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EFFICIENT AND SUSTAINABLE TAX ADMINISTRATION OF KOSOVO (ESTAK)

YEAR 3 - QUARTERLY REPORT

OCTOBER 15, 2012 – JANUARY 14, 2013

Contract Number EEM-I-00-07-00005-00

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1. ESTAK QUARTERLY REPORT SUMMARY

ESTAK activities during the third quarter of Year 3 have continued to focus directly on specific tasks according to the work plan and to TAK priorities. The ESTAK program is focused on strengthening capacity of the Tax Administration of Kosovo (TAK) and on increasing taxpayer compliance. The ESTAK team has made good progress in both areas during the reporting quarter as reflected in the progress details below. The main achievements during the quarter have been:

- Organizing and co-delivering tax training for selected judges and prosecutors;
- Completing a Resource Management Guide outlining best practices for TAK management;
- Assisting TAK IT with the development of a Collection Case Management System, including standardizing arrears notices and designing uniform instalment payment arrangement procedures;
- Assisting TAK in finalizing its Risk Response Plan for 2013, and its 2013 Operational Plan segments that relate to Taxpayer Service and Information Technology;
- Conducting a review of TAK’s functional quality and review functions;
- Assisting TAK’s Call Center with its layout and furniture design and in its preparations for commencing in-call capability;
- Completing an analysis of, and recommending corrective action on, TAK’s “old” debt, and assisting TAK with the completion of comprehensive tax debt information for the Assembly;
- Providing assistance to TAK’s Intelligence and Risk Management Units respectively with the matching of tax declaration data with fiscal cash register and Customs import information;
- Providing advice to TAK in relation to future legal amendments including double tax treaties;
- Supporting TAK with progress towards a changed taxpayer contact approach, including proposals to reduce the time spent on issuing “tax certificates” for visa and other purposes;
- Identifying TAK senior managers who will be instructors for delivering ESTAK designed management training courses to TAK’s managers/team leaders, and providing initial training for those instructors;
- Providing assistance to TAK’s HR Manager including provision of a report on HR functional responsibilities.

During the quarter, ESTAK assistance was provided by 1 long-term and 3 short-term expatriate advisors, 5 local advisors and 1 full-time translator.

As required by the Task Order, other sections of this report provide details on:

- Project progress (activities, benchmarks and performance standards achieved)
- Problems encountered and proposed solutions
- Success stories and notable accomplishments
- List of upcoming events and activities to be carried out in the next quarter
- Updates to the Year 3 Work Plan

2. PROJECT PROGRESS

2.1 OBJECTIVE 1 – STRENGTHEN THE CAPACITY OF TAK TO ADMINISTER ITS RESPONSIBILITIES

(A) SKILLS DEVELOPMENT/TRAINING:

In its first two years the focus of ESTAK training efforts was on re-establishing a functioning Training Department, completing a comprehensive training needs assessment, re-establishing a “train the trainers” (ToT) program, arranging a comprehensive induction program for new hires, and implementing the ISD training methodology in TAK. By the end of Year 2, the responsibility for running induction and other training had largely been handed over to the TAK Training Department. The main remaining training initiative requiring ESTAK support in Year 3 was management training.

During the quarter, the project focused on the following management training activities:

- Met with TAK's Deputy DG (Support) and Senior Manager of the Executive Office to identify TAK senior managers to be instructors for each of the 6 management training courses, so that responsibility for conducting management training can be handed over from ESTAK to TAK. Selected instructors were subsequently approved by the TAK DG;
- Presented the proposed instructors with an abbreviated “train the trainers” course. (The instructors are also scheduled to attend a presentation and facilitation skills course on 24/25 January before the first instructor presents their management training course on 30/31 January);
- Reviewed the content of the initial management training courses with the proposed instructors to ensure consistency (given they were originally developed by two different ESTAK advisors);
- Presented, in conjunction with TAK senior management, the 9 team leaders who have to date participated in and successfully completed the tests in all 6 management training courses with their course completion certificates.

The only tasks relating to training expected to be completed during the third quarter of the Year 3 work plan, were: (1) facilitating the integration of TAK's training and HR functions, and (2) completing the remaining sections of the Operating Procedures Manual for TAK's Training department.

The need for integration of TAK's training and HR functions arose after amendments to the TAK organization structure in March 2012 required the Managers of the Training and HR departments to report to the same Deputy Director-General via a Manager HR and Training. In practice, however the Manager HR and Training was only working on HR issues, and subsequently assumed the vacant Manager HR position. ESTAK has thus been working with the separate Managers of Training and HR to ensure their activities are integrated where practical. ESTAK input has included:

- Arranging for and overseeing the conduct of TAK's Employee Opinion Survey for 2012. While in previous years this work has been carried out by TAK's Training department as part of its Training Need Assessment work, this was now conducted as a joint venture between TAK's Training and HR departments. ESTAK assisted with initial analysis of the survey responses. Overall the level of employee satisfaction reflected in the 2010, 2011 and 2012 surveys has remained constant with average ratings between 4.5 and 4.6 out of 6. The main areas in need of further improvement continue to be (1) managing change and communications, (2) manager guidance and support, (3) performance management, and (4) working conditions/equipment;
- Continued work on the development of a proposed training/HR database. Progress on this slowed during the quarter due to higher TAK IT development priorities;
- Providing the Manager HR with a document highlighting HR functional responsibilities which run alongside staff training responsibilities of the Training department.

The Analysis Policy section of the Standard Operating Procedures Manual for TAK's Training department was discussed with TAK's Training Manager and signed off by TAK's Training Commission. Work on the remaining sections of that manual was however deferred until the next quarter, due to other training priorities outlined in this section.

The ESTAK Year 3 work plan also included on-going support for TAK's "train the trainers" program. ESTAK continued to assist the last batch of its approved internal trainers with the development of training materials for the future induction of enforced collection and taxpayer education staff, using the previous induction course (which focused on taxpayer audit staff) as a model.

ESTAK also continued work on the feasibility of introducing computer-based training, an activity not due to be completed until the next quarter. The Training Commission and TAK DG confirmed ESTAK's proposal for staff to be trained on the revised Code of Conduct through an eTraining pilot. Owing to higher TAK IT priorities, ESTAK is proposing using the free "AnyMeeting" webinar functionality for this online training. During the quarter, ESTAK successfully tested this webinar option with IT staff in TAK's regional offices. ESTAK also assisted TAK in requesting access to a Center of Excellence in Finance online course so access to it can be tested through the webinar option.

During the quarter, ESTAK also facilitated tax training for selected judges and prosecutors in conjunction with TAK, the Kosovo Judicial Council and the Kosovo Judicial Institute. Training materials for this course were prepared using the ISD/ADDIE methodology that ESTAK has introduced for TAK training courses, and some of the previous modules used in the induction training program for new hires were able to be modified and updated for an external audience. Details of this training initiative are detailed under the "public education on tax compliance" section of this report.

