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JULY 2011 – JULY 2012



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ACRONYMS

AI	Administrative Instruction
AmCham	American Chamber of Commerce
BEEP	Business Enabling Environment Program
CRK	Credit Registry of Kosovo
CBK	Central Bank of Kosovo
DB	Doing Business
DEMI	USAID Democratic Effective Municipalities Initiative
ECLO	European Commission Liaison Office
ESTAK	USAID Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
GFSI	USAID Growth and Fiscal Stability Initiative
GoG	Government of Georgia
GoK	Government of Kosovo
KMFAS	USAID Kosovo Ministry of Foreign Affairs Support
IMF	International Monetary Fund
IPAK	Investment Promotion Agency of Kosovo
IPR	Intellectual Property Rights
IS/IT	Information Systems and Information Technology
ITD	Integrated Tariff Database
ITG	International Trade Guide
LID	Legal Information Database
MAS-Q	Metrology, Accreditation, Standards, and Quality
MCI	Municipal Competitiveness Index
MESP	Ministry of Environment and Spatial Planning
MoF	Ministry of Finance
Moj	Ministry of Justice
MOSR	Municipal Own-Source Revenue
MOU	Memorandum of Understanding
MTI	Ministry of Trade and Industry
OLS	Office of Legal Services (in the Office of the Prime Minister)
OPM	Office of the Prime Minister
PBMP	Performance-Based Monitoring Plan
PR	Project Results
RFP	Request for Proposals
SEAD	USAID Systems for Enforcing Agreements and Decisions Project
SME	Small and Medium Enterprise
SSPF	Strategic Studies and Projects Fund
STTA	Short-term Technical Assistance

TAK	Tax Administration of Kosovo
TPWG	Trade Policy Working Group
UNDP	United Nations Development Program
USG	United States Government
USAID	United States Agency for International Development
WB	World Bank
WBDB	World Bank Doing Business
WTO	World Trade Organization

EXECUTIVE SUMMARY

The Business Enabling Environment Program is an innovative three-year initiative by USAID leveraging the successful methodology applied in other countries to use third party measures of performance to drive cross-cutting reforms, while pursuing holistic strategies taking into account all aspects of the legal environment for economic activity and collaboration with other donors and projects. This report is the second Business Enabling Environment Program (BEEP) Annual Report and describes project activity since from July 2011 through July 2012, the end of the second contract year.

Our second year activities built on the Government of Kosovo (GoK) buy-in achieved in the first year, driving transformational business environment reform that unleashes economic potential and impacts the lives of citizens in Kosovo. Leveraging the GoK's commitment to ambitious reform initiatives through its Economic Vision 2014, this year saw impressive results in areas of business startup, construction permitting, national- and municipal-level transparency, international trade, licensing, regulatory harmonization and rationalization, and credit.

Transformational reform across a country cannot be accomplished alone. USAID|BEEP has forged crucial relationships with collaborative partners in the public and private sectors and the donor community. Champions of business environment proved invaluable in Kosovo's journey to improved economic prosperity, including the Office of the Prime Minister (OPM), the Ministry of Environment and Spatial Planning (MESP), the Ministry of Trade and Industry (MTI), the Central Bank of Kosovo (CBK), and Kosovo Customs. Political willingness to undertake often difficult initiatives remains key to achieving sustained improvement in the business environment.

Because the business environment cuts across so many functional areas, collaboration with other donors and projects is critical. In Year Two, USAID|BEEP partnered with the European Union Small and Medium Enterprise (EU SME) project on a number of initiatives, including work on the framework laws on the Permissive and Inspections Systems. Further, coordination with the USAID Growth and Fiscal Sustainability Initiative (GFSI) and Democratic Effective Municipalities Initiative (DEMI) was leveraged to move forward on municipal collections and property tax reforms. Similarly, enhanced advocacy through business associations and the private sector was achieved through the Project's cooperation with the USAID Kosovo Private Enterprise Program (KPEP)

Municipal ambition to make doing business easier led impressive efforts to transform the business environment at the local level. With USAID|BEEP assistance, municipal administrations undertook vigorous efforts to improve transparency, eliminate unnecessary permits and licenses, and initiate open dialogue. These changes are truly being realized as business responses to the Municipal

Competitiveness Index (MCI) 2012 survey overwhelmingly indicated that the local businesses environment is improving across the country.

To build on this impressive reform momentum, USAID|BEEP partnered with a local subcontractor in Year Two to initiate our Municipal Partnership Program to add seventeen (17) new Municipal Coordinators (MCs). With this addition, the Project is able to provide more tailored service in all municipalities to help drive business environment reforms.

Recognizing the pressing need to reform construction permitting, the Kosovo Assembly adopted the project-sponsored Law on Construction in Year Two. This represents unprecedented change, establishing a business-friendly framework for construction permitting. With proper implementation of the new law, steps, time, and costs for obtaining a construction permit are drastically reduced. The MESP has designated USAID|BEEP as a lead in construction implementation, partnering to achieve the ambitious upcoming work.

The GoK this year established the first-ever regulatory baseline in Kosovo. Resulting from two project-sponsored working sessions to inventory and review all regulations, the OPM abolished over four hundred and forty (440) unnecessary, obsolete, and unnecessary Administrative Instructions (AIs). Accounting for nearly thirty (30) percent of all regulations then in force, this was a notable step towards rationalizing the regulatory regime in Kosovo.

A huge step was taken in Year Two to reduce barriers to trading across borders. In October 2011, Kosovo Customs embraced the Project's recommendation to significantly reduce unnecessary documentation required for import and export transactions. Documents required for export transactions have been reduced from 8 to 2 and for import transactions from 8 to 3. This translates into impressive savings for businesses dealing in trade and incentivizes increased trade activity.

USAID|BEEP achieved the life of project goal of increasing the number of types of users of the credit information system in Year Two. Through CBK adoption of the project-sponsored Regulation on the Credit Registry in February, insurance companies were permitted access to the public credit registry, now joining banks, microfinance institutions, non-banks, and leasing companies. By adding additional credit providers to the credit information system, the availability of credit information increases and facilitates reduced risks to lending.

Highlighted below are some of USAID|BEEP's accomplishments in the second year of operation, together with a summary of the project's progress towards established indicators.

Highlights of Year 2 include:

- Adoption of the Law on Construction, establishing a business-friendly framework for construction permitting
- Elimination of the Tax Administration of Kosovo (TAK) pre-business registration inspection requirement
- Commitment by the OPM to move forward on crucial business environment improvement initiatives, including the Law on Normative Acts (LNA), the Legal Information Database (LID), and the framework Laws on the Permissive System and Inspections
- Abolition of over four hundred and forty (440) unnecessary, obsolete, and illegal Administrative Instructions, establishing the first-ever regulatory baseline in Kosovo
- Impressive improvements in the MCI 2012, demonstrating realized local-level business environment results
- Commitment by twenty-three (23) municipalities to eliminate or suspend business license fees, with nine (9) already implementing
- Reduction in documentary requirements for import and export transactions, reduced from 8 to 3 for import transactions and from 8 to 2 for export
- Elimination of the Customs import/export registration requirement, removing a duplicative registration requirement
- Adoption of the project-sponsored Laws on External Trade and Safeguards and the Amendment to the Customs Code, bringing Kosovo's legal framework for trade closer to international best practice
- Adoption of the new Regulation on the Credit Registry, adding insurance companies as a credit provider permitted to access the credit information system and achieving our project's goal

Indicators of Success:

Success is measured by five Project Results (PRs) covering USAID|BEEP activities in doing business improvement, trade facilitation, and access to credit. The table below describes each of the PRs and their end-of-project targets, their status as of the end of Year Two, and subsequent percentage of the target achieved.

PROJECT RESULTS SUMMARY			
	2011-2012	End of Project PR Target	Percent of Target Achieved
Project Result 1: Percentage Improvement in Underlying Variables of Project-Supported Doing Business Indicators	0**%	20% average total improvement in the combined underlying variables of indicators reflecting project activities in the annual WBDB Report	0%
Project Result 2: The Economic Impact of Reforms	\$119,958,960	\$170,000,000	70.5%
Project Result 3: Percentage Improvement in Municipal Competitiveness Index scores in at least eight municipalities	19.34%	20% improvement in MCI scores in eight core municipalities as reflected in the MCI 2013	96%
Project Result 4: Number of types of users of the Credit Information System	5*	5	100%
Project Result 5: Number of requests by businesses and citizens for their own credit reports	566	960 from July 2012 – July 2013 [◇]	_ [◇]

* Banks, microfinance institutions, non-bank financial institutions, leasing companies, and insurance companies are the five users of credit information

◇ In agreement with USAID, a target was set for 80 credit report requests by businesses and citizens per month, or 960 per year. Originally, the PBMP did not set a target for PR5.

** Due to the time lag of the Doing Business report's information collection methodology, we expect project reform initiatives to be reflected in the upcoming Doing Business 2013 report

BEEP RESULTS FRAMEWORK

The United States Agency for International Development (USAID) / Kosovo Strategic Plan for 2010-2014 formulates an ambitious five-year agenda for Kosovo. The United States Government (USG) seeks a strong and effective partnership with the Government of Kosovo (GoK) that builds on their close relationship in order to address regional and global challenges. USG support focuses on:

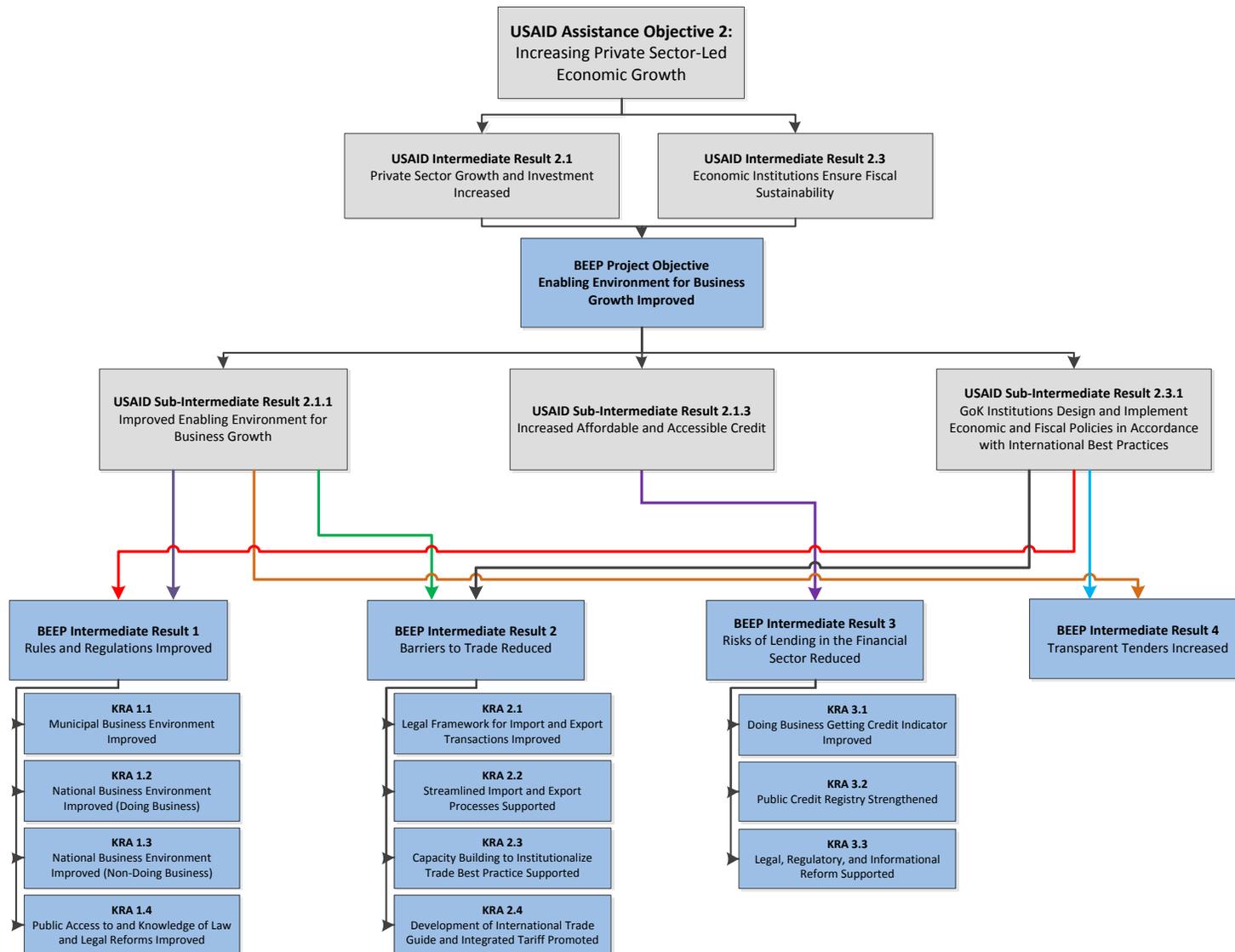
- Building the institutions of Kosovo's government and society;
- Encouraging a democratic process inclusive of all citizens, including all minority groups;
- Promoting economic development such that all people of Kosovo enjoy the benefits of prosperity;
- Ensuring that society and government are firmly grounded in the rule of law; and
- Supporting the continued integration of Kosovo in the region and Europe.

The 2010-2014 USAID / Kosovo strategic plan is based on the implementation of three assistance objectives (AOs):

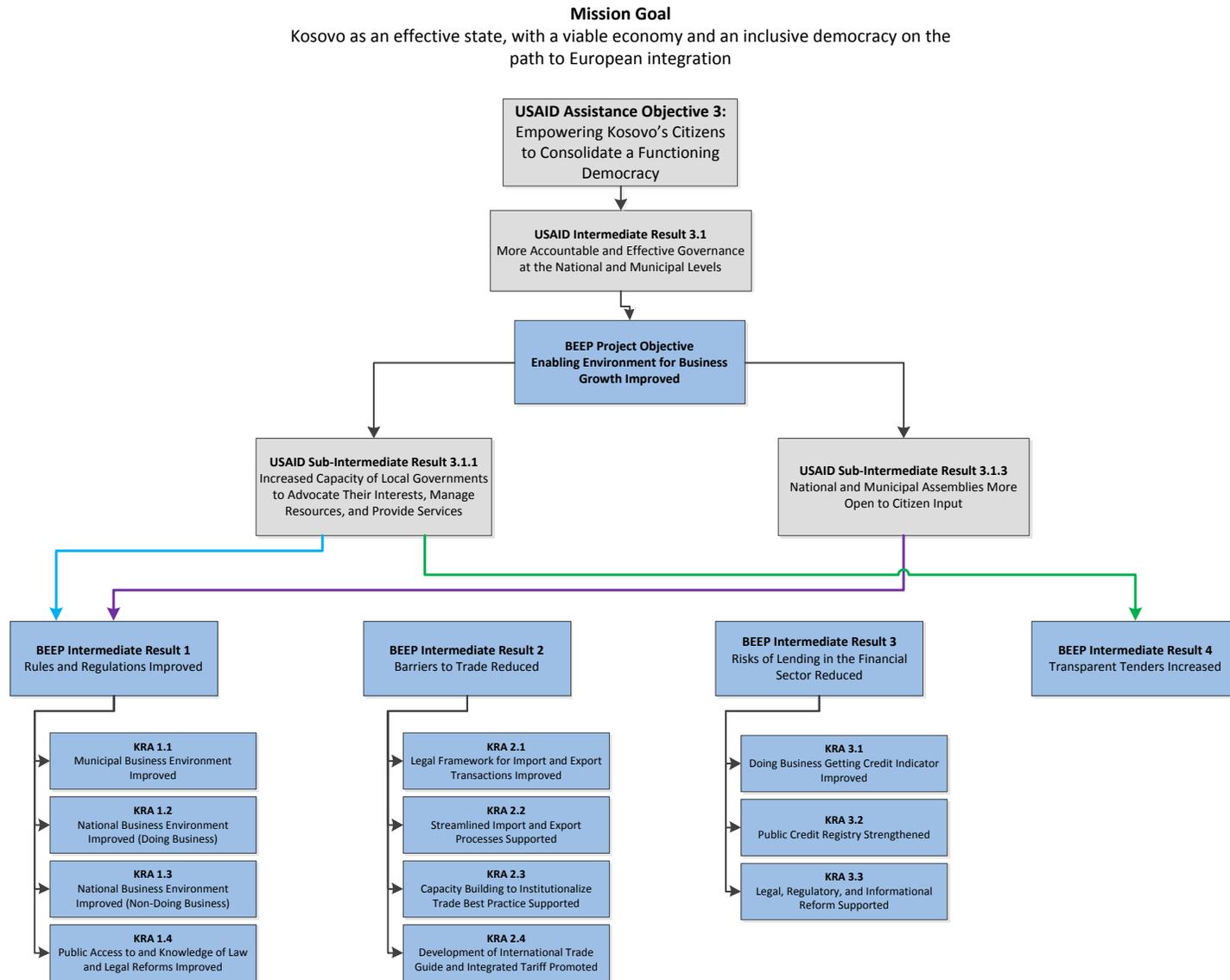
- **Assistance Objective 1:** Youth Are More Productive and Engaged Members of a Stable Kosovo
- **Assistance Objective 2:** Increasing Private Sector-Led Economic Growth
- **Assistance Objective 3:** Empowering Kosovo's Citizens to Consolidate a Functioning Democracy

USAID|BEEP's Project Objective of "Improving the Enabling Environment for Business Growth" drove the establishment of project activities that are narrowly tailored to support achievements under Assistance Objective 2: *Increasing Private Sector-Led Economic Growth*; and Assistance Objective 3: *Empowering Kosovo's Citizens to Consolidate a Functioning Democracy*. Each of USAID|BEEP's four primary Components encompass these dynamic activities and are reflected within the Results Frameworks below.

