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# BUSINESS ENABLING ENVIRONMENT PROGRAM

**QUARTERLY REPORT #2**  
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## ACRONYMS

AKM	Association of Kosovo Municipalities
BEEP	Business Enabling Environment Program
CEFTA	Central European Free Trade Agreement
DB	Doing Business
DEMI	Democratic and Effective Municipalities Initiative
ECLO	European Commission Liaison Office
EULEX	European Union Rule of Law Mission in Kosovo
EULOG	European Union Local Governance Support
EU	European Union
GFSI	Growth Fiscal Stability Initiative
GOK	Government of Kosovo
KEK	Kosovo Energy Corporation
KMFAS	Kosovo Ministry of Foreign Affairs Support Project
KPEP	Kosovo Private Enterprise Program
IMF	International Monetary Fund
MC	Municipal Coordinator
MCI	Municipal Competitiveness Index
MOU	Memorandum of Understanding
MTI	Ministry of Trade and Industry
OSCE	Organization for Security and Cooperation in Europe
PBMP	Performance Based Monitoring Plan
RDA	Regional Development Agency
SEAD	System for Enforcing Agreements and Decisions Program
SDA	Swiss Development Agency
SLA	Swiss Labor Agency
TPWG	Trade Policy Working Group
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development
WB	World Bank
WBDB	World Bank Doing Business
WTO	World Trade Organization

## INTRODUCTION

The Business Enabling Environment Program (BEEP) is pleased to submit its second quarterly report to the United States Agency for International Development (USAID) detailing progress and achievements for the period from November 2010 to January 2011. The document is divided into three sections — introduction, key activities, and media coverage — and presents the project’s activity highlights, key achievements and results of specific project components, including supplemental reporting as described within the project’s Performance-Based Monitoring Plan (PBMP).

### Contract Overview

On July 28, 2010, USAID/Kosovo awarded the Business Enabling Environment Program to Chemonics International. Led by Chemonics, the implementing consortium includes Crimson Capital, Blue Crest Group and Baja Group Consultants. USAID/Budapest appointed Dardane Peja the Contracting Officer’s Technical Representative (COTR) on July 29, 2010. BEEP is a three-year project, ending on July 27, 2013.

### Project Overview

BEEP’s objectives are to (1) remove barriers to business start-up, operation and expansion through reduced, simple, and justified free market-oriented laws, regulations and implementation procedures to facilitate economic growth, and (2) improve government and private sector knowledge of laws and regulations to increase clarity, reduce arbitrary application of government power, and to improve the ability of counterparts to effectively participate in transparent advocacy and policy making. The overall objective of the project is a business enabling rather than a business controlling environment, through which government impartially administers a simple, justified, and transparent framework in which current and future individual entrepreneurs can freely operate to pursue and realize their maximum economic potential.

## ACTIVITY SUMMARY

During the quarter, BEEP activities moved into high gear. Both the municipal and national level activities achieved significant buy-in from counterparts and positive media attention. With the completion of municipal staffing, BEEP began focus groups around the country to identify the issues restraining business growth. At the national level, work with Customs, the leadership of the Government of Kosovo and the Central Bank moved forward expeditiously with the establishment of strong relationships and the acceptance of BEEP assistance and reform strategies laying the foundation for future success.

Highlights from the reporting period include:

- At the request of the Prime Minister’s Office, provided assistance to the Prime Minister’s Office of Legal Support Services and Office for Strategic Planning in the preparation and implementation of a 100-day program for the next

government to carry out Doing Business reforms; this program will be followed by a media campaign and citizens' outreach program activities.

- Completion of a competitive bidding process to select the local implementer of BEEP's first annual Municipal Competitiveness Index. The subcontractor immediately began implementation by completing focus group pilot testing of the draft MCI survey in three municipalities.
- Reviewed a proposed regulation on transparency at the request of Mitrovica's Mayor, and recommended that the municipality publish all proposed regulations on its website for citizen comment and to publish cases where citizens' requests for information were denied with explanation of the reason for refusal.
- Assisted the Municipality of Ferizaj with an initiative to provide citizens and businesses an amnesty on interest rate charges and fines pertaining to delinquent amounts owed on property tax.



*BEEP expert Brian Kemple and entrepreneurs discuss business environment reforms, Pristina, Kosovo, 13 January 2011*

- Full-time municipal coordinators deployed in all eight BEEP partner municipalities to assist those and neighboring municipalities with business environment reforms.
- Round-tables held in Pristina, Mitrovica, Prizren, Graçanica, Ferizaj, Gjakova, and Peja to inform local businesses of efforts to improve the regulatory environment as a precursor to greater participation of the business community in the reform process, and to discuss their legal issues in depth.
- Completed a milestone analysis of the existing trade legislative framework of Kosovo and provided the results to government counterparts to build agreement on future activities.
- First Trade Policy Working Group (TPWG) held November 30, 2010 in Pristina, co-chaired by BEEP and Director of the Trade Division at the Ministry of Trade & Industry. The TPWG is expected to be a valuable mechanism for facilitating coordinated integration into the international trade community.



*BEEP expert Steve Creskoff addresses the Trade Policy Working Group organized by the Kosovo Ministry of Trade and Industry and BEEP, Pristina, Kosovo, 30 November 2010*

- Detailed instructions developed by short-term International Trade Lawyer Steve Creskoff to outline Kosovo’s “Memorandum of Trade Policy Regime”, the first requirement towards actual membership in the WTO.
- Provided analysis and recommendations at the request of the Ministry of Trade and Industry on the establishment of economic zones in Kosovo.
- 170 participants trained in customs valuation in Prizren, Peja, Mitrovica, and Pristina. Participants included representatives from the customs administration, the business community, as well as the local media representatives.



*BEEP expert Tom Hemenstall conducts Customs Valuation Training, Pristina, Kosovo, 1-3 February 2011*

- Milestone credit registry assessment completed in partnership with the Credit Registry Department of the Central Bank. Fifty-five recommendations developed to expand and increase the usefulness and performance of the credit registry.
- Prepared a draft legal report highlighting privacy rights under the EU directives and laws in Kosovo and providing different options to expand the scope of the current credit information system with the Central Bank.