In addition to the work plan tasks, ESTAK has contributed to TAK's training activities during the quarter in the following areas:

- Proposing and overseeing TAK's 2013 Training Needs Assessment work as the basis for TAK's 2013 Training Plan. This includes plans for about 1/3 of existing operational staff in TAK's regional offices to receive refresher training similar to the training provided to the new hires;
- Reviewing the training evaluation policy and in accordance with that policy commencing work on evaluating the impact of the previous induction training on the performance of the new hires;
- Assisting TAK with arranging general tax training for TAK's Call Center staff and further SIGTAS Audit Module training for tax auditors;
- Facilitating a meeting with PTK's Training Center to determine how that unit could co-operate with TAK's Training department. This meeting identified a telephone skills course that may be able to be used by TAK's Call Center staff;
- Preparation of agendas for, and attendance at, TAK Training Commission meetings. One of the topics approved by the Training Commission but not by TAK senior management was a proposed Instructor Incentive Scheme whereby trainers could get a payment for their training delivery work (as happens in Kosovo Customs).

ESTAK advisors also provided "on the job" training to select TAK staff on various technical aspects of the tax laws (as part of assisting TAK HQ and Large Taxpayer Unit staff with technical tax inquiries).

(B) IMPROVING MANAGEMENT EFFECTIVENESS:

The Year 3 ESTAK work plan included several discrete management effectiveness tasks. One of these tasks was scheduled for completion during the quarter, namely the review of TAK's functional unit quality and review functions. In carrying out this review work during the quarter, ESTAK advisors:

- Had several discussions with TAK's Director of Internal Audit;
- Visited TAK's Peje and Gjakova regional offices and discussed with regional managers and functional team leaders the extent to which review activities were undertaken as part of the normal management chain;
- Met with TAK's Deputy DG (Operations and Compliance), Senior Manager (Field Operations) and Director Modernization, Planning & Analysis regarding the extent to which they review the performance of TAK's regional offices;
- Conducted discussions with the functional managers in HQ in relation to the Taxpayer Audit, Enforced Collection, Taxpayer Service and Pensions functions and the extent to which they review the results of operational work in the field.

Based on these consultations, ESTAK prepared a report for TAK senior management recommending that:

- TAK's HQ Taxpayer Audit and Enforced Collection Units should have responsibility for developing annual operational plans and reviewing the results of operational performance in the field (rather than TAK's Modernization, Planning & Analysis staff). Such a change would be more consistent with the Taxpayer Service function where the HQ unit not only prepares the annual operational plan for their staff but also monitors the performance of functional staff in the field against that plan;
- Units responsible for collating functional work performance results in TAK HQ should not only prepared collated data on national work performance but also prepare an analysis of the data including preparing recommendations for TAK senior management action (as compared with current practices which largely present raw data, expecting TAK senior management to make their own analysis of that data);
- TAK's Audit Quality Measurement sub-unit should be continued for now, but in the longer term greater responsibility should be given to taxpayer audit team leaders for monitoring the quality of audit work performed by their team members;
- A similar quality measurement sub-unit should be established within the TAK HQ Enforced Collection unit;
- TAK Internal Audit should extend its internal audit workload to include more post implementation type reviews particularly in the IT system area. As TAK workload becomes increasingly controlled through TAK's computer systems, TAK Internal Audit staff need to adapt to the computerized environment rather than continuing to perform the same types of procedural reviews that they have traditionally done.

ESTAK's report was provided to TAK's top management for consideration. Discussion on this report and its recommendations will take place during the next quarter.

The other management effectiveness tasks in the Year 3 work plan have been completed in earlier quarters, although the TAK DG asked ESTAK to assist with additional organization structure changes relating to the Enforced Collection area. Details of these changes are included in the "Enforced Collection" section, later in this report.

ESTAK management effectiveness is also expected to be enhanced due to the greater involvement of many of TAK's senior managers with the delivery of TAK management training courses, as detailed in the previous section of this report.

Throughout the quarter, ESTAK advisors directly supported the TAK Director-General in performing his duties and maintained a good working relationship with him. While not always following ESTAK advice, the Director-General nonetheless regularly seeks advice from ESTAK.

ESTAK advisors also provided regular assistance to TAK Deputy Directors, HQ managers and the Large Taxpayer Unit Manager (and to a lesser extent the other regional office managers). In addition, the ESTAK team assisted TAK management through regular participation in TAK HQ senior management meetings and TAK regional manager meetings.

(C) DETERMINING RESOURCE NEEDS:

In the Year 3 work plan, the specific resource need tasks relate to the 2013 Budget cycle, covering the provision of assistance in identifying TAK resource needs to feed into 2013 Budget submissions and supporting TAK with the progress on those submissions. In particular, it was envisaged that during the quarter ESTAK would assist TAK management in advocating support for their 2013 Budget submission.

In the previous quarter, ESTAK had assisted TAK with the presentation of its Budget submission at the Budget hearing that considered the MoF Budget for 2013. Subsequent to the budget hearing and after the issue of a further budget circular, indications from the MoF Budget department were that a small additional allocation of around 80,000 euro would be given to TAK for wages and salaries sufficient to pay existing staff but would not allow for any additional staff or any increases in salary during 2013. TAK responded by submitting a resource request even higher than the previous bids, including 3m euro additional funding for a new building for a combined tax/customs office.

The 2013 Budget allocation for TAK was finally set at 7.9m euro, but this included a new 0.6m euro item for subsidies for smaller businesses to acquire fiscal cash registers. The resultant 7.3m euro allocated for core TAK activity was 7% lower than the 7.8m euro that TAK was expected to spend in 2012. It is now known that actual TAK expenditure for 2012 totaled 7.428m euro meaning that the 7.3m euro represents a cut of 1.75%. Discussions with TAK management indicate that rather than prioritize or cut back expenditure plans, TAK intends to continue expenditure as necessary and then argue for additional funds in mid-2013 when 2013 spending is reviewed, with the potential option of switching some or all of the 0.6m fiscal cash register allocation into TAK's core budget.