ASSISTANCE OBJECTIVE 2



ASSISTANCE OBJECTIVE 3



PROJECT INTRODUCTION

BEEP aims to improve the environment for business through effective implementation of reformed laws and regulations, and enhanced publication and accessibility of legal, economic, and financial information by national and local governments. Specifically, BEEP has four (4) priorities:

1. *Improved laws and regulations*: to identify, promote, and facilitate implementation of free market reforms.
2. *Lower trade barriers and harmonized trade policy*: to identify, promote, and facilitate adoption of policies, laws, regulations, and procedures that reduce costs, time, and other disincentives to trade; as well as to promote and assist the development and implementation of harmonized trade policy.
3. *Improved financial sector efficiency*: to reduce risks of lending by increasing availability of credit information and effective use of risk management by the financial sector.
4. *Improved government procurement*: to increase transparency of local government tenders.

Overview of Project Components

Component One: Improved Rules and Regulations. Component One is the largest component in terms of resource allocation and technical scope, and works at both the national and municipal levels to remove barriers to business by simplifying and streamlining the regulatory framework — statutes, regulations, rules, procedures, and other legal requirements — that is applied to businesses operating in Kosovo. Current practice of regulatory bodies is generally to impose requirements on private economic activity, which constitute a serious, system-wide constraint on business. Component One has been working closely with the GoK – primarily with the Office of the Prime Minister (OPM), The Ministry of Environment and Spatial Planning (MESP), and the Ministry of Trade and Industry (MTI) – to carry out legal reforms that address impediments to business identified in the World Bank Doing Business reports on Kosovo. Additionally, it supports reforms in complementary areas to DB reform, including in permissive system improvement, consolidation and publication of laws and regulations through a unified database, inspections reform, and other initiatives detailed below.

Municipal Coordinators in BEEP's eight primary municipalities – Ferizaj, Gjakova, Gračanica, Mitrovica, Peja, Pristina, Prizren, and Strpce – have established strong links with local business communities and public administrations to identify the specific legal constraints that impact business activities and to

engage them in the reform process. With the addition of seventeen new MCs in Year Two, BEEP is able to provide more tailored service at the local level country-wide.

Component Two: Lower Trade Barriers. Component Two focuses on the reduction of barriers to trade to facilitate increased commerce and international cooperation, as well as the implementation of regional and multilateral trade agreements.

Long-term growth is enhanced when a more liberal trade regime is implemented. Unambiguous rules and regulations that guarantee the free and fair movement of goods and services are fundamental to increased trade. For Kosovo to realize the benefits of more efficient trade, a combination of strategies is required: implementation of sound, market-based trade policies and modernization of trade-related institutions; institutionalization of a strong, liberalized business regulatory framework; strengthening of basic market institutions; and the implementation of transparent policies that attract foreign direct investment.

For these reasons, Component Two is assisting the Ministry of Trade and Industry with institutional reforms and Kosovo Customs on activities involving private sector partners (clearing agents, transporters, and business associations). The aim is to streamline trade-related activities through broad-based consultative mechanisms – involving private and government stakeholders in the formulation, implementation, assessment, and fine-tuning of trade policy and customs procedures.

Component Three: A More Efficient Financial Sector. Component Three aims to increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information. Component Three personnel work with the Central Bank of Kosovo (CBK) to ensure that more credit data is captured, that it is stored securely, that it is provided in a timely manner to authorized users, and that it is accurate. Furthermore, they have explored ways to expand the scope of the credit information system by working to add new data providers and to incentivize subjects of credit reports to check and update their own credit information. Component Three is assisting the CBK to complete an upgrade of its Credit Registry software to ensure more accurate and timely credit information.

Component Four: More Transparent Tenders. Component Four is tasked with helping to make more transparent the tendering process for goods and services conducted by Kosovo municipalities; more specifically, to assist at least two of its partner municipalities to introduce on a pilot basis the use of electronic tenders for procurement of local goods and/or services consistent with international best practices.

There has been considerable uncertainty and controversy in Kosovo surrounding donors' efforts to reform procurement, with the EU continuing to advocate for a draft procurement law that was passed over by the National Assembly in September of 2010. Meanwhile, procurement is reported to be problematic and susceptible to corruption at both the national and municipal levels, which was confirmed first-hand from focus group participants in our municipal round tables.

In May 2011, however, the World Bank team announced its intention to launch a procurement reform initiative in Kosovo at the national and municipal levels over the next year. It was subsequently agreed with USAID that BEEP put on hold its own initiative until the scope and direction of the World Bank and EU initiatives become clearer.

Cross-cutting Strategic Studies and Project Fund. In order for legal reforms to succeed and “take root” in society, it is important that the public embrace them. This requires that people be informed about the reforms and understand why they are necessary. To involve citizen stakeholders in project reforms and increase the capacity of indigenous organizations to influence the reform process, BEEP continues utilization of its Strategic Studies and Project Fund (SSPF). The SSPF advances reforms across all BEEP components by awarding grants and subcontracts to Kosovo-registered non-governmental entities pursuing reform-minded initiatives. Specific efforts supported by the SSPF are discussed in the report.

WORK PLAN PROGRESS REPORT

COMPONENT ONE: IMPROVED RULES AND REGULATIONS

CI-1: SUPPORT MUNICIPAL REFORMS THROUGH BEEP AND PARTNERSHIP PROGRAM MUNICIPAL COORDINATORS USING THE MUNICIPAL COMPETITIVENESS INDEX (MCI) AND PURSUE OPPORTUNITIES TO INSTITUTIONALIZE THE MCI

Municipal Competitiveness Index (MCI) 2011 Follow-on. Following publication of the MCI 2011 in June 2011, the Project's Municipal Coordinators (MCs) developed diagnostic analyses of its results for their respective municipalities. These diagnostics included a review of municipality-specific MCI results, comparisons to top performers, identification of business environment issues, and the development of specific recommendations on the actions that municipalities can take to address identified issues. The MCs also monitor the implementation of any reforms that the municipality pledges to carry out. The MCI 2011 allows the Project to better understand businesses' perceptions of their municipal business environments across eight indices:

- Barriers to business entry;
- Predictability and participation;
- Transparency;
- Time costs of regulatory compliance;
- Taxes and fees;
- Municipal administration:
- Labor and business support services: and
- Municipal infrastructure.

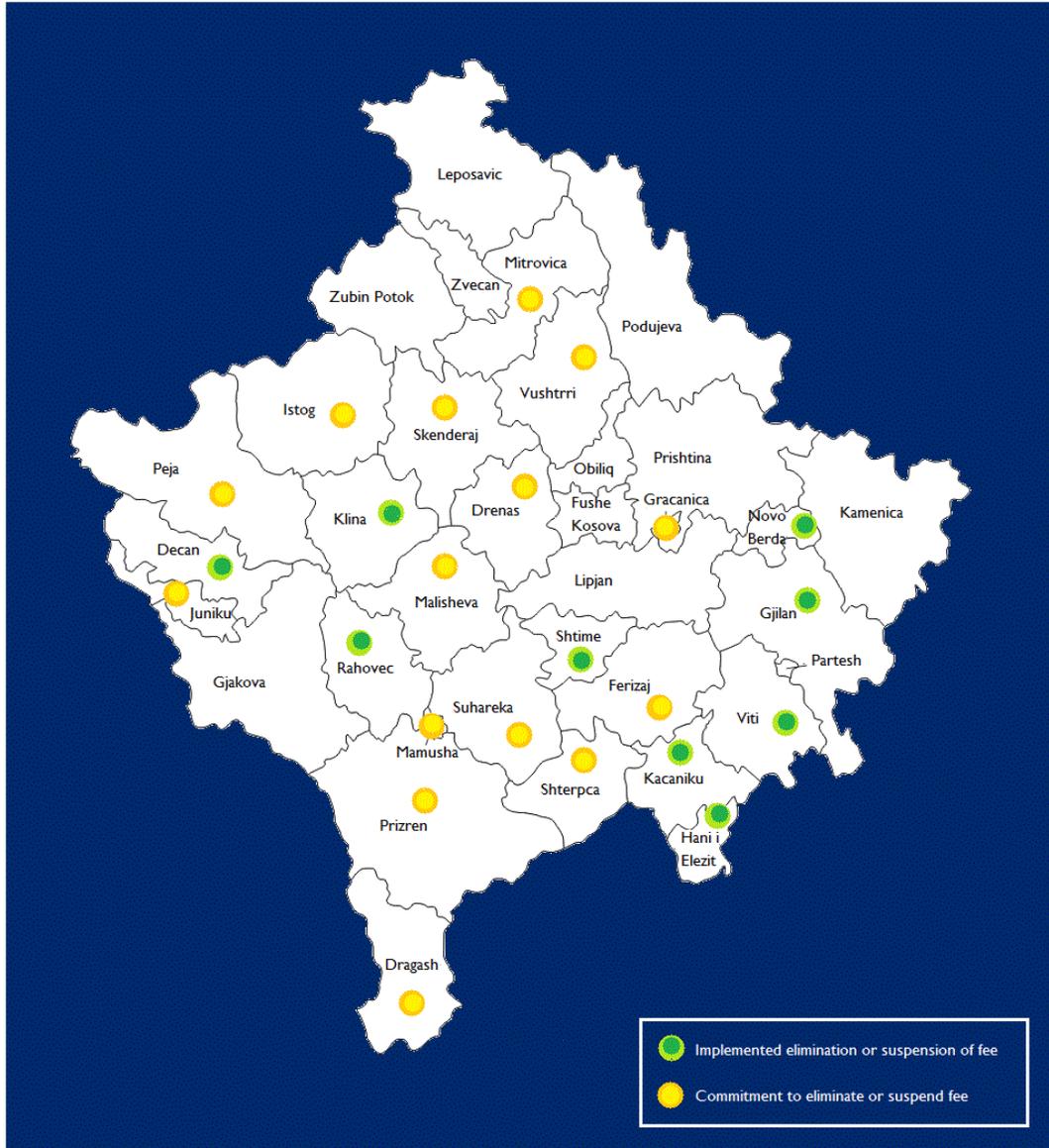


Mayor of the Municipality of Prizren speaking at an MCI 2011 diagnostic presentation in December 2011.

To facilitate diagnostic sessions, the Project met with the MCI subcontractor, UBO Consulting, in October to discuss the preparation of case studies evidencing the best and worst practices reported in the MCI 2011 survey. UBO conducted this research in six municipalities – Gjilan, Istog, Dragash, Peja, Vitia, and Strpce, which allowed comparison among large, small, and minority municipalities, interviewing

both business persons and municipal officials. The case studies were used to help shape and support recommendations to municipalities on reforms they can undertake to create a regulatory environment that is more conducive to business.

Business License Fee Elimination or Suspension



Utilizing these case studies and the MCI 2011 results, MCs held diagnostic sessions with municipal administrations in the last quarter of 2011 and the beginning of 2012, setting the stage for active discussion and facilitating expressions of commitment from municipal administrations to undertake reforms. MCs held sessions in each of the project-assisted municipalities, establishing a solid foundation for impressive future reforms.

The diagnostic presentations proved very valuable for harnessing municipal commitment to transformational, regulatory, and operational change to improve the local business environment. Already, twenty-three (23) municipalities have committed to or implemented the elimination or suspension of business license fees in their municipalities, nine (9) have acted on their commitment and adopted the implementing municipal regulation, and thirteen (13) are in the drafting process. An impressive result in this regard took place in July when the Director of the Department of Finance of the Ferizaj Municipal Administration confirmed plans to abolish *all* business licensing in the Ferizaj municipality. This development follows on a meeting that USAID|BEEP had with the newly elected mayor to discuss business environment reforms.

USAID|BEEP will monitor and support implementation of this commitment. While many of these fee eliminations and suspensions are not permanent, municipal administrations are taking significant steps toward the proper use of the permissive system and away from the improper use of regulatory mechanisms for revenue generation.

Following implementation of the Project's recommendation to eliminate the work permit, USAID|BEEP encountered some confusion on the part of municipalities as to whether the business license is required¹. For example, the Component One team was able to demonstrate to the mayor of Peja that the business license is not required under the law, but is only discretionary². Following discussions, the mayor committed to eliminating associated fees.

"From the frequent meetings we had with the representatives of the project...we fully agreed that the private sector is the only opportunity for the development of the municipality and employment of its citizens. So, with the help of USAID/BEEP we have started to identify and eliminate barriers and constraints in order to create a more suitable environment for the business community. Relying on the support and recommendations of USAID/BEEP we have taken concrete steps for improvement of the business environment. We are confident that the Business Enabling Environment Program, USAID/BEEP, is unlike other projects, and has set the stage for sustainable social and economic development for the future."

Islam Jashari, Director of Finance and Budget, Viti

Another important development is the changing attitudes of municipal officials. Municipal administrations are undertaking activities to build trust between themselves and citizens and create predictability in the business environment. As a transitioning economy, Kosovo's new institutions are beginning to shed old practices of ill-defined control and are developing more narrowly tailored regulatory practices. As evidence of this change, the Director of Finance of the Viti Municipality asked to meet with USAID|BEEP to discuss his proposal to either eliminate or put on a cost-recovery basis the fee that the municipality

¹ Elimination of the work permit was accomplished in the first project year through our recommendations on Law No. 04/L-005 on Amending and Supplementing Law No. 2004/18 on Internal Trade, at Article 5.

² See Law No. 03/L-049 on Local Government Finance

currently charges to change the designated use of a land parcel. At present, the fee is based on the size of the land parcel rather than the administrative costs of administering the change. The Director voiced his want to improve service delivery in the municipality. The Project supported his proposal to change the fee basis for changing the use designation of a land parcel and are helping to research the law and practice surrounding the imposition of this and related fees. The dialogue regarding good governance and business environment reform is changing as this type of demand-driven change takes place around the country.

Another result of the Project's diagnostic recommendations, municipalities have overwhelmingly adopted transparency reforms that make the local business environment more open. Almost all local administrations have taken action to post regulations on their municipal websites, which dramatically reduces opportunities for arbitrary government action and increases predictability. In addition, municipalities have opened their doors for public meetings so that businesses and citizens can be informed of and engage in local budgeting and regulatory drafting. In Rahovec, the mayor has truly embraced the need for transformational transparency reform and is now actively meeting with businesses at least twice a month to address local business environment concerns. Municipal reception to recommendations through use of this important MCI tool has proved invaluable in efforts to improve the business environment.

MCI 2012. Building on the success of the MCI 2011, USAID|BEEP expanded the sample population and surveyed over 3,000 businesses and business persons. The larger sample provided a broader basis for the findings of the survey. Following the survey period, the Project developed the MCI 2012 report to compare with the results of the MCI 2011.

In June, USAID|BEEP held the second annual MCI event (MCI 2012) to announce results and to show how the MCI results and reforms fit in with broader reform initiatives that were underway. This year's MCI results were impressive. Overall, seventeen (17) municipalities improved their raw score by at least one (1) point in three (3) or more MCI sub-index measures and nineteen (19) municipalities improved their cumulative raw scores by more than five (5) points. Importantly, 30 of 33³ municipalities improved their overall raw score, indicating an improvement not only in the legal, regulatory, and operational framework of the municipality, but also as perceived and realized by businesses all over the country.

³ We collected information this year for 3 additional municipalities where information was not available for the MCI 2011 (Leposaviq, Zubin Potok, and Zvecan). Therefore, no comparative information is provided.



MCI 2012 Results Presentation. Presenters (from left to right) are Shaip Surdulli (Mayor of Kamenicë), Slobodan Petrovic (Deputy Prime Minister and Minister of Local Government Administration), Maureen Shauket (USAID Mission Director for Kosovo), Brian Kemple (BEEP Component One Lead), and Terry Slywka (BEEP Chief of Party)

Securing improvement in the MCI indicators is one of the Project’s five primary results areas⁴. As discussed above, municipalities have responded even better than expected, committing to and implementing reforms in areas such as improved transparency, increased incentives to business formalization, increased public-private dialogue, and reduced barriers to business creation. USAID|BEEP has already seen an 11.1% overall improvement in cumulative MCI scores across municipalities from reforms undertaken since the MCI 2011 baseline survey. This is very encouraging given the time necessary for acceptance of the MCI as a reform tool in the country, the adoption and implementation of reforms, and the realization of reform impacts by businesses. As this reform momentum continues, the Project expects very significant improvements in the MCI Survey for 2013 results.

Municipal Own-Source Revenue. In 2011, USAID requested that BEEP, the USAID Growth and Fiscal Sustainability Initiative (GFSI), and USAID Democratic Effective Municipalities Initiative (DEMI) projects

⁴ The target for our Project Result 3 is a 20% improvement in MCI scores in at least 8 municipalities from the MCI 2011 to the MCI 2013.

develop a paper on Municipal Own-Source Revenue (MOSR) and Property Tax. The goal was to create consensus among the USAID projects in order to coordinate activities in this area.

Understanding how municipalities generate revenue facilitates improved project assistance activities by allowing us to take a holistic approach to local reform. During this project year, MCs undertook research initiatives to determine sources of MOSR, collecting data on property tax collections, construction permit and business license fees, and the number of construction permits issued.

