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BUSINESS ENABLING ENVIRONMENT PROGRAM

QUARTERLY REPORT

AUGUST – OCTOBER 2012



October 31, 2012

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*Cover photo shows (top) Municipal Partnership Training; (middle) Oracle training for CBK staff; and (bottom) a MCI diagnostic presentation in the municipality of Ferizaj.

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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
ESTAK	USAID Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
GFSI	USAID Growth and Fiscal Stability Initiative
GoK	Government of Kosovo
IS/IT	Information Systems and Information Technology
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
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
SSPF	Strategic Studies and Projects Fund
STTA	Short-term Technical Assistance
TAK	Tax Administration of Kosovo
TPWG	Trade Policy Working Group
USAID	United States Agency for International Development
WB	World Bank
WBDB	World Bank Doing Business

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 Business Enabling Environment Program (BEEP) Quarterly Report and describes project activity from August through October 2012.

An important supply-driven indicator of business environment improvement is the World Bank Doing Business report. The *Doing Business 2013* report was released in October, showing impressive results for Kosovo. With USAID|BEEP and other donor support, and with the political willingness of the government, Kosovo was a world-leader in overall rank improvement (28 places), cumulative indicator rank improvements (170 places), and single indicator improvement (76 places). While hard work and past improvements are important and worth recognizing, it is not the end of the line and much more remains to be done.

The Central Bank of Kosovo (CBK) launched the new Credit Registry software upgrade in October with financial institutions already reporting significant improvements in reporting and access efficiencies. Currently in parallel phase running with the old system, the CBK, with USAID|BEEP support, will cease use of the old system and run only the upgraded registry in November. Complementing the previously-adopted and Project-supported Regulation on the Credit Registry, borrowers' rights were strengthened and the credit information was expanded and made more reliable. Further, the Ministry of Environment and Spatial Planning (MESP), with Project support, received the highest number of public comments on its draft Law on Spatial Planning. As a pillar of good governance, MESP is leading the way to incorporate public comment and debate, demonstrating a transformational mind-shift.

With the International Trade Guide (ITG) well on its way to completion, USAID|BEEP secured commitment from the Kosovo Chamber of Commerce (KCC) to host and maintain the ITG after Project completion. As a critical trade facilitation tool, the ITG will represent the first of its kind in Kosovo and is expected to be an international model. The Project also secured a subcontractor to develop a website dedicated to the ITG.

As a way to promote sustainability of demand-driven reforms following Project completion, USAID|BEEP finalized training the Municipal Partnership Program Municipal Coordinators (MCs) on its

reform methodology. The program's MCs have shown extraordinary willingness and capacities to apply the methodology throughout their respective municipalities.

Highlights of this Quarter include:

- World-leading Doing Business improvement, including most overall ranking improvement, most cumulative sub-indicator improvement, and highest single indicator improvement;
- Launch of the new Credit Registry of Kosovo upgrade, with banks reporting up to an 89% decrease in the time to report credit classifications;
- Support outreach with the Ministry of Environment and Spatial Planning on the draft Law on Spatial Planning to receive the highest number of public comments on a draft law;
- Municipal Partnership Program Municipal Coordinators complete training and successfully apply reform methodology; and
- Commitment from the Kosovo Chamber of Commerce to host and update the International Trade Guide following Project completion.

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:

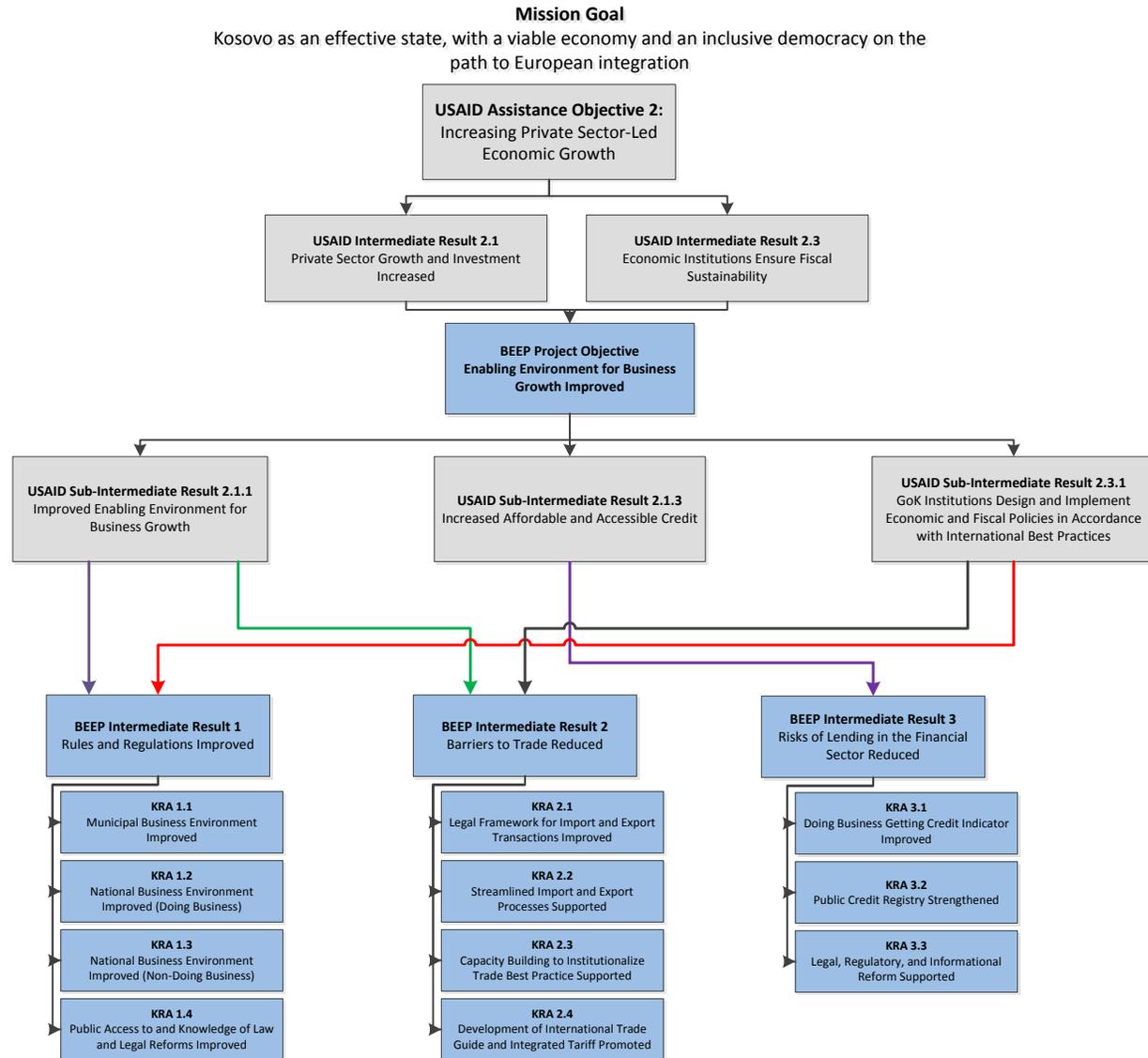
- Building the institutions of Kosovo's government and society;
- Encouraging a democratic process inclusive of all citizens, including all minority groups;
- Promoting economic development such that all people of Kosovo enjoy the benefits of prosperity;
- Ensuring that society and government are firmly 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):