TAK has continued to operate on the basis that funding will be provided when needed, particularly through discussions that the TAK DG has had with the Minister of Finance. Given the Minister's recent resignation, it is now unclear to what extent the past approach will be able to continue. In this environment, it has been difficult for ESTAK to get TAK senior management to focus on resource management. ESTAK's response has been to:

- Prepare resource management materials that can be referred to and used by TAK when they decide to improve their resource planning process. During the quarter ESTAK has completed development of a "Resource Management Guide". Compared with current practice, the Guide focuses on:
 - o improvements in the resource bidding process, in particular identifying the revenue impact of different aspects of expenditure bids (rather than TAK revenue target and TAK expenditure resourcing decisions being made at different times and independently of each other) and prioritizing elements of such bids
 - o improvements in expenditure reporting – the TAK Budget department currently prepares comprehensive information on expenditure with little analysis of this information and does not make recommendations to TAK management on actions they should consider taking; related to this there is a need for regular reporting on expenditures at TAK senior management meetings
 - o focusing on better utilization of existing staff and physical resources rather than the tendency to focus only on the easier decision of asking for additional resources
 - o defining distinct roles of the Budget Department and the Strategic Finance Officer in the

Modernization, Planning and Analysis area (TAK has to date not filled the latter position)

- identifying future long-term improvements, particularly potential decentralization of the budget process within TAK and involving more TAK management in the process
- Encourage greater involvement of TAK senior management in approving requests for and monitoring TAK resource usage (rather than this being left to the TAK DG, TAK Deputy DG (Support) and TAK's Director Budget). In December 2012, ESTAK participated in a Budget meeting with these people and TAK's Senior Manager of the Executive Office during which the TAK DG agreed that such meetings should be held monthly. ESTAK proposed that the Resource Management Guide would be presented at the next meeting due to be held in February 2013. In preparation for that meeting, ESTAK prepared a Powerpoint presentation outlining the main issues covered in the Guide.

(D) RETURNS PROCESSING AND TAXPAYER RE-REGISTRATION:

In the Year 3 work plan, one specific return processing task was planned to be completed during the quarter, namely reducing the filing frequency of VAT declarations by smaller businesses. This task had been included in TAK's IT Plan for 2012 and checks by TAK with its SIGTAS computer software supplier indicated that this change would not require significant time or cost. However despite this, TAK senior management have shown some reluctance to make this change, and accordingly it has been deferred. ESTAK believes the reason for such reluctance stems from the fact that the proposed benefit for TAK from a reduced number of VAT declarations requiring processing has now reduced due to the significant number of VAT registered taxpayers that are now e-filing their VAT declarations. As ESTAK has noted there however remain significant benefits for the taxpayers themselves and in terms of future improvement in Kosovo's Doing Business ratings. Furthermore, given TAK's now proposed reduction in the VAT registration threshold from 50,000 to 30,000 euro in annual turnover, ESTAK considers this filing frequency reduction should be introduced either prior to, or in conjunction with, the registration threshold reduction. Accordingly, the filing frequency reduction proposal is now included in TAK's 2013 IT Plan.

There is also an "on-going" return processing activity in the work plan relating to the expansion of e-filing. In the previous quarter e-filing by employers of their monthly wage withholding tax/pension contribution forms had increased to over 20,000 by mid-October 2012. The number of employers e-filing, a requirement that became mandatory, has since increased further to 21,000. At the same time, the number of VAT registered taxpayers who are e-filing their monthly VAT declarations has increased to 7,900, over 90% of the total number of VAT registered taxpayers who are currently active in Kosovo. E-filing for VAT taxpayers has also become mandatory from January 2013.

Arising from requests from business community stakeholders, TAK is considering extending the ability to e-file to income tax declarations. However such a change requires some re-design of TAK's e-filing application and this work has been proposed to be completed during the first half of 2013.

While many taxpayers are now filing their tax declarations electronically, until recently tax payments still had to be physically made at commercial banks. TAK has developed a web service and has requested banks to allow electronic payments of tax possible through their systems to further enhance the attractiveness of e-filing. Most commercial banks have responded positively to this request and have embedded TAK web service in their online payment systems, enabling accurate posting of tax payments. During the quarter the number of commercial banks offering such service increased from 3 to 5.

In relation to tax registration, this quarter has seen the further development of combined tax/business registration processes at "one-stop shops" run by the Business Registration Agency of Kosovo (BRAK) which now operate in most municipalities. Registration processes are now electronic and allow new businesses to obtain fiscal numbers and business registration numbers (and if necessary VAT certificates

and import/export certificates) within 24 hours of submitting an application. Since their commencement in February 2012, almost 5,000 new businesses have registered at the “one stop shops”.

While the registration process is much more efficient than previously, new businesses continue to receive both a business registration number and a fiscal number. Both the ESTAK and BEEP projects consider that only one number should be used for registration, but this has been resisted by the World Bank donors assisting BRAK. At a recent meeting, BRAK agreed to amend their processes such that multiple businesses run by the same individual have only one business registration number (as happens with fiscal numbers) rather than a separate number for each business. Implementation of this change will remove the main obstacle to moving towards a common number for tax/business registration in future.

The only remaining “registration” improvement that ESTAK has identified is a proposal to dispense with the requirement for import/export certificates (following a similar move in Kosovo Customs), but this requires a change to the VAT law, which it is proposed will be pursued during 2013 at the same time as the VAT law amendment required to reduce the VAT registration threshold.

During the quarter, ESTAK has also commenced assisting TAK with the development of new procedures for de-registration of businesses. While the “Doing Business” one-stop shop initiatives have made significant improvements to business registration processes, little has changed in respect of taxpayer de-registration. The processes followed by both TAK and BRAK need to be improved particularly as TAK gives more emphasis to following up non-filers/stop-filers during 2013. Initial discussions have been held with TAK’s Director IT as to how these procedures might be improved.

It should be noted that the latest (November 2012) World Bank “Doing Business” ratings for Kosovo for “paying taxes” (Kosovo’s ranking increased from 48th to 44th) and for “starting a business” (Kosovo’s ranking increased from 170th to 126th) have not yet recognized the significant improvements that have been made during 2012 in relation to e-filing or the one-stop shops for business registration; it is expected that further significant improvements in those rankings will be reflected in the next published results.

(E) SIGTAS IT SYSTEM:

Two specific IT tasks were expected to be completed during the quarter, and progress on each follows:

- Developing a simplified MIS for TAK using KPI information – this was completed and the system made available to TAK senior managers during the previous quarter. During the current quarter, TAK extended its VKME staff work reporting system (which provides data for the MIS) to its Taxpayer Service staff, meaning that work output information is now recorded by all TAK regional office staff. ESTAK has also assisted TAK’s Director IT with reviewing TAK’s reporting system architecture as part of work on further development of the MIS into a more robust and comprehensive system;
- Reviewing the use of 3rd party information received by TAK – this has been largely completed in conjunction with TAK’s IT, Risk Management and Intelligence Units in relation to the main sources of information. In particular, ESTAK assisted TAK with (1) completion of a data matching exercise in relation to TAK and Kosovo Customs import data, and (2) production of reports comparing the results of sales data submitted to TAK from fiscal cash registers with sales data recorded on VAT and income tax declarations. TAK’s Intelligence Unit has also been matching the results of taxpayer provided data on their over 500 euro purchase transactions with details in taxpayer declarations.