- Provided recommendations to USAID SEAD to include in its MOU with KEK a paragraph that indicates KEK's willingness to share its databases with the banking sector through the Central Bank. The inclusion of utility payment information helps credit grantors make better assessments of their potential borrowers, and in the event that sharing databases is made possible in the future. This will also improve Kosovo's rank on the World Bank Doing Business-Getting Credit Indicator.

## ACCOMPLISHMENTS BY PROJECT COMPONENT

### Component I – Rules and Regulations Improved

*Overview.* Component 1 focuses on removing barriers to business by simplifying and streamlining the regulatory framework — statutes, regulations, rules, procedures and other legal requirements — that is applied to business at the national and municipal levels. These activities aim to improve Doing Business indicators that do not fall under Components 2 or 3. Since local e-procurement assistance is to be carried out in targeted municipalities, this work is also incorporated into Component 1 and will be coordinated with other BEEP sub-national activities through individual Municipal Coordinators and local partners. BEEP is also implementing a sub-national survey measuring key indicators of the business climate of each of Kosovo's municipalities; it is called the Municipal Competiveness Index (MCI).

During this reporting period, BEEP continued to establish and strengthen partnerships with business leaders, business associations, donor programs, and various government entities. Together, project activities helped to identify barriers to doing business, inform national- and municipal-level legislative changes and stimulate demand for assistance and reform. This section summarizes our progress in relation to the Year 1 Work Plan, next steps, challenges and efforts to coordinate activities with other donor projects.

### Work Plan Progress

#### Input 1.1: Develop and Support Municipal Competiveness Index for Sub-National Environment Evaluation and Improvement

*Begin implementation of first MCI.* At the end of October 2010, BEEP issued a request for proposals (RFP) to Kosovo firms and organizations interested in implementing the first annual MCI. Ten firms and organizations submitted proposals in November and, after careful review, UBO Consulting was selected to implement and help design the 2011 MCI. UBO promptly initiated work and submitted its first three deliverables on schedule, including the results of pilot testing in three municipalities with focus



*BEEP subcontractor UBO Consulting conducted MCI focus groups, Klina, Kosovo, 17 January 2011*

groups. The results are being analyzed to make any necessary adjustments to ensure the MCI's results are able to guide project activities, stimulate demand for reform, and enhance the debate for economic reform. The first report is scheduled to be published in the Summer of 2011.

### **Input 1.2: Develop and Support Kosovo Partnership Program to Build Local Capacity and Achieve Reforms in Municipalities**

*Develop and maintain partnership for reform with municipal counterparts.* Building off progress in the previous quarter, BEEP established a permanent presence in eight pilot municipalities and, as a result, also established working relationships with municipal administrators and government counterparts. In addition, a memorandum of understanding on future cooperation with the Mayor of Gjakova was signed and BEEP is exploring the feasibility of concluding similar MOUs with mayors in other municipalities.

To strengthen BEEP's partnership with private sector counterparts, the project launched an initiative to increase dialogue with local businesses and business associations. In January, BEEP held a roundtable discussion in the pilot municipalities (with a total of 232 participants). These events brought together a cross-section of BEEP's municipal-level counterparts, allowing project staff to describe the project's work, solicit demand for the grants program and identify future partners to support BEEP activities. Following these events, the project initiated closed-session focus groups with representatives from local businesses and business associations to identify and discuss specific regulatory constraints, assess potential partners' needs and capacities and explore possible courses of action — emphasizing initiatives with or through local partners. These activities have allowed BEEP to identify national- and municipal-level regulatory constraints and issues affecting the private-sector, especially those that may not be measured by such indices as the Doing Business report. The results will inform BEEP's and its counterparts reform initiatives.

*Assist municipal governments with business environment reforms.* In November, the Major of Mitrovica requested assistance from BEEP in reviewing a proposed regulation on Transparency. Formal recommendations were made that the municipality (1) publish all proposed regulations on its web site and make it possible for citizens to post comments and suggestions; and (2) publish each case where a citizen's request for information has been denied, with an explanation of the reason for the refusal. These recommendations are consistent with EU requirements and international best practices. BEEP is considering the feasibility of assisting other pilot municipalities to adopt similar practices.

In response to a request from the Municipality of Ferizaj, BEEP reviewed and assisted an initiative to provide citizens and businesses an amnesty on interest rate charges and fines on delinquent amounts owed on property tax from the period 2005 – 2010. In exchange for this amnesty, the business community committed to pay the principal amounts owed (approx. 1.6 million of the 2.5 million outstanding including interest and penalties). Following BEEP discussions with the municipality, Shtime, Lipjan, Kaçanik, and Skenderaj joined with Ferizaj in the initiative. Approval from the Ministry of Economy and Finance of the municipality request is pending.

*Bolster internal capacity to analyze municipal-level reform priorities.* A 2-day seminar for staff on Reducing Investment Constraints (RIC) methodology was led by Sergey Pizikov, Business Environment Improvement (BEI) Project Kazakhstan Country Manager, RIC expert and advisor to the Prime Minister of Kazakhstan. Mr. Pizikov also assisted with the implementation of municipal focus groups and provided guidance on eliciting useful information to support private-sector driven reforms.

### **Input 1.3: Select and Support Procurement Reforms in Targeted Municipalities**

Procurement assistance is expected to commence in the 3<sup>rd</sup> quarter. In advance of BEEP activities, procurement issues were incorporated into the Municipal Competitiveness Index survey that will be completed in the coming months. BEEP began a preliminary evaluation of the IT capacity and current usage of information systems by pilot municipalities. Additionally, BEEP is reviewing existing activities by other donors whose projects touch on procurement issues including transparency and information systems.

Based on the information gathered and willingness of municipalities to address procurement issues, BEEP is preparing possible options for support including the possibility of deploying a procurement expert who assisted with reforms in Albania.