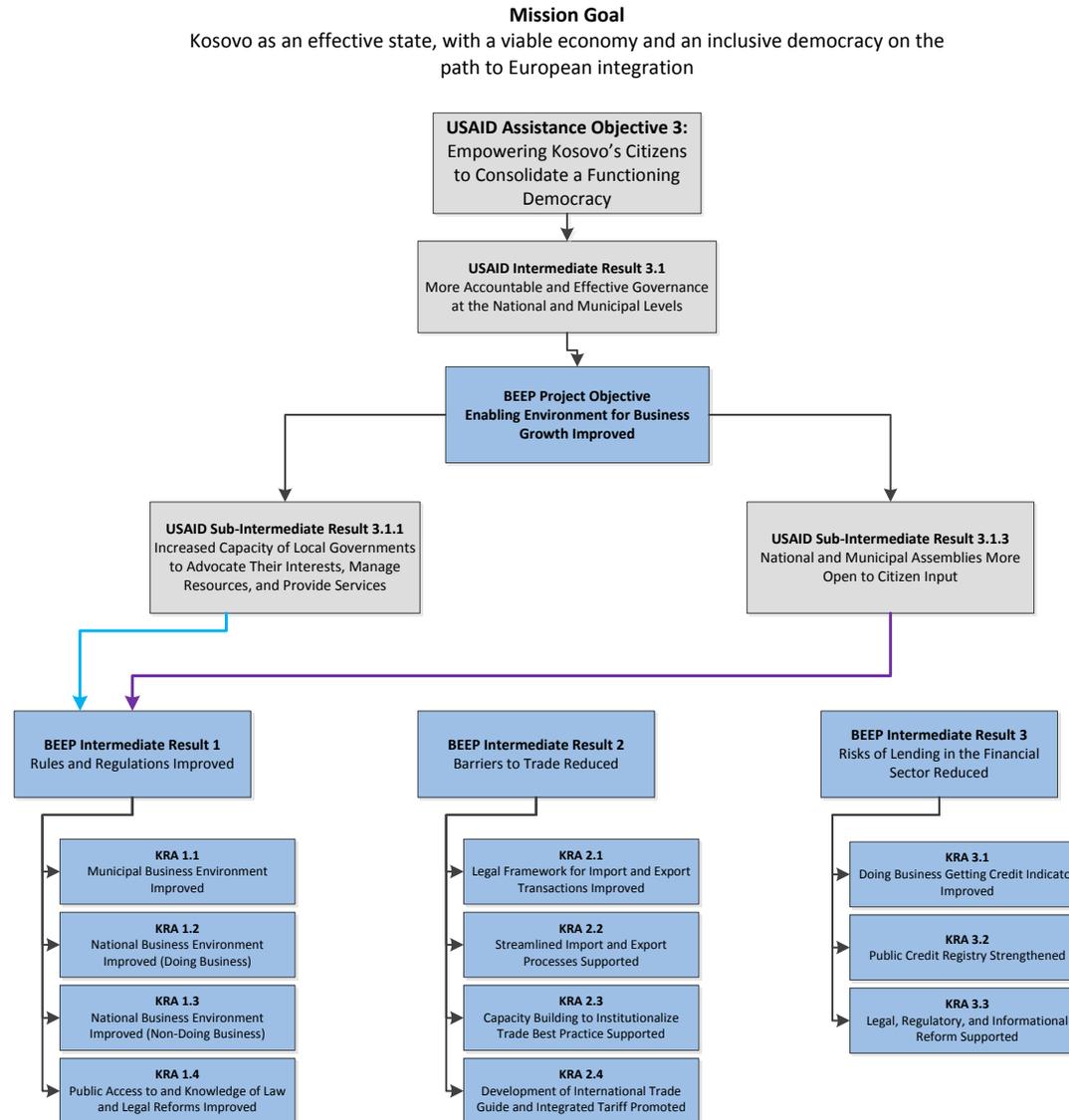
- **Assistance Objective 1:** Youth Are More Productive and Engaged Members of a Stable Kosovo
- **Assistance Objective 2:** Increasing Private Sector-Led Economic Growth
- **Assistance Objective 3:** Empowering Kosovo's Citizens to Consolidate a Functioning Democracy

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 three (3) 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.

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.

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.

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

MCI 2012 diagnostic presentations. Leveraging the success of last year's efforts and the strengthened recognition of the reform tool, USAID|BEEP began conducting the Municipal Competitiveness Index (MCI) 2012 diagnostic presentations in September. These presentations are based on analyses of



Municipal Partnership Program Municipal Coordinator delivering MCI diagnostic presentation in Skenderaj, October 2, 2012.

individual municipal performances in the MCI 2012 that identify areas for improvement in the local business environment. Derived from surveys of over three thousand (3,000) business in Kosovo, the MCI allows for the development of tailored recommendations for each municipality.

So far, Municipal Coordinators (MCs) have conducted twenty-six (26) MCI diagnostic presentations, including three hundred and fifty-seven (357) municipal representatives and two hundred and forty-one (241) representatives from the business community. As a way to promote the sustainability of the MCI and build local capacities, USAID|BEEP is strongly involving MCs from the Municipal Partnership Program (more details on this provided below).

Elimination or suspension of business license fees. Reform momentum in the municipalities continued this quarter with two municipalities implementing local regulations to eliminate or suspend business license fees. In late August, based on Project recommendations, the municipality of Ferizaj eliminated all

business license fees in the municipality. The municipal administration developed and distributed over three thousand (3,000) information leaflets to businesses to advertise this important reform.

It has been common practice for local institutions to use regulatory mechanisms (like the business license) as a way to raise revenue rather than for their proper purpose of protecting public health and safety. With the elimination of the work permit in July 2011 through the Project-supported amendment to the Law on Internal Trade, municipalities have often applied the authority granted to them under the Law on Local Government Finance to require a general business license to recoup the missing revenue – i.e., they are employing another area under their authority to produce the same undesired effect. However, many reform-minded municipalities, embracing USAID|BEEP recommendations, have eliminated or suspended these business license fees to eliminate unnecessary steps and costs for businesses.

Building on the examples of municipal reform successes throughout the country, in October Peja suspended the business license fee for newly registered businesses for two (2) years and for production companies with more than five (5) employees for three (3) years. The implementing municipal regulation will enter into force January 1, 2013. With Peja's new regulation, eleven (11) municipalities have now eliminated or suspended business licenses across the country.

Municipal reform media campaign. To capitalize on the municipal reform success, advertise local results, and incentivize additional municipalities to improve their local business environments, USAID|BEEP partnered with a local subcontractor to develop a national media campaign on municipal reforms. Focusing on easier business startup and operation, elimination or suspension of business license fees, and elimination of the work permit¹ across several municipalities and incorporating testimony from the mayor of Ferizaj, the national media campaign will make use of several media channels to advertise results, including through television, newspaper, internet, and radio. The campaign is expected to begin in early November.