This research demonstrated that the spectrum of MOSR sources varied widely among municipalities. In many cases municipalities are improperly using businesses licenses and construction permits as mechanisms for raising revenue rather than to protect the public health and safety. Further, accounting codes used to identify own source revenues and report to the Ministry of Finance (MoF) are vague, misunderstood, and misapplied. Municipalities report revenue to the MoF using different numbering systems and nomenclature. It is therefore very difficult to monitor municipal compliance with national law and to determine sources of municipal revenue.

A consensus was reached on most of the principal issues, including the need to overhaul and sharply curtail the municipalities' current practice of using licenses to generate revenue from businesses. This research further helped inform discussions of USAID|BEEP's assistance in construction reform. Discussed in more depth in CI-2, the project-sponsored Law on Construction includes a provision requiring the municipalities to establish construction permitting fees on a cost recovery-basis, limiting the opportunity for administrations to use the permit as a revenue-raising tool⁵. However, municipalities expressed their concern that they would not be able to fund their budgets without this mechanism.

The Project's analysis revealed that collection of property taxes is limited, as many buildings are not included in the property tax rolls. Therefore, USAID|BEEP's assistance and recommendations focused on encouraging greater inclusion of properties and improved enforcement of property tax collections to relieve the financial burden of lost construction permitting revenue. As property tax is commonly recognized as one of the primary mechanisms for collecting MOSR, this research allowed the Project both to tailor recommendations for proper use of permitting and improve own source revenue practices. This holistic approach to MOSR proved invaluable in the Project's advocacy for transformational construction reform by allowing us to utilize demonstrable business environment constraints.

⁵ Law No. 04/L-110 on Construction at Article 22, ¶ 3.

In June, USAID|BEEP completed a validation review of an adopted amendment to the Law on Tax on Immovable Property⁶. The amendments reflect the priorities of Economic Vision 2014 as supported by USAID GFSI and BEEP by (1) increasing the minimum property tax rate from 0.05% to 0.15%, (2) clarifying property tax treatment of unfinished constructions by providing they shall be taxed at 40% of the residential property value; (3) requiring that property tax be paid before the parcel may be transferred, and (4) providing that appeals can be filed in court if the Municipal Board does not respond to the taxpayer within 60 days of filing.

As previously mentioned, increasing the participation in and rate of property tax, if properly implemented, would allow municipalities to move away from use of regulatory mechanisms for revenue-raising. Increasing this tax rate is not expected to have a substantial impact on the Doing Business “Paying Taxes” indicator. In Pristina, the commercial property of 0.17% rate is already above the new floor. Therefore, Kosovo’s Doing Business score for “Paying Taxes”⁷ would only be expected to be affected if the municipal rate is subsequently increased, but given the overall low rates of taxation, any impact would be very small.

E-procurement. In early February a USAID|BEEP short term expert met with the mayors of Viti and Peja to assess the feasibility of introducing e-procurement at the municipal level. The expert also met in separate meetings with officials of the Central Procurement Agency and the Public Procurement Regulatory Commission to discuss Georgia’s experience and achievements in



Municipal Partnership team participating in a USAID|BEEP training on reform methodology

converting to wholly electronic procurement. The expert’s assessment was that introducing e-procurement at only the municipal level, especially in just two pilot municipalities, was not feasible

⁶ Law No. 04/L-100 on Amending and Supplementing Law No. 03/L-204 on Tax on Immovable Property.

⁷ The Paying Taxes methodology employed by the World Bank utilizes a simple average of three component indicators: (1) number of hours per year to file returns and pay taxes; (2) number of payments per year; and (3) tax liabilities as a percentage of profits.

because in order for the municipal level reforms to be effective, extensive work would first need to be done at the national level where procurement policy is set.

Municipal Partnership Program. USAID|BEEP took a big step to expand work activities and facilitate change in the municipalities by partnering with a local subcontractor to add seventeen (17) new Municipal Coordinators (MCs) to the existing eight (8). With a stronger presence in the municipalities the Project has forged improved relationships with local administrations, raised our level of assistance, and expects to drive additional reforms.

The path to improved regulatory environments in the municipalities is clear, but it requires a change in the mindset of those responsible. With reform momentum growing in the municipalities, it is important that the Project continually communicates with and informs those administrations who have not yet adopted specific reforms, encouraging them to follow the lead of those that have, and the new MCs are facilitating this information coordination in their respective municipalities.

In April the new MCs received a two-day orientation and then hit the ground running, reviewing the MCI 2011 and identifying business environment constraints. They were introduced to the municipal officials, finding a high level of acceptance and anticipation for continued successful relationships with the Project. The new MCs underwent extensive mentoring on USAID|BEEP's reform methodology to ensure a uniform message of reform recommendations and consistent implementation strategies. Topics included issue identification and analysis, process mapping, legal writing, and economic impact quantification. The new MCs will be a critical part of upcoming MCI diagnostic teams as USAID|BEEP charges forward on ambitious municipal reforms.

Model municipal regulations. To date USAID|BEEP has compiled a list of a core set of competencies that municipalities are legally empowered to undertake and has identified, within the core municipalities⁸, where related regulations are in place. The Project is currently gathering this information for all municipalities to make recommendations on improving regulations for each of the identified core competencies.

USAID|BEEP has already worked with individual municipalities to improve selected regulations and make them consistent with the principles of a private market economy and limited government. USAID|BEEP has also promoted their adoption in other municipalities. That work, however, has made clear that (1) it would be most effective to develop model regulations relating to private economic activity that could be adopted by municipalities throughout Kosovo; and (2) most municipal legal officers would greatly benefit from training on developing model regulations. The activity would (1) increase municipalities' internal

⁸ Core municipalities for the project are Peja, Pristina, Mitrovica, Gjakova, Strpce, Ferizaj, Gracanica, and Prizren.

capacities to develop their own regulations; (2) foster the harmonization of rules and regulations across municipalities; and (3) create a useful resource for small municipalities that encounter difficulties in developing proper regulations on their own.

The Association of Kosovo Municipalities (AKM) compiled a manual of model regulations in 2010. While the model regulations in the manual require extensive revision and updating in order to bring them into line with the requirements of a good business environment, they can nevertheless serve as a starting point for the development of appropriate model regulations. The AKM has expressed its readiness to work with municipalities and USAID on this and to help conduct the training session and the follow-on work. USAID|BEEP has agreed to help the AKM publish and disseminate in electronic form and hard copy the revised version of its Manual of Model Regulations when the model regulations have been finalized.

CI-2: SUPPORT NATIONAL BUSINESS ENVIRONMENT IMPROVEMENT (DOING BUSINESS)

Draft Law on Construction. This contract year saw strong results in the area of construction. The project-sponsored Law on Construction was adopted by the Kosovo Parliament in May and signed by the President in June 2012. Further, the Ministry of Environment and Spatial Planning (MESP) has requested that USAID|BEEP take a leading role in implementing transformational construction reform.

In August 2011, the Minister of MESP requested assistance in developing the draft Law on Construction. The Component One team devoted significant project resources to the development of a draft law and delivered a comprehensive package to the Minister containing (1) a draft Law on Construction in Albanian, Serbian, and English; (2) a process map illustrating the construction permitting procedures under the proposed version of the draft Law; and (3) a table that presented detailed comments on each provision of the law provided by the MESP. Important features of the draft include, among others:

- *Silence is consent principle.* This establishes a time limit for authorized permitting bodies to issue construction permits. If the body does not issue the permit within the time limit and does not provide sufficient reason, then the permit is legally deemed issued and the applicant may proceed with construction according to the terms submitted in the application. This reduces discretion on the part of the permitting bodies, eroding possibilities for and reliance upon corruption.

- *Cost recovery-based permitting fee.* It is very common for municipalities to use permits and licenses as a revenue-raising mechanism rather than for its intended purpose of protecting the public's health and safety. The DLC incorporates a requirement that authorized bodies to publicize their permit fee and that the fee be based on only the costs of issuing the permit. Any amount over the costs of issuance is a *de facto* tax.
- *Transparent and predictable procedures for issuing construction permits.* The DLC establishes clear and predictable procedures for applying for and obtaining a construction permit. This includes the process all the way from the application to final inspection and issuance of the occupancy certificate.
- *Risk-based approach.* Not all constructions are the same. Employing international best practice, the permitting approach taken in the DLC incorporates a risk-based assessment of the construction activities so the authorized permitting bodies can more effectively allocate resources. Time limits for the purpose of "silence is consent" are extended for riskier construction activities.
- *Requirement for development of a Construction Code.* Work does not end with adoption of the DLC. An extensive amount of work will be required following adoption, including the development of a tailored Construction Code. The Construction Code will establish the minimum mandatory technical requirements for construction activities in Kosovo.

Following submission of the draft, the Project was involved in a number of technical discussions with MESP concerning its impact at the national level and on the municipalities.

Later in November, the International Finance Corporation (IFC) provided USAID|BEEP with comments on the draft Law, giving it a very favorable review, and supplied a few recommendations to improve specific provisions. Recommendations included

more clearly defining how utility companies should be involved in the "single-window" approach and



New construction taking place in the capital city of Pristina

more strongly incentivizing the establishment of urban regulatory plans. USAID|BEEP also received and incorporated into the draft law comments from the International Civilian Office (ICO). The Component One team finalized the draft in December and re-submitted the law to the MESP.

In early February, the Project met with officials from MESP to develop the DLC concept paper for submission to the Government Meeting⁹. This paper was used to orient policy makers on the law and accompanied the draft when it was submitted to the Government Meeting. The MESP made the draft and concept public and received comments from stakeholders, including from the AKM. At the request of the MESP, USAID|BEEP provided significant support in reviewing and responding.

In the beginning of March, MESP submitted the concept paper and draft law to the Government Meeting for review. On March 8, 2012 the GoK approved the DLC and submitted it to the Kosovo Assembly. Immediately following its approval by the GoK, USAID|BEEP began garnering support and disseminating it through the Project's information network. USAID|BEEP assisted the MESP in making a presentation to the Parliamentary Committee to better familiarize members with the law and prepare them for future deliberation. Because this law affects a large majority of the country, public comment and discussion proved intense.

Preliminary apprehensions about the DLC were voiced largely by the municipalities through the AKM. The transformational nature of the law engendered municipal concern that they would have difficulties with implementation. Municipalities cited several difficulties, including issuing construction permits within newly established deadlines through incorporation of the "silence is consent" principle; establishment of cost recovery-based fees; and development of urban regulatory plans. Other stakeholders also voiced concern, fearing the loss of government protection for certain occupations.

Through close consultation with the MESP, USAID|BEEP helped facilitate public discussion and provided detailed responses to stakeholder concerns. Further, the Project brought in two construction experts from the Republic of Georgia to share their experience and discuss the challenges and benefits of reform. The public comment period yielded several useful suggestions that the Project recommended be included in proposed amendments to the DLC for Parliamentary Committee consideration.

In early March 2012, the GoK approved the DLC in the Government Meeting and submitted it to the Parliamentary Commission on Agriculture, Spatial Planning, Environment, Forestry, and Rural Review for review. USAID|BEEP helped to facilitate public comment during the Commission's first reading where

⁹ In the legislative process in Kosovo, ministries may submit proposed laws to the Parliament. However, they must first be adopted by the Executive Branch in a Government Meeting. As part of this meeting, ministries must submit a concept document for consideration.

discussion proved intense. We also assisted the Commission in responding to concerns surrounding the DLC, including the implementation concerns voiced by the municipalities. The Commission incorporated relevant comments and passed the DLC in the first reading during the first week of April.

On May 31, 2012 Parliament passed the DLC in the second reading and sent it to the President for signature. Finally, on June 22, 2012 the President signed the DLC and the law is now in force. The Law on Construction is expected to have a strong positive impact on the Doing Business "Dealing with Construction Permits" indicator in the Doing Business 2014 report¹⁰.

In late June, the Project held a workshop jointly with the Association for Kosovo Municipalities for municipal legal officers on the Law on Construction to increase their understanding of the new Law and the follow-on reforms to be carried out at the municipal level. Approximately twenty (20) municipal legal officers attended, along with the Permanent Secretary of MESP and representatives of the Association. USAID|BEEP will continue to work with MESP to strategize on the upcoming Construction Law information campaign.

Study Tour to Turkey. In early June 2012, the Project sponsored a working session in Istanbul, Turkey to provide Kosovo Parliamentarians greater insight into construction reform and its effects. The working session brought together seven Parliamentary deputies, the Permanent Secretary of MESP and four other Kosovo experts and officials with ten Georgian experts and private sector construction representatives. The session generated deeper understanding, particularly among deputies, for the further reforms that will need to be carried out to implement the recently adopted Law on Construction and broader construction reform, including the development of a new Law on Spatial Planning and Law on the Legalization of Illegal Constructions.

Study Tour to Georgia. In late September 2011, GoK representatives participated in a study tour to the Republic of Georgia, combining three days of meetings with Georgian government counterparts to discuss DB reforms and a three-day regional conference on e-governance co-sponsored by USAID. Twelve Kosovo officials from both national and local governments, along with 3 technical staff and 2 translators from USAID|BEEP participated.

¹⁰ The Doing Business reports are titled one year ahead of the year of release. For example, the Doing Business 2013 report is expected to be issued in October 2012. Further, the information collection period for any given report ends in May of the year it is released. In our case, the Law on Construction was not adopted in time to be captured in the Doing Business 2013 report (for which data collection ended in May 2012). Therefore, we expect its impact to be captured in the Doing Business 2014 report.

The visit was the culmination of remarkable coordination between Kosovo and Georgia. With USAID support, the delegation successfully traveled to a country that does not officially recognize Kosovo. (This was unprecedented, because Georgia does not officially recognize Kosovo.)

The group began the study tour in Tbilisi where they met with Georgian officials and government counterparts to discuss and observe practical implementation of effective business environment reform. Collaborating Government of Georgia (GoG) bodies included the Ministry of Economic Development, Ministry of Finance, the Public Registry (One Stop Shop), and the Ministry of Internal Affairs. These meetings represented an unparalleled opportunity for the representatives from Kosovo to discuss reform initiatives and learn from some of the top Doing Business reformers in the world.

In addition to meetings in Tbilisi, the delegation traveled to Batumi for the Regional Workshop where



Study Tour delegation in Georgia, September 2011

they learned about the reform experiences of other countries including Armenia, Ukraine, Egypt, and Turkey. Topics included relationships with the business community, tackling corruption, property registration, governance and information technology, transparency, accountability, and service improvement.

This visit helped show that transformational reforms are possible and illustrated the positive impact that

fundamental changes can have. It is hoped that this visit laid the foundation for future exchanges and strengthened economic relationships between the people of Kosovo and the Republic of Georgia. The group brought back not only the practical knowledge about improving the business environment, but the inspired confidence and determination to achieve top reformer status.

DB Laws enacted. During August and September 2011, the Kosovo Assembly adopted several DB-related reforms. In addition to the amendments to the Law on Business Organizations¹¹ and Law on Internal Trade¹² adopted in June 2011, these laws represent highly significant business environment reforms and are expected to dramatically improve Kosovo's ranking in the DB 2013 report. The newly adopted laws include the:

¹¹ Law No. 04/L-006 on Amending and Supplementing Law No. 02/L-123 on Business Organizations

¹² Law No. 04/L-005 on Amending and Supplementing Law No. 2004/18 on Internal Trade

- Amendment to the Law on Notary¹³;
- Law on Fire Protection¹⁴;
- Amendment to the Law on Establishment of the Immovable Property Rights Register¹⁵;
- Law on Accounting, Financial Reporting, and Audit¹⁶; and
- Law on Cadastre¹⁷.

These laws originated during the five-day legislative drafting session in Struga, Macedonia in February 2011. Here, USAID|BEEP proposed several new laws and amendments to existing laws to improve Kosovo's ranking in future DB reports, including those mentioned above.

These recent adoptions are expected to improve Kosovo's business environment and the resulting performance in the DB indicators for "Protecting Investors", "Registering Property", "Starting a Business", and "Dealing with Construction Permits". Especially notable is the amendment to the Law on Notary, which eliminated an unnecessary burden on business and resolved a long-standing contradiction between law and practice. The previous Law required that documents submitted for business registration that set forth the form of corporate organization, or changes to the form of organization, be notarized.

When the previous Law entered into force in 2008, however, there were no notaries in Kosovo. (Licensing of notaries began only in 2011.) As a consequence, it was not possible to register a business in the manner required by law; and, as a result, any business that was registered during this time was susceptible to a finding that it had no legal status and that all of its transactions were null and void. By eliminating the notarization requirement, the amendment removes this contradiction, puts business regulation on a more rational footing, and eliminates a barrier to informal businesses entering the formal sector.

The Amendment to the Law on Establishment of the Immovable Property Rights Register focuses primarily on requiring cost-based fee calculations for registration of land transfers. This supplements the new Law on Cadastre that requires municipal cadastral offices to register property within 3 days rather than 30.

¹³ Law No. 04/L-002 on Amending and Supplementing the Law No. 03/L-010 on Notary (August 8, 2011)

¹⁴ Law No. 04/L-012 on Fire Protection (August 10, 2011), abolishing Law No. 02/L-41 on Fire Protection

¹⁵ Law No. 04/L-009 on Amending and Supplementing the Law No. 2002/5 on the Establishment of the Immovable Property Rights Register (August 10, 2011)

¹⁶ Law No. 04/L-014 on Accounting, Financial Reporting, and Audit (August 26, 2011)

¹⁷ Law No. 04/L-013 on Cadastre (September 1, 2011), abolishing Law No. 2003/25 on Cadastre

Under the Law on Cadastre¹⁸, the Kosovo Cadastral Agency (KCA) is required to establish fees on a cost-recovery basis through a sub-normative act. To push forward the implementation of the fee calculation, USAID|BEEP met with the KCA to review the Agency's proposed implementing regulation and provide recommendations for improvement. Embracing the Project's recommendations, the KCA issued an implementing regulation in June 2012 that dramatically lowers the cost of registering property, recovering only the costs of administering the registration service. Along with USAID|BEEP's work on the Permissive System, this is another step supporting rationalization of the regulatory system in Kosovo.