### **Input 1.4: Support National Business Environment Improvement (Doing Business)**

*Increase understanding of and demand for DB reforms.* Following the publication of Doing Business 2011 Kosovo, BEEP updated its DB projections for the 2012 Report and met with GOK officials, the Mayor of Pristina, and other Pristina city officials to explain and discuss the 2011 findings and identify opportunities for improvement. BEEP is following up by working directly with relevant Pristina Municipal Departments to improve DB Indicators at the local level as would be captured by World Bank time and motion measures in future Doing Business reports.

*Create a permanent Task Force on Doing Business that will identify and complete long-term Doing Business reform.* BEEP presented the draft composition and mandate of this Task Force. Head of the Office of Legal Support Service of the Office of the Prime Minister (OLSS/OPM) agreed verbally with the concept. This Task Force is expected to be established by a Government Decision signed by the Prime Minister and shall act directly under his authority. The Task Force is expected to be chaired by a Prime Minister's Office official.

*Support national-level legislative reform.* Due to the special elections, the National Assembly took no legislative action on the draft legislation described in the previous quarterly report. This included the draft Law on Business Organizations and the draft Law on Accounting, Financial Reporting and Audit. However, these drafts were discussed and agreed with the technical representatives of the Government who are expected to continue in their positions in the future administration.

## **Input 1.5: Support National Business Environment Improvement (Non-Doing Business)**

In response to USAID's request for clarification of legal issues surrounding the scope of Kosovo municipalities' authority to manage waste, BEEP conducted a legal analysis with GFSI and DEMI. As a result, legal experts from the three projects formed a consensus and documented it in a legal opinion for USAID. The opinion concluded that municipalities do not require any license or permit from a central authority in order to collect trash.

BEEP discussed with the EU SME Project as well as the Government the need to conduct comprehensive inspections reforms, implement best practice risk-management techniques in inspectorates, reform legal and regulatory drafting and adoption procedures, and adopt an umbrella law on normative acts to establish a legal hierarchy of laws and conflict of laws resolution principles. Further discussion with the counterparts is expected in the coming quarter to identify opportunities for reform and necessary assistance.

### **Next Steps**

In the next quarter, the GoK is expected to follow through on its expressed commitment for a "100 Days of Reform" program, which will focus on Doing Business reforms and will be accompanied by public outreach and a media campaign. Consistent with our work plan, BEEP will be intensively engaged in supporting all aspects of that program throughout the next quarter. BEEP will also continue to convene and work with focus groups of business and business associations in the municipalities to identify regulatory problems that restrain business growth, development solutions, and work with both public and private sector counterparts to implement reforms.

In the coming months, BEEP will be inventorying and reviewing municipal development, urban development and urban regulatory plans to identify any issues or opportunities for improvement within BEEP's Scope of Work. Additional municipal action plans are not anticipated at this time given the existence of government mandated strategic documents and the variance in activities in timelines for other USAID projects that were originally anticipated to be consolidated in a single plan of USAID assistance. As appropriate and beneficial in the future, MOUs or other agreements may be used to frame assistance.

Additionally, BEEP will support a campaign, led by the American Chamber of Commerce, to develop a Business Agenda based on input from the private sector to raise the voice of business and present the issues and solutions in a construction and actionable format as well as strengthen the relationship between citizens and the new Government. At the same time, the initiative will facilitate the transfer of the reform methodology to private sector partners. Once completed, it is expected that AmCham will widely publicize the agenda and will present it to the GOK for action; BEEP will assist government counterparts to implement the recommendations.

In addition, BEEP will carry out its first MCI Survey during the next quarter. BEEP will also conduct a preliminary assessment of the law and practice surrounding procurement in Kosovo, commencing its work on procurement as outlined in the Work Plan.

## **Challenges**

Special elections held in December 2010 and repeated in part in January 2011, following collapse of the government halted all action in the Assembly. Concerns about recent elections voiced by counterparts as well as many international representatives could be indicative of less trust by citizens and the business community in the rule of law, confidence that government is accountable to the people, and the value of formal mechanisms for citizen-state interaction, thereby reducing incentives to engage in necessary legal reform.

The decision of the government to focus on money collection from the private sector to fund promised government salary increases has increased tensions between government agents and the private sector. These steps are expected to further discourage legalization of economic activity, reduce capital available for businesses to grow, and could discourage effective and open public-private dialogue on reform issues.

## **Coordination/Collaboration**

In implementing Component 1 activities, BEEP has collaborated with a number of donors who work in similar projects. These donor projects include: the Swiss Labor Agency (SLA), the Regional Development Agency (RDA), the Swiss Development Agency (SDA), the European Union Local Governance Support (EULOG), OSCE, UNMIK. Furthermore, frequent meetings were held with other USAID-funded projects such as DEMI, KPEP, and GFSI to exchange information and explore avenues for collaboration.

## **Component II – Reduced Barriers to Trade**

*Overview.* Component 2 activities focus on reducing barriers to trade to facilitate increased commerce and international cooperation, as well as the implementation of regional and multilateral trade agreements.

During the second quarter, BEEP assisted the Ministry of Trade and Industry with institutional reforms and Kosovo Customs with activities involving private sector partners (clearing agents, transporters and business associations). The aim was to streamline trade-related activities through broad-based consultative mechanisms — that is, by involving private and government stakeholders in the formulation, implementation, assessment, and fine-tuning of trade policy and customs procedures. Regarding import, export and transit procedures, the team assessed the efficacy of customs operations. In terms of trade facilitation, the team began closely assessing the procedures and practices for exports, imports and transits, and will incorporate suggested measures for easing trade constraints in future activities.

## Work Plan Progress

### Input 2.1: Improve Doing Business Trading Across Borders

*Conduct validation of WBDB Indicators.* The 2010 and 2011 WBDB indicators were validated as part of the broader project effort to review the measures and identify opportunities for improvement.

*Conduct and present scenario analysis of selected indicators demonstrating reform foci.* In order to better accommodate trade facilitation, a new Customs Code is being developed with counterparts in the legal departments of Kosovo Customs and the Ministry of Economy and Finance. The new Code is based on the EU Model Customs Code of 2008, and other recommendations were made to further improve the legal basis for customs administration in order to facilitate trade. The Customs Code is among the legal instruments that the Government will be introducing to address and improve WBDB indicators.