Municipal Partnership Program. Aimed to provide tailored reform support to municipal administrations and build local capacities for sustainable business environment improvement, the Municipal Partnership Program MCs in September completed the Project training on reform methodology. Focusing on monitoring and implementing reforms, Partnership Program MCs held roundtables and focus groups in their respective municipalities to build advocacy for upcoming reforms and validate those already adopted.

¹ Work permit elimination is a national-level reform under Law No. 04/L-005 on Amending and Supplementing Law No. 2004/18 on Internal Trade, but implementation at the municipal level is still required.

Additionally, Partnership Program MCs were instrumental in delivering MCI 2012 diagnostic presentations to municipal administrations and businesses across the country. USAID|BEEP is focused not only on continuing local business environment improvement, but also on building the capacities of local personnel who can continue to promote reform activity after the Project has ceased operations.



Municipal Partnership Program Training on identification of allies and champions, August 16, 2012

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

Doing Business 2013 report. In the recently-released Doing Business 2013 report from the World Bank Kosovo showed the most progress in reform worldwide. The report notes that Kosovo has had the greatest positive reform progress in 2012 among the 185 countries evaluated. Kosovo's country ranking increased by a world-leading 28 places, followed by Poland, the designated Top Reformer, whose ranking increased by 19 places. Kosovo also led the world in improvement across indicators, with a net rank improvement of 170, followed by Armenia with 158.

USAID projects, notably BEEP, have been providing assistance to Kosovo to encourage and support legal reforms that are beginning to be recognized internationally.

Specifically, significant Kosovo improvements noted are:

- a 44-rank improvement in Starting a Business, owing to the elimination of charter capital for Limited Liability Companies (LLCs), the streamlining of business registration, and other reforms;
- a 76-rank improvement in Protecting Investors, owing to strengthened protections for minority shareholders;

- a 33-rank improvement in Dealing with Construction Permits, owing to a reduction in costs by over 500% per capita GNI and an overall reduction by almost 50% in the time required to register a building; and
- a 9-rank improvement in Trading Across Borders, owing to a 20% reduction in the cost of trade processes.

As seen in the table below, USAID|BEEP exceeded its Project Result (PR) 1 target of 20% average improvement in the underlying variables of Project-supported indicators with the results shown in the Doing Business 2013 report – an average improvement of 34.91%. Although the results show significant improvements, it must be noted that USAID|BEEP expects additional Project-supported improvements to be reflected in the Doing Business 2014 report. For example, a number of trade- and construction-related reforms were not captured due to the timing of World Bank surveying. Below are the specific PRI results.

Table I. PRI Results

Indicator	DB 2011	DB 2012	DB 2013	Change	
PRI. Doing Business Improvement					
20% Improvement in Underlying Variables of Indicators Supported by BEEP					
Starting a Business					
Procedures (number)	10	10	9	10.00%	For Project Result 1, a target of 20% improvement across underlying variables of USAID BEEP-supported indicators was set.
Time (days)	58	58	52	10.34%	
Cost (% income per capita GNI)	28.7	26.7	23	19.86%	
Paid-in minimum capital (% income per capita GNI)	112.4	104.6	0	100.00%	
Total Indicator Change (average %)				35.05%	
Dealing with Construction Permits					
Procedures (number)	16	16	16	0.00%	USAID BEEP tracked these data as reported by the World Bank annually, but did not set forward-looking annual targets for individual processes.
Time (days)	301	301	156	48.17%	
Cost (% income per capita GNI)	3,758.40	3,496.50	2,986.00	20.55%	
Total Indicator Change (average %)				22.91%	
Getting Electricity					
Procedures (number)	7	7	7	0.00%	The table shows the percentage change: for each process within every indicator; in total for each indicator; across all indicators; and across all underlying variables of USAID BEEP-supported indicators.
Time (days)	60	60	48	20.00%	
Cost (% income per capita GNI)	1,036.00	1,1016.80	915.4	11.64%	
Total Indicator Change (average %)				10.55%	
Registering Property					
Procedures (number)	8	8	8	0.00%	
Time (days)	33	33	33	0.00%	
Cost (% of property value)	0.6	0.6	0.6	0.00%	

Total Indicator Change (average %)				0.00%
Getting Credit				
Strength of Legal Rights Index (0-10)	8	8	8	0.00%
Depth of Credit Information Index (0-6)	5	5	5	0.00%
Public Registry Coverage (% of adults)	16.9	20.5	22.2	31.36%
Private Bureau Coverage (% of adults)	0	0	0	0.00%
Total Indicator Change (average %)				10.45%
Protecting Investors				
Extent of Disclosure Index (0-10)	3	3	6	100.00%
Extent of Director Liability Index (0-10)	2	2	6	200.00%
Ease of Shareholder Suits Index (0-10)	3	3	3	0.00%
Strength of Investor Protection Index (0-10)	2.7	2.7	5	85.19%
Total Indicator Change (average %)				96.30%
Paying Taxes				
Payments (number per year)	33	33	33	0.00%
Time (hours per year)	163	164	164	-0.61%
Total tax rate (% of profit)	16.5	15.4	15.4	6.67%
Total Indicator Change (average %)				2.22%
Trading Across Borders				
Documents to export (number)	8	8	8	0.00%
Time to export (days)	17	17	15	11.76%
Cost to export (US\$ per container)	2,230	2,270	1,775	20.40%
Documents to import (number)	8	8	8	0.00%
Time to import (days)	16	16	15	6.25%
Cost to import (US\$ per container)	2,280	2,280	1,810	20.61%
Total Indicator Change (average %)				9.84%
Enforcing Contracts				
Time (days)	420	420	420	0.00%
Cost (% of claim)	33	33	33	0.00%
Procedures (number)	53	53	53	0.00%
Total Indicator Change (average %)				0.00%
Resolving Insolvency				
Time (years)	2.0	2.0	2.0	0.00%
Cost (% of estate)	15	15	15	0.00%

Recovery rate (cents on the dollar)	34.6	34.4	34.7	-0.29%	
Total indicator change (average %)				-0.10%	
Average change across all Doing Business indicators				18.72%	
Average change across BEEP-supported Doing Business indicators				34.91%	USAID BEEP-supported Doing Business indicators include (1) Starting a Business; (2) Dealing with Construction Permits; (3) Getting Credit; (4) Protecting Investors; and (5) Trading Across Borders.

These reforms were facilitated by USAID|BEEP through comprehensive advocacy for critical business environment reforms using the Doing Business tool as a platform. While much work remains to be done, Kosovo results show impressive performance that can be built on in future years through ongoing reform initiatives. Below are some key Project-specific reforms that contributed to Doing Business improvement.

STARTING A BUSINESS

- Elimination of the charter capital requirement for LLCs.** Under the USAID|BEEP-supported amendment to the Law on Business Organizations² adopted in 2011, the requirement for Limited Liability Companies (LLCs) to deposit €1,000 in minimum charter capital was eliminated. Although opening a bank account is still required for tax purposes and remains as a captured step in the Doing Business 2013 report, elimination of the minimum charter capital requirement represents a cost reduction of 104.6% of the Gross National Income (GNI) per capita within “Starting a Business”.
- Reduction in time to obtain a business certificate.** In Step #2 of “Starting a Business” for Kosovo, the Doing Business 2013 report reflects a 5-day reduction in the time it takes to obtain a business certificate. Again under the amendment to the Law on Business Organizations³, USAID|BEEP recommended a statutory time limit for the issuance of the business certificate (3 days from the date of application). With implementation, Kosovo’s performance in this indicator reflected a 5-day savings for this step.