Three on-going IT tasks are also expected to be progressed each quarter:

- On-going support for TAK in its efforts to sustain SIGTAS until a replacement system is rolled out. ESTAK assistance is continuing with particular emphasis on the implementation of the instalment payment part of the Stage 2 Collections module. After testing during the quarter, that part of the

module is working satisfactorily and is being integrated into Collection Case Management System development. ESTAK also provided support to TAK IT management in relation to their dealings with the SIGTAS supplier. This included discussions on obtaining missing system documentation and details of the SIGTAS source code from the supplier, extending the existing support contract until March 2013 and planning for a new support contract from April 2013;

- Support the on-going evolution of e-filing and online taxpayer service support. ESTAK actively supported the expansion of e-filing during the quarter. ESTAK supported TAK in developing an extension to the e-filing system allowing TAK to send personalized letters/notices to taxpayer's e-filing accounts and tracking whether such letters/notices were read by the recipient. ESTAK also commenced discussions with TAK IT in relation to (1) allowing taxpayers to electronically obtain "tax certificates" for their visa and other applications, (2) more effective de-registration of businesses, and (3) other taxpayer services such as submitting a request for a tax debt payment agreement, submitting an objection to a tax assessment or a tax appeal, etc;
- On-going increases in the exchange of information among interested users. ESTAK assisted TAK with improving the processes of information exchange between TAK and MoF Treasury and the MoF Property Tax unit.

ESTAK continued to provide significant assistance with the remaining component of the Year 3 work plan in this area, the development of a Collections Case Management System (replacing the Collections Module provided by the SIGTAS supplier which was determined to not meet TAK's needs). At the end of the quarter, the new system has been designed with processes covering the following collection activities:

- Opening/allocation of collection cases to collection officers by their team leaders, and closing of collection cases when collection action has been successful;
- Recording details of taxpayer contacts by collection officers, including visits and telephone calls;
- Issue of arrears notices to taxpayers with overdue debts;
- Recording and cancellation of tax liens;
- Recording of levies/garnishees with MoF Treasury, banks and other third parties;
- Imposition of embargoes on importing and exporting through Kosovo Customs;
- Recording of arrangements for taxpayers to pay their debts by instalments, and the integration of this functionality with the core SIGTAS system.

ESTAK estimates that a further 2 weeks is needed before work on the last of the above items is completed and the above package (which will become Version 1 of the Collections Case Management System) can be tested and implemented. This will be completed during the next quarter during which work will also commence on the final phase of that system which is envisaged to include procedures for those debt cases where taxpayer assets are seized and potentially sold.

ESTAK has also provided support to TAK's IT department by:

- Reviewing progress on TAK's 2012 IT Operational Plan in review meetings with TAK's Senior Manager of the Executive Office. Most tasks in that plan were completed, and the remaining activities were carried over to TAK's 2013 IT Operational Plan;
- Assisting TAK's IT Director with the development of TAK's 2013 Operational Plan;
- Assisting with the formation of a permanent unit for maintaining and managing taxpayer accounts;
- Assisting in designing and preparing personalized tax debt reminder notices to tax debtors with debts over 3,000 euro, both by letter and through publishing in taxpayer's e-filing accounts;
- Assisting with the reduction in the number of unprocessed payments which had been held up due to missing information on tax type or tax period;
- Assisting with amendments to VAT e-filing to allow e-filers to submit amended VAT declarations;

- Introducing Standard Operating Procedure templates for TAK's system developers, reviewing their first use of such templates and creating a library of such procedures;
- Advising TAK IT staff on testing procedures for SIGTAS changes, including testing planning and documenting testing results;
- Designing and commencing implementation of a solution for managing user access to IT reports based on user role and responsibility;
- Attending weekly IT Director/Manager work meetings and assisting the IT Director with staffing issues including drafting job descriptions for software analyst/developers.

2.2 OBJECTIVE 2 – INCREASE TAXPAYER COMPLIANCE

(A) IMPLEMENTATION OF TAX LEGISLATION (RULES AND REGULATIONS):

Tax legislation

During the quarter ESTAK discussed with TAK's Director Legal possible tax legislative changes that could be included in GoK's Legislative Program for 2013. ESTAK identified the need to amend the Corporate and Personal Income Tax laws to extend the incentive allowance provided for purchase of heavy equipment for a further two years. The TAK DG also indicated his intention to seek an amendment to the VAT law to reduce the registration threshold from 50,000 to 30,000 euro in annual turnover. GoK subsequently approved the inclusion of amendments to these 3 tax laws in its 2013 Legislative Program.

The TAK DG also obtained approval for an amendment to the Pensions law (which was already being amended in the Assembly) regarding the maximum pension contribution payable by the self-employed. On TAK's behalf, ESTAK also approached the USAID BEEP project to ask for its support in working with the Ministry of Trade & Industry to repeal the as yet unimplemented Accommodation Tax law that was enacted in 2008.

Following tax law legislative amendments made in prior quarters, one main legislative task remains to be completed, namely the preparation of an Administrative Instruction covering the package of VAT law amendments. ESTAK continued its assistance with this task but progress has however been delayed as the TAK managers responsible have given priority to other work areas. It is hoped that this work be able to be completed during the next quarter.

ESTAK has also continued to assist USAID and TAK with the implementation of revised tax (and customs) exemption procedures for USG/USAID contractors and subcontractors resulting from the revised USG/GoK bilateral agreement that was signed on 29 March 2012. Progress on this task is currently awaiting confirmation of proposed new processes by USG authorities.

Double tax treaties

ESTAK continues to assist a MoF/Ministry of Foreign Affairs working group that has been progressively arranging for about 20 countries to enter into double tax treaties with Kosovo.

Three double tax treaties involving Kosovo are currently in force (with Albania (2004), Macedonia (2011) and Turkey (2012)), and 7 past agreements entered into by Yugoslavia continue to have effect in Kosovo. Negotiations have previously been completed and treaties simply require signing with the Czech Republic, Hungary and Albania (a revised agreement) and negotiations remain close to finalization with the United Kingdom.

In the previous quarter, an IMF mineral taxation policy mission recommended, amongst other things, that Kosovo "review all tax treaties and consider re-negotiating the most problematical ones. Until the treaties are reviewed and a national policy is set, do not negotiate additional treaties". The mission's main concern was with the previous Yugoslav agreements that had been made with the Netherlands, Germany, France and Finland which provide a zero withholding tax rate on interest and which could be used by

chains of companies including residents of treaty partner countries to avoid tax on gains from the sale of mining rights in Kosovo. These recommendations need to be considered at the next Ministry of Finance/Ministry of Foreign Affairs working group meeting. In preparation for this meeting, ESTAK prepared a summary note on the current status of Kosovo double tax treaty work and provided recommendations on how work on double tax treaties should proceed taking into account the IMF mission concerns.