*Provide support to WBDB Oct 2010 Mission to Kosovo.* As previously reported, BEEP collaborated with the WBDB Mission in October, and provided indications of our strategies to improve *Trading across Borders* times and costs

*Provide drafting, consultative, and advocacy support.* Further assistance was provided to the Director General of Customs to identify possible improvements to Kosovo's ranking in the Doing Business-Trading Across Borders measures. For example, recommendations were made to the Director General of Kosovo Customs on the use of technology to reduce transit and clearance times for imports and exports. On the import side, Kosovo Customs recently signed agreements with Albania and Macedonia to obtain automated reports as soon as goods enter the Territories of Albania (Port of Durrës) and Macedonia that are in-transit through those countries for importation into Kosovo. The possibility of using Kosovo import data on transit control documents through these two neighboring territories could significantly reduce transit and clearance times and costs. If Kosovo, Macedonia and Albania are able to reach agreement on the enhanced use of ICT for these purposes, Kosovo's *Trading across Borders* indicators will improve.

### Input 2.2: Identify and Eliminate Barriers to Trade and Transport at the National Level

*Review import and export procedures.* Fact-finding visits were carried out this quarter at all of the main border-crossing offices — Hani i Elezit (Macedonia), Vermica (Albania), Kulle (Montenegro) and Gates 1 and 31 (on the northern border with Serbia). Internal clearance terminals were also visited at Peja, Inter Europa (Pristina), and at Pristina International Airport (air cargo). Cargo reporting and clearance procedures were observed, including the application of risk-based controls and ITC.

Trade experts participated in discussions on the subject of business registrations, including the IMF Kosovo Resident Representative, on plans for a Single Taxpayer Identification Number system, in the context of reducing the regulatory burden for Starting a Business and with the aim of improving fiscal administration. The current five

duplicative registrations/approvals for external traders are being carefully described and the legal basis for each clearly identified by BEEP so that these can be eliminated.

Reform of technical regulations and conformity assessment within MTI (Standardization Agency, Accreditation Directorate, and Metrology Department) is largely being supported by the EU focused on harmonization with EU requirements. But, BEEP continues to monitor the reforms and will assist where appropriate.

*Support development of Customs Brokers Association and other business service providers necessary for effective trade.* BEEP research showed that one of the constraints in both import and export clearances are the time delays associated with the services (or lack thereof) provided by Customs Agents (brokers). Often after receiving clearance documents from their importer or exporter clients, these Agents take several days to prepare the relevant customs declarations and lodge them with Customs. Articles 10 and 11 of the Kosovo Customs Code call for regulation of Customs Agents through a license mechanism; this is in accordance with international standards and best practice. Assistance was provided by BEEP to develop the Administrative Instruction related to the licensing procedures for Customs Clearing Agents, but BEEP recommends Customs delay implementation of licensing until comprehensive permissive system reform can occur. At the same time, plans are being carried out with Customs and the Association of Customs Agencies for technical training for customs agent license candidates on the functions and technical requirements for clearing agents/brokers. It is anticipated that over 1,000 candidates will need to be trained, and options are being examined. The Association is intending to apply for a grant in support of organizing and delivering this training.

### **Input 2.3: Facilitate Commercial Transportation in the Region**

*Conduct transport analysis and promote reforms to increase transportation access and lower costs.* BEEP worked with the Kosovo Transporters' Association to identify constraints faced in the sector. Both Bosnia-Herzegovina and Serbia are not allowing entry and passage of commercial transport vehicles that are registered in Kosovo. BEEP advisors continue to gather sector data for analysis in developing an appropriate strategy; in this regard, we are collaborating with an EU Transport Project.

### **Input 2.4: Develop Trade Policy Roadmap**

*Conduct review of and update August 2009 Kosovo Trade Policy and Related Laws.* A gap analysis of the existing trade legislative framework of Kosovo was completed by BEEP staff, including the Law on External Trade, the Customs Code, the Law on Integrated Management and Control of the State Border, the Law on Customs Measures for the Protection of Intellectual Property Rights, the Law on Economic Zones, and the Law on Anti-dumping and Countervailing Duty Measures.

*Assist the GoK in the process of acceding to the WTO.* STTA International Trade Lawyer Stephen Creskoff provided detailed advice on WTO accession and recommended that Kosovo apply for WTO Observer status immediately. A description of the necessary steps was developed to outline Kosovo's requirements for longer-term accession to the WTO. A first draft was prepared of Kosovo's "Memorandum of Trade Policy Regime"; this is the first requirement towards actual membership in the WTO.

The STTA International Trade Lawyer also explored possibilities with the office of the United States Trade Representative for a bilateral trade and investment framework agreement between the United States and Kosovo. This matter is under review by the USG.

Expert analysis and recommendations on a number of proposals from the Ministry of Trade and Industry related to the establishment of Economic Zones in Kosovo were also provided. BEEP's suggestion included considering the entire country of Kosovo as a free economic zone and cautioned against the Chinese model that was more a large-scale experiment in the transition to a market economy – a step the entire country of Kosovo has already taken. The SME Agency, which is responsible for Economic Zones policy and activities, did not accept BEEP's perspectives and recommendations on Economic Zones. An EU Project is providing support to the SME Agency; hence, BEEP's ability to influence the policy is limited. But, BEEP will continue to encourage taking a broader view of business environment reform as well as the development in law of transparent and controlled investment incentives.

#### **Input 2.5: Conduct Human Resource Needs Assessment and Implement Supporting Initiatives in Trade Regulating Bodies and Private Sector Organizations**

*Conduct operational and human resource needs assessment in Customs, Ministry of Trade and Industry, and the Ministry of Transport and Communications.* In the Ministry of Trade and Industry, C2's main counterpart, BEEP concentrated on building capacity within the Ministry around the newly established Trade Policy Working Group. Our efforts in support of the TPWG will continue throughout 2011. These efforts will become important for Kosovo to become a member of the WTO and as Kosovo moves towards closer ties with the EU.