World Bank Doing Business 2012 report released. In October, the World Bank released its Doing Business 2012 report. The report noted three methodological changes, including updates to the indicators "Getting Credit" and "Paying Taxes," and the addition of the indicator, "Getting Electricity"¹⁹.

Kosovo's ranking in the DB 2012 report was 117, which was identical to Kosovo's ranking in the updated DB 2011 report²⁰. This result was expected as DB reforms carried out in this past year took effect only after the DB 2012 survey was completed and could not be reflected. It is expected that reforms enacted to date will cause significant improvement in Kosovo's ranking in the DB 2013 report expected to be released in October 2012.

Streamlining business startup. This year USAID|BEEP supported the "Starting a Business" Subgroup of the national Doing Business Task Force and submitted recommendations on transition to a unified taxpayer identification number (TIN), including proposed changes to the necessary laws and procedures and incorporated the Project's discussions with the IFC.

However, the Project met resistance to a full transition to a unified TIN as work by the GoK was underway to move to a "single window" for business registration. This meant that the various numbers for business registration were still required (including business identification, fiscal, and VAT numbers), but they could be obtained at one physical location in various locations around the country. While this is not the most highly desired result, it does represent improvement in business registration.

To further simplify business startup, USAID|BEEP worked with the USAID Efficient and Sustainable Tax Administration of Kosovo (ESTAK) project on amendments to regulations under the Laws on Tax Administration and Procedures and the Law on Value Added Tax²¹. Among these proposals was the

¹⁸ Law No. 04/L-013 on Cadastre at Article 30, ¶¶ 6 and 7.

¹⁹ See Annex 4 on Structural Changes from DB 2011 to DB 2012 for additional information.

²⁰ See Annex 5 on DB 2011 Results Published in 2010 versus DB 2011 Results Published in 2011.

²¹ Law No. 03/L-022 on the Law on Tax Administration and Procedures and Law No. 03/L-146 on Value Added Tax.

elimination of the pre-registration tax inspection for business registration. The Doing Business report records this inspection as an unnecessary barrier to business startup as business registration should be an entirely separate procedure from regulatory compliance assessment.

On May 21, 2012, the MoF adopted the administrative instruction that included all of our recommendations, including the elimination of the pre-registration TAK inspection²². This is expected to eliminate one (1) day from the business registration requirements as captured in the “Starting a Business” indicator of the Doing Business report.

Doing Business reform media campaign. As previously discussed, the Parliament and the GoK have adopted many important Doing Business reforms. Government efforts to disseminate information on these reforms, however, have been undertaken largely on an *ad hoc* basis, lacking the force of a comprehensive media strategy that demonstrates commitment to a publicly accountable reform approach. Businesses and citizens need to be not only informed of changes to primary and secondary legislation, but also convinced that the government is truly prepared to undertake transformational business environment reform efforts. Further, reforms must be felt by the business community in order to be captured by the *Doing Business* report.

With these considerations in mind, USAID|BEEP reached an agreement with the MTI to advertise critical Doing Business reforms, including the elimination of charter capital for LLCs, the elimination of the business registration fee, the reduction of documentary requirements for import and export transactions (discussed below in Component Two) and the elimination of the work permit. The media campaign was a huge success, establishing a nationally recognized slogan of "Business is getting easier every day!" Information on Doing Business reforms was also dispersed through distribution of two project newsletters.

CI-3: SUPPORT NATIONAL BUSINESS ENVIRONMENT IMPROVEMENT (NON-DOING BUSINESS)

*Permissive System and Inspections*²³. This project year saw impressive progress in the areas of the Permissive and Inspections Systems. While activities in these two areas were originally on separate

²² Ministry of Finance Administrative Instruction No. 01/2012 Amending Administrative Instructions No. 10/2010 and 15/2010 Regarding Taxpayer Registration (May 2012)

²³ The Permissive System is the terminology used to describe any legal permission required by the government to engage in a specifically defined activity. These permissions include mechanisms such as registrations, permits, and licenses. Inspections are a commonly recognized method of assessing compliance with the terms described in the permissions.

tracks, it became apparent that it was necessary to conduct these reforms in parallel. The Project committed significant efforts to developing a unifying concept for both systems that captures the importance of starting with a risk-based approach to permissions and following through with a framework for compliance assessment. The Concept Paper on these reforms will be submitted to the Office of the Prime Minister (OPM) in early August 2012 and will pave the way forward for reform in this area. Already, Component One has made significant progress in developing draft Laws on Inspections and the Permissive System in anticipation of the adoption of the concept.

The draft Law on Inspections will establish modern principles and requirements with which all inspecting authorities must comply. These include, among others, the requirement that inspecting authorities base their inspection policies and plans on a risk assessment and that they emphasize compliance rather than penalties. Similarly, the draft Law on the Permissive System will be the governing legal framework for government permissions going forward, establishing the criteria for potential introduction of any future permissions.

In April 2012, Component One attended a workshop held by World Bank experts on Inspections Research. There, the World Bank team presented its findings and recommendations related to the inspections regime in Kosovo, noting the absence of a risk-management approach and the arbitrariness of businesses targeted, overlapping and duplicative competencies, high number of inspectors, lack of training for inspectors, and lack of coordination among inspecting authorities. This information proved very useful in development of USAID|BEEP's concept material.

Also in April, USAID|BEEP held a project-sponsored working session to review sub-normative acts (discussed below) that resulted in a crucial step toward achievement of an important GoK Economic Vision 2014 goal. Aiming to eliminate 50% of all permits and licenses, the working group earmarked all sub-normative acts that require a permit or license for a future guillotine review. This review will require specific criteria to be established when each ministry attempts to justify any permissions required through their sub-normative acts. Component One is developing these criteria through the Concept Paper on the Permissive System and Inspections.

Once the framework Laws on the Permissive System and Inspections is adopted, extensive work will be required with the Government and individual ministries to bring their policies, practices, and procedures into line with the requirements of the framework laws.

Law on Tourism. In late October 2011, the MTI requested that the Project provide comments on their draft Law on Tourism. USAID|BEEP conducted an internal review, compiled and compared similar laws from regional countries, and produced a detailed and thorough analysis of the draft law, along with the

Project's recommendations for a new draft. These recommendations centered on allowing free market incentives to govern the hotel rating system.

Specifically, USAID|BEEP recommended abolishing the license for businesses that perform tourism services, the work permit for various tourism-related activities, as well as the requirement of approval of the Ministry of Infrastructure for foreign tourism motor vehicles. These requirements were in no way related to public health and safety and only created unnecessary barriers to business activity in the tourism sector.

USAID|BEEP's recommendations are still under consideration by the MTI and it remains unclear how they will proceed. The Project will continue to advocate for project recommendations and monitor progress in this area.

Elimination of Construction Licenses. In September 2011, the GoK implemented a project recommendation to eliminate licenses for construction companies; specifically, six types of construction licenses containing over 50 different license categories were abolished²⁴. Because construction is regulated through other mechanisms, the adoption of MTI Protocol No. 6959 eliminates redundancy and unnecessary interference with construction activity.

A major factor in illegal construction is costly and often unnecessary licensing such as that addressed in the MTI's Protocol. This represents a significant step both to reduce barriers to engaging in construction activity and more properly focus permitting and licensing. It's clear that the national- and local-level dialogue is changing for the better in Kosovo.



New apartments being constructed in Pristina

Draft Law on Condominiums. In early April 2012, USAID|BEEP received a draft Law on the Usage, Maintenance, and Management of Condominiums from the MESP for review. The law was not well constructed and required an unnecessary license for companies that manage condominiums. Component One prepared a preliminary analysis and provided recommendations for improvement but was met with resistance from the Head of the Construction Department who claimed the license was necessary to

²⁴ Ministry of Trade and Industry Protocol 6959 eliminated four MTI sub-legal acts: Decision No. 211 and Administrative Instruction Nos. 2008/20; 10/2010; and 02/2011.

protect the public health and safety and to stimulate competition. USAID|BEEP found these arguments to be contradictory and unfounded and will continue to assist the MESP to improve the draft.

Management Expert Meetings. In mid-March 2012, the Project utilized a subcontractor to present Human and Institutional Capacity Development (HICD) services to various ministries and municipalities,



Human and Institutional Capacity Development working session in Ohrid, Macedonia, July 2012

in Macedonia in July to provide the Ministry with technical assistance in human resources and organizational management. USAID|BEEP's expert completed an initial analysis of the proposed restructuring and provided recommendations. Future HICD assistance will take place in support of construction implementation.

Inter-Municipality Focus Group Meeting with Bee-keepers. At the end of April, USAID|BEEP organized a gathering of bee-keepers from the municipalities of Mitrovica, Peja, Prizren and Gjakova. Individual MCs had met with bee-keepers previously and it was clear that they had a strong desire to present and discuss their regulatory and legal issues and problems. Just under 50 bee-keepers attended the event, which was co-chaired by four project MCs. In the course of the discussion, the group identified several issues, ranging from municipal restrictions on transporting bees between municipalities to licensing

including the Central Bank of Kosovo (CBK), MTI, MESP, Viti, and Hani i Elezit. Meetings were held with these institutions to provide a general overview of services that could be delivered, including organizational assessment, process improvement, and capacity building.

In response to the MESP's plans to complete consolidation of the Spatial Planning Department and the Construction Department, the Project sponsored a working session



USAID|BEEP Prizren Municipal Coordinator Conducting Focus Group with local Bee-keepers, April 2012

requirements imposed by national bodies. The Project will investigate these issues more deeply and develop a plan of action to address them.

CI-4: INCREASE PUBLIC ACCESS TO AND KNOWLEDGE OF LAW AND LEGAL REFORMS THROUGH DEVELOPMENT OF LAW ON NORMATIVE ACTS AND LEGAL INFORMATION DATABASE; AND STRENGTHEN THE OFFICE OF THE PRIME MINISTER

Legal Information Database. Currently in Kosovo a consolidated location to access normative acts in force does not exist. This is a burden on businesses and citizens as it presents a significant challenge in knowing and understanding their rights and obligations under the law. Not only does this create the opportunity for arbitrary enforcement, but acts as a disincentive to investment due to the lack of transparency and predictability in the legal regime.

To increase access to law in Kosovo, Component One is working to establish the first-ever consolidated, electronic, searchable legal information database (LID). In collaboration with the Official Gazette and the OLS of the OPM, USAID|BEEP assessed the technical capacities of the government and developed the technical specifications for the LID.

Early in 2011, the Project co-sponsored a five-day working session in Struga, Macedonia to identify unnecessary, redundant, and illegal AIs. From the one thousand five hundred (1,500) AIs identified, the task force compiled a list of over three hundred and seventy (370) that it recommended for rescission. Accepting the recommendations of the task force, Prime Minister Thaçi signed Decision Nr. 08/35 in September 2011, which clearly published for the first time the complete list of all AIs in force in Kosovo with the provision that any AI not included in the list was deemed null and void. This applied to the more than 370 AIs that the task force identified as well as any other AIs that the Government did not identify. The Decision established a clear regulatory base in Kosovo from which to go forward.

As the next element for establishment of the LID, USAID|BEEP sponsored a second review of sub-normative acts in April 2012. This second session was a substantive review of all GoK sub-normative acts. At this session, all ministries and representatives of the OPM attended and worked diligently to narrow the regulatory base. With the goal of making the regulatory environment more conducive to free economic activity, the working group designated seventy-two (72) sub-normative acts for elimination. The group also earmarked any remaining sub-normative acts that contained a license,

permit, or registration requirement for a future guillotine review under the umbrella of Permissive System and Inspections reform.

In June 2012, the OPM issued a Decision officially abolishing the list of seventy-two (72) sub-normative acts identified during the working session²⁵. The Project has collected all of the abolished acts and will monitor implementation going forward. This elimination of over four hundred and forty (440) Als represents another crucial step in our collaborated effort with the government to establish the LID.

Law on Normative Acts. During 2011, USAID|BEEP and the Head of the Office of Legal Services (OLS) of the OPM forged an agreement to work together to develop a Law on Normative Acts (LNA) to complement the LID. The LNA will establish requirements for the development of normative acts – laws and regulations – that, among other things, will require government bodies to conduct impact assessments and provide reasonable opportunity for public notice and comment. The LID will make it possible to create complete transparency with respect to all the laws and regulations that are in force, enabling businesses, for example, to become aware of their rights and obligations under the law, and ensuring that no acts can be applied unless they have been made known to the public.

Component One worked with the Head of the OLS of the OPM to complete a draft of the LNA in early 2012. The Head of the OLS committed to use this draft as the basis for discussion going forward and to produce the next draft based on comments from local counterparts. In June, the Head of the OLS met with Component One to establish a schedule for the LID, the LNA, and the laws on the Permissive System and Inspections. These are very high priorities for the OPM and USAID|BEEP expects to move forward with all three initiatives before the end of 2012.

BEEP Newsletter. During this project year, the Project has assisted the development, adoption, and implementation of several important business environment reforms. However, work does not stop at the level of government. Informing businesses and citizens about these transformational changes is just as important as the reforms themselves.

In order to improve public access to and knowledge of laws and legal reforms, USAID|BEEP developed a project newsletter in 2011. The newsletter was designed to provide information to the business community on developments in legal reform that could affect their business and apprise them of opportunities to participate in the reform process.

So far the Project has developed and distributed two issues of the newsletter. Topics of these newsletters included information on, among other things:

²⁵ Decision of the Office of the Prime Minister Nrs. 01/81 - 07/81.

- Elimination of the minimum charter capital requirement for Limited Liability Companies (LLCs);
- Elimination of the business registration fee;
- Establishment of a clear regulatory baseline in Kosovo;
- Elimination of the work permit;
- Release of the MCI 2011;
- Trade legislation development; and
- Information on credit reporting.

A third issue of the newsletter is under development and USAID|BEEP expects completion and distribution in September 2012.

American Chamber of Commerce (AmCham) Roundtable on Business Agenda. In early October 2011, AmCham held a roundtable to announce its findings and recommendations from its research of constraints encountered by Kosovo businesses. AmCham carried out this research under a grant from



American Chamber of Commerce Roundtable on the Business Agenda, October 2011

the Project and USAID|BEEP awarded them a follow-on grant to support the organization's dissemination of its research findings and to monitor the GoK's implementation of these recommendations. This roundtable was the primary activity under the follow-on grant, which ran through the end of March 2012.

Approximately 40 people attended the event, including the heads of the Tax Administration and Customs Service and the Advisor to the Deputy

Prime Minister Kusari-Lila. USAID|BEEP also made remarks, noting the importance of public-private dialog in appropriate policymaking and the development of trust between government and the private sector.

Levering synergies with the American University of Kosovo. Working from a promising collaboration with the American University of Kosovo (AUK), USAID|BEEP sought to foster a collaborative, grass-roots approach to policy making by engaging Kosovo youths. On March 12, the Project addressed an audience

at the AUK, providing an opportunity for up to fifty students to partner with project consultants to turn their Senior Policy Research Projects into practical reform initiatives. In collaboration with faculty advisors, USAID|BEEP introduced the students to the project and provided them with the unique opportunity to produce real change in Kosovo through the use of the project's Municipal Competitiveness Index tool to identify and develop reforms in their communities throughout Kosovo. Through their research, students have the chance to be paired with USAID|BEEP Municipal Coordinators to not only assist in information gathering, but also drive real change through the implementation of recommendations. Students can gain practical experience, learn from project experts, and see the tangible impact they can have on the business environment in Kosovo. The annual MCI provides a platform of over 900 potential senior project topics.

This unique opportunity presents students with the chance to build advocacy skills *today* that are necessary in a democratic society as well as gain real-world experience leading change in Kosovo. With true transformational change coming directly from the citizenry, exploration of these policy topics promotes improved participation and demand for greater accountability from government officials. USAID|BEEP will continue to support Kosovo youth to build the skills and confidence for greater democratic participation to drive transformational reform and empower citizens to unleash their unlimited inherent potential.

The Project also awarded the AUK a grant to conduct a conference later this year that will promote academic research on the political economy of Kosovo's economic development and build the capacity of academic institutions to deepen professional linkages between international scholars and Kosovo researchers and policy makers. Following the conference, AUK will publish the proceedings in Albanian and Serbian for policy discussion for locally-applied policy research.

Survey Among Businesses On Level of Interest in Training in Law Related to Business. The Project conducted a survey among 160 businesses -- 20 businesses in each of the eight principal municipalities -- to determine their level of interest in receiving training in the basics of law as it pertains to business. The vast majority of respondents expressed an interest in receiving such training, expressing a preference for a general introduction to business law, and also identifying the law governing tariffs, taxes and tourism as individual areas of particular interest. USAID|BEEP received complete results of the survey in late June.

Component One will analyze the findings more closely and in the coming months explore possibilities for incorporating such training in the training programs of Kosovo institutions and organizations.

NEXT STEPS

MCI 2012 diagnostics and the Municipal Partnership Program. Following the success of reform initiatives in Year Two, Component One will utilize Municipal Coordinators (MCs) to analyze results of the recently released MCI 2012 to develop tailored municipal diagnostics analyses. Based on these diagnostics, MCs will make recommendations to their respective municipal administrations to further improve the local business environment. Partnership Program MCs will take the lead in their respective municipalities with the supervision of the original eight (8) MCs.