² Law No. 04/L-006 on Amending and Supplementing Law No. 02/L-123 on Business Organizations.

³ *Idem.*

- **Elimination of the business registration fee.** Through the Project-supported amendment to the Law on Business Organizations⁴, the business registration fee was eliminated. The Doing Business 2013 report captured this reform, eliminating 1 step and reducing costs for business startup by €23.5.

DEALING WITH CONSTRUCTION PERMITS

- **Reduction in the time to obtain fire protection consent.** The Doing Business 2013 report captures a 5-day savings in this step as a result of a new USAID|BEEP-supported Law on Fire Protection⁵. Under this Law, fire consent is now limited to “special cases” as determined by a sub-normative act from MESP, greatly limiting its application.
- **Reduction in building registration time post-construction.** With time limits on building registration incorporated in the USAID|BEEP-supported Law on the Cadastre⁶, the Doing Business 2013 report captured a 131-day savings. Previously reported as taking 165 days to register a building post-construction, new data reflects only 34 days.
- **Reduction in building registration costs post-construction.** Representing a significant cost savings within the “Dealing with Construction Permits” indicator, the Doing Business 2013 report captured a €4,293 cost savings for building registration post-construction. USAID|BEEP advocated for registration costs to be put on a cost recovery-basis through recommendations on the Law on Cadastre⁷. The Kosovo Parliament incorporated these recommendations when they adopted the new Law on 2011. The Project worked with MESP to develop an implementing AI⁸ that, among other things, greatly reduced the costs to register buildings post-construction based on cost recovery principles.

PROTECTING INVESTORS

Kosovo was a world-leader in ranking improvement within the “Protecting Investors” indicator (+76 ranks, from 176 in DB 2012 to 100 in DB 2013). As a measure of the protections for minority shareholders, especially dealing with corporate officer conflict of interest transactions, this indicator was improved greatly through a Project-supported amendment to the Law on Business Organizations⁹.

⁴ *Idem.*

⁵ Law No. 04/L-012 on Fire Protection (abolishing Law No. 02/L-41 on Fire Protection).

⁶ Law No. 04/L-013 on Cadastre (abolishing Law No. 2003/25 on Cadastre).

⁷ *Idem.*

⁸ Ministry of Environment and Spatial Planning Administrative Instruction No. 05/2012 on Fees and Charges of Cadastral Services and Products Rendered by Municipal Cadastral Offices and Licensed Surveying Companies.

⁹ Law No. 04/L-006 on Amending and Supplementing Law No. 02/L-123 on Business Organizations.

Specific improvements within three (3) sub-indices of the “Protecting Investors” indicator are described below.

- **Extent of disclosure index.** Establishing a 1-point improvement for the index, now a shareholders' meeting is required to approve the conflict of interest transaction and the relevant corporate official cannot vote. Also, a 2-point improvement was realized through required disclosure of the transaction and the corporate official's conflict of interest.
- **Extent of director liability index.** Establishing a 1-point improvement for this index, shareholders can hold the relevant corporate official liable for damage caused by a conflict of interest transaction. Further, a court can now void the transaction upon a successful claim by a shareholder plaintiff, representing a 1-point improvement. Because the corporate official is required to pay damages caused by the conflict of interest transaction upon a successful claim by the shareholder Doing Business awarded Kosovo 1 point. Finally, the corporate official is required to pay profits for damages caused by the transaction upon a successful claim by the shareholder(s), representing a 1-point improvement.
- **Strength of investor protection index.** As a simple average of the other three sub-indices, this index improved from 2.7 to 5.0 as a result of the Project-supported reforms.

To advertise the Doing Business successes as a means to inspire future reforms, the Project, through a local subcontractor, has begun to develop a comprehensive media campaign in conjunction with the

Project Result 1: With world-leading ranking improvements in the Doing Business 2013 report, USAID|BEEP supported a 34.91% improvement in the underlying variables of Project-supported indicators.

MTI. Through television, radio, newspaper, and the internet the campaign will be aimed at highlighting recent Doing Business-related reform success, including more streamlined business registration, reduced costs and time for building registration post-construction, and improved minority shareholder protections. USAID|BEEP will carry out the

campaign beginning in November.

Construction reform. Land use reform is a key pillar of comprehensive and transformational business environment reform. The transparent and predictable use of real estate, with strong protections for individual property rights, is foundational to economic growth as stronger and more predictable rights to land and buildings facilitate investment of working capital that takes advantage of economies of scale for increased wealth creation.

In Kosovo, the Ministry of Environment and Spatial Planning, with USAID|BEEP support, is taking a three-pronged approach to land use reform that encompasses three, closely-interlinked functional areas: (1) construction permitting; (2) spatial planning; and (3) currently-unpermitted constructions.

To focus construction permitting on the protection of public health and safety and diminish its potential abuse as a revenue-raising mechanism, the newly-adopted, Project-supported Law on Construction requires permit fees to be established on a cost recovery-basis. To this end, the Project is finalizing one of the implementing Administrative Instructions (AIs) for the new Law on Construction Permitting Fees and Regulatory Infrastructure Charges to govern these fee calculations and their use. In addition, the Project has developed draft contracts and guidance for use by municipalities when negotiating infrastructure development agreements. These development agreements will help municipalities and citizens better define responsibilities for providing infrastructure crucial to individual project sustainability and also create conditions for improved infrastructure generally.

Project Result 1: By reducing the costs for obtaining a construction permit, cost recovery-based construction permitting contributes to future improvements in Doing Business; specifically within the "Dealing with Construction Permits" indicator.

In late October Project staff started training personnel from the Ministry of Environment and Spatial Planning (MESP) on calculating these fees so that the Ministry can better assist municipalities in their fee calculations. With USAID|BEEP-encouragement, MESP will be working with the Association of Kosovo Municipalities (AKM) to co-sponsor this outreach.

Through discussions with municipal officials across the country, USAID|BEEP gained a better understanding of the municipalities' current processes, procedures and resources for issuing permits, checking plans, and inspecting construction works. This has enabled the Project to identify municipalities' best practices and their specific concerns. Municipalities have used this opportunity to discuss questions about the new law and its implementation. The Project expects this increased understanding and relationship building to help MESP as it rolls out training and implementation initiatives.

Following closely on the heels of the permit fee training, the Project will support MESP in the development of an Administrative Instruction on the permit review process itself. This will assist MESP to then train the municipalities on the new framework for reviewing permits to confirm compliance with the new Construction Code, thus helping to ensure safer buildings and providing applicants with real value for their permit fee.

Another important part of the new Law is its requirement for the MESP to develop and adopt a universally-applied Construction Code, incorporating relevant elements of EuroCodes applicable in

Kosovo, for both plan check prior to issuing a construction permit and inspections during the building process. This Code will establish the mandatory technical requirements to ensure the safety of buildings in Kosovo. A primary purpose of the requirement of a construction permit is to ensure that buildings are safe for use and occupancy. Enforcing compliance with mandatory technical requirements established in the Code will ensure that this occurs.

