.

The Airport PPP remains on-track for February hand-over, although the tender for the engineer and the establishment of the Project Management Unit (PMU) are yet to be finalized. The Transaction Advisor is currently working with the company to finalize the contract terms and conditions.

On the macroeconomic side, and after considerable data collection, a comprehensive economic analysis paper was produced on the Kosovo economy. The paper highlights two significant weaknesses: insufficiency of domestic savings (linked to weak export performance) and poor efficiency of the investments made in Kosovo. The concept paper advocates a development agenda to augment the reform agenda pursued by the Kosovo and international community.

2 CROSS-CUTTING THEMES

The core areas of USAID/Kosovo's Strategic Plan 2010-2014 identifies cross-cutting factors as having a profound effect on the development environment in Kosovo. They are: 1) youth integration; 2) gender equality; 3) full participation of minorities; and 4) protection of Kosovo's environment. Cross-cutting themes have been taken into account during the work planning phase and will be addressed where possible in day to day activities and program design.

We continue to take steps to improve the quality of financial statements to enhance accountability. Active training and hands on support is being provided to selected municipalities who have had problems in financial statement production or is a new municipality going through the process for the first time. The project also supports Treasury in its training and certification for financial officers associated with the ongoing decentralization of payment controls.

3 REPORTS AGAINST RESULT AREAS

3.1 OBJECTIVE 1

Support private sector participation through Public-Private-Partnerships and through support to the Privatization Agency of Kosovo

A – Public-Private-Partnerships: Strengthen the ability and capacity of central and local institutions to identify, develop and implement Public-Private-Partnership (PPP) projects as an important private sector funding mechanism for meeting Kosovo's public infrastructure investment priorities;

Progress/success against the work plan

The Public-Private-Partnership component continued to make progress against the work plan during the second quarter of GFSI:

Framework Strengthening: Work continued on multiple fronts to strengthen the legal, institutional and policy framework for PPP. To address some of the systematic weaknesses identified in the first quarter PPP program diagnostic, GFSI advisors continued drafting priority implementing regulations and secondary legislation for the PPP law in accordance with the PPP framework strategy and work plan. These guidelines aim to create greater procedural and legislative clarity for PPP.

Institutionally, GFSI advisors finalized the institutional assessment of the central PPP Unit, specifying key personnel, drafting job descriptions and identifying key performance indicators for individuals and for the PPP program as a whole. The job descriptions served as the basis for hiring additional staff to the PPP Unit, although as of the close of the second quarter of GFSI, the PPP Unit was still not fully staffed to perform its organizational responsibilities.

On the municipal level, PPP advisors organized a series of meetings with pre-selected municipal authorities to undertake a thorough needs assessment and to identify priority PPP projects. On the basis of these meetings, work began to develop a municipal outreach program and PPP work plan. As a follow-up to the needs assessment meetings, initial training was provided to specified municipal officials and discussions were held to prioritize potential PPP initiatives. Next steps will include creating a comprehensive work plan to assist municipalities with the development of the appropriate institutional structure for PPP, and transaction implementation.

Transaction Support: While GFSI transaction support was principally directed at supporting the Republic of Kosovo in fulfilling its transition responsibilities and conditions precedents for the country's flagship PPP project (the 20-year concession of Pristina International Airport), GFSI advisors also offered to advice to municipalities on the identification and prioritization of potential PPP projects. Amongst others, GFSI advisors began to work with the municipality of Pristina on the development of municipal parking garages, identifying several project implementation options to facilitate the transaction. GFSI advisors likewise met with potential investors to educate them on the provisions set forth in the PPP law regarding unsolicited proposals. These efforts resulted in a number of fast-track options identified for the implementation of priority municipal projects.

At the central level GFSI advisors , conducted initial assessments for some potential "marquee" PPP projects, including the Route 6 motorway expansion, Brezovica ski resort, that have a great potential to generate significant economic impact to the country's GDP.

PPP Contract Governance & Oversight: Significant advancement was made with regard to the establishment of contract governance and oversight mechanisms for PPP, specifically with regard to the Pristina International Airport concession. GFSI assisted in preparing a tender dossier in compliance with local legal norms and international best practices, and recommended to hire an Independent Engineer to oversee the construction phase of design-build-finance-operate-transfer contract. Likewise, GFSI advisors developed the institutional management and reporting structure as well as terms of reference for all key positions for the Project Management Unit, which shall be responsible for the daily management of contract issues on behalf of the Government of the Republic of Kosovo. Collectively, these elements constitute the majority of the contract governance structure. Before the transition period is completed, the performance monitoring methodologies and systems need to be fully defined, and PMU staff need to be trained in contract governance best practices.