Due to the Government transition, we have yet to engage with the Ministry of Transport, having first concentrated on work with the Association of Transporters. But, especially through issues raised in the Trade Policy Working Group, issues related to transport will be identified and further assistance provided as appropriate.

*Design and implement the training program for trade regulating bodies.* BEEP STTA Customs Valuation Specialist Tom Hempenstall conducted a series of three-day training courses on Customs Valuation in Prizren, Peja, Mitrovica, and in Pristina. Participants included 170 representatives from Customs, the business community, including business associations and private companies, as well as the local Prizren, Peja, Mitrovica, and Pristina media representatives. Further training and institutionalization of training and human resource management is expected to occur as trade-related reforms are adopted and implemented.

*Conduct operational and human resource needs assessment in private sector representative bodies.* BEEP's focus has been in developing capacity in private sector entities, notably of the Association of Customs Clearing Agents. This is a trade service vital for the SME sector to develop in external trade. We have provided technical training to importers and clearing agents on the methodologies involved in determining the customs value of imported goods.

Plans have been made to provide further technical training for exporters, importers and clearing agents on the Harmonized Commodity Coding and Classification System, which is basis of the Kosovo Customs Tariff. This training will be delivered in April or May. BEEP also expects to provide four two-day technical workshops, which will take place in April or May.

USAID's KPEP project reported to BEEP that beneficiary businesses were having difficulty with import valuation and VAT issues with goods exported to Albania. In collaboration with KPEP and impacted businesses, BEEP analyzed the legal situation related to non-tariff barriers and market access of Kosovo agricultural exports into neighboring countries. BEEP provided technical advice to KPEP on how to overcome the current constraints through development of a Law on Safeguard Measures to provide the Government with the legal tools to respond to trade issues as well as sensitizing the exporters on their possibilities to claim the VAT returns.



*Trade Advisor Douglas Cruickshank provided technical advice on overcoming the constraints related to non-tariff barriers and market access of Kosovo agricultural exports, Vushtrri / Vucitrn, Kosovo, 8 December 2010*

## **Input 2.6: Support Government Groups related to Trade Policy and Encourage Public-Private Dialogue on Trade Issues**

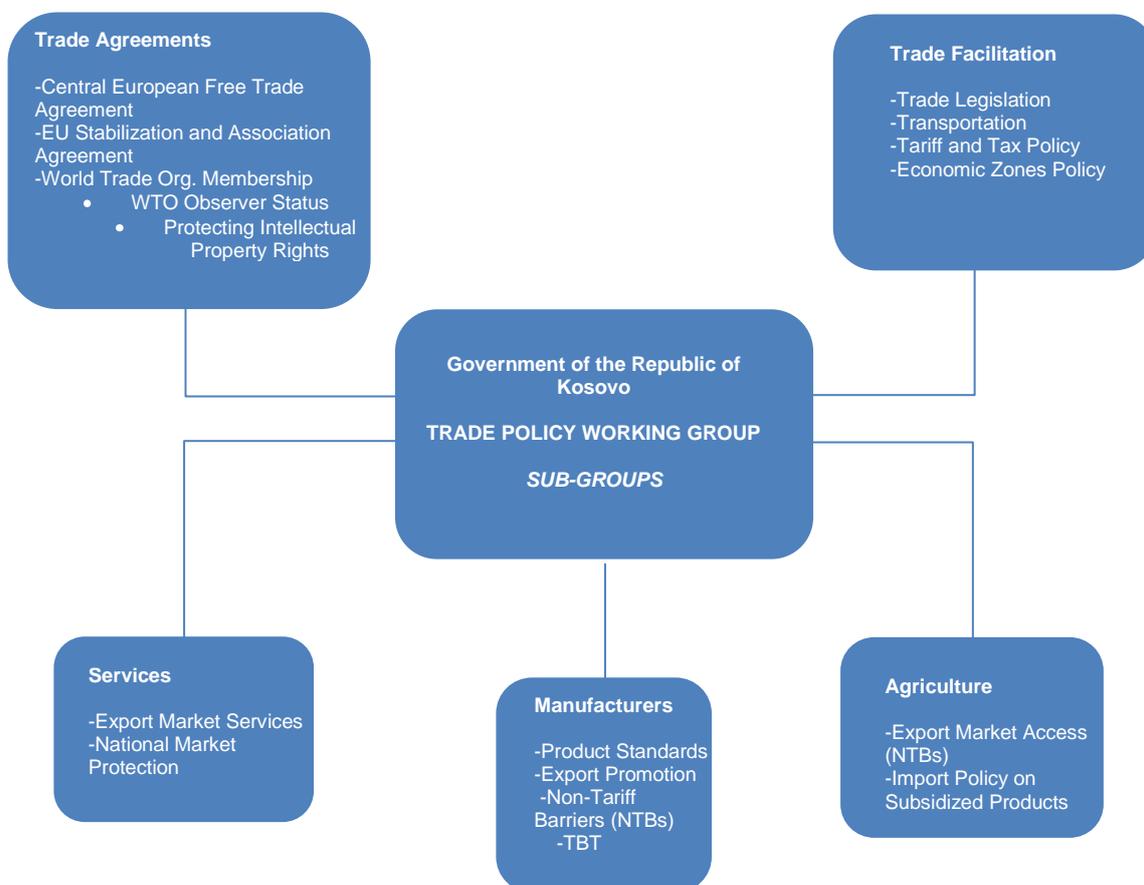
*Review structure and activities of current inter-Ministerial Council for Trade Policy and the Trade Policy Working Group and support operational improvements.* The first meeting of the Trade Policy Working Group (TPWG) was held in Pristina with BEEP's support and direct participation. BEEP's Trade Advisor jointly chaired the meeting with the Director of the Trade Division at the Ministry of Trade & Industry. Proposed work activities for the TPWG were



*BEEP expert Stephen Creskoff addresses the Trade Policy Working Group organized by the Kosovo Ministry of Trade and Industry and BEEP, Pristina, Kosovo, 30 November 2010*

presented and a plan of action outlined. The TPWG is an essential and mandatory element of Kosovo's accession to the WTO and for membership in the EU. TPWG activities will include work in modernizing the legal and regulatory framework for trade in accordance with international standards and best practice, export promotion and market access for Kosovo exports, trade facilitation, the identification of regional transport constraints and solutions, CEFTA issues, tariff and tax policy on external trade and steps required for WTO and EU membership. BEEP will continue to provide support in working directly with the Trade Policy Working Group and helping the trade policy formulation process be sustainable.