In mid-September, MESP established the formal Construction Code Working Group, responsible for development and review of the Code, which includes representatives from MESP, MTI, private

Project Result 2: Once implemented, streamlined construction permitting and inspections will produce demonstrable economic impacts of reform for the citizens of Kosovo. USAID|BEEP's target is \$170 million in reform impacts for Project Result 2.

construction companies, the University of Pristina, the Association of Kosovo Architects, and the AKM. USAID|BEEP will continue to be the primary supporter of the working group to complete the Construction Code by its statutory deadline of January 18, 2013.

To better understand local practice and inform ongoing work, the Project made several on-site construction visits across the country and met with local officials, inspectors, and private builders. USAID|BEEP explored practices and procedures and inquired about the inspectors' receptivity to using modern methods such as checklists and on-site mock-ups. Local stakeholders voiced their eagerness to embrace these methods as a way to improve local practice, and USAID|BEEP expects to incorporate this guidance as part of Construction Code implementation.

Further detail on related land use reform is discussed below, including the work on spatial planning and the legalization of unpermitted constructions.

Support to KBRA. In response to a request in late September from the Kosovo Business Registration Agency (KBRA) for assistance in improving the KBRA's operations procedures, the Project finalized and presented to the Director an action plan for the work to be carried out. Support includes a complete review of the legal framework governing business registration; on-site visits to KBRA centers in three municipalities to study procedures and operations; and meetings with local businesses who have recently been registered to discuss their experience. Following the adoption of recommendations, USAID|BEEP will provide training to KBRA staff on the new rules and procedures.

To date the Project has conducted time and motion studies in three municipalities and has discovered that registration centers are unnecessarily requiring registrants to provide information on the type of business that entrepreneurs intend to conduct and often fining those who do not comply. Not only is this not a proper function of business registration, but the Tax Administration of Kosovo (TAK) actively

collects this information for statistical purposes, duplicating instances of data collection. Additionally, registration centers are unduly prolonging the registration process by collecting the business registration information and sending it to the capital city to be "confirmed," despite not having a legal basis for such a practice. USAID|BEEP is developing a set of recommendations for improving business registration based on these findings, which will include ceasing both the collection of business codes (as the tax administration does this already for tax purposes) and the confirmation step of submitted business registration information.

In addition, the KBRA has requested customer service training to improve overall service delivery in the municipalities. In early October, the Project released a Request for Proposals (RFP) to deliver this customer service training. Following the selection of the subcontractor, USAID|BEEP will deliver the training in November.

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

Permissive System and Inspections. Limitations imposed by government on free economic activity (i.e., the permissive system) should be based on a compelling public interest -- protecting public health and safety and the environment – and such limitations should be implemented using the least restrictive means possible. In many cases, however, the permissive system is used as a method of control and to serve the interests of a particular group.

USAID|BEEP, through its work in permissive system and inspections reform, is working with the government to change that. In early August, the Project submitted to the Legal Office of the Office of the Prime Minister (OPM) a concept paper on the permissive system that, among other things, described the different types of permissions based on internationally-consistent terminology; articulated the narrow circumstances under which application of such a permission to limit free activity is appropriate; and demonstrated the necessary linkages between permissions and the follow-on compliance assessment mechanisms such as inspections.

Project Result 2: Streamlining permissive and inspections systems procedures and requirements contributes to USAID|BEEP's Project Result 2 by producing realizable economic impacts of reform for Kosovo businesses.

The Legal Office of the OPM, with Project support, drafted and issued an Order to all ministries to submit a complete list of all permissions (e.g., permits and licenses) for a future guillotine review. The guillotine review is to be conducted under the auspices of the

National Council for Economic Development (NCED), which includes representatives from the OPM and ministries. The NCED in late August committed to use the above-mentioned USAID|BEEP concept paper as the baseline for measuring all ministry permissions during the guillotine review.

To support the guillotine effort, USAID|BEEP sponsored a working session in early September led by the Legal Office of the OPM to inventory all Government permissions and develop the Guillotine Review Manual (based on the Project concept paper). At the conclusion of the working session, over three hundred (300) permissions were listed and prepared for review. The guillotine review is expected to take place in conjunction with adoption of the new Law on the Permissive System later this year.

In early October, USAID|BEEP completed comments on the draft Law on the Permissive System and submitted it to the Legal Office of the OPM for review. Principal features of the draft include the following:

- **A Proper Role for Government Regulation of Private Activity.** The draft Law is designed to create a framework that limits government regulation of private activity to that which is necessary to protect public health and safety while prohibiting regulation that is unduly burdensome or unwarranted. Its approach will both make it easier to engage in commercial activity in Kosovo by eliminating unnecessary business constraints; and also increase the protection of public health and safety by focusing government regulation on areas where it is truly needed.
- **Streamlined Framework.** The draft Law creates a simple yet effective framework for government regulation by providing for five types of permissions.
- **Rational Relation to Assessed Risk.** The draft links each type of permission to a level of risk that a government regulator must determine objectively in order to justify requiring the permission for a particular activity. This will introduce harmony and uniformity in the regulatory actions of government bodies and bring them into conformity with the requirements of a market economy and good governance.
- **Transparency.** The draft law requires a regulatory authority to make publicly available all the rules, requirements and procedures related to each permission; as well as information on each permission issued.

Following the draft Law on the Permissive System, USAID|BEEP provided comments to the OPM on the draft Law on Inspections. This draft is intended to govern all inspections in Kosovo (with the exception

of a minor few) and establish a clear framework that protects the rights of the individual. Principal features of the draft Law on Inspections include the following:

- **Direct Links to the Law on the Permissive System.** The draft provides that inspections may be conducted only with respect to risk-related activities that are regulated under the Law on the Permissive System.
- **Emphasis on Citizens' Rights and Defined Powers of Inspectors.** The draft Law is based on the application of international best practice to the Kosovo context and devotes considerable attention to protecting the rights of citizens vis a vis the inspector; to defining clearly inspectors' powers (and the limits thereof); and to the proper procedures to be followed in inspections. The draft also places emphasis on the citizen's right to know the scope and frequency of a permissible inspection.
- **Emphasis on Encouraging Compliance Rather than Imposing Fines.** The draft provides that a citizen is generally given the opportunity to correct a violation within a reasonable timeframe, and that no fine is imposed unless the citizen fails to do so. This represents a dramatic change from the current approach, and the perception that the purpose of inspections is to raise revenue. Consistent with this, the Project has advised that national and municipal bodies not include in their budgets revenues from inspections fines, which is the current practice, but to treat imposed penalties as unplanned revenue. This shift in the role of inspections is essential to creating an environment where violations are punished, but both citizens and regulators work together to implement required health and safety considerations in the overall interests of the people of Kosovo.

The draft Law on Inspections will follow directly after adoption of the Law on the Permissive System and is expected to go to Parliament later in 2012 or very early in 2013.