Training: Capacity building and training activities continued during the second quarter with targeted training seminars for municipal authorities. In coordination with the USAID SEAD project, GFSI advisors provided PPP training was provided as part of a larger legal training program. Work also continued to develop the curriculum and content for the institutionalized training and certification program.

ISSUES/OBSTACLES

In order for Kosovo to achieve a successful and sustainable PPP program, the central PPP Unit must enhance its core competencies – establishing best practice and vetting/approving projects. Necessary reforms, such as building PPP capacity in municipalities and line ministries, creating independent PIU's and PMU's to execute transactions and oversee contracts, etc. need to advance.

PPP projects, as well as the program-at-large, require broad-based political support. In light of the current political environment, it is not clear whether the government will have a strong mandate to increase private sector participation through PPP.

COORDINATION

GFSI coordinated activities with SEAD, including the joint delivery of legal training.

B – Privatization: Targeted technical assistance to the Privatization Agency of Kosovo (PAK) will be provided with the intention of bringing the liquidation of the more than 600 privatized SOEs to timely closure, putting the nearly €440 million of privatization proceeds currently held in trust and invested outside Kosovo to work in the Kosovo economy.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

As the government is yet to meet conditions precedent, there has been no activity under this aspect of the Work Plan in the second quarter.

3.2 OBJECTIVE 2

A – Fiscal Stewardship: Build professionalism and expertise in sound public financial management in municipalities so that they become institutions capable of autonomously and efficiently stimulating local economic development while providing a high standard of public services.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

The reporting period witnessed a series of activities related to the official launch of project's

component supporting PEFA Self-Assessment initiative for the Kosovo Local Government. The main events that call for a special highlight included:

- (1) A high level intergovernmental meeting with Mayors aiming at the introduction of PEFA concept and implementation strategy took place on October 22nd;
- (2) A PEFA Technical Workshop for practitioners from five municipal assessment teams took place on November 8th to 10th;
- (3) A Progress Workshop aiming at the review of lessons learned from PEFA implementation progress to date took place on December 20th.

The official launch of PEFA Self-Assessment process took place during a high level meeting on October 22nd. The Minister of Finance and Economy, Mr. Ahmet Shala, Deputy Minister of Local Government, Mr. Raif Elezi, and USAID representative, Ms. Mary Hobbs launched this initiative together with five Kosovo Mayors who agreed to participate in the PEFA process: Pristina, Podujevo, Vushtri, Mamusha, and Sterpce. The event underscored Kosovo's strong commitment towards pursuing public finance management (PFM) reforms both at the national and municipal level.

The meeting provided an opportunity to discuss general PEFA concept framework, past Kosovo PEFA experiences, and the proposed implementation approach for Kosovo's local governments. The new municipality-focused PEFA program is designed to provide municipal authorities with training and technical assistance in PEFA implementation. The GFSI project also engaged in the partnership with the Association of Kosovo Municipalities, a key implementing partner in the roll-out of a comprehensive PFM reform program.

Building on the momentum gained during the official PEFA launch, GFSI advisors gathered over 20 practitioners from PEFA participating municipalities from November 8th to 10th for an introductory Technical Workshop on the Public Expenditure and Financial Accountability Framework. The three day conference was specifically tailored to address the application of PEFA methodology for the assessment of public financial management (PFM) practices. Municipal practitioners were introduced to the PEFA Framework and learned how to implement an effective PEFA evaluation in their own municipality through lectures, seminars, and interactive group exercises based on case studies.

Overall, the USAID-supported conference was a great success. It provided a comprehensive overview of the PEFA Framework including a foundational understanding of tools for the evaluation of PFM system's performance and an emphasis on self-assessment and personal responsibility. Municipality leaders who completed the training will now be able to effectively track the performance of their own municipal PFM practices over time, a concept warmly welcomed by the conference attendees.

Following the Technical Workshop, the actual PEFA Self-Assessment process commenced in all five municipalities. The GFSI PEFA advisors instituted a practice of regular collaboration with municipal counterparts in a form of weekly work sessions in each individual municipality. As of the end of year, progress is reported in the assessment, determination of scoring, and evidencing for 1/3 out of 28 standard PEFA Performance Indicators.