The following chart was developed in consultation with the Ministry of Trade and Industry. This proposal will be shared with the private sector stakeholders, once approved by the Ministry. The fact that a Minister has not been in place in the Ministry since December 5, is an inhibiting factor in the actions that must be taken with the sector stakeholders. Plans have been discussed with the Ministry of Trade and Industry to conduct a short study tour, with private sector representatives to learn from the trade policy formulation and working group experiences in Albania and Croatia. Both of these countries are now WTO Members, and have experienced successful collaboration between private and public sector interests in accession processes. Further, Croatia is about to become a member of the EU, and hence has directly relevant experience for Kosovo in both WTO and EU processes.



*Expand existing public-private dialogue opportunities and consultative trade processes.* As a means to involve the business community in reform efforts, build their capacity, and improve public-private dialogue, a series of Customs Valuation technical training seminars were sponsored by BEEP. The participants were import businesses and Customs Agents (customs brokers), including the Kosovo Chamber of Commerce, the Alliance of Kosovo Businesses, the American Chamber of Commerce, and a variety of individual businesses. The STTA Customs Valuation Consultant conducted seminars in Prizren, Peja, Mitrovica and Pristina for over 100 business representatives.

#### **Input 2.7: Promote Development of International Trade Guide and Integrated Tariff**

This activity will be undertaken as planned later in 2011, once the legislative changes have been accomplished (Customs Code, Law on Safeguards, Law on Border Management).

#### **Next Steps**

Work was initiated in collaboration with the Ministry of Economy and Finance and Kosovo Customs, to develop a new Customs Code based on the EU Model Code of 2008. In the coming quarters it is expected that the Government will adopt a new law to replace the Law on Integrated Management and Control of the State Border and on a (new) Law on Safeguard Measures for Kosovo. BEEP plans to assist the Government in close cooperation with other donors, especially the EU.

Also, it is anticipated that the next meeting of the TPWG will be held by mid-March following creation of the new government. It is planned that the sector specific subgroups will be formally approved by the TPWG.

In addition, collaboration will be continued with the Kosovo Transporter's Association and EU project representatives, agreeing on actions to facilitate transportation in Kosovo in support of external trade.

In relation to supporting Kosovo as the chair of CEFTA, the Trade Division at the Ministry of Trade and Industry has asked BEEP for technical support on a number of issues, including contingency measures (Anti-dumping, Countervailing and Safeguard actions) and on the proposed WTO Agreement on Trade Facilitation, as related to CEFTA.

Further, work will continue on the Administrative Instruction for the Licensing of Customs Clearing Agents (Customs 'Forwarding Agents') to ensure terms and conditions for transparency, in accordance with international standards and best practice.

Finally, plans are being made for additional technical training of importers, exporters and clearing agents on the techniques of classifying goods under the international nomenclature (the Harmonized System) upon which the Kosovo Tariff is based. This training will be done during the next quarter.

## Challenges

The Minister of Trade and Industry resigned his post on December 5 in advance of the December 12 election. A replacement has yet to be named, since a new Government has yet to be formed. BEEP is continuing to work in all areas where progress is possible.

## Coordination/Collaboration

During the Quarter, BEEP met with several senior officials in the European Commission Liaison Office (ECLO), EULEX, and with EU consultants, to examine progress made by Kosovo in improving trade, customs, and tax administration. Communication links are working and collaboration wherever possible has helped achieved trade facilitation for the benefit of Kosovo businesses.

## Component III – Reduced Risks of Lending

*Overview.* Activities under Component 3 aim to increase access to finance and enable Kosovo lenders to make more informed decisions when assessing credit risk. To do this, BEEP is working with the Central Bank of the Republic of Kosovo to upgrade its credit registry by enhancing the registry's data, increasing accuracy, and expanding the system to allow access by new users and provide better information to support the Central Bank's financial sector oversight. BEEP activities also focus on identification and elimination of barriers to the development of private credit bureaus and assessing the business viability of establishing one in Kosovo.

During this quarter, BEEP responded to the release of the World Bank's Doing Business report for 2011, conducted a comprehensive analysis of the Central Bank's credit registry, prepared a long-term plan with details for improving the Central Bank's credit registry and prepared a legal report on privacy rights and options on capturing data from the non-financial sector. Component 3 staff continued to build relationships with key stakeholders and lay the groundwork to form working groups needed to maximize the impact of project-supported reforms.

## Work Plan Progress

### **Input 3.1: Conduct Doing Business Getting Credit Validation and Reform (In conjunction with C1-4)**

*Validate Doing Business report for 2011.* Building off the work of the short-term World Bank Doing Business Expert Victor Prodedovich in the previous quarter, BEEP staff conducted a thorough review of the 2011 Doing Business report's "Getting Credit" indicator.

Under the credit information index, component 3 staff identified two measures for clarification, as the report's information appeared inconsistent with the law and practice in Kosovo. In response, BEEP assisted the Central Bank to develop and submit a formal response to the World Bank to clarify survey variables underlying the report's "depth of credit information index." More specifically, the questions addressed the registry's

reporting of positive and negative information and Kosovo laws that guarantee borrowers access to their own credit report. Under the legal rights index, component 3 identified two measures that require validation and started to review one of them, basically whether during reorganization, secured creditors' claims are exempt from an automatic stay on enforcement. Component 3 staff identified the laws relevant to this measure and reviewed the legal and business definitions for reorganization.

### **Input 3.2: Evaluate Existing Credit Market Participants, Identify Key Counterparts and Champions**

*Create working group for reform.* Due to the high number of internal stakeholders at the Central Bank and the complexity of the upcoming implementation phase of the upgrade of the Credit Registry, BEEP reiterated its suggestion that the Acting Governor officially form a working group dedicated to the smooth implementation of registry upgrades. The recommendation is still under consideration.