Spatial planning. The construction permit serves a useful public service by facilitating the review of construction plans not only to ensure they meet minimal safety requirements, but also that their intended use complies with national and local spatial plans. Spatial plans are important because they provide (1) predictability in land use by clearly setting out certain use restrictions on land parcels and (2) protect property rights of neighboring land parcels. In this way, for example, residential areas are separated from areas to be used by potentially intrusive industrial activities.

MESP, desiring to harmonize the Law on Spatial Planning with the new Law on Construction, requested USAID|BEEP's assistance in its development. The Project provided significant commentary and

accompanying policy rationale to MESP on the draft. Utilizing this draft, MESP, with USAID|BEEP support, solicited public comment and held rigorous debate. Owing to this comprehensive public outreach MESP received the most comments ever on any draft law in its history. With Project support, MESP reviewed public comments and incorporated them where applicable.

The draft Law on Spatial Planning reflects the evolving European approach and free market principles to establish a clear and predictable framework for spatial planning. Under the draft, it is envisioned that the MESP develop and refine a National Zoning Map and Spatial Plan that serves as a baseline for all parcels in Kosovo. With this in place, if municipalities lack urban regulatory plans (plans that govern in more detail land use restrictions at the local level) the construction permit applicant can refer to the national plan and avoid delays. The draft Law on Spatial Planning is expected to go to Parliament in November.

Program for the Treatment of Illegal Constructions. Through a previously-ambiguous and difficult-to-navigate construction permitting process, constructions in Kosovo were often unpermitted -- and therefore illegal -- creating barriers to property protection and to using assets for other transactions. Recognizing these barriers and the problems associated with unpermitted constructions, including the difficulty of enforcing property rights and the potential for unsafe buildings, MESP wants to develop a fair and transparent program to legalize those constructions.

With USAID|BEEP as its designated implementing partner in construction reform, MESP requested the Project's assistance in developing its draft Law on the Treatment of Illegal Constructions (which is likely to be re-named). The goal of this law will be to establish a program for owners of previously-unpermitted constructions to come forward and legalize their buildings. This is the third prong of land use reform because the legalization process will closely mirror that of the construction permitting process, which involves a review of both compliance with mandatory technical requirements through the Construction Code and compliance with spatial planning. The Project provided comments on the draft Law at the end of October.

Law on Tourism. In response to a request from the MTI the Project has agreed to support public hearings on the draft Law on Tourism. To date the Project has supported one hearing in Peja with two more in Prizren and Pristina to be held in November. The current draft reflects many of the Project's recommendations provided earlier this year.

Principal features of the new draft Law on Tourism include:

- **Elimination of unnecessary licensure.** In lieu of professional licensing, the draft Law on Tourism envisions voluntary registration with the responsible unit within the MTI. The voluntary

registration would involve the adoption of consumer protection measures developed by the MTI in collaboration with the National Tourism Organization (discussed below). These measures would combine with the consumer protection laws to provide protection for tourists who utilize the services of the voluntary registrants. The protections afforded to registrants are in accord with the international practice of other European travel associations.

- **Market-driven solutions.** Voluntary registration has the added benefit of encouraging a free market-driven solution to providing safeguards to tourists. The reduced barriers of entry into the tourism industry should serve to encourage competition and increased entry into the marketplace. The increased competition will encourage the provision of higher quality services amongst market participants, increasing the overall quality of the industry.
- **Improved private sector involvement in tourism policy.** The draft Law on Tourism envisions the creation of a National Tourism Organization (NTO), which international best practice suggests is a public-private board with representatives from both the government and the private sector. The primary responsibility of the NTO is to develop policy recommendations for the ministry responsible for tourism development. The powers and responsibilities of the NTO are primarily consultative and advisory with the additional responsibility to develop educational materials for voluntary registrants. In this way, the NTO will give the private sector a voice in the development of a national tourism strategy.

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. Moving forward on development of the Legal Information Database (LID), and with strong support from the Office of the Official Gazette (OOG) and the OPM, USAID|BEEP published a RFP in October for development and installation of the LID software. The Project selected the best subcontractor to complete the proposed work, which the subcontractor is expected to start in November.

Law on Normative Legal Acts. As reported previously, the Project provided extensive comments on the draft Law on Normative Acts prepared by the Legal Office (LO) of the OPM. The Project is standing

ready to continue this work with the LO OPM when the latter is ready to proceed (expected in the next two months).

NEXT STEPS

MCI 2012 diagnostic presentations. USAID|BEEP will complete the MCI 2012 diagnostic presentations in November with ongoing advocacy for reform recommendations continuing through the life of the Project. USAID|BEEP will revisit the MCI survey and assess if and where improvements can be made in preparation for the MCI 2013 survey and analysis.

Construction Code. Establishing the mandatory technical norms required for construction work are important both to help ensure the safety of buildings and to provide clear guidelines against which building plans are reviewed. The Project will support Construction Code development to meet the statutory deadline of January 18, 2013, and will also assist the further development of the Code after its adoption by MESP. (It should be noted a construction code is an ever-evolving document, as construction norms and practices continually change around the world.)

Once the Construction Code is developed and mandatory requirements are in place, plan reviewers and inspectors will need to understand the requirements and be able to check for compliance with them. The Project will help inspectorates acquire the necessary knowledge of procedures, construction methods and materials.

The training received by inspectors will be consistent with the requirements and principles outlined in the proposed draft Law on Inspections. USAID|BEEP will continue to assess the capacities of inspectors to better inform future training initiatives.

Adopting a new construction law is not enough to effect comprehensive construction reform – this also requires an understanding and application of relevant international trade practices and norms across a number of specific technical areas, including masonry, electrical, structural and mechanical norms, along with several others. Internationally, vocational schools and universities are strongly involved in providing training and developing the skills for proper application of best construction practices. It is therefore important to advocate for improved technical training, beginning with the introductory level.

Implementing AIs under the Law on Construction. Under the new Law on Construction, USAID|BEEP will continue to assist MESP to develop and adopt the implementing AIs under the Law on Construction. Important examples are those on construction permit fee calculation, guidance on infrastructure agreements, and putting in place the new permit review framework.

As the relevant AIs are being developed, USAID|BEEP will provide tailored guidance and training to officials at MESP for implementation of the newly-adopted AIs under the Law. This is already underway for establishment and calculation of construction permit fees. The aim here is transfer knowledge to MESP so that they can provide sustainable training both to the municipalities and internally in the future.

Spatial Planning. Following successful adoption of the new Law on Spatial Planning, USAID|BEEP will support the development of the National Zoning Map and Spatial Plan and, provided municipalities provide the corresponding support, a number of municipal urban regulatory plans.

In addition, citizens must be made aware of the changes in the law and encouraged to get involved in the development of the spatial plans. With this in mind, USAID|BEEP is in the process of developing a comprehensive construction and spatial planning reform campaign.

Because spatial planning affects many aspects of property ownership, other laws will need to be brought in line with the new Law on Spatial Planning. USAID|BEEP will assist relevant institutions in this regard, to the extent that Project resources allow.

Following adoption of the new Law on Spatial Planning, the Project will help MESP develop implementing AIs for the proper implementation of the Law.

Treatment of Illegal Constructions. As noted below in the discussion of illegal constructions, building registration will be especially important for the legalization process. In addition to monitoring compliance with the new requirements governing building registration requirements, the Project will support MESP in developing the legalization procedures. This will involve a number of initiatives, including, among other things, providing assistance to the municipal cadastral offices to facilitate the proper recording of the thousands of transactions that are expected to arise.