The PEFA Progress Workshop organized by GFSI on December 20th created an opportunity for five Kosovo Municipal PEFA teams to gather together in Pristina to review their progress and experience in conducting PEFA assessments. Municipal teams shared their experience and lessons learned dealing with several issues, such as data and evidence collection, interpretation of scoring requirements, facts documentation, realistic scoring of the specific indicators and the importance of supportive narrative for each indicator.

A substantial contribution to this workshop was provided by PEFA senior advisor, Mr. John Short, who joined the GFSI team in this effort with the support of DFID. Mr. Short will continue to work with GFSI team and Municipal PEFA teams until PEFA reports for all five sample municipalities are produced.

The GFSI PEFA Team continued work on the design and development of technical guidance and training materials tailored to the needs of PEFA roll out in the sample Municipalities. Detailed and assessment practice-oriented technical guidance will provide hands-on support to municipal assessment teams. During the reporting period, technical guidance for all Performance Indicators was completed and documented in the form of technical notes and analysis, templates, check lists, and questionnaires. A Technical Guidance Book will be published and disseminated among municipal assessment teams in January.

Activities under the second project task - Phase in a Municipal MTEF approach into municipal budget process – commenced with development of implementation strategy and timetable outline. The Project Advisor also delivered a dedicated seminar to Municipal Budget Department - one of the key stakeholders for this activity - on November 12th on the GFSI strategy for the implementation of municipal MTEFs, including an overview of strategic approach framework.

GFSI Advisors continued the implementation of USAID support to MFE Treasury in the area of delegation of expenditure functions from Treasury to the budget organizations, with a particular focus on capacities of recently established new municipalities. At the Local Government level, PFM officers from Municipality Klllokot received a dedicated training in seven KFMIS functions (commitment, assets, revenues, procurement, goods receiving, expenditures, and certifying). Training was completed at the end of November, with the certification of seven PFM officers. Subsequently, Municipality Klllokot gained a live access to the KFMIS on December 3rd. Certification process for the recently established new Municipality Partesh is scheduled to commence when key PFM personnel is recruited. Municipality was advised on key recruitment needs, and invitation to participate in Treasury training program was extended.

ISSUES/OBSTACLES

GFSI activities during the reporting period did not face major issues. However, the most recent political developments, including the resignation of the President and campaign for earlier parliamentary elections, slightly delayed some PEFA collaboration in some municipalities. In general, the PEFA initiative is very well received by municipal counterparts, but project activities need to be flexible and realistically planned to respond to regular workload faced by municipal staff in their own administrative functions.

COORDINATION

Donor cooperation efforts included cooperation with DEMI and BEEP projects. DEMI representatives were invited to participate in PEFA Technical Workshop with the view to provide DEMI counterparts with better understanding of PEFA process. Cooperation with BEEP took place in the area of development of BEEP's Municipal Competitiveness Index. The GFSI Advisor reviewed and provided comments on the draft survey design with the object to address issues of potential overlap of interest with PEFA indicators.

The GFSI dialog with other donors led to transforming Local Government PEFA undertaking into multi-donor initiative supported jointly by USAID and DFID. The DFID expert joined GFSI PEFA Team during a one week visit between December 14th and 21st.

B –Assist the Office of the Auditor General (OAG) so that their ability to review and assess the fiscal operations of the municipalities is strengthened and made more timely and effective.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

GFSI Advisors continued their engagement with the auditor general regarding improvement of the quality of municipal financial statements and audit. A report summarizing 2009 audit findings, identifying common themes and establishing a strategy for addressing these issues was completed. In consultation with the Auditor General, it was agreed that GFSI will support 7 municipalities whose financial statements are to be audited by the Auditor general. GFSI will act a conduit between Treasury, the municipalities and the Office of the Auditor General in promoting effective communication, common understanding and agreed approaches on key issues.

GFSI's role as a conduit in 2010 audits will involve ensuring that the audit process is more interactive than previous years. The audit management letters sent by OAG to municipalities in December by the OAG, as well as the undertaking by the OAG to share with Treasury interim audit findings for each Municipality in February, provides an enhanced ability to progressively improve the financial statements prior to their final audit.

GFSI advisors made visits to each of the municipalities being audited by the OAG, to commence discussions regarding the needs and actions required to address the common issues. These common issues include:

- Assets recording, valuation and reporting;
- Management and reporting of accounts receivable for municipal revenues;
- Recording and reporting of third-party payments;
- Recording and reporting of contingent liabilities;
- Reconciliation of transaction through the TSA.