It should also be noted that the ESTAK role assisting with double tax treaties will be assumed by a GIZ funded legal expert who will arrive in Kosovo in April 2013 and who will be assisting TAK with legal issues for a period of 2 years.

Legal barriers

ESTAK continued to assist TAK with monitoring and identifying legal barriers to TAK collection and enforcement.

In this quarter, ESTAK continued to provide assistance to the TAK DG in relation to how TAK deals with “old debt” particularly that over 6 years old and technically statute-barred (unless dispute actions have extended that timeframe). During 2012, the Auditor-General raised concern about the amount of old debt and debt nearing the 6 year statute date. Assembly Budget Committee members have raised similar concerns and the impact that non collection of debt is having on the GoK budget. These old debt cases should simply be written off as uncollectable but TAK has been reluctant to do so for fear of being criticized for not taking action on collecting these debts during the previous 6 years, once such cancellation is publicized. If it is not cancelled, the amount of old debt will continue to rise. ESTAK assistance has focused on dealing with the following segments of the old debt:

- Old debt cases where the amount of the debt is less than 200 euro. These cases make up more than half of the old debt cases, but their total revenue is not significant and they would be uneconomic to pursue further;
- Old debt that relates to budgetary organizations and POEs where collection of the debt is simply GoK money going round in circles such that agreement from GoK/Assembly to cancel old debt in those cases would not “harm” the budget;
- Individual examination of the 27 cases of over 1m euro debt that account for 53m euro of the total old debt of 74m euro.

(B) ROBUST AND FAIR AUDIT FUNCTION:

One specific “audit” task was planned to be completed during the quarter, namely the implementation of simplified audit risk criteria. This related to earlier work that had been facilitated by ESTAK on reviewing the audit risk criteria that are used in TAK’s Audit Risk Model. The earlier work identified a number of areas where the formula used in relation to income tax declaration information could be simplified. During the quarter, ESTAK discussed with TAK management the proposed simplifications, and as a result TAK decided to no longer proceed with those changes, but to make one other change to the audit risk criteria. This was duly implemented and no further changes to the audit risk criteria are currently planned.

In addition, there is one audit area in the Year 3 work plan which requires on-going assistance, namely the building of VAT administration capacity to reduce the turnover threshold for VAT taxpayer registration. While it is now clear that the VAT taxpayer registration threshold will not be reduced during the ESTAK timeframe due to an earlier GoK commitment to the IMF, TAK has received approval for an amendment to be made to the VAT law in the Assembly’s 2013 Legislative Program to reduce the registration threshold from 50,000 to 30,000 euro annual turnover. ESTAK believes that this threshold reduction is desirable and has focused its efforts on a proposal to reduce the filing frequency for VAT declarations from monthly to quarterly for smaller businesses. Such a change is seen either as a pre-requisite to, or should be

implemented concurrent with, VAT registration threshold reduction. It would also contribute to a further improvement in Kosovo's "Doing Business" ratings by reducing by half the number of VAT declarations required to be filed and processed each year. This change had been included as an action item in the TAK IT implementation plan for 2012 but TAK senior management have been reluctant to proceed with this change and it has been deferred for action during 2013.

There were also further developments in relation to two other audit tasks that had been completed in the previous quarter, as follows:

- Intelligence Unit – in line with the plan developed for the establishment of TAK's Intelligence Unit, ESTAK assisted TAK with the running of a program to compare sales information submitted to TAK through fiscal registers with sales information declared on tax declarations. ESTAK was also pleased that the unit also completed other actions in the establishment plan including analysing information provided by businesses on their purchase transactions over 500 euro, following up new information sources for identifying non-compliers, and creating a library of relevant articles from investigative journalism sources
- TAK Code of Conduct – during the quarter the TAK DG approved the updated Code of Conduct. As noted earlier in this report, ESTAK has commenced working with TAK on developing an e-training course for TAK staff on the revised Code. During the quarter, the technical delivery mechanism for this training was tested and identified and focus during the next quarter will be on developing the training material in conjunction with TAK's Office of Professional Standards

In addition to these tasks, ESTAK also contributed to TAK's audit activities as described below:

- On-going assistance to TAK with monitoring of progress on TAK's 2012 Risk Response Plan and drafting TAK's 2013 Risk Response Plan – this included assisting TAK with preparation of responses to questions from the IMF on Risk Response Plan progress;
- On-going support to TAK's audit quality measurement program - ESTAK assisted with the review of the quality of compliance visits undertaken by TAK's regional office staff. 247 cases were reviewed and these were found to have an average quality level of 62%. TAK regional managers have been advised of areas to which greater attention should be paid by their audit staff;
- Continued to assist TAK with the data matching process between TAK and Customs that started during the IMF mission in March 2012. Assistance included helping prepare a final report on the findings of the data matching exercise for TAK senior management which will be provided to the IMF and reviewed during their next mission in February/March 2013. 500 higher risk cases were checked and discrepancies were identified in 22 cases. In 14 of these cases, the discrepancies were justified based on differences in TAK and Customs reporting in respect of imports with deferred payment arrangements and cases where imports were cancelled, leaving 8 cases where true discrepancies arose;
- Assisted TAK HQ Taxpayer Audit management and staff with comments on various technical tax issues – this included advice on the tax issues involved when a business changes its legal status and advising on whether tax can complete tax audits after the statute bar of 6 years.

(C) ROBUST AND FAIR COLLECTIONS FUNCTION:

One enforced collection activity was scheduled for completion during the quarter, namely the establishment of a career ladder for Collection officers linked to the complexity/difficulty of cases. While ESTAK has prepared background material related to this task and discussed this with TAK's HR Manager, progress on completion has been delayed until the next quarter when enforced collection organization structure changes have been decided. Early in the quarter the TAK DG decided to abandon the "pilot" of

combined Pristina 1, 2 & 3 Enforced Collection Units and to return responsibility for enforced collection to the regional managers in Pristina to better match with their accountability for regional office revenues. He subsequently asked for advice on how the organization structure in TAK HQ could be amended to give higher priority to enforced collection. ESTAK's prepared a response to this request which envisaged:

- A separate Directorate for Enforced Collection being created in TAK HQ, similar in concept to the Directorate that currently exists in respect of the Taxpayer Service function
- Sub-options based on how TAK's Call Center links in with Enforced Collection work
- The Enforced Collection function being given specific responsibility for following up non/stop-filers as well as tax debt cases given that it is not currently clear which part of the TAK organization is responsible for dealing with non/stop-filing

TAK has not yet decided whether it will make these changes and is considering the creation of a new sub-unit within the HQ Enforced Collection unit to have responsibility for specific taxpayers (i.e. POEs, SOEs and "budget organizations" that have tax debts) and for specific enforced collection actions (e.g. seizure actions).