As experience in this area demonstrates, it is crucial that citizens be informed of the program and understand their rights and obligations. USAID|BEEP is planning a comprehensive public outreach campaign to assist MESP in this regard.

With the legalization program requiring that both a Construction Code and a spatial planning regime be in place, this provides a unique opportunity to pilot inspections reform (related to the Project-supported Law on Construction and draft Laws on Inspections and the Permissive System). USAID|BEEP will work with inspecting authorities in select pilot municipalities to receive guidance on working within the new legal framework governing construction.

As noted above, the Project anticipates thousands of applications under the program, so the Cadastral Offices will need to be well prepared to receive and properly record all information. USAID|BEEP will provide this support as necessary.

Permissive System and Inspections. USAID|BEEP will support the upcoming permissive system guillotine to be conducted under the auspices of the NCED. At the request of the Legal Office of the OPM, the Project will continue advocacy of the draft Laws on the Permissive System and Inspections; both of which are expected to be presented to Parliament between November 2012 and January 2013.

Legal Information Database and Law on Normative Acts. As noted above USAID|BEEP is ready to continue its work with the LO OPM to finalize the draft Law on Normative Acts and ensure that sub-normative acts are proposed and adopted in a transparent manner with accountability to the public. Work will also go forward on the related Legal Information Database with attention to ensure that it is consistent with the Law on Normative Acts.

CHALLENGES AND IMPLEMENTATION ISSUES

Developing capacities of local inspectors. With the adoption of the Construction Code in mid-January 2013, inspectors will need to be brought up to speed quickly on the Code's technical requirements. From discussions with local counterparts the Project has learned that heretofore construction inspectors have limited their inspections to determining whether persons engaged in construction activity had a construction permit – i.e., they did not perform technical inspections.

To address this state of affairs USAID|BEEP is preparing training materials for inspectors, including the introduction of using on-site "mock ups" of Code-compliant construction works.

Law on the Treatment of Illegal Constructions. With thousands of applications to legalize buildings expected, relevant institutions will have to optimize their allocation of resources to meet this challenge effectively. USAID|BEEP is planning future assistance to these institutions to help prepare them for this.

Permissive system and inspections reforms. International experience shows that the reform of permits, licenses, and inspections is often met with stiff resistance owing to the potential for personal interests of those involved. USAID|BEEP expects, however, that these reforms will be adopted because of the expressed commitment to them of the NCED and the OPM. .

COORDINATION

Support for the Municipal budgeting process. In early August, USAID|BEEP agreed with the USAID Growth and Fiscal Sustainability Initiative (GFSI) on a collaborative approach to synergize assistance related to

the municipal budgeting process. Together the projects have stressed the importance that the budgets reflect desirable reform initiatives, including the requirement that construction permit fees be based on cost recovery, the identified need for municipalities to develop urban regulatory plans, the fiscal implication of the elimination of the work permit, and a municipality's decision to eliminate or curtail use of the business license.

In this connection USAID|GFSI made presentations to USAID|BEEP MCs in September on issues related to municipal budgeting and property tax.

Activity Coordination with SIDA, DEMI and GFSI. To inform potential future initiatives and align project activities, USAID|BEEP held discussions with the Swedish International Development Agency (Sida) and USAID|GFSI on, among other things, land use reforms and municipal finance. Building legalization and tax facilitation efforts, spatial planning reform, and the single window principle for land information were the primary topics of discussion. USAID|BEEP welcomed future collaboration.

The Project also met with the USAID Democratic Effective Municipalities Initiative (DEMI) periodically to discuss the latest developments in construction and land-related reform initiatives.

Coordination with EU - MESP Twinning Project. The focus of the EU project's work is spatial planning. Following congenial discussions in October, the EU project expressed its readiness to assist in the development of implementing Administrative Instructions under the Law on Spatial Planning.

COMPONENT TWO: REDUCED BARRIERS TO TRADE

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

Insurance-backed financial guarantees. In international best practice, insurance companies offer a financial



product to businesses for use in Customs transactions that guarantees Customs the full payment of all duties and fees for import and export transactions. This guarantee is a critical trade

facilitation measure that can significantly reduce the time and costs of external trade. As Customs is guaranteed payment of duties and fees, less time is spent on clearing and inspecting goods. Moreover, these guarantees make possible the adoption of special expedited programs (sometimes called Authorized Economic Operator programs) for qualified traders. These guarantees also enhance cargo security and provide greater predictability for trading partners.

It is current practice in Kosovo for banks to provide similar guarantees, but it is almost always the case that banks require collateral from the requesting business in the amount of the guarantee, tying up valuable working capital. Additionally, interest rates on these instruments are very high and this discourages their use as a trade facilitation and revenue protection measure. Consequently, financial guarantees are not widely used today by Kosovo Customs resulting in increased controls and delays at the border.

Through individual meetings and an explanatory workshop on customs bonds and various discussions with counterparts, including with individual insurers, the Central Bank of Kosovo, the Kosovo Chamber of Commerce, the Association of Insurers, and Kosovo Customs, USAID|BEEP obtained significant buy-in to implement customs bonds as an alternative mechanism to bank guarantees. Insurance companies expressed their commitment to provide the customs bonds while Kosovo Customs agreed to allow customs bonds to supplement the existing program of bank guarantees, provided that claims were paid on the same basis as is currently the case with banks.

Further, USAID|BEEP reviewed the existing legal framework to ensure that customs bonds were a permissible financial mechanism, finding that in fact the governing CBK rule on general insurance classes recognizes such guarantees (surety bond products) as those that can be underwritten by insurance

Project Result 2: With proper implementation of customs bonds, businesses can realize economic impacts of reform through reduced costs and time to trade across borders.

companies. With this finding, the Project developed a sample customs bond form to guide insurance companies and provide the necessary detail to Kosovo Customs. Finally, USAID|BEEP plans to develop a customs bond manual that will act as a checklist for insurance companies that is consistent with international best practice. The Project will follow-up with local stakeholders to drive implementation and use of this important trade facilitation and revenue protection mechanism.

C2-2: SUPPORT FOR STREAMLINED IMPORT AND EXPORT PROCESSES

Trade facilitation analysis. As a means of monitoring trade-related reforms and to identify potential trade constraints, USAID|BEEP conducted a trade facilitation analysis in conjunction with Kosovo Customs that analyzed the movement of freight to Kosovo from the ports of Thessaloniki in Greece and Durres in Albania. The analysis indicated that currently, Durres far exceeds maritime cargo imports from Thessaloniki. This was further confirmed by information received from the Customs statistical office. The Project forwarded this information to the World Bank Doing Business team as relevant information to the "Trading Across Borders" indicator.