A consultation paper is currently being drafted by GFSI advisors in the Treasury, where the 4-5 key common issues from the 2009 audits and interim 2010 audits will be examined and a methodology will be proposed to address these issues.

ISSUES/OBSTACLES

The staff of the Auditor General in the audit team are currently weak. The Auditor General is seeking assistance from all donors with hands-on coaching of auditors by experienced Anglo-Saxon style international auditors.

GFSI has agreed to provide certain training for auditors on specific topics such as budget preparation.

Many of the common issues identified in municipal audits will require a full year of changed approach (such as for managing & recording revenues) in order to improve the quality of financial statements.

COORDINATION

The project facilitated coordination between the Auditor General and the Controller Office of USAID to discuss support and assistance issues.

C – Assist the MFE Assist the MFE to develop and implement an action plan to enable data sharing among the various legacy IT systems in the ministry

PROGRESS AGAINST THE WORK PLAN

The GFSI team made good progress this quarter to improve the data exchange capability of the Property Tax system with Tax Administration of Kosovo (TAK). The Property Tax department has agreed to include the Tax Administration Fiscal Identification Number (FIN) of property owner(s) in the owners' database object. This data harmonization step will ensure integration between ICT systems with regard to identification of business entities. This step was discussed and agreed with SIDA project. As a result, the next system release will include relevant changes to the Property Tax System database structure and user interfaces .

The ICT advisor continues to monitor work with responsible departments concerning the ongoing projects for replacing core applications. A new version of SIGTAS is under implementation at TAK, Customs just started a project for ASYCUDA World implementation, and Treasury is expecting new version of Free Balance to be delivered for testing and review.

The Advisor also provided input to the Kosovo Interoperability Framework, which is being drafted by Ministry of Public Administration (MPA). This Framework will determine and impose standards for cross-institutional business processes and data exchange.

The GFSI project is also working toward identifying an application for the HR system to be implemented in the MFE. We worked with the MPA to evaluate the suitability of the Application developed by ComTel under contract with MPA. We recommended that the same application is implemented in all government institutions, which will provide a unified, effective, and efficient solution to operate consistent IT environment, maintained by the same team, and expose one interface to Payroll System. During the first working meeting with ComTel and MPA it became clear that currently existing functionalities are not sufficient. Nevertheless, the system will provide significant support to the HR units within MFE and will replace paper based, manual work at the HR Units. Follow up meetings with ComTel and MPA will be scheduled for a more thorough assessment of the existing application.

The Server Room project, to establish a Joint Server Room and Integrated IT Infrastructure for all MFE's departments/agencies, including TAK and Customs continues to progress. A Working Group was established and tasked to manage the project. This group was established by the Permanent Secretary and consists of MFE's IT Manager, TAK IT Director, and Customs Head of IT Department. A Project Charter was drafted and agreed with IT Managers Working Group.

Regular meetings were carried to draft Requirements Specification for the Joint Server Room premises, including security, air-conditioning, cabling, power backup, and other systems. First complete draft of the Server Room Requirements Specification document is ready. The initial cost estimate is also prepared. Next steps in the process include: (1) obtaining approval on identified location; (2) finalizing the requirements specification for the approved location; and (3) carrying out a public tender for contracting a company to do the renovation and supply and install necessary systems.

Looking ahead to improving the ICT Services model at the MFE's HQ, the ICT advisor prepared a Power Point Presentation on IT Operations as per ITIL V3 Framework. ITIL V3 is an international standard that ensures required level of IT Services to support business needs. The presentation introduced terminology and organization model for IT Operations, which is the primary scope of work for the current IT Division at the MFE's HQ.. The model described in the presentation can be implemented at the IT Division upon relevant restructuring, staffing, and training. A copy of the presentation was given to the IT Manager and we anticipate that a presentation will be requested for the entire team.

The ICT advisor delivered a presentation to the Minister on October 1, on the concept of the new IT Organization at the MFE. The concept is based on the initial assessment of the current

situation and knowledge of common practices. As a follow-up on this presentation, the ICT advisor is in the process of development of a comprehensive document on Strategy on IT Organization at the MFE that will include: (1) Detail description of the current IT Organizations along with main responsibilities/activities currently perform; (2) Proposition for a new IT Organization structure, roles and responsibilities, and skills requirements; and (3) Approach / Roadmap for transforming from current to the proposed IT Organizational structure.