#### **BEEP's Internal Stakeholders at the Central Bank of Kosovo**

- Acting Governor
- Deputy Governor
- Chief Operating Officer /Senior Coordinator for component 3 work
- Credit Registry
- Legal Department
- IT Department
- Financial Supervision, including commercial banks, microfinance institutions & insurance companies
- Public Relations and educational officers
- Research and Statistics department
- Procurement department

*Increase public awareness.* In December, Component 3 staff solicited support from the Communications and Media Relations Officer for media and communication activities for the financial sector. Included in the activities will be those that increase borrowers' knowledge of their rights. The activities are expected to include a variety of communication tools, including press releases, conferences, bank-distributed guides, and a website. In addition, a joint media event is planned to take place in 2011.

*Build relationships with financial sector counterparts for reform.* Component 3 staff initiated a working relationship with the Banking Association this quarter, informing its leaders of forthcoming project activities and reform activities related to credit registry, collateral and enforcement. Component 3 staff also continued to work directly with the banks and AMIK (Association of Microfinance Institutions) for the purpose of assessing the credit registry. Component 3 staff continued to follow up with the insurance association to confirm the interest of insurance companies to access the credit registry.

### **Input 3.3: Support Public Credit Registry**

*Conduct comprehensive analysis of credit registry.* In November and December, short-term Credit Expert Jim Aziz completed a detailed assessment of Kosovo's Credit Registry. Mr. Aziz and component 3 staff engaged the central bank, as well as banks holding the majority of the banking assets in Kosovo and microfinance institutions, in evaluating the credit registry operations to identify issues pertaining to privacy, financial institutions' current practices in accessing the credit registry, and the accuracy and timeliness of data sent to the credit registry. The following sources were evaluated:

- Informational reports pertaining to personal information of borrowers, number of credits, credits not reported on time, rejected data, etc.

- Error correction in data related to identification of borrowers (for example those with zero IDs in the system and those who have old Yugoslavia numbers).
- Review of technical upgrades such as batch processing of searches, XML Reports, web services and port generation tools for secure and better reporting from Credit Registry.
- Errors in the historical classification of loans, which appear in the credit reports. Specifically those reported as written off or fully repaid, but show up as currently outstanding.
- General strengths and weakness of the system.

BEEP circulated the final assessment, including its 55 recommendations for improvement, with officials at the Central Bank. The recommendations were grouped under nine categories: (1) working committee formation and development of action plans, (2) borrowers' center, (3) privacy and use of credit registry, (4) legal issues, (5) private credit bureau, (6) insurance access, (7) inspection, (8) IT, and (9) software upgrades. The master plan also identified the activities that require financial resources to implement the report's recommendations and the internal lead departments that will work on the 55 recommendations. This is an evolving document that will be subject to further additions and refinements.

On January 19, BEEP presented together with USAID the main findings of the assessment to Acting Governor Gani Garguri, Deputy Governor Nexhat Kryeziu, the Central Bank Senior Legal advisor, and officials from the Credit Registry. The Acting Governor voiced his commitment to implementing the recommendations and estimated that implementation will take two years. The recommendations were largely approved by the Central Bank and, as a result, it was agreed to hold a joint media event. The event is expected to take place in the next quarter.

*Upgrade IT systems, databases and software:* Following the completion of the assessment, BEEP held a meeting with "Asseco", the solution provider of the Central Bank's current credit registry system, to get technical and financial information regarding the suggested upgrades to the software.

In addition, component 3 staff conducted an initial review of two options for upgrading the database systems. Currently, the Central Bank is using the SQL 2000 database for which there is no support license, and which may not be adequate to support the evolving functions of the Central Bank. Component 3 staff developed a list of reports to support the functions of three departments in the Central Bank — credit registry, supervision, research and statistics — and presented to those departments. The objective of this exercise was to determine extra data needs of the internal departments. The additions of extra data fields and reports generation are two important changes, and it will need to be determined whether the existing database systems can support them.

*Support to implement management information systems ISO standards.* During this quarter, BEEP reviewed a preliminary proposal by Trajkovski & Partners Consulting, a potential management information consultant and specialist in the area of IT systems. Specifically, BEEP reviewed the company's track record in Macedonia and manuals the company developed for the National Bank of Macedonia. Possible technical assistance

for Kosovo will include training needs analysis, gap analyses, and a road map to implement better information security management at Central Bank.

*Enable use of government databases.* To ensure the accuracy of personal data (names, addresses, identification numbers), the Central Bank and the financial institutions are potential users of government databases. These are currently being developed with assistance from a three-year EU project that is working with the Civil Registration Agency. Component 3 staff initiated and facilitated dialogue and introductions between the stakeholders: the Central Bank, commercial banks and the EU project. The EU project promised to incorporate the needs of the financial sector in its inception report and it was also agreed that BEEP and EU project continue to cooperate on this important issue that pertains to the accuracy of personal data in the Credit Registry.

*Determine the ease of capturing more data.* Component 3 staff continued to research the availability of more data in order to report extra data as recommended by the BEEP project. Examples of additional data are those related to the legal types of businesses, industry codes, fiscal numbers, etc. During the quarter, component 3 staff determined that useful data exists in business registration papers. BEEP also gathered information from other USAID projects (SEAD and ESTAK) on data that exists with the financial sector, such as tax liens and court jurisdiction over depositors' accounts in the banks.

*Improve borrower's rights.* As part of BEEP's current borrowers' rights assessment, component 3 staff developed a questionnaire for borrowers who request their credit reports. The results will be compared with another survey to be conducted after the borrowers' center is operational sometime in the future and a system is developed to handle borrowers' complaints. Component 3 staff will work on ensuring that borrowers are properly informed, and that they are aware of their rights to obtain their credit reports and their rights to complain. Internal procedures within the Central Bank should also be streamlined. BEEP obtained approval from the Central Bank's Chief Operating Officer to meet borrowers coming to the Central Bank and complete the questionnaire.