An area of particular attention for Year Three is improvement in municipal transparency. While many municipalities have dedicated a portion of their website to publication of municipal documents, others have not. Even for those that do, businesses are sometimes unaware that documents have been made available. Therefore, Component One will work with municipalities to increase transparency and ensure they are serving the public's right to information.

By the end of September, the Project will complete the Partnership Program instruction on the BEEP reform methodology, which in addition to work related to the MCI diagnostic analyses, will cover topics including legal writing, recommendation prioritization, implementation, and monitoring. Component One will monitor performance of the program to ensure they achieve the economic impact of reform and MCI improvement targets.

MCI 2013. USAID|BEEP will conduct the MCI survey for 2013 and develop the follow-on analysis in the Project's final year. The MCI 2013 results will provide the Project with the final measure for determining Project Result 3 performance.

A significant activity for Component One is the institutionalization of the MCI. The Project first will conduct discussions with public and private sector stakeholders to survey the usefulness of the tool and where to best place the responsibility for future MCI activities. The results of these discussions will inform USAID|BEEP's strategy going forward for institutionalizing the MCI.

Model municipal regulations. With respect to developing model regulations, USAID|BEEP plans to work closely with the Association of Kosovo Municipalities (AKM) and conduct training for municipal legal officers on appraising regulations from the point of view of their impact on the business environment and work with the legal officers to develop appropriate model regulations. The Project will then publish them as a revised version of the AKM's manual,

Doing Business reforms. Component One will focus on institutionalizing Doing Business reform implementation so that the project can wrap up and properly transition to the relevant institutions. Doing Business reform initiatives are supply-driven using a third party measure to identify business

environment needs. However, Component One will support the relevant institutions to adopt a demand-driven reform strategy through transparency and openness with private sector counterparts.

Following the release of the Doing Business 2013 report in October, USAID|BEEP will validate the relevant indicators for Kosovo and ensure that all expected updates are captured. Based on the analysis, the Project will identify opportunities for further improvement within the manageable timeframe of the USAID|BEEP's final year and continue to inform the World Bank Doing Business team in Washington D.C. of developments that are expected to impact Kosovo's ranking. Monitoring already-achieved improvements will also be an important part of Year Three.

Construction Law implementation. A crucial component to creating transparency and predictability in land use is the development of a Unified Building Code. The Code will establish the minimum mandatory technical requirements for construction for the protection of public health and safety.

In addition, a wide range of activities will be carried out to further the implementation of the construction law. These include helping MESP develop a number of sub-normative acts under the Law on Construction that will provide further clarification and guidance on a number of salient issues; and providing training to municipal officials and stakeholders on the Law on Construction.

Establishing the minimum mandatory norms will require the adoption of standards by the KSA. USAID|BEEP will explore opportunities with the KSA and other stakeholders to establish a comprehensive standards database to improve the efficiency of internal standards review and the adoption of international standards.

As mandatory standards are adopted, inspecting authorities will need to become familiar with these standards for the purpose of construction inspections. The Project will provide recommendations on the legal acts necessary to establish risk-based inspections to more properly focus valuable resources and reduce the burden on business. While inspections are a necessary part of assessing compliance with regulatory requirements, the level of intrusiveness should be reduced to a minimally necessary level.

Also in the Project's final year, Component One will work with MESP to develop a new Law on Spatial Planning. The Law on Construction requires municipalities to complete urban regulatory plans within a specified time frame. In order to accomplish this, MESP has requested USAID|BEEP's support to develop a single new Law on Spatial Planning (which will replace the two laws currently governing spatial planning) that is consistent with the new Law on Construction. The development of urban regulatory plans will contribute to a more predictable and transparent regulatory framework that defines restrictions on land use. This is important for business investment, helping to secure reasonable

expectations of future use. In addition, Component One will assist MESP to develop recommendations on the Law on Legalization of Existing Constructions. This task requires the Project to take a holistic approach to land use and construction as buildings that have been built in the past without a construction permit will need to be “legalized” to ensure they meet the adopted mandatory technical requirements. While the legalization of illegal constructions is primarily a political question, USAID|BEEP will strongly urge MESP not to begin the process of legalization until technical requirements and qualified construction inspectors are in place.

Permissive System and Inspections. Building on the Project’s work in Year Two, Component One will focus on developing transformational Laws on the Permissive System and Inspections. The initial step is to finalize the Concept Paper and present it to the OPM for comment. These comments will inform the Project’s drafting team as USAID|BEEP supports the OPM to finalize the draft laws.

The OPM has also requested USAID|BEEP’s assistance in developing the criteria by which permissions and inspections will be measured during the guillotine review. As of the beginning of the Year Three planning period, the Project’s strategy is to incorporate these criteria into the respective laws. However, if the government decides to move forward on the guillotine review before the laws are adopted, the Project will assist the reviewing body to develop the criteria using the discussions in the Concept Paper as the basis. (It should be noted that the National Council on Economic Development, which began its activity in recent months, will oversee the Permissive System and Inspections reform, but the NCED is relying on the OLS OPM to conduct the technical work.)

Following adoption of the laws, Component One will assist the OPM to promote and explain the Permissive and Inspection Systems reforms to raise awareness and gain public support. USAID|BEEP will also monitor the draft laws in the Government Meeting and the Assembly and provide recommendations as necessary. Pending their adoption, the Project will provide support to the government as necessary to develop implementing regulations and implement operational reforms.

Law on Normative Acts and the Legal Information Database. Working to improve public access to legal information, USAID|BEEP will work with the Head of the OLS of the OPM to finalize the LNA. The LNA, among other things, will require that any proposed normative act, before coming into force, must be published on the website of the Office of the Official Gazette (OOG). It is also anticipated that the LNA will contain a provision requiring public comment on the OOG website.

A crucial part of harmonizing, rationalizing, and publicizing the legal system in Kosovo is the development of the Legal Information Database.

To continue to improve and harmonize normative acts, the Project will work with the appropriate government counterparts to develop the criteria that will govern a future review of sub-normative acts. This review will help bring sub-normative acts into line with the requirements of a good business environment.

CHALLENGES AND IMPLEMENTATION ISSUES

Construction implementation. As part of the Project's ambitious goals in the area of construction, many tasks must be carried out during USAID|BEEP's final year, including: assisting development and adoption of a Unified Building Code, a new Law on Spatial Planning, a new Law on Legalization of Illegal Constructions, and municipal urban regulatory plans. While the level of commitment of MESP is high, these tasks will prove very resource-intensive. USAID|BEEP has developed an implementation plan with MESP and has planned for resources necessary to undertake these tasks in the Project's final year. The Project is aware of the challenges and has planned appropriately. USAID|BEEP expects a successful completion of these activities and a smooth transition into completion of the project.

Legal Information Database. The Project has experienced certain challenges with regard to the Office of the Official Gazette as it relates to an agreement on the objective of the LID. The OOG expects to continue their current practice of printing and distributing physical paper copies of the Gazette with the goal of using the LID to support distribution of the Gazette. While making public all normative acts in force is a primary goal of the LID, a more comprehensive approach is required beyond that of the OOG. USAID|BEEP will work with the OPM to work out an agreeable strategy to ensure that the LID is treated as a matter of national interest and national policy.

Permissive System and Inspections reform. While the Project has significant buy-in from the OPM to move forward on transformational Permissive System and Inspections reform, the Project expects some natural resistance to the necessary transformational change required. USAID|BEEP will approach this process cautiously and make it as transparent and as inclusive as possible.

Law on Tourism. While the Project has been called upon on several occasions to provide recommendations on the currently circulating, MTI-sponsored draft Law on Tourism, the ministry's approach remains unclear. USAID|BEEP has recommended elimination of various proposed licenses that would govern tourism, letting the market decide on hotel rating systems and related activities. However, the Project's recommendations have been met with stiff resistance within opaque circumstances surrounding the law.

Institutionalization of the MCI. As the Project prepares for the final year of support for the MCI, USAID|BEEP is continuing to explore opportunities for its institutionalization with local counterparts. The MCI has proved to be such a useful tool for driving municipal reforms that its placement following project completion is crucial. The Project will place special importance on finding the MCI the best possible placement in the Project's final year.

COORDINATION

During this project year, USAID|BEEP met with the newly appointed CEO of the Small and Medium Enterprise (SME) Agency and explored avenues of future collaboration. In addition, Component One works very closely with the EU SME project and various USAID projects, including SEAD, GFSI, KPEP, EROL, and KMFAS.

The OPM remains a true leader and champion for transformational business environment reform. Component One anticipates much work with the OPM, including completion of the Laws on the Permissive System and Inspections, the LNA, and the LID.

During the second week of November 2011, the Project met with the Head of the District Commercial Court. USAID|BEEP collaborated with the USAID SEAD project which facilitated the meeting to discuss the difficulties that the court encounters when:

- seeking information from the Business Registration Agency of Kosovo on the status of a business and its registration; and
- requesting the Central Bank to take action against a commercial bank that refuses to take the actions required to enforce a judgment against a client.

The judge reported that both institutions routinely ignore such requests and often fail to acknowledge that the request has been made. USAID|BEEP intends to investigate this situation further since it involves institutions that are venues for work that the project is carrying out.

As described under Component Three, the USAID|BEEP-sponsored draft Law on the Pledge Registry would make it simpler for courts to obtain pledge and lien information by requiring the Pledge Registry to submit certified reports at the court's request.

Again utilizing USAID SEAD's assistance, the Component One team presented to the Ministry of Justice (MoJ) internal Working Group two recommendations for amendments to the Law on Contested Procedure related to improving the "Protecting Investors" indicator. The Senior Legal Advisor of SEAD

facilitated the presentation, strongly supporting USAID|BEEP's recommendations. It is unclear at this time whether the Working Group will move forward with the amendments.

Component One also collaborated with the USAID Young Entrepreneurs Program (YEP) and ESTAK on the development of training for new businesses that will incorporate, among other things, business registration and tax procedures. The Project also attended USAID DEMI's regional conference for municipal officials held in Gjilan, Pristina, and Peja to provide support and stay apprised of local developments; and has discussed issues related to MOSR with DEMI and GFSI to develop a coordinated approach.

USAID|BEEP met with the team of the new UKAID PSD program many times throughout the Project's second year to discuss future activities and collaboration. Discussions focused primarily on ways in which we could use project resources to improve the capacities of business associations and empower businesses and citizens to stand up against government abuse.

As one of Component One's primary activities for achieving Doing Business improvement, the Project worked closely with MESP on the development and adoption of the Draft Law on Construction. MESP will be a primary counterpart of Component One in the final project year as well.

In early April, USAID|BEEP hosted a representative of the American National Standards Institute (ANSI) to assist in Metrology, Accreditation, Standardization, and Quality (MAS-Q) activities. This visit helped inform Component One planned project activities for the Project's final year as adoption of international construction standards and mandatory technical norms will be crucial for USAID|BEEP's construction implementation work.

Finally, in July USAID|BEEP organized and helped conduct focus group meetings with businesses in Pristina and Gjakova as part of an effort to inform future assistance strategies in Kosovo through a growth diagnostic study. Thirteen (13) businesses attended in Pristina and seven (7) businesses attended in Gjakova.

COMPONENT TWO: REDUCED BARRIERS TO TRADE

C2-1: IMPROVE THE LEGAL FRAMEWORK FOR IMPORT AND EXPORT TRANSACTIONS

Law on External Trade. Work this year on the Law on External Trade continued when the Ministry of Trade and Industry (MTI) requested the Project's assistance to develop a revised Law. Working with the

MTI, USAID|BEEP assisted the development of a new draft which addressed the outdated nature of the law then in force. The Project's goal in developing the new Law was to set a transparent framework for foreign trade based on WTO principles and agreements, as reflected in EU practice. This means that any restrictions on external trade must be transparent, provide the necessary procedural safeguards, and imposed in accordance with international best practice.

Working with the MTI, the Project developed proposed updates for improving the existing Law based on earlier recommendations provided in the Gap Analysis of the Kosovo Legal Framework for External Trade. At the end of September 2011, the Parliamentary Commission held a public hearing on the existing Law on External Trade Activity where USAID|BEEP provided technical advice and discussed all of the proposed changes.

The Parliamentary Commission then held a public hearing on the existing Law on External Trade Activity where the Project provided technical advice and discussed all of the proposed changes. Taking into consideration discussions at the public hearing, USAID|BEEP submitted comprehensive recommendations on the Law to the Deputy Prime Minister and Minister of Trade and Industry.



USAID|BEEP Trade Lead discussing the proposed Law on External Trade at the Parliamentary Commission

Component Two provided technical support to the MTI and members of the reviewing Parliamentary Commission to ensure that all of USAID|BEEP's recommendations were carefully considered. The Project's assistance came to a successful conclusion as the project-supported Law was adopted by Parliament on November 14 and it was signed into law by the President on December 2, 2011²⁶.

Law on Safeguard Measures. Safeguard measures are one of the three WTO authorized contingency measures that provide remedies to affected parties when faced with increased imports that cause injury

²⁶ Law No. 04/L-048 on External Trade (2011).

to domestic producers of a like product. Governments may take temporary emergency against imports that are hurting domestic producers as long as they follow all proper WTO procedures. During the effective period, safeguard measures allow domestic businesses time to capitalize on productivity improvements and increase market competitiveness.

In mid-August 2011, USAID|BEEP provided technical advice before the Parliamentary Commission for Economic Development, Transport, Infrastructure, Trade and Industry concerning a clause-by-clause review of the Law. Later in August, the Component Two technical team participated in a meeting before the Parliamentary Commission to provide additional technical support and respond to Commission questions regarding the draft. Based on the Project's recommendations, the Kosovo Assembly adopted the new Law on Safeguard Measures on August 31, 2011²⁷.

Under the Law, the MTI must adopt implementing regulations before taking action with regard to invoking trade remedies. Partnering with Government counterparts, the Project developed draft regulations in accordance with international best practices. These regulations have not been adopted by the MTI as of this publication.

Law on Anti-dumping and Countervailing Measures. In early November 2011, the MTI asked the Project to review the Law on Anti-dumping and Countervailing Measures²⁸. The current law invokes European Commission (EC) regulatory actions regarding the application of anti-dumping and countervailing measures in Kosovo. Unfortunately, this means that the law is not able to be applied domestically because the EC regulations provide for an operational role for the European Commission in the administration of anti-dumping and countervailing investigations, and Kosovo is not a member of the European Union (EU). The MTI requested the Project's assistance to harmonize the law for application domestically, while maintaining international best practice.

In February 2012, USAID|BEEP completed its analysis and recommendations for amending the current Law on Anti-dumping and Countervailing Measures. The proposed amendments would, among other things, eliminate all legal references to EC procedures and institutions (again, because Kosovo is not a member of the EU), clarify definitions of terms, and implement the notification requirements of CEFTA when CEFTA requirements apply. Component Two submitted its recommendations to the MTI and held internal technical discussions on the proposed amendments with the Trade Department.

To promote dialogue regarding our recommendations, the Project included technical discussions in a workshop on trade contingency measures. In addition, USAID|BEEP produced the Standard Operating

²⁷ Law No. 04/L-047 on Safeguard Measures on Imports

²⁸ Law No. 03/L-097 on Anti-dumping and Countervailing Measures

Procedures (SOPs) for the application of these trade remedies, which, if adopted, would allow the amended Laws to be applied in Kosovo consistent with international requirements and best practice. Each SOP manual provides an overview of and procedures for investigations, determination of injury and causation, steps to final determination, and a review of the respective law. Component Two will monitor progress of the adoption of the SOPs and the new law.

Law on General Product Safety. In November, Component Two provided the MTI with a critical review of the draft Law on General Product Safety. BEEP presented recommendations to remove unnecessary barriers to trade activity at the Parliamentary Commission on Economic Development, Infrastructure, Trade and Industry meeting to discuss the draft law. The Commission embraced these recommendations and eliminated unnecessary inspections and excessive penalty provisions which would have given arbitrary and discretionary power to MTI officials to unnecessarily regulate the market in Kosovo. This is also important as USAID|BEEP continues its efforts to rationalize the Permissive and Inspections Systems in Kosovo. Parliament passed the new law in early 2012²⁹.

Trade Education Programs. In December 2011 the Project conducted a Workshop on International Trade for Members of Parliament. The objective of the Workshop was to familiarize members on the various aspects of the WTO, what Observer Status would mean for Kosovo, and on the related rights and obligations Kosovo has under the Central European Free Trade Agreement (CEFTA). Similarly, in January – February 2012 USAID|BEEP prepared a proposed update to the Trade Policy of Kosovo 2009 and then conducted a one week training course for MTI and other stakeholders explaining the update.

World Trade Organization (WTO) observer status. In October 2011, the MTI requested that the Project prepare a cost-benefit analysis of WTO observer status for Kosovo and draft the legal instrument for formal application. In November, Component Two prepared the requested analysis which concluded that observer status would be beneficial for the country and a draft legal instrument for Kosovo's application for observer status to the WTO. USAID|BEEP delivered both the analysis and draft legal instrument to the Deputy Minister of Economic Development and Minister of Trade and Industry. The Government has the matter of observer status under review.

Customs Code. Early in the project, the Project identified revisions to the Customs Code then in force as a vehicle for reducing barriers to trade as it did not incorporate many of the important objectives and principles incorporated in the WCO's Revised Kyoto Convention and the 2008 EU Customs Code. A revised Customs Code would provide the legal authority for many internationally accepted trade facilitation measures that were not authorized under the current Code.