ISSUES/OBSTACLES

The main obstacle during the reporting period was the absence of the newly appointed CIO from the country and lack of authorized CIO deputy, empowered to make decisions.

The staff of the IT Division lacks skills, and capacity to provide effective and efficient ICT services to all MFE's business units. A program for proper staffing and training needs to be developed, consistent with overall strategy for ICT Services at the MFE.

COORDINATION

EU project at Budget Department: Meetings were organized and conducted aimed at gaining better understanding of:

- PIP system functionalities and features, and its utilization level; and
- Interfaces among PIP, BDMS, Treasury Free Balance, Debt Management, and Cash Flow Systems.

There is a need to improve and streamline data exchange among systems to ensure consistency of data and avoid double entry of data to BDMS and Treasury Free Balance as well as to Debt Management system.

SIDA Project at Property Tax Department: Agreed on changes to the Property Tax database that will enable integration with Tax Administration System. Also initiated a discussion of the approach for handing over system support and maintenance to the MFE's IT Team.

D – Assist the MFE to assess remaining priority capacity building needs in the Ministry's Budget and Treasury functions and design and conduct training programs to address those needs

PROGRESS/SUCCESS AGAINST THE WORK PLAN

During last two months of 2010 fundamental questions regarding the sustainability of the Kosovo Budget surfaced. Towards the middle of October, the outlook for fiscal policy was positive, with agreement reached with the IMF on a draft 2011 Budget that would likely have seen the IMF report to its Board that the Kosovo Program is "on track". However, since that time, a no confidence motion in the Government was approved in the assembly triggering early elections. These and the following events will likely impact fiscal sustainability of Kosovo:

- Passing of the Labor law and Law on Political Prisoners which will have a large ongoing fiscal impact that was not provided for in the draft 2011 Budget;
- Implementing decisions that changed the nature of the 2010 budget, including a promise by the Prime Minister to back-pay meal allowances for all civil servants to April 2010 (despite such allowances not being allowed under the Law on Civil Service Pay). The payment of the meal allowances initially resulted in a series of illegal transactions that the MFE is seeking to correct.
- A series of election promises for additional spending, including pay rises for civil servants, 50% pay raise for teachers, and various tax breaks. The ongoing cost of such promises if implemented will be approximately 100 million per year.
- Withdrawal by the European Union of remaining tranches of donor budget support.

Addressing the above series of issues will present a challenge for the technical and political staff of the Ministry, once a new Government is formed and a Minister of Finance appointed. The IMF will only send a new mission to discuss, review progress and negotiate the Program once a new Government is formed.

From January the entire government, including municipalities will spend against interim appropriations under continuing resolution. Since this is a short-term arrangement, the new Government must quickly move to finalize the 2011 Budget and submit it to the (new) Assembly.

During the election period, GFSI advisors have assisted the Budget Department in tracking the potential costs of election commitments and provided technical advice regarding the execution of the 2010 Budget. A particular challenge for the Department has been new provisions of the Budget Law that creates an option for transfers between agencies and economic categories. These provisions require the Budget Department to identify, propose and get an approval for offsetting savings for new expenditures..

GFSI advisors anticipate to be called upon to provide technical advice on the technical and strategic fiscal issues once the new Government is formed.

In light of the longer term objective of fostering accountability and bringing performance management into the Budget process, the GFSI Advisor has commenced drafting instructions on the preparation of annual reports by budget organizations. In addition, the advisor will assist the MFE by developing a case study in the preparation of its 2010 Annual Report.

ISSUES/OBSTACLES

The structure and resourcing of the Budget Department remain a serious impediment to future budget process enhancement, including the objectives of the GFSI Project. The participation of the Director of the central Budget Department in the election process required that the Director take time off and, most importantly, raises the prospect of the Director not returning to his post. His departure would be a large loss of corporate knowledge and experience and create difficulties in identifying a long term replacement within the Department. If a new Director is appointed, it can be expected that the GFSI Budget Advisor will need to engage more closely in capacity building of the new director and coaching him/her through the next budget cycle.

COORDINATION

Meetings were held with the IMF Resident Representative to maintain active dialogue and discuss developments in fiscal issues.