#### **Input 3.4: Facilitate Environment for Establishment of Private Credit Bureaus**

*Identify legal constraints to private credit bureau.* Local short-term legal adviser Visar Morina prepared a draft report highlighting privacy rights and the legality of exchanging personal data under the EU directives and laws in Kosovo. The report analyzed the existing primary legislation such as the law on protection of personal data, the Central Bank law, and other existing laws. Furthermore, the report identified and interpreted the laws applying to exchange of personal data with non-financial institutions, such as utility companies and the tax administration. The report presented legal options on expanding the scope of the current credit information system through different mechanisms: (1) Open the Credit Registry system to nonfinancial institutions, (2) use a private sector operator to manage the Credit Registry under a private public partnership, (3) license a private credit bureau, and (4) adopt a credit reporting act. The report represents the foundation upon which the Central Bank and existing and potential data providers and users of credit information systems in Kosovo can make a decision.

*Increase number of data sources in credit reports.* BEEP provided recommendations to USAID SEAD for its memorandum of understanding, which it signed with KEK enabling

SEAD to help KEK in enforcing judgments. The MOU included a paragraph recommended by BEEP indicating KEK's willingness to share its databases with the banking sector through the Central Bank's Credit Registry. The inclusion of utility debt information in credit reports will help commercial banks better assess the risk of potential borrowers. Furthermore, if KEK moves forward with sharing its databases, Kosovo's rank on the World Bank Getting Credit Indicator will improve accordingly. BEEP expects to continue collaboration with SEAD to address legal and operational issues for implementation.

### **Next Steps**

Consistent with the schedule of our work plan, BEEP will assist the Central Bank in formulating a long term vision that outlines technical upgrades of the Credit Registry, the chosen legal option to expand the system to non-financial institutions and the intention to create other databases inside the Central Bank (those related to enforcement and others) — making sure that all systems are synchronized.

Specific steps include: (1) presentation of Visar Morina's legal report to the Central Bank top management together with businesses considerations, and facilitation of the decision on the legal way forward; (2) BEEP and the Central Bank will develop detailed action plans for implementation of the recommendations to upgrade the Credit Registry and make changes to the software; and, (3) hold three workshops (one for the banks and two for the microfinance institutions) to inform them of the improvements and the required changes in data quality, inclusion of new data, and other issues.

### **Challenges**

The implementation of BEEP's recommendations relies on the formation of the internal working committee with the Central Bank of the Republic of Kosovo since specific persons will be assigned specific roles

The internal approval procedures of the Central Bank to make important decisions, changes in existing rules or introducing ones, as well as procurement procedures might delay implementation, but are critical to the future success of component 3.

The readiness or lack thereof of the financial sector and the utility companies with respect to improvements in data quality and obtaining consent of borrowers/data subjects may present challenges to implementation that would necessitate further support.

### **Coordination/Collaboration**

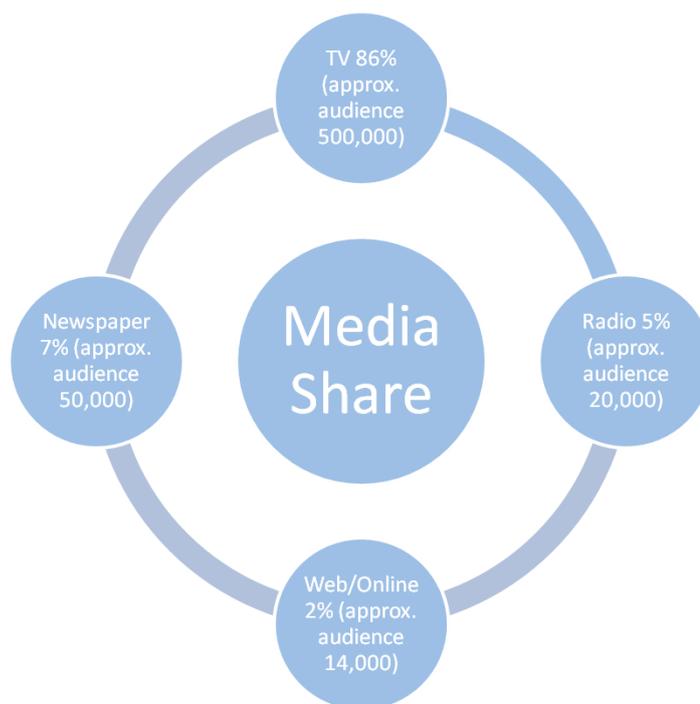
The BEEP scope of work requires taking into account SEAD's recommendation of establishing a database of account holders in the banking sector within the Central Bank, as well as the new decision issued by the Central Bank board in January 2011 that banks should start sending information on enforcement actions by courts to the Supervision department of the Central Bank. Whereas SEAD's mandate is to improve enforcement actions, BEEP will continue to focus on increasing the flow of data, improving its quality, and increase information sharing

BEEP initiated a relationship with the USAID Kosovo Justice Support Program to determine the availability of data from the courts, since civil and criminal judgments should normally be captured by a private credit bureau. The principle of cooperation between the two projects has been agreed upon. In collaboration with BEEP, the Kosovo Justice Support Program will be able to compare private credit bureau information requirements with what is currently available from courts, and identify constraints in collecting data from courts.

BEEP also works with the USAID ESTAK project to identify tax liens which are of interest to the banks, and liens recorded by the tax authorities at the pledge registry office and the cadastral agency.

## MEDIA COVERAGE

Throughout this reporting period, BEEP closely monitored activities which had media coverage on television, newspaper, radio, web news agencies, and other online sources. Project staff collected, and continue to collect data related to the frequency that BEEP and its specific activities -- such as business partnership roundtables under Component 1 or customs valuation trainings under Component 2 -- are mentioned in the media. In addition, an exclusive interview was conducted with the Pristina Municipal Coordinator on RTV21 who presented BEEP project objectives and the importance of Doing Business Reforms and their economic impact based on the example of Georgia. The two charts here illustrate the total number of times BEEP was mentioned in the media; as well as the total estimated target audience reached.



## BEEP Media Coverage