²⁹ Law No. 04/L-078 on General Product Safety

Working with the Legal Department at the Ministry of Finance and the Director General of Kosovo Customs, USAID|BEEP developed recommendations to amend the Customs Code and bring it closer to international best practice. Among other things, the proposed amendments focused on:

- **Voluntary Compliance.** A priority activity for modern tax and customs administration is the introduction of ways and means to augment, to the greatest extent possible, voluntary compliance with fiscal law for both direct and indirect taxes. The fundamental basis of modern fiscal law is the principle of *self-declaration*. For both income tax and for customs duty and VAT on imports, the onus in law must be clearly placed on the taxpayer, trader or duly authorized third-party representative to complete a tax return or a customs goods declaration fully and truthfully, and to determine the amount(s) of tax, duty or other levies that are lawfully payable.
- **Risk-based Controls.** The use of risk management and post-clearance audits allows modern customs administrations to accord special, simplified treatment to traders who meet specified criteria, such as a good compliance record, satisfactory audits, and/or the maintenance of records in an approved manner, etc. Traders accorded these privileges may be termed *authorized economic operators*, reducing the time needed to clear goods and the level of effort required on the part of Customs.
- **Transparency.** In conjunction with the principle of self-declaration, the responsibility must on Kosovo Customs to provide technical information in a transparent form and manner that will inform the taxpayer / trader and thus provide the capacity for taxpayers to comply voluntarily with fiscal, customs and trade law.
- **Stakeholder Consultations.** Modern customs laws direct the customs administration to inaugurate a formal consultative mechanism(s) with private sector clients and partners. No such provisions were found in the Customs Code of 2008, representing a major short-coming.
- **Reduced Administrative Discretion.** Pursuant to international customs administration, importers, exporters or their authorized representatives are at liberty to make a declaration under whichever customs procedure they require for their business (import, export, warehousing, transshipment, coastwise carriage, inward processing, etc.) This is a trader's fundamental right and obligation under modern customs practice. There is no valid need for any additional permissions or approvals from Customs officials.
- **Goods Samples.** The Code should provide that in all cases, the sample taken by an officer (for testing related to a determination of classification, value or origin) shall be returned to the

owner. The law must clearly articulate procedures for disposal or return of goods samples taken by Customs.

In March 2012, the Director General of Kosovo Customs agreed to move forward with the Component Two analysis and recommendations. Upon submission, the Project provided technical advice and support on the draft law to the Parliamentary Commission on Economic Development, Infrastructure and Trade & Industry when it reached the Kosovo Assembly. Finally, the revised Customs Code was adopted in Parliament and signed by the President in May 2012³⁰.

Trade and Customs Lexicon. In order to improve the transparency of the trade environment, USAID|BEEP assisted in the preparation of an International Trade, Customs, and Transport lexicon explaining technical terminologies. The Lexicon has a number of useful applications, including use as a training tool for new officers of the MTI or Kosovo Customs; a reference document in conducting international trade negotiations; a source for translators and interpreters in improving communications related to trade and customs matters; and a guide for business representatives and Members of Parliament when it comes to more accurate understandings of the importance and implications of matters related to Kosovo's foreign trade.

C2-2: SUPPORT FOR STREAMLINED IMPORT AND EXPORT PROCESSES

Trading across Borders Scenario Analysis and reduction of import and export documentary requirements. An important tool for assessing reduced barriers to trade efforts in Kosovo is the World Bank's "Doing Business Trading across Borders" annual survey, which measures time, costs, and documents required to import and export goods, using a standard methodology. As reported in the DB Trading across Borders 2012 report, Kosovo currently ranks 131 out of 183 economies studied, in the lowest performance in the region.

In September 2011, Component Two developed the Trading across Borders Scenario Analysis, making recommendations to effect positive change to all indicator measures and reduce the time, costs, and documents required for import and export. The Scenario Analysis addresses recommendations regarding actions to be taken by Kosovo Customs.

Upon receipt of the Scenario Analysis, critical external stakeholders, including the Director General of Customs, the Director of the MTI Trade Department, and MTI Ministerial Advisors, provided valuable input and voiced their willingness to rapidly implement recommendations.

³⁰ Law No. 04/L-099 on Amending and Supplementing the Customs and Excise Code in Kosovo No. 03/L-109.

Subsequently, Kosovo Customs adopted Internal Administrative Instruction No. 01/2011 on October 25, 2011. The new AI eliminates six of the eight documents required for export and five of the eight documents required for import as recorded by the DB 2012 report³¹.

USAID|BEEP's monitoring efforts preliminarily revealed that importers and exporters were continuing to produce unnecessary documents because Customs had not sufficiently advertised this reform. USAID|BEEP quickly focused efforts to inform businesses about the reduced documentary requirements and to monitor implementation, including a comprehensive media campaign, discussions with the Spediteurs Association, and visits to Customs border points.

The Project's follow-on monitoring found that spediteurs were no longer requesting the additional documents from their clients. Based on BEEP recommendations, the Director General of Kosovo Customs ordered that all Customs Offices posted a notification outlining the changes and updated documentary requirements. Particularly important, cost and time savings are realized more effectively now that importers and exporters are aware of the reduced documentation requirements.

Customs import/export registration requirement eliminated. Based on BEEP recommendations, the Director General of Kosovo Customs eliminated the need for import/export businesses to register with Customs for international trade transactions. Only spediteurs are now required to register with Customs as third



Kosovo Customs Border Point

party representatives. In addition, spediteurs must have a power of attorney in order to provide cargo clearance services on behalf of importers and exporters.

In the past, Customs used the registration to assign a unique number to businesses for all import and export transactions, including the payment and tracking of customs import duty and Value Added Tax (VAT). However, businesses are already required to obtain a separate fiscal number from the Tax Administration of Kosovo (TAK) and a business registration number from the Kosovo Business

³¹ According to the AI, the export declaration and accompanying commercial invoice are the only two documents required by Kosovo Customs for export transactions. Similarly, the bill of lading, CMR, and packing list are the only three documents required by Kosovo Customs for import transactions.

Registration Agency (KBRA). To streamline and avoid duplicative processes, Customs made the decision on April 2, 2012 to utilize the TAK fiscal number for all transactions.

Kosovo Food and Veterinary Agency Commitment to Reform. In June 2012, the Project worked with the FVA to solidify their commitment to reduce import and export certifications and streamline cargo examination procedures. Currently, the FVA requires import and export certificates for several of the products under its control mandate, many being unrelated to the protection of public health and safety. These certificates represent unnecessary time, steps, and costs for businesses that result in higher product costs for end users in Kosovo and make domestic producers less competitive in the international market. Throughout the Project's final year, USAID|BEEP will finalize recommendations on the elimination of unnecessary certificates to reduce burdensome barriers to trade and contribute to improved rationalization of the Permissive System. USAID|BEEP will explore also opportunities for Kosovo's unilateral recognition of certificates from others countries to further reduce the need for instances of domestic inspection and certification.

C2-3: BUILD CAPACITY TO INSTITUTIONALIZE TRADE BEST PRACTICE

Trade Policy Working Group. Encouraging open, transparent dialogue with all stakeholders is key to the development of democratic institutions. Improving the business environment depends on meeting the needs of business through identification and elimination of unjustified intervention in private sector activity.



Trade Policy Working Group, Industry Subgroup meeting

With USAID|BEEP support, the GoK this year further developed the Trade Policy Working Group (TPWG) to address trade-related issues, creating a forum for public-private dialogue. The working group is made up of five sector-specific sub-groups on Agriculture; Manufacturers; Trade Agreements; Trade Facilitation; and Services. The TPWG includes

members from the public and private sector, including the MTI, MoF, Kosovo Customs,

Ministry of Agriculture, the Kosovo Chamber of Commerce, AmCham, TAK, and the World Bank. The TPWG is the focal point of all trade issues as Kosovo moves towards membership in the European

Union (EU) and also will be the channel for private sector perspectives as Kosovo moves towards observer status and eventual membership in the WTO.

At the end of November 2011, the TPWG held its first Agriculture Subgroup meeting. During the meeting, the Project intervened on a number of occasions to get participants to focus on specific issues, creating a unified approach to address trade-related concerns. In the past, trade issues were dealt with on an ad hoc basis and created confusion, inconsistency in policy and practice, and unnecessary barriers to business. Addressing private concerns in this way represents a crucially important change in the GoK's approach to governance.

Following the success of the Agriculture Sub-group, the MTI Trade Department asked the Project to assist planning for the first meeting of the Trade Facilitation Sub-group in late December 2011. Component Two provided technical and managerial advice to the Trade Department and made a presentation on state-of-the-art worldwide trade facilitation initiatives from the perspective of Kosovo. A major outcome of the first meeting is that the Sub-group members committed to advocate for a modernized Customs Code based on the 2008 EU Model Code.

At the Trade Facilitation Subgroup in early February, USAID|BEEP presented a concept paper discussing recommended amendments to the Customs Code from the perspective of trade facilitation and modern Customs administration. Here, business representatives on the Subgroup expressed the need for adoption of a number of trade facilitation measures and provisions in the Code, in accordance with



Meeting of the Trade Facilitation Subgroup of the Trade Policy Working Group

international standards. The intention of the presentation was to empower the business community with the necessary technical knowledge and background to advocate for an improved Customs Code. The follow-on advocacy proved critical to adoption of the USAID|BEEP-supported amendment to the Kosovo Customs and Excise Code discussed in C2-1 above.

The Industry Subgroup met for the first time in March where six major producers participated in the discussions. BEEP presented reforms in favor of improving the efficiency, productivity, and

competitiveness of domestic exports in regional and international markets. Following this meeting, USAID|BEEP provided significant assistance to track issues noted by businesses for follow-on action by Kosovo Customs and the MTI.

In June, the Project provided guidance to support MTI management on the third plenary session of the TPWG. This included (1) support to review all trade issues raised by businesses in the four project-supported subgroups and actions taken by the GoK in response and (2) an update of the Kosovo Trade Policy (discussed in more detail below). The Deputy Prime Minister for Economic Development chaired this session and outlined next steps for the work of the TPWG under the auspices of the National Council for Economic Development (NCED).

Support to the TPWG is ongoing as USAID|BEEP seeks ways to institutionalize the working group for continued public-private dialogue.

Metrology, Accreditation, Standardization, and Quality (MAS-Q). In addition to streamlining procedures and removing operational hurdles, reducing technical barriers to trade represents a crucial component of improving the trade environment. Establishing a harmonized, rational, and transparent system for the adoption of international standards, creation of mandatory technical requirements, and implementation of an effective system for compliance assessment is an essential part of reducing these technical barriers. These are all pieces of the overall “best practice” MAS-Q framework, which is designed to protect the public health and safety. Technical requirements that go beyond best practice protection are considered technical barriers to trade.

In early August 2011, the Project carried out interviews and fact-finding visits with the Kosovo Metrology Department (KMD), Kosovo Accreditation Directorate (DAK), and Kosovo Standardization Agency (KSA) units at the MTI. Through these interviews, USAID|BEEP identified preliminary issues related to MAS-Q in the Kosovo framework, noting, among other things, the lack of accredited laboratories, an opaque system for adoption of mandatory technical requirements, and the need for improved compliance assessment.

The Project also held a MAS-Q workshop for the relevant officials from the Ministry of Health, the Ministry of Agriculture, Kosovo Customs, the MTI, the Food and Veterinary Agency, and several private sector laboratories, and developed an informative and action-oriented report that was shared with the MTI. The workshop focused on explaining the role of the MAS-Q system in the overall regulatory framework, its importance to trade and competitiveness of domestic goods and services, and unnecessary barriers that individual domestic systems can create.

Based on the Project's findings, USAID|BEEP provided technical assistance for the development of training modules on MAS-Q. Component Two completed a training video package, which can now be used as an e-learning tool, and delivered copies to the Kosovo Chamber of Commerce, the Alliance of Kosovo Businesses, the American Chamber of Commerce, the Exporters' Association, the Clearing Agents' Association, Kosovo Customs, and the Trade Department at the MTI.

Much of USAID|BEEP's future work in this area will be completed through Component One in implementing construction reform. Among other things, this will require adoption of international construction standards through development of a Unified Building Code, support to the KSA through an upgraded database, and improved compliance assessment practices through inspections.

Building the capacity of the trade-related institutions. An important part of Component Two activities to-date has been training trade-related bodies to build local capacities. Working with institutions like Kosovo Customs and the MTI, the Project is "training the trainers" through assistance to implementers for development of skills necessary to continue capacity building well into the future.



Day one of a two-day Component Two training course on international trade

In late November 2011, the MTI and USAID|BEEP reached an agreement on the training Component Two would deliver to the Trade Department. Topics included Standard Operating Procedures on anti-dumping, countervailing and safeguard measures for case officers, including those from Customs, the

MTI, and the Ministry of Agriculture, Forestry and Rural Development. USAID|BEEP completed first drafts of the MTI Standard Operating Procedures and delivered a follow-on training course on these trade contingency measures. Officials who attended the course provided very positive feedback, noting a much improved understanding of procedures required for application of trade contingency measures.

Further, the Project conducted an introductory training course on international trade for officers from the MTI Trade Department and Legal Department, Investment Promotion Agency of Kosovo (IPAK),

Industry Department, Small and Medium Enterprise (SME) Agency, Intellectual Property Office, Customs, Agriculture, Health, Finance, Environment, and Food and Veterinary Agency in early February. This training course provided an overview of the history of international trade, an analysis of the economics of growth related to international trade, economic analysis of trade policy, trends in trade over the last forty years including WTO Agreements, and a perspective looking forward to a new WTO Agreement on Trade Facilitation.

To support future training initiatives, USAID|BEEP presented Kosovo Customs with a DVD recording of the Project's Customs Valuation training course organized and delivered early in 2011 to importers, clearing agents, and customs officers. Also, the Project provided the MTI Training Department with a DVD on our previously-delivered Workshop on "Introduction to MAS-Q." This was further developed into a unique training module for both Kosovo Customs and the MTI.

Transitioning into the Project's third year, Component Two will continue to provide training and capacity building support to the MTI and Customs. However, USAID|BEEP anticipates a stronger focus on working with private sector stakeholders.

Tariff policy update. Throughout the year, the Project provided technical advice on tariff policy to the GoK. Currently, a single tariff rate of customs duty (10%) is assessed on virtually all incoming goods without regard to trade policy. During the initial establishment of basic government institutions in Kosovo, a single tariff was easy to administer, transparent, and provided a mechanism for collection of revenues. Now, however, Kosovo is in a better position to more properly focus tariff policy as domestic institutions are more stable and sophisticated.

To this end, USAID|BEEP worked with ministerial advisors at the MTI, with the Legal Director at the MoFA, with the Director of the Trade Department at the MTI, and with the business community. Together we examined opportunities to adjust tariff policy to better support economic development in the country, with particular concern for infant industries and key agricultural producers.

Based on input from these various stakeholders, the Project prepared a comprehensive "Trade Policy Update" which was presented to the Deputy Prime Minister of Economic Development / Minister of Trade and Industry.

USAID|BEEP informed senior MTI staff of the options available regarding trade policy. As a result, the MTI decided to take up the issue of changing tariff rates with the MoF to create a more favorable and sophisticated trade environment. The Trade Policy Update was a focus of a Component Two training in

February on international trade, attended by officers from the Trade Department, as well as officials from other ministries and private sector stakeholders.

Further, in the spring of 2012, the Project began to provide advice on the negotiations that the Trade Department will lead with the EU on a Stabilization and Association Agreement (SAA) or a Free Trade Agreement (FTA) with the EU. Kosovo trade officials will have to make a decision, along with EU trade officials on the instrument that best serves all interests. USAID|BEEP will also provide an analysis and comments on a prospective free trade agreement between Kosovo and Turkey.

USAID|BEEP will continue to work with private sector advocates and public sector counterparts in developing an independent, reasoned tariff policy for Kosovo. In support of this objective, the Project has engaged the USAID Growth and Fiscal Stability Initiative (GSFI) Project, which is serving in an advisory capacity to the MoF on fiscal policy, and hence, tariff policy.

Liaison with Learning Institutions on WTO. Component Two provided technical training at the University of Business and Technology, the University of Pristina, and the American University in Kosovo on the history and development of the WTO, on practical aspects of the WTO, and advantages Kosovo can realize through closer association with the WTO. The training was very well received by participants, and USAID|BEEP presented the technical training material to university officials for use in future curricula.

C2-4: DEVELOP AND PUBLISH INTERNATIONAL TRADE GUIDE (ITG) TO PROMOTE TRADE PREDICTABILITY

International Trade Guide. A primary barrier to trade activity in Kosovo is the lack of publicly available information and clear guidelines on what is required of those wishing to engage in trade. This leads to arbitrary application of Government intervention and a lack of predictability in the trade regime, further incentivizing extra-legal activity and eroding public trust. To address this problem, Component Two is leading an effort to develop an International Trade Guide (ITG) intended to provide transparency for Kosovo businesses and potential foreign investors in better understanding their obligations and rights when it comes to engaging in and doing business in Kosovo. Working with the relevant ministries, the Project is collecting this information and will consolidate it into a single, publicly-accessible document available to everyone.

This work began in January 2012 where USAID|BEEP held discussions with the Director General of Customs and with the Director of IPAK on the methodology for developing the ITG and for the

strategy to make updates to the ITG sustainable. The Project also reached agreements for participation on development of the ITG with various ministries, including the MoF, Ministry of Agriculture, MESP, the Food and Veterinary Agency, and the MTI.