E – Assist the MFE to ensure that the Ministry's property tax department and supporting systems remain robust and capable of meeting the own-source revenue needs of municipalities.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

Preliminary property tax collection assessment suggests approximately 20% increase in revenue in 2010. As of end-November, 11.7 million euro was collected, which represents about 2 million euro increase as compared with the same period 2009. The 2010 revenue exceeded the 2008 receipts, when property tax collection recorded its peak. The following reasons are thought to contribute to this outturn:

- Although second bills were not sent out this year, the Property Tax Department (PTD) prepared for all Municipalities to distribute a final notice for properties with large debts;

- Some municipalities strengthened the enforcement of policy to terminate some municipal services to delinquent taxpayers; car registration control turned to be especially effective in increasing payments;
- No municipal elections;
- Approximately 2% increase in the number of issued bills as compared with 2009.

Based on the results of a comprehensive review of the 2009 municipal audit reports from previous reporting period, the GFSI Team prepared and implemented two major training initiatives aimed at assistance towards improving the quality and usefulness of inspection reports. Training was delivered to the professionals from the PTD and practitioners from Municipalities.

The seminar organized for the members of the PTD focused on the presentation and discussion of findings reported in the 2009 audits' review, with particular emphasis on: (a) inspection quality assessment; (b) gaps and weaknesses evaluation; (c) municipalities' performance indicators and comparative analysis. Training session created an opportunity to highlight and discuss the review's conclusions and GFSI recommendations on the measures supporting future improvements in the quality of audit reports issued by the PTD, including the need for early management and resource planning in advance of the 2010 audit activities.

Outreach to Municipalities took the form of five regional workshops delivered by the PTD and supported by the GFSI Team. Workshops gathered municipal practitioners, including Property Tax Managers and Directors of Economy and Finance Departments. The workshops addressed several aspects associated with the municipal audit reports, including interpretation, responsibilities, transparency, and accountability of municipal authorities resulting from the audit. The workshop was also used as an opportunity to discuss: resurvey issues, collection trends, appraisal, and appeals processes.

In cooperation with the PTD staff, GFSI advisors commenced the collection of information and data from the sales contracts in all municipalities. This data will enable GFSI advisors to facilitate and improve analytic capacities of our counterparts.

Progress was marked in the development of a new appraisal model. GFSI advisors jointly with the Swedish counterparts, engaged in the cooperation with two municipalities - Fushe Kosove and Shtime. Organized workshops presented the new appraisal model based on the quality of construction parameters from the resurvey data. Currently GFSI team is preparing for the implementation of the new appraisal model for 2011 billing in these two pilot municipalities.

The GFSI Team coordinated the development of the PT System, with a major release of the system planned now for early January, including functionality, enhanced reporting and security. The Swedish counterparts donated a new server, which will be used for the PT System. GFSI advisors were engaged in and assisted in planning and implementation of some major changes to the infrastructure.

ISSUES/OBSTACLES

The resurvey was completed for two municipalities based on the reports from the resurvey companies. Exceptions were the Serbian-majority zones where the taxpayers did not allow the resurvey company access to their properties. The resurvey is also close to completion in a number of other municipalities, including Vushtrri, Obilic, and Podujeva. Although the quality control, involving the engagement of specially recruited students, was in general satisfactory, some more in-depth analysis identified field quality control failures. The main reason for this was that the PTD resources for the field quality control are very limited. This quality control check is of critical importance since it actually identifies whether the right property has been resurveyed. GFSI advisors performed detailed analysis and reviewed the whole resurvey process, and prepared analytic improvement recommendations for SIDA and PTD.

COORDINATION

The GFSI Team coordinated project activities with STA project. Following the extension of the STA project, GFSI advisors were engaged in drafting a detailed plan for the project implementation in 2011.

3.3 OBJECTIVE 3

Economic Policy Assistance – Development and implementation of an action-oriented Government strategy for profitable private sector growth and the attraction of foreign direct investment through technical assistance provided to the relevant counterpart institutions and closely coordinated with other USG-funded development initiatives.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

The GFSI Advisor continued during this quarter with a long series of meetings with relevant institutions involved in private sector development and economic development in general. The objective of these meetings was to collect relevant information/documentation, obtain opinions and seek confirmation about trends and assumptions. In this context, meetings were organized within Ministry of Trade and Industry, Ministry of Foreign Affairs, the Kosovo Property Agency, BEEP, the Anti-Corruption Agency, the Faculty of Mechanical Engineering at the University of Pristina, the Alliance of Kosovar Enterprises, Ministry of Environment and Spatial Planning, the Ombudsperson Institution, the Privatization Agency. A contact was also established with the Resident Representative of IMF in Kosovo and with ECLO.