Progress on other Enforced Collection activities in the Year 3 work plan has also been delayed, and their status is now as follows:

- Implementation of SIGTAS stage 2 Collections Module – As indicated in earlier reports, ESTAK/TAK analysis showed that the collections case management part of the vendor-provided module had not been properly designed and as a result TAK IT staff have been working on designing TAK's own Collection Case Management System under ESTAK IT Advisor supervision. Significant progress has been made on system development as outlined in the "SIGTAS IT System" section of this report and it is now expected that the major part of the new system will be able to be implemented during the next quarter;
- Implementation of automatic notices to debtors and non/stop-filers – ESTAK plans for the commencement of automatic notices are linked to the commencement of in-call capacity in the Call Center (which has been delayed as detailed below). In the absence of such automatic notices, ESTAK assisted TAK with the issue of reminder letters to taxpayers with debts of over 3,000 euro via PTK in November 2012. In addition, for the first time, TAK electronically issued such notices to the mailboxes of those tax debtors that are registered e-filers;
- Assisting the Call Center in expanding to deal with in-calls arising from the receipt of automatic notices. During the quarter, and in preparation for these changes, the Call Center was shifted from TAK HQ to a larger area in the Germia building, the Automated Call Distribution (ACD) equipment was re-installed in the new premises, and 8 additional staff for the Call Center were identified for transfer from the Processing department. However, progress on expanding Call Center functionality to handle in-calls was delayed due to lack of progress in getting the ACD equipment vendor, or alternative suppliers, to provide training to Call Center staff on how to use that equipment. The ESTAK advisor also assisted the Call Center with (1) identifying the best layout for the expanded Call Center and identifying the best type of furniture (which has since been acquired) for that purpose, and (2) developing notices to be sent to taxpayers who had advised Call Center staff that they agreed to pay their tax debts, but they had not done so, and to taxpayers who could not be contacted by Call Center staff because the telephone number on record was inaccurate.

Despite the ACD delays, TAK's Call Center staff have continued to successfully follow up taxpayers with debts of between 300 (had been 500 until October 2012) and 3,000 euro. In the 2012 year, the Call Center has:

- Made 12,475 successful phone calls;
- Collected tax revenues totalling 2.025m euro (on average 107 euro has been collected from every 10c phone call);
- Followed up on any delinquent tax declarations relating to those taxpayers, 550 of which were submitted to TAK via the Call Center; and
- Contacted 4.125 taxpayers to encourage them to e-file, when that facility was being introduced.

ESTAK is continuing to assist TAK implement an Enforced Collection plan that gives an organization-wide focus to improving enforced collection activity. ESTAK's main emphasis has been on the computer system development and organization structure parts of that plan, the progress on which is detailed above.

ESTAK also contributed to TAK's enforced collection activities in the following areas:

- Assisted TAK with the completion of a comprehensive report for the Assembly on TAK's tax debts and its efforts and plans in collecting those debts. This also included details of "old" debts much of which are now statute-barred and should be cancelled, but cancellation requires publication and has not been done by TAK for fear of criticism on why it has not timely collected such debts. ESTAK also assisted TAK with proposals for dealing with segments of this old debt (e.g. proposals to (1) cancel the large number of old debts where the debt is less than 200 euro and to (2) abate the old debts of budget organizations, POEs and SOEs);
- Drafted a manual for instalment payment agreements proposing standard procedures for handling tax debtors who have arranged to pay their tax debts by instalments;
- Assisted, in conjunction with ESTAK's IT Advisor, in the preparation of standard arrears notices and procedures for handling instalment payment requests by taxpayers that needed to be standardized to facilitate their inclusion in the Collection Case Management System;
- Participated in visits to TAK regional offices with TAK's Deputy Director-General (Operations and Compliance) and/or Manager Enforced Collection to emphasize the need to increase enforced collection efforts, to give priority to the collection of newer debt (about 18m euro of debt relates to the last 12 months) and to discuss instalment agreements, penalty reduction and other collection issues.

(D) PUBLIC EDUCATION ON TAX COMPLIANCE:

One specific education task was planned to be completed during the third quarter of the Year 3 work plan, namely briefings on tax issues for judges and prosecutors, and this was duly completed. Following meetings with the Kosovo Judicial Council and the Kosovo Judicial Institute, ESTAK organized, facilitated and co-presented a training program for judges and prosecutors during November and December 2012 covering two broad purposes:

- A briefing for the newly appointed judges from the Pristina Basic Court and from the Appeals Court that could be involved in hearing tax dispute cases from January 2013 that were previously heard by the Independent Review Board
- A briefing for prosecutors who could be involved in prosecuting criminal cases against alleged tax offenders

In total three lots of 2 days training were spread over a four week period, with 5 days allocated for tax issues and one for customs issues. The tax component involved 11 modules which were presented by 5 ESTAK advisors and 7 TAK staff. The ISD/ADDIE training methodology introduced by ESTAK for TAK training material was followed and comprehensive training materials for participants were prepared and distributed. While it was originally envisaged that 7 judges and 10 prosecutors would attend the training,

the average number of participants each day was around 9, despite follow ups by KJI. Nevertheless, the training program was completed and the opportunity was taken for the TAK DG to meet the course participants as the level of interaction between TAK and the justice system increases in future years. Participant evaluations indicated strong satisfaction with the presenters and the material presented and have requested that the training be repeated after they have had some experience in looking at actual cases.