In February, the MTI Trade Department demonstrated their commitment to completion of the guide when they dedicated an official to work with the Component Two ITG team. Further, the Director General of Kosovo Customs agreed to nominate a customs officer to work with USAID|BEEP on its development, and to include project representatives in the Automated System for Customs Data (ASYCUDA) world training course so that a full understanding can be gained on how the database can be linked or replicated in the ITG for the Integrated Tariff.

In addition, in late March Kosovo Customs provided the Project with a demonstration regarding the Customs Integrated Information System, which includes the trade portal information database. This portal will be linked to and from the website for the ITG.

The first draft of the ITG is expected to be produced in August 2012. From there, USAID|BEEP will obtain additional input and feedback from all stakeholders, and the ITG may then be turned over to the MTI website developer for installation of the guide on the website. The Project will collaborate with the Minister of Trade and Industry to obtain formal approval from Government counterparts in sanctioning the final version of the ITG as an official instrument of the Government of the Republic of Kosovo.

NEXT STEPS

Financial guarantees for trade transactions. In the Project's continued consultations with customs brokers and other private sector stakeholders, they identified the need for additional mechanisms to financially guarantee trade transactions outside of the banking system. Based on USAID|BEEP's meetings with Kosovo Customs and the CBK, it appears that these financial guarantees could be made available simply by registering a new insurance product with the CBK. USAID|BEEP will investigate this issue further as insurance-backed guarantees could provide traders with a cheaper and equally-effective means of guaranteeing trade transactions.

Assistance with the implementation of ASYCUDA World. Kosovo Customs is currently in the process of installing the ASYCUDA World IT system. When fully installed this new IT system should substantially improve trade facilitation and revenue collection. However, the speditours (customs brokers) and other private sector stakeholders are seeking training assistance to adapt to this new IT system that Kosovo Customs with its limited resources cannot fully provide. USAID|BEEP plans to assist with the

implementation of ASYCUDA World by providing this additional training support to spediteurs and other key private sector stakeholders.

Improved public-private dialogue in governance of trade activities. Transparency, predictability, and responsiveness are crucial components to good governance. The Project will explore opportunities to improve all three in Kosovo Customs by working with stakeholders to create greater openness and dialogue. This is important not only at the policy level, but at all administrative levels as well. However, good governance does not stop at dialogue – Customs must be responsive to the needs of traders. In Year Three, USAID|BEEP will provide recommendations and assistance to establish an institutional dialogue mechanism with Customs.

Trade legislation. Building on Component Two’s work in Year Two, the Project will finalize recommendations on trade remedy legislation to bring the legal framework closer to international best practice. USAID|BEEP will conclude technical assistance on related implementing regulations and for private sector outreach.

Reducing technical barriers to the importation of construction material. Because construction impacts the startup and expansion of so many businesses, it is critical to reduce technical barriers to the import of construction material. Higher regulatory and operational burdens on the import of these materials are passed on to the citizens of Kosovo through higher costs of goods, fewer jobs, and less business activity. Working with the MTI, TPWG, and other institutions, USAID|BEEP (Component One) will provide recommendations on reducing unnecessary and burdensome barriers to the import of construction material.

Trade capacity building. In addition to legal support, operational assistance is very effective in reducing burdens on businesses and citizens. Component Two will continue technical assistance to the MTI, Kosovo Customs, other government agencies and key private sector stakeholders such as the Spediteurs Association to help institutionalize continued improvements through capacity building. Capacity building in trade-related bodies is an important and on-going activity in Component Two. While the training itself is important, in Year Three a stronger focus will be placed on “training the trainers” to ensure that knowledge is transferred to the institution. Following the completion of the Project, future training activities must be conducted by the institution’s trainers to reduce the need for outside assistance. In Year Three, USAID|BEEP will finalize technical and logistical support to the TPWG and its sectoral Subgroups with a keen focus on institutionalizing this dialogue. The goal is to maintain the TPWG as a mechanism for both public-private dialogue and inter-ministerial policy coordination.

Adoption of international standards and mandatory technical requirements. The Kosovo Standardization Agency (KSA) is responsible for adopting minimal technical requirements for products bought and sold domestically. To improve internal operational efficiencies and harmonize standard adoption practices with international norms, Component Two will provide technical assistance to the KSA on the digitization, organization, and adoption of standards. Work with the KSA will also contribute significantly to our Component One activities relating to the adoption of construction technical requirements.

Improving transparency and predictability of the trade regime. Concerning access to trade information, advertisement of rights, and promotion of predictability in trade transactions, the Project's work on development and publication of the ITG represents one of the most important trade activities Component Two is undertaking.

In Year Three, the Project will finalize information gathering activities and complete the draft ITG for stakeholder review. During the review process, public and private sector partners will review the draft and suggest any necessary changes and the private sector will provide feedback based on personal knowledge of trade transactions. Following the feedback period, USAID|BEEP will incorporate updates and improvements and solicit approval from the necessary institutions. Pending final review and approval, the Project will upload the ITG to a dedicated website for publication.

An important part of this process will be to identify and obtain buy-in from a local organization who will embrace responsibility for the ITG's maintenance. Opportunities are not limited to public sector institutions as operation of a trade guide website is a commercially viable option from experience around the world. USAID|BEEP will explore these opportunities and together with USAID and the counterpart select the option that demonstrates the best probability for sustainability.

Food and Veterinary Agency. The Project will work with the FVA to both eliminate unnecessary certification requirements for imports and exports and focus inspections through risk-based compliance assessment. This also supports USAID|BEEP's work under Component One to harmonize the Permissive and Inspections Systems.

CHALLENGES AND IMPLEMENTATION ISSUES

Trade Policy Working Group. While initial enthusiasm drove several preliminary results, the TPWG has been criticized by some private sector participants as non-responsive. In many cases, businesses have voiced their concerns on a variety of trade-related issues with few being addressed by the Government. Component Two continues to provide technical and managerial support to the various TPWG Subgroups, but participant support will continue to fall if results are not achieved. USAID|BEEP is aware

of this issue and will continue to encourage the responsible institutions to embrace private concerns and to be more responsive in taking swift action.

Trade capacity building. As Kosovo adopts reforms and transitions to more sophisticated trade policy measures, the need to provide technical support to Kosovo Customs and the MTI and key private sector stakeholders will continue. While the Project has committed to and delivered a number of workshops and technical briefs, more advanced knowledge and skills are required. USAID|BEEP will continue to occupy a role as a contributor to improving capacity building in trade related bodies, but will focus the Project's final year's activities where there is the highest likelihood of immediate results.

Kosovo International Trade Guide. The ITG is moving forward and the Project anticipates completion in August. However, some ministries have been reluctant to share complete information. This is indicative of the difficulty businesses face in obtaining the same information. Further, even where complete information is submitted, it is sometimes unclear and vague. USAID|BEEP will continue to collect information and finalize the ITG so that it is presented in a user-friendly, easy to understand format.

COORDINATION

The Project has maintained a very strong working relationship with the MTI and Kosovo Customs, collaborating wherever possible to improve Kosovo's business environment. These institutions continue to be critical GoK partners for achieving project activities that reduce barriers to trade. However, in Year 3, USAID|BEEP will shift additional attention to private sector stakeholders concerned with trade issues.

At the request of the MoFA, the Project worked with the Director of the Department for Legal Affairs, Treaties and Human Rights on identifying ways for us to provide technical and legal advice to the Legal Department on international agreements, conventions and organizations, and bilateral agreements. For example, it may soon be possible for Kosovo to join international agreements, such as the TIR Convention, that will improve trade facilitation.

In planning and arranging TPWG Sub-group meetings, USAID|BEEP organized collaboration with the USAID Kosovo Private Enterprise Program (KPEP) and the EU Trade Project, and will continue to work with other projects and donors on activities related to the work of the TPWG. The Project had another opportunity in October to work with USAID KPEP and provide technical advice on preferential trade between Kosovo and the United States. Collaboration with KPEP has been regular, and this is expected to continue.

In late August 2011, the Project met with an International Monetary Fund (IMF) Mission representative to discuss trade issues and revenue generation activities and provided the IMF with an updated briefing on CEFTA, the MTI, and Kosovo Custom's activities and issues. In October, USAID|BEEP also provided technical perspectives on tax administration to the IMF Fiscal Mission.

In August, the Project met with the United Nations Development Program (UNDP) regarding the strategy for Parliamentary review of the Law on External Trade.

USAID|BEEP worked closely with the EU Trade Project to begin work at the MTI to enhance the capture and analysis of trade statistics, nurture trade negotiation skills, and develop the capacity in the Trade Department for economic modeling. Component Two has established a strong mutual link with EU counterparts to improve technical capacities at the MTI.

The Project also provided strategic and technical advice to the International Finance Corporation (IFC) regional project planning team to eliminate redundancies in proposed donor activities and develop more practical activities to serve Kosovo's interest.

In early March, USAID|BEEP took the initiative to host a meeting with the MTI and AmCham to discuss an agenda of collaboration on strategic areas of interest. Also in March, Component Two brought together the Director General of Kosovo Customs and the EU Communications Team Leader to develop strategies for Customs to better inform domestic businesses about trade requirements and provide news information on external trade.

Component Two this year assisted in research and analysis regarding non-tariff barriers (NTBs) for Kosovo's application to the United States Millennium Challenge Corporation (MCC) for threshold country program status.

In mid-April, the Project hosted a representative from the American National Standards Institute (ANSI) for a one-day visit at the MTI. Here, the ANSI representative met with both the Principal Political Advisor and MAS-Q Advisor to the MTI Minister to examine the current status of development of the KSA and the Kosovo Accreditation Directorate (KAD). USAID|BEEP also assisted the ANSI representative in a meeting with a senior officer of the KSA to discuss the ideal IT application for the digitization and sale of international standards.

COMPONENT THREE: REDUCED RISKS OF LENDING IN THE FINANCIAL SECTOR

C3-1: REVIEW WORLD BANK'S DOING BUSINESS REPORT AND MONITOR PERFORMANCE IN THE GETTING CREDIT INDICATOR

Improvement in the World Bank Doing Business indicators is a proven way to demonstrate a better business environment in any country. The project is therefore tasked with improving Kosovo's Doing Business score in those indicators where our work can have an effect. In this regard, Component Three is focused on monitoring and improving the "Getting Credit" indicator. The "Getting Credit" indicator is composed of both the Depth of Credit Information and the Strength of Legal Rights indices³². Improvement in this indicator contributes to USAID|BEEP's Project Result I.

Depth of Credit Information Index validated. At the request of the CBK, Component Three worked closely with the Credit Registry of Kosovo (CRK) to respond to World Bank questionnaire to score Kosovo in the "Getting Credit" indicator. In particular, USAID|BEEP helped to validate and confirm to the World Bank that the more than two years of historical credit information are distributed by the CRK. A question within this index asks "Are more than 2 years of historical credit information distributed?"³³ In the Doing Business 2011 report, the answer was "No" for Kosovo.

Following the Project's research efforts, Component Three sent all corresponding clarifications to the World Bank. As a result, the Doing Business 2012 report recorded a "Yes" for this question capturing the updated information and raising Kosovo's score 1 point in this index. This clarification contributes to USAID|BEEP's Project Result I.

Further, question 3 of the "Depth of Credit Information Index" asks "Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?"³⁴ Currently, Kosovo receives a "No" for this question. Following an inquiry with the WBDB team, they informed the Project that insurance companies are currently *not* considered financial institutions for the purpose of this question. However, the Project worked with the CBK to develop and approve a new Regulation on the Credit Registry³⁵ that allows insurance companies access to the credit information system and requires that they report to the system. Therefore, USAID|BEEP expects to see improvement in this index in the Doing Business 2013 report.

³² World Bank Doing Business Report, Getting Credit indicator:
<http://www.doingbusiness.org/data/exploreeconomies/kosovo/#getting-credit>

³³ World Bank Doing Business Report, Getting Credit indicator:
<http://www.doingbusiness.org/data/exploreeconomies/kosovo/#getting-credit>

³⁴ World Bank Doing Business Report, Getting Credit indicator:
<http://www.doingbusiness.org/data/exploreeconomies/kosovo/#getting-credit>

³⁵ Central Bank of the Republic of Kosovo, Regulation on the Credit Registry (February 24, 2012).

Strength of Legal Rights Index validated. Again as part of validation efforts, the Project analyzed whether businesses can pledge collateral using both specific and general descriptions of assets. In the Doing Business 2011 report, Kosovo records a “No” for question #3 in the Strength of Legal Rights Index, which asks “Does the law allow businesses to grant a non-possessory security right in substantially all of its assets, without requiring a specific description of collateral?³⁶”

After completing an extensive legal review of the pledge regulations and administrative instructions, an analysis of actual records in the registry and information gathered on banking practices in pledging assets, USAID|BEEP discovered that, in fact, a business can pledge collateral using either a general or specific description. The Project immediately sent clarifying information to the World Bank in this regard. However, the Doing Business 2012 report did not reflect this information.

USAID|BEEP is also working with the MTI to develop a draft Law on the Pledge Registry that would allow businesses to pledge a security interest in its movable property without using a specific description of collateral. If a new law passes and includes BEEP’s recommendations, the Project expects to see improvement in this index. Component Three will continue to monitor future DB reports to confirm the improvements on the underlying variables for the Getting Credit indicator.

C3-2: FINALIZE UPGRADE TO THE CBK PUBLIC CREDIT REGISTRY

CRK Software upgrade. One of Component Three’s major accomplishments this year was to gain CBK’s support for an upgrade to the CRK’s software, to facilitate the procuring of a vendor, and the development of the upgrade software.

The process began with a memorandum of understanding signed in November 2011 between the CBK and USAID,



USAID/Kosovo Acting Mission Director, Azza El-Abd (left), and Governor of the CBK, Gani Gerguri (right), at the MoU signing in November

³⁶ World Bank Doing Business Report, Getting Credit indicator:
<http://www.doingbusiness.org/data/exploreeconomies/kosovo/#getting-credit>

whereby the signatories agreed to cooperate in achieving the software upgrade. USAID|BEEP assisted the CRK to design the technical specifications, oversee the procurement process, and sign a contract with a local software vendor.

The upgrade began in March 2012 and is on track to complete at the end of August 2012. In June the software vendor completed preliminary development of the software upgrade and the Project transitioned into the final activities of the Development Phase (shown in the table below). USAID|BEEP assisted internal testing through the end of June and into July where the upgrade showed a significant improvement over the previous software. In July, the software vendor completed the Development Phase, approved by both USAID|BEEP and Central Bank of Kosovo.

The upgrade will improve the speed, accuracy and depth of reporting to and from the CRK. The new technical capabilities will allow the CBK to fill credit report requests faster, deal with credit information disputes more efficiently, and provide more useful information to Central Bank Management, Supervision, Statistics and creditors.

CRK Upgrade Implementation Phases

Phase	Activity
Inception Phase (Phase 1):	Project preparation, Project information collection, Detailed project plan; Project critical path. Specifically: Basic set of execution activities; Definition of the project charter, and in the end Inception report
Functional Requirements Phase (Phase 2):	Parameterization of the project: Functional requirements specification; On site interviews and requirement collection; Requirement gathering; Functional requirement document drafting;
Development Phase (Phase 3):	Development of software upgrade; Development internal testing;
Implementation Phase (Phase 4):	Onsite testing; installation CBK- testing; Testing on CBK – pilot testing with financial institutions; Acceptance test; Installation CBK- production
Monitoring Phase (Phase 5):	Controlling to ensure through regular reviews that potential problems (software bugs) are detected as soon as possible and that preventive actions and/or corrections done
Documentation Phase (Phase 6):	Documentation Phase will supersede the successful execution of the project in all its components: Software development; Training of end users and administrators; Delivery of related documentation; and Successful deployment of software into production environment

Strengthening Central Bank supervisory capacity. To strengthen the capacity of the CBK as a regulator and supervisor of financial institutions, the Project recognized the importance of leveraging the credit registry upgrade so that better information and management reports could be generated. These reports,

in turn, support and facilitate the CBK's supervisory function and help ensure stability of the financial system. Examples of such reports would be those that monitor lending and concentration of risks, trends in loans, and classifications. An early review of needs in the CBK's supervisory department and research and statistics department enabled the Project to identify additional data requirements for inclusion in the credit registry system.

Study Visit to Italy with CBK Staff. To assist preparation of use of the new CRK software and to familiarize CBK officials with modern credit registry practice, USAID|BEEP sponsored a Study Tour visit to the Central Bank of Italy in June. Through work with the CBK, USAID|BEEP made several recommendations on reducing the number of errors that occur in updates to credit information through improved technical and operational improvements. This includes establishment of a transparent and effective data dispute procedure for citizen and business challenges to incorrect information.

The Study Tour to Italy focused on trainings and real-world application examples that met these challenges head-on. The agenda included topics like "Ten Steps to Data Quality", "Analyzing the Information Environment", "Real-life Application on the Framework and Methodology", and "Practical Software Test Automation."

Results of the tour were aimed to:

- Implement a framework for information quality;
- Develop skills in analyzing the information environment and implementing controls;
- Implement the framework and methodology for real-life application;
- Test software automation and overcome problems; and
- Improve data quality in the CRK.

Participants from the Credit Registry included the Head of the Credit Registry, the Analysis and Development Officer, and a Credit Registry Officer. The Study Tour was a significant contribution to the CRK's ability to transition to the new software. Training and real-world application received were reported by CRK participants as crucial to their success in implementing the new software.