A wealth of documents was collected in hard copy or electronically. Making abstraction of more than 100 legal texts, more than 70 documents were collected plus various issues of statistical bulletins. The information collected has resulted in the drafting of a comprehensive Concept Paper with analysis of the Kosovo economy, identification of major constraints, development objectives and an action plan.

From the macroeconomic point of view, two significant weaknesses exist: insufficiency of domestic savings (linked to weak export performance) and poor efficiency of the investments made in Kosovo. The concept paper advocates a development agenda to augment the reform agenda pursued by the international community. One output of the Concept Paper was a PowerPoint presentation delivered to USAID and at the Ministry of Trade and Industry.

The analysis has furthermore been fuelled by a short study undertaken aimed at identifying the sectors with export opportunity. The study draws upon an analytical model inspired by the concept of comparative advantage, and resulted in an 18-pages article: “Opportunities for Exports and Investments” (November).

In the course of the meetings, the Ministry of Education, Science and Technology mentioned the creation of the Centre for Innovation and Technology Transfer. The CITT has a budget of euro 1 million but not as yet a business plan. Considering the experience of GFSI Advisor in the area of business upgrading, technology centers and technology dissemination, we have proposed to hold a seminar on the strategic directions and activities of CITT. The presentation met with considerable interest and allows CITT to project its future. The GFSI Advisor also committed himself to help the Centre in business planning.

The concept paper mentioned above proposes, among other things, to organize an Opinion Survey among the younger generation in Kosovo. How does this generation see its future? What is the degree of optimism? We have drafted a 2-page questionnaire and launched an RFP. We are confident that the survey can be held in January 2011.

The GFSI Advisor furthermore attended a number of seminars organized by AMCHAM, BEEP and the Ministry of Foreign Affairs. We anticipate to be engaged in the Trade Facilitation Working Group under the Ministry of Trade and Industry and making a contribution in the area of industrial strategy.

Finally we have launched the concept of a Policy Briefs series, to be published online and in hard copy version. We encourage colleagues to participate in this endeavor and we have produced so far four briefs:

Brief1 – “The Economic Impact of Corruption”, 2 pages

Brief2 – “Exporting or ... muddling through in Kosovo”, 5 pages

Brief3 – “Foreign Direct Investment for Kosovo?”, 6 pages

Brief4 – “Government ... what for?”, 18 pages

The GFSI Advisor expects to release at least two more Briefs on the topics of interest rates (lending rates are high in Kosovo) and the future of the agricultural sector.

ISSUES/OBSTACLES

We anticipated that after the release of the Concept Paper the GFSI Advisor would be formally integrated within a relevant Ministry, working with counterparts, rolling out the development agenda and improving the processes of investment promotion and export development. The most appropriate Ministry would be Trade and Industry. However, the political crisis has delayed the process of integration the Advisor within the Ministry.

COORDINATION

Coordination was mainly geared to information gathering; this is indeed one intrinsic aspect of coordination. The Advisor is committed to disseminate a maximum of information to potential counterparts, colleagues and relevant donor agencies.

4 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS

Objective	Problem/Issue	Migration Plan	Status
Central Government financial and PPP reform	Early elections have slowed down reform activity within the central government	New government and Minister to be appointed and use the initial goodwill to implement necessary positive reforms	Expected early March 2011

5 MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
Enhance quality of financial statements and audit.	Discussion forum between Treasury, OAG and municipalities on major common issues in quality of municipal financial statements.	OAG, Treasury, municipal CFOs.	Mid January 2011
Enhance quality of financial statements and audit.	Training for financial officers in 7 target municipalities.	Municipal finance officers, treasury.	Mid January 2011
PPP Transactions	Pristina International Airport PPP Contract entry into force	Republic of Kosovo acting through Ministerial Project Steering Committee	February 2011
Strengthen the quality of municipal PEFA draft reports	Workshop/Training for 5 municipal PEFA teams, with the participation of DFID expert	Municipal PEFA teams in 5 pilot municipalities	January/February 2011
Review of the 2011 Municipal MTEF documentation	Presentation of review findings and discussion of recommendations	Municipal Budget Department/MFE; municipal Budget Directors; relevant donor projects	March 2011