There are also three education activities in the work plan that required on-going assistance, namely:

- Assistance to TAK with the progressive redevelopment of its taxpayer education function – ESTAK focused during the quarter on helping TAK develop its Taxpayer Service Operational Plan for 2013. Meetings with TAK taxpayer service managers and team leaders indicated broad support for the “vision” that ESTAK had prepared to guide the future development of the Taxpayer Service function and these aspects have been incorporated into the 2013 Taxpayer Service Operational Plan. Importantly, this includes plans to progressively shift most taxpayer contact activities away from TAK HQ to TAK regional offices and the Call Center, meaning that taxpayer service staff will progressively become more involved in “technical” rather than “administrative” work. ESTAK also continued to focus on the remaining areas from the 2012 Operational Plan that had not yet been implemented, the main issue here being the proposed cessation of most current “tax certificate” issuing work. Following TAK management reluctance to implement ESTAK’s initial recommendations to cease non-tax related tax certificate issue work, emphasis shifted to delegating responsibility for approval of such certificates to Taxpayer Service team leaders and to planning for tax certificates to be able to be obtained by taxpayers electronically;
- Assistance with publicizing taxpayer service initiatives. Activities during the quarter focused on making preparations for TAK’s Call Center to commence in-call activity during 2013. ESTAK also continued to monitor the progressive expansion of e-filing – during the quarter the number of employers e-filing has increased from 20,000 to 21,000 and the number of VAT registered taxpayers e-filing has increased from 7,500 to 7,900. ESTAK also assisted TAK with discussions on further expanding e-filing, in particular allowing income tax declarations to be electronically filed in future – while this change is supported, some redevelopment of the e-filing IT functionality is necessary (and is planned during early 2013) before this change can be introduced;
- On-going assistance to TAK in publicizing enforcement actions. ESTAK continued to monitor progress on enforcement actions taken by TAK’s Tax Investigation Unit and its Enforced Collection staff. It is noted that publicity was given during the quarter to a joint TAK/Customs seizure of smuggled goods by a business in Gracanica.

In addition to these tasks, ESTAK has also contributed to TAK’s education activities in the following areas:

- Visited TAK’s Peje and Gjakova regional offices to review their taxpayer service facilities. This completed ESTAK’s visits to all TAK offices and confirmed that the offices most in need of taxpayer service facility upgrading are Gjilan and the Large Taxpayer Unit. The visit also provided the opportunity to review how the newly established Tax Advisor positions in TAK regional offices were functioning;
- Visited TAK’s Large Taxpayer Unit to review how their Tax Advisor work is progressing. From January 2013, the LTU is now taking on the prime responsibility for responding to taxpayer enquiries from its taxpayers rather than this being dealt with by TAK HQ’s Taxpayer Service department;
- Assisted TAK in the preparation of its 2013 Calendar for taxpayers. While ESTAK assisted with the preparation of its content, funding for the printing of the calendar was provided by GIZ;
- Commenced work on the development of new procedures for de-registration of businesses. Initial

discussions have been held with TAK's Director IT as to how this work might best progress;

- Monitored TAK progress on taxpayer education issues raised in ESTAK's "Compliance Strategy for the Enclaves" report (e.g. updating of the TAK website to include additional Serbian translations, printing of the "Tax Legislation" book in Serbian, and ensuring TAK's completion of previously planned taxpayer education seminars in Gracanica and Strpce), both now completed;
- Continued discussions regarding a Customer Relationship Management Software proposal for TAK, which taking into account higher IT priorities, has been deferred until later in 2013.

2.3 OBJECTIVE 3 – DONOR COORDINATION

In the Year 3 work plan, the only donor co-ordination task is the on-going active participation of ESTAK in a donor co-ordination forum.

ESTAK liaison with donors is co-ordinated through TAK-run workshops, held at key times when TAK donor/stakeholder consultation is needed. Such workshops have in the past taken place every 6 months or so (the last one took place in September 2012 and the next is proposed to be held in March 2013) to coincide with visits by the IMF risk management experts assisting TAK with its Compliance Strategy and Risk Response Plan work.

Besides these workshops, ESTAK continues its successful cooperation at an operating level with other donor projects assisting TAK:

- ESTAK coordinates activities with EU/TAIEX (in relation to VAT and risk management) and EULEX experts (in relation to support for TAK's Tax Investigation Unit). With VAT assistance being limited to periodic weekly visits, ESTAK has continued to take on the main role of assisting TAK with VAT matters since the cessation of the EU-CTA project in September 2011;
- ESTAK works with GIZ or GIZ-funded experts in relation to (1) VAT and auditing using indirect methods training assistance with the Bavarian Government, (2) assisting TAK with the preparation, printing and distribution of TAK's 2013 Calendars for taxpayers, and (3) providing an initial briefing to a legal expert on double tax treaty issues in preparation for that experts proposed 2-year assistance from April 2013;
- ESTAK coordinates efforts with the IMF with regular contact with visiting missions. In preparation for each regular mission visit, ESTAK visits TAK's Large Taxpayer Unit and the MoF Tax Policy unit to obtain the latest information on likely future revenue projections.

ESTAK also continues to liaise with other USAID projects. This quarter, assistance was provided to the BEEP project with Doing Business progress information and in relation to a proposal for insurance companies (rather than banks) to provide guarantees for traders/importers, to the GFSI project with comments on their tax policy change proposals, and to the NOA project in relation to tax issues affecting the agricultural sector and their proposals to modify the application of VAT to the dairy industry.

3. PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

ESTAK has previously noted in its quarterly reports various problems encountered and has reported progress, if any, on their resolution. Problems that may impact ESTAK's ability to achieve its goals and objectives remain in the following three areas:

1. The performance of TAK staff is not adequately managed
2. TAK resource management practices need to be improved
3. Inability to use ACD equipment by TAK's Call Center is delaying reform initiatives

Details of each of these problems and steps taken to resolve them to date follow.

(a) The performance of TAK staff is not adequately managed:

ESTAK continues to believe that one of the most significant issues impeding reform progress and improved revenue collection performance is the reluctance by TAK managers to effectively and robustly manage the performance of their direct reports.

The problem - Sustained support for performance and human resource management by ESTAK in Years 1 and 2, has not been matched with sufficient tangible support from the TAK leadership team. Comprehensive competency standards were introduced for all key job roles and training has been provided to most managers including all team leaders in the regions. While there was some appetite for the practice to take root in the regional offices, similar traction has not occurred organization-wide due to the absence of TAK HQ leadership commitment, either to sanctioning poor performers or to meaningfully utilizing identified top talent in the organization. While there have been trends towards centralization of decision-making with limited delegation due to a general lack of trust in regional office staff by TAK HQ management, at the same time there has been a strong reluctance to hold any one accountable through adequate performance management processes.

Proposed solution - As a consequence of discussions with USAID, ESTAK discontinued its support in the performance management area during 2012, with the exception of completing management training and a small number of discrete tasks that are included in the Task Order. It is anticipated that the delivery of the ESTAK-developed management training courses to TAK's top management team in the coming months may lead to an improvement in TAK's performance management approach.

(b) TAK resource management practices need to be improved:

The problem – TAK resource management practices need to be improved. During the life of ESTAK, TAK resourcing decisions have largely been confined to 3 individuals (the TAK DG, the TAK Deputy DG (Support) and the Budget Unit manager) and internal reporting on resource management issues is rare and lacks analysis. There has been a tendency to ask for additional resources rather than to review the better use of existing resources and to go outside the Budget process with TAK resourcing ultimately decided on the basis of personal discussions between the TAK DG and the Minister of Finance. In this environment TAK management has shown little interest in improving its resource management practices.