C3-3: SUPPORT FOR LEGAL, REGULATORY, AND INFORMATIONAL REFORM IN THE FINANCIAL SECTOR

To accomplish project objectives, the Component Three team benefited from continual access to and collaboration with all senior officials within the CBK, including the Governor and the two Deputy Governors, and the heads of the CRK, Procurement, Licensing and Regulation, Supervision, and Legal Departments.

USAID|BEEP maintained relationships with all eight commercial banks, several microfinance institutions, and three financial associations. The purpose was to improve their knowledge of the needs and workings of the Credit Registry and to prepare them for the changes associated with the software upgrade.

Ensuring more end users access to the Credit Registry. USAID|BEEP worked with the CBK to develop a new Regulation on the Credit Registry that, among other things, allows insurance companies access to the credit information system and requires that they report to the system and establishes new borrowers' rights protections. A number of important features of the new regulation include:

- **Establishment of data subject rights.** Before the Project began, there were very few requests by businesses and citizens for their own credit reports. There were many reasons for this, including the lack of a clear dispute mechanism for incorrect credit information, credit reports were often difficult to obtain if the individual or business resided outside of Pristina, and credit reports contained unorganized and confusing information without explanation.

To remedy these barriers, the new regulation sets out clear procedures for disputing credit information, provides an option to request and receive credit reports from financial institutions, and establishes improved protections for personal information.

- **Expansion of credit information collected.** The new regulation also expands the amount of credit information that can be collected, while respecting all legal protections for personal information. Expanded credit information allows credit providers to more reliably assess risk, potentially leading to lower interest rates and higher volumes of loans through reduced risks to lending.
- **Improved data protections.** Protection of a data subject's personal information is a top priority when dealing with dissemination of credit information. With this in mind, the USAID|BEEP-sponsored regulation made it very clear when, to whom, and under what circumstances it is permissible to divulge credit information.
- **Expansion of the types of users of the credit information system.** The new regulation expands the types of users of credit information, providing insurance companies access to the

credit information system while leaving the door open for future additions. Insurance companies use credit information to determine more accurate risk for consumers, and they will contribute to the depth of the credit information system. Allowing insurance companies to access the credit information system is also expected to contribute to improved Kosovo performance in the “Getting Credit” indicator in the Doing Business Report 2013.

Collaborating with a dedicated working group on this regulation, Component Three and the CBK finalized the draft in January. Anxious to move forward on transformational reform in this area, the Regulation was approved by the CBK’s Board of Governors in February 2012.

The new Regulation on the Credit Registry is an important part of achieving Project Results 4³⁷ and 5³⁸. In the past, businesses and citizens were unable to satisfactorily and reliably challenge incorrect credit information. Additionally, credit reports had to be requested and obtained in the capital city of Pristina. This was especially difficult for those businesses and citizens that lived far outside the city.

Aimed in part to establish an improved regulatory framework for incentivizing increased use of the credit information system, the new Regulation on the Credit Registry establishes new borrowers' rights that include protection of personal information, the right to block incorrect credit information, access to one free credit report per year, and the ability to request and obtain credit reports all over the country. Utilizing a country-wide credit media campaign (discussed below), USAID|BEEP was able to distribute crucial information on the new rights and procedures, and further discussed the importance of a good credit report for borrowing. This has proved to be a success in our collaborative effort with the CBK to incentivize increased use of the credit information system, increasing credit report requests.

In addition, this year the Project achieved our stated goal of Project Result 4 by adding insurance companies as a type of user of the credit information system through the new Regulation on the Credit Registry. Now in Kosovo, there are five types of users of the credit information system, including banks, non-bank financial institutions, microfinance institutions, leasing companies, and insurance companies. With more users of the credit information system, more credit information is available for assessing risk, contributing to reduced risks to lending and increased access to finance.

Media campaign. Further demonstrating its commitment to improve participation in the credit information system, the CBK released 10,000 USAID|BEEP co-branded informational brochures to the general public. The brochures explain what the Credit Registry of Kosovo is, how borrowers can

³⁷ The goal of Project Result 4 is aimed to increase the number of types of users of the credit information system to five is to increase the number of businesses and citizens that access their own credit reports.

³⁸ Project Result 5 is to increase the number of businesses and citizens that access their own credit reports.

dispute incorrect information contained in their credit reports, and how a good credit record will facilitate a person's receiving a new loan. Use of the CRK by credit providers and borrowers has grown rapidly over the life of the Project. For example, inquiries by banks and microfinance institutions about borrowers reached 923,542 in 2011, up 24% from the prior year, indicating a growing request for credit by both individuals and businesses.

As to other possible users of the credit registry system, the CRK does not have the legal authority to collect credit information from, for example, utility companies. As the Central Bank does not regulate or monitor non-financial institutions, it has no interest in receiving credit information from such entities since it cannot ensure data accuracy. Inaccurate or non-current credit information would compromise the CRK's data base and lead to errors, undermining its credibility.

Draft Law on Pledge Registry. In late September 2011, USAID|BEEP identified the Pledge Registry as a functional area where future project assistance may be useful. Component Three initiated an evaluation of the Pledge Registry and found that current practices were counter to best practice and burdensome to creditors, to the extent that some banks and many MFIs avoid the registration of pledges. An advisor to the MTI asked the Project to provide its input with full commentary and recommendations on their Working Group's draft Law.

Salient features of the draft Law that USAID|BEEP recommended include establishment of the Pledge Registry as a clearing house of pledge and lien information only, and removing the Registry's arbitrary discretion authority; streamlined procedures for the registration of pledges and liens; improved court and financial institution access to the Pledge Registry; and a clearer definition establishing priority position for claims on moveable property. By July, the MTI had submitted a draft Pledge Law to the National Assembly that did not take many of USAID|BEEP's recommendations into account. The Project will continue to monitor the law's progress.

NEXT STEPS

Credit Registry software upgrade. The new software will have extra data fields and new parameters to improve searches for borrowers. It will permit a redesign of the credit report to make it more user-friendly and will enable the generation of various useful reports. USAID|BEEP will assist the CRK to monitor the software vendor and ensure timely completion of the upgrade. Internal testing and report generation is nearing completion as the Project expects to transition to final product testing and system handover in August.

The Project's work will continue with the CRK to ensure proper implementation of the Credit Registry upgrade and the training required by staff and financial institutions. USAID|BEEP is assisting the CRK and data providers to ensure they are ready to receive and monitor the accuracy of new data. As a result of the upgrade, the Project expects more and more businesses and citizens to participate in the credit information system.

Implementing Operational Instruction. Following the Project's work in assisting development of the Regulation on Credit Registry, USAID|BEEP will next begin development of the Operational Instruction to implement it. The Instruction will clearly define the processes for putting the new Regulation into effect, including how to handle credit information disputes, complete credit report requests, and ensure proper data storage and protection at the CRK.

Borrowers' rights as a way to increase the number of requests by citizens and businesses for their own credit reports. The number of requests by businesses and citizens for their own credit reports reveals the extent to which people understand the role of the credit registry and their rights associated with it. Even though laws in Kosovo enable data subjects to access their credit reports, the number of requests is extremely low. The Project has identified a number of activities to increase requests for credit reports.

One step is to continue the efforts of our media campaign to make the public aware of what a credit report is and why it is important. Another will be to identify a pool of borrowers willing to voluntarily request credit reports so USAID|BEEP can then track CBK response times, the percentage of participants indicating their reports containing errors, and the time and success of the error correction process. This monitoring and implementation work will naturally follow from completion of the CBK upgrade.

CBK working groups. Component Three will continue its close collaboration with various CBK working groups to draft and develop implementing Operational Instructions for the new Law on Banks, MFIs and NBFIs and to update the licensing & regulation and supervision manuals at the Central Bank. The CBK has already established a working group to harmonize all banking regulations. The Project will assist this working group to update regulations and internal Operational Instructions as necessary, including work on Rule IX below.

CBK Rule IX. Rule IX of the CBK currently states that "Banks shall review and classify their credit risk exposures on a quarterly basis, at a minimum." Without more frequently mandated updating of each credit's classification, data users will not have the most current information on a borrower's repayment record, increasing their risk when taking additional exposures to a particular borrower. Component

Three will recommend to the CBK that financial institutions be required to report any change in the classification of credits on a monthly basis. Updating Rule IX will provide more timely information for improved risk assessment.

Media outreach. As new developments pertaining to data subjects are implemented (e.g., the Regulation on the Credit Registry), USAID|BEEP will work with the CBK to develop media campaigns to ensure credit report data subjects are aware of the developments. For example, when the CBK implements a streamlined complaints process so that data subjects may challenge incorrect credit report information, the Project will employ a media outreach campaign to inform the public of the complaints process. Completion of the CRK software upgrade expected in August will give rise to a plethora of improvements for businesses and citizens, which will be the subjects of future media outreach.

Bills of exchange and negotiable instruments. Important credit facilitation mechanisms are bills of exchange and negotiable instruments. However, domestic laws governing these mechanisms do not sufficiently address these important negotiable instruments and do not reflect international best practice. USAID|BEEP will provide recommendations to harmonize the governing normative acts with international norms to establish improved credit facilitation mechanisms and improve predictability in the legal regime.

CHALLENGES AND IMPLEMENTATION ISSUES

The CBK has accepted many of the Project's recommendations and reports, but will need to take additional concrete actions in the coming months. Component Three's technical assistance is maximized when the beneficiary takes the lead, so the Project will continue to encourage the CBK to take greater ownership of the implementation of recommendations and greater initiative in taking a demand-driven approach to reform.

Implementation of a completely new system for borrowers' rights will also prove challenging, both internally and externally. The new Regulation on the Credit Registry and upcoming completion of the CRK upgrade will help significantly, but new internal processes at the CBK and on the part of the data providers/financial institutions and the linking of each will be required. USAID|BEEP will assist the CBK to develop an internal Operational Instruction to assist this process and monitor progress through project completion.

Insurance companies are now allowed access to the credit registry, but there is still some hesitancy among CBK officials from the perception of unacceptable practices by a few insurance companies. USAID|BEEP's challenge will be to address these concerns and get final approval.

A new Law on Banks, MFIs and NBFIs was approved in April 2012³⁹. The CBK will change its rules into regulations in the future as they relate to the new law and will need to update many of its manuals. USAID|BEEP is apprised of this challenge and will take steps to address it.

Finally, concerning the draft Law on the Pledge Registry, challenges remain to overcome deeply-seated practices. Currently there exists a semi-operational Pledge Registry software system that has been in development for years. This creates a challenge because efforts are being made to craft the draft law around the software system rather than vice-versa. The MTI, USAID|BEEP, and other donor projects are aware of this issue, and the Project is making recommendations consistent with the idea that the software system should be fashioned around a viable law on the Pledge Registry.

COORDINATION

The financial sector institutions and associations and the CBK are important partners in Component Three work activities, and continued support to foster relations with these and other government agencies will be a central feature in implementation in project year three.

COMPONENT FOUR: MORE TRANSPARENT TENDERS

Component Four is tasked with helping to make more transparent the tendering process for goods and services conducted by Kosovo municipalities; more specifically, to assist at least two of its partner municipalities to introduce on a pilot basis the use of electronic tenders for procurement of local goods and/or services consistent with international best practices.

There has been considerable uncertainty and controversy in Kosovo surrounding donors' efforts to reform procurement, with the EU continuing to advocate for a draft procurement law that was passed over by the National Assembly in September of 2010. Meanwhile, procurement is reported to be problematic and susceptible to corruption at both the national and municipal levels, which was confirmed first-hand from focus group participants in the Project's municipal round tables.

In May 2011, however, the World Bank team announced its intention to launch a procurement reform initiative in Kosovo at the national and municipal levels over the next year. It was subsequently agreed with USAID that BEEP put on hold its own initiative until the scope and direction of the World Bank and EU initiatives become clearer.

³⁹ Law No. 04/L-093 on Banks, Microfinance Institutions and Non-bank Financial Institutions



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CASE STUDY #1

No Work Permits Means Freedom!

USAID Collaborates with Gjakova to Implement Work Permit Abolition



USAID|BEEP Photo

Advocating for an improved business environment, the USAID Business Enabling Environment Program (BEEP) recommended abolition of the work permit at the national level. The Kosovo Assembly embraced this transformational reform and eliminated its legal basis through an amendment to the Law on Internal Trade.

Crafting is a very old and cherished activity in Kosovo. In the municipality of Gjakova, this tradition has been inherited for years, generation after generation. Most of the crafts are located in the old town of Carshia e Madhe, which was once one of the most active areas for tourism and trade in the country. But, if you take a walk on this historical street today you'll find it nearly abandoned and most of the stores closed.

A major problem for businesses in Gjakova was the over-burdensome administrative requirements. "We have requested so many times to have less administrative requirements, since we cannot withstand them. Government didn't react and so we were left with two choices: close the business or not comply. Most of us chose not to comply because we could not survive without our business. One of the most notable requirements we had from Municipality was the work permit," said one craftsman.

The work permit was required at the national and was identified by the World Bank as an unnecessary barrier to business activity. The permit was issued by municipalities as a way of raising revenue, but lacked the reciprocal benefit of a public service.

But it was not only revenue that was at stake. The craftsman said, "As a consequence of non-compliance, the Municipality sued 506 craftsmen with either 200 Euro each or 13 days in jail." Lacking the ability to pay many feared jail time.

"Fortunately, USAID|BEEP showed up. They invited us to focus groups and it was the first time someone was listening to the problems that we face. After some time, we received information that the law was amended and that the work permit was eliminated. For us, this meant not only money saved, but days of freedom," said the craftsman.

Providing assistance to improve the business environment, USAID|BEEP recognizes that economic prosperity and removal of unnecessary interference positively impacts the livelihood and security of people around the world. Through open and transparent governance that allows the entrepreneurial spirit to flourish, more economic potential and greater prosperity is secured.



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CASE STUDY #2

Local Governments Embrace Openness and Transparency

USAID Supports Transparency at the Municipal Level



USAID/BEEP Photo

"I had the opportunity for the first time to raise the issues on the obstacles and constraints that my business faces along with other businesses as well, including the work permit, business license fee, transparency, bureaucratic procedures on getting services from relevant governmental bodies, and construction issues." – Zekerja Bytyqi, Edona Construction and Project Management Company, Ferizaj, Kosovo

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Navigating the regulatory environment at the local level was difficult in municipalities all across the country. Businesses often reported that regulations were arbitrarily applied to them, even though they had no access to these rules. In addition, private sector trust of municipal administrations was low as local governments often took action without private sector input.

In many municipalities however, things are looking up. Zekerja Bytyqi runs a construction and project management company in the municipality of Ferizaj. "Comparing the local business environment from just two years ago, there have been significant improvements," he said. "Transparency has been increased; all important regulations and public documents are now published on the website of the municipality. Further, dialogue has been established between the municipality and business community. The budget is now discussed with the business community prior to adoption," said Zekerja.

Zekerja's is just one of over 3,700 businesses in Ferizaj that are benefitting from more transparent local administrations. Not only is an open government a critical component of good governance, it also produces realizable results for businesses. Zekerja reports that "These reforms have enabled us to save time and money in our company's activities. Our company has saved about 1,750 Euros, which was used to improve working conditions, including a new conference room to be used for staff meetings, trainings, and businesses meetings."

Mr. Bytyqi noted the crucial role played by the USAID Business Enabling Environment Program (BEEP) through the organization of focus groups with businesses, identification of private sector issues, and the provision of advocacy support to the Ferizaj municipal administration. "During these focus group discussions, I had the opportunity for the first time to raise these issues on the obstacles and constraints that my business faces," said Zekerja.

Through USAID assistance, improved openness and participation has occurred all over Kosovo. Now, 24 municipalities have embraced the need for transformation and adopted transparency reforms, impacting over 36,000 businesses nation-wide.



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CASE STUDY #3

Forgiveness of Business Debt Frees Working Capital

Prizren Municipality Promotes Business Expansion and Competitiveness



USAID/BEEP Photo

“Abolition of debts by municipality was very welcome and affected positively my business, because debt had accumulated for a while and I couldn’t pay it at the time.” – Naim Shahini, Natyral, honey producer

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With a lack of appropriate focus on sources of municipal financing and through misapplication of business permits and licenses, Kosovo municipalities often use the regulatory system as a mechanism for revenue-generation. As a result, businesses became less competitive and were often unable to meet tax burdens and fee obligations.

In Prizren, the USAID Business Enabling Environment Program (BEEP) assisted the municipal administration in undertaking intensive efforts to focus the regulatory system on the protection of public health and safety and reduce financial burdens on business. Recognizing past shortcomings, the municipality of Prizren forgave two-thirds of outstanding business debt obligations. This incredible demonstration of political willingness to drive business environment improvement saved local businesses over 2,800,000 Euros (c. \$3,600,000 USD).

Bylent Shondo, a local shoe shop owner, spoke about the impact on his business, saying "This decision saved me 800 Euros, which I used to help renovate my shop and order more raw material." Similar impacts have sprung up all over the city. "From this municipal decision, I have saved about 1,100 Euros and purchased new good to increase turnover," said Naim Shahini, a honey producer in Prizren.

Not only has this decision allowed entrepreneurs to reinvest in their business, but in their communities as well. Evren Gjikolli, a watch and accessory store owner reports, "I saved 1,200 Euros that I used to reinvest in my business. I have also employed another person as a way to try and reduce unemployment in my town."

USAID is providing tailored assistance to municipal administrations throughout Kosovo in an effort to put the local regulatory system on a more rational footing to unlock the unlimited economic potential of domestic businesses. With efforts like these, it is becoming easier and easier to do business in Kosovo.