Proposed solution – ESTAK recognizes that TAK reliance for resources on a personal relationship between the DG and the Minister is not sustainable. ESTAK has recently completed a "leading practice" Resource Management Guide for TAK management in order that future budgetary processes are more rigorous, more consultative, and better prepared, a necessity for the future when personal relationships between the TAK DG and Minister of Finance can no longer be relied upon. It is hoped that "launching" of the Guide during the next quarter will lead to future improvements in resource management practices within TAK.

(c) Inability to use ACD equipment by TAK's Call Center is delaying reform initiatives:

The problem - As part of its establishment of a Call Center, TAK acquired Automated Call Distribution (ACD) equipment from a vendor a little more than a year ago. The equipment was duly delivered and installed but no training on its use was then provided as TAK was initially focusing its Call Center activities on out-calls only. In preparation for introducing in-call capacity, ESTAK has supported TAK in its contact with the vendor to obtain advice on how to use the ACD equipment. The vendor has been trying to assist and sent some people to look at the equipment but no training on its use has yet been delivered. TAK has limited leverage over the vendor as the vendor has already been fully paid and the 12 months support in the contract has technically expired. Inability to use the ACD equipment is not only holding up the introduction of in-call facilities but also deferring plans to issue notices to non-compliant taxpayers (particularly the large number of non-filers) where any enquiries resulting from the issue of such notices were planned to be referred to the Call Center.

Proposed solution – ESTAK assisted TAK in meetings with the vendor. Owing to concerns about whether the vendor would be able to assist, ESTAK also supported TAK in contacting the ACD equipment supplier (Panasonic) to identify other avenues to provide TAK the needed assistance. ESTAK has also escalated the issue to TAK senior management but as yet the issue has not been resolved. ESTAK has advised TAK that the project's Call Center advisor will not return to Kosovo until this issue is resolved.

4. SUCCESS STORIES AND ACHIEVEMENTS

The main success stories of the quarter have been:

Organizing and co-delivering tax training for judges and prosecutors – Following meetings with the Kosovo Judicial Council and the Kosovo Judicial Institute, ESTAK organized, facilitated and co-presented a training program for judges and prosecutors during November and December 2012 covering two broad purposes:

- A briefing for the newly appointed judges from the Pristina Basic Court and from the Appeals Court that could be involved in hearing tax dispute cases from January 2013 that were previously heard by the Independent Review Board
- A briefing for prosecutors who could be involved in prosecuting criminal cases against alleged tax offenders

In total 6 days training was arranged spread over 4 weeks, with 5 days allocated for tax issues and one for customs issues. The tax component involved 11 modules which were presented by 5 ESTAK advisors and 7 TAK staff with ESTAK providing English translation assistance and TAK providing Serbian translation assistance. The ISD/ADDIE training methodology introduced by ESTAK for TAK training material was followed and comprehensive training materials for participants were prepared and distributed. Participant evaluations indicated strong satisfaction with the presenters and the material presented.

Preparation of the training material also provided the opportunity to review and update some of the modules that had previously been used in internal induction training for new hires, and now leaves TAK with external tax training material that can be used for other external stakeholders.

Resource Management Guide completion – To assist with TAK's future resource bidding and resource management, a comprehensive Resource Management Guide was prepared for TAK. As well as detailing current Ministry of Finance practices, the Guide gave particular focus to:

- improvements in the resource bidding process, in particular identifying the revenue impact of different aspects of expenditure bids and prioritizing elements of such bids
- improvements in expenditure reporting – improving analysis of expenditure information including making recommendations to TAK management on actions they should consider taking, and including reporting on expenditures at the regular TAK senior management meetings
- focusing on better utilization of existing staff and physical resources rather than the tendency to focus only on the easier decision of asking for additional resources
- defining distinct roles of the Budget Department and the Strategic Finance Officer in the Modernization, Planning and Analysis area
- identifying future long-term improvements, particularly potential decentralization of the budget process within TAK and involving more TAK management in the process

A presentation has also been prepared to “launch” the Guide with TAK's senior management during the next quarter.

ESTAK notes that significant progress was made during the quarter with the development of a Collections Case Management System covering the main debt collection activities carried out by TAK's Enforced Collections staff. The main phase of this system is expected to be implemented in the next quarter, and the development of this system is expected to be a success story in the next quarterly report.

5. UPCOMING EVENTS AND ACTIVITIES FOR THE NEXT QUARTER

Building upon the work completed to date, the ESTAK team expects to work on the following tasks in the next quarter:

- Assisting TAK with the implementation of its Enforced Collection Plan, in particular:
 - Completing development of the main phase of its Collection Case Management System and assisting with its subsequent implementation;
 - Commencing in-call capability in TAK's Call Center, initially restricted to enquiries on the automatic issue of reminder letters for late filers and late payers;
- Providing continued assistance to TAK's Intelligence Unit, and handing over responsibility for this work to the EU/TAIEX experts upon their arrival in Kosovo;
- Providing assistance to TAK with VAT issues, including completing a VAT Administrative Instruction;
- Providing assistance to TAK with the drafting of legal amendments to the tax laws as part of GoK's Legislative Program for 2013;
- Providing assistance to the MoF/TAK/Ministry of Foreign Affairs working party responsible for progressive implementation of double tax treaties until a GIZ funded legal expert commences to carry on that work;
- Supporting TAK with progress towards a changed taxpayer contact approach, and in particular with the proposed provision of tax certificates to applicants electronically;
- Assisting TAK senior managers in delivering 3 of ESTAK's 6 designed management training courses for TAK management as part of the transferring of this responsibility to TAK in the future.

6. CHANGES TO THE YEAR 3 WORK PLAN

During the quarter, USAID approval was sought for a “no cost extension” to the ESTAK project, so that the project would end on 14 July 2013, 3 months later than the originally proposed 14 April 2013 end date. On the assumption that such approval will be given, some ESTAK activities that would previously have been completed in the period up until mid-April 2013 are now planned to be completed later. Apart from this potential change in timing, the bulk of the proposed Year 3 Work Plan can continue unchanged.

During the quarter, ESTAK has also continued to play a larger role in assisting TAK with VAT issues than previously given the cessation of EU assistance to TAK in that area.

ESTAK work has continued during the quarter with the following additions that are not covered in the Task Order:

- Continued reporting to the BEEP project on “Doing Business” tax simplification progress;
- Provision of assistance to the NOA project in relation to tax issues affecting the agricultural sector and their proposals to modify the application of VAT to the dairy industry;
- Continued assistance to USG/USAID, TAK, and USAID contractors on the provisions covering tax and customs exemptions in the “umbrella” USG/USAID bilateral agreement between the governments of USA and the Republic of Kosovo that was signed on March 29, 2012.