Support to the FVA. In the context of the national permissive and inspections system reform effort led by the OPM, the Food and Veterinary Agency (FVA) requested assistance from USAID|BEEP in September to identify and eliminate unnecessary permits, licenses, and certificates. Recognizing the connection between government permissions and the follow-on compliance assessment (largely through inspections), the FVA requested additional assistance to: (1) draft sub-normative acts on veterinary and phytosanitary inspections; (2) develop Standard Operating Procedures (SOP) and a Manual for relevant inspections; (3) train border inspectors; (4) conduct a needs assessment of inspections software that is compatible with Kosovo Customs' Automated Systems for Customs Data (ASYCUDA) World risk management module; and (5) properly designate Border Inspection Points (BIPs)¹⁰. As a means to both pilot inspections procedures under the upcoming Law on Inspections and improve trade facilitation, USAID|BEEP is seeking short-term assistance to complete these tasks. Experienced consultants have been identified and it is expected that this work will begin in November.

C2-3: BUILD CAPACITY TO INSTITUTIONALIZE TRADE BEST PRACTICE

Trade Policy Working Group. The Trade Policy Working Group (TPWG) Subgroup on trade agreements continued work on a possible bilateral trade agreement between Kosovo and Turkey. The MTI is currently analyzing trade data, particularly trade in services data, in conjunction with these negotiations which are scheduled to resume in January 2013. Although the European Union (EU) trade project is advising the MTI regarding this matter, USAID|BEEP has provided advice when requested.

Support to Kosovo Standardization Agency. In conjunction with the Project's Component One-related work on construction, USAID|BEEP is supporting the Kosovo Standardization Agency (KSA). As the Project

¹⁰ Border Inspections Points are envisioned under European Union Council Directive 91/496/EEC (July 15, 1991).

continues to develop the Construction Code that contains technical requirements, close coordination with the KSA, who adopts international standards prior to formal adoption by a government institution, is imperative to strike an appropriate balance between technical requirements and an improved business environment. In this regard, USAID|BEEP is supporting the KSA to find a database solution for more efficient adoption of international standards, and to make them more readily accessible by relevant stakeholders. In September, the Project sponsored key KSA officials to participate in an International Organization for Standardization (ISO) conference in San Diego, California for an improved understanding of its needs and to observe international best practice from other countries.

Based on lessons learned from the conference, KSA voiced its interest in obtaining a database from the British Standards Institution (BSI) as a recognized world-leader in this area. The Project is supporting the KSA to assess the required next steps and expects a KSA decision on this matter very soon.

Support to AUK and Tariff Policy.

USAID|BEEP in October supported the American University of Kosovo's (AUK) Conference on Economic Development and Political Transition in Kosovo where the Project presented a paper on tariff policy issues in conjunction with a local economist. The paper explored a number of tariff policy options, including, among others, a zero tariff (free trade) and the currently-existing



American University of Kosovo Conference on Economic Development and Political Transition in Kosovo, October 12, 2012

10% ad valorem tariff across all goods and services, and clearly linked the relationship between free tariff policy, trade, and economic growth. The MTI expressed appreciation for this work and is currently using the paper to inform discussion on future tariff policy.

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

International Trade Guide. The Project made significant progress toward completion of the International Trade Guide this quarter. The ITG is meant to assist entrepreneurs to navigate Kosovo's requirements

for domestic and international trade. Through discussions with local institutions, the Kosovo Chamber of Commerce (KCC) has agreed to maintain the ITG following Project completion.

To improve usability and functionality, USAID|BEEP subcontracted with a local partner to develop a dedicated website for the ITG. Its development is underway, with portions of the ITG expected to be uploaded starting by the end of November. The ITG is nearing completion, with tailored guidance on topics such as the administrative procedures for import, financing trade transactions, and dispute resolution. USAID|BEEP expects completion of the ITG in December with final hand-over of the ITG and dedicated website to the KCC in February 2013.

NEXT STEPS

Insurance-backed financial guarantees. Following initial buy-in, the Project will continue to provide Kosovo Customs and insurance companies with the necessary support to introduce customs bonds. This includes, among other things, a review of insurance company underwriting practices, offering comparative advice based on international experience, and providing additional practical information to Kosovo Customs to ensure a seamless transition to the use of customs bonds. Additionally, the Project will develop a model agreement for customs bonds tailored to the Kosovo legal and operational context, model customs bond procedures for insurance companies, and a customs bond procedures manual.

During this operational support, it is necessary to develop the necessary legal recommendations to implement the customs bond program, including any necessary regulations to be issued by Kosovo Customs and any regulatory changes necessary from the CBK.

Support to the FVA. In December and through early 2013, pending final identification of short-term consultants, USAID|BEEP will provide tailored assistance to the FVA to reduce barriers to trade, by among other things, identifying and eliminating unnecessary permits, licenses, certificates, and registrations; improving inspections procedures; and supporting compliance with evolving Customs practice. Inspections and permissive system work will take place in conjunction with the overall related reform initiatives undertaken by the Project in the draft Laws on Inspections and the Permissive System.

International Trade Guide. As mentioned above, USAID|BEEP expects to substantially complete the ITG in December. The Project is distributing the ITG to relevant institutions for comment and will incorporate feedback as necessary. Upcoming topics include those on Customs controls and procedures, banks and other financial institutions, and administrative procedures for the export of goods. With the website

development expected in December, USAID|BEEP will provide continual updates until final hand-over to the KCC.

Continued Support of MTI and the TPWG. Component 2 will continue to support MTI's Trade Division and the TPWG in general and the Trade Facilitation Subgroup in particular, coordinating its work with the two other donor projects that are also providing trade support to MTI and the TPWG. Possible future activities may include specific support on trade legislation after the 2013 calendar of trade provisions has been determined by MTI, continued support of the Trade Facilitation Subgroup, and repeating USAID|BEEP's "Introduction to Trade" workshop conducted earlier this year in order to "train the trainers".

Support of Customs Brokers. Customs brokers are important to trade facilitation improvements. Both Kosovo Customs and the Customs Brokers Association are seeking the Project's assistance in connection with improving the regulatory climate and capability of brokers in Kosovo. Consistent with the resources available and projected end date of BEEP, some assistance may be provided in the future.

Trade Facilitation Improvements. Component 2 will continue to follow up on the reduction of documents, removal of unnecessary fees, and other trade facilitation impediments.

CHALLENGES AND IMPLEMENTATION ISSUES

International Trade Guide. The ITG, at its completion, will be a comprehensive work of existing requirements in Kosovo. The KCC, who committed to host and maintain the ITG, will be responsible for updating its contents following the completion of the Project. It will be very important to provide continual support to the KCC to analyze the trade framework and update the ITG accordingly to ensure sustainability of this critical trade facilitation tool to ease transition to the KCC.

Insurance-backed financial guarantees. Strong support to relevant institutions, including spediteurs, trade associations, Customs, and insurance companies will prove critical to the sustained buy-in and eventual implementation of insurance-back financial guarantees. In addition, significant technical guidance to both Customs and insurance companies will be necessary to establish the right tool within the Kosovo legal context. USAID|BEEP maintains a strong understanding of and receptivity to these issues when planning tailored assistance in this area.

COORDINATION

USAID|BEEP maintains a strong relationship with the MTI and KSA, IPAK and other MTI agencies, Kosovo Customs, the FVA, and relevant trade associations and businesses, to carry out Project

objectives. Further, collaboration with the KCC is critical to the success of the ITG during and beyond USAID|BEEP's lifetime. With continued support to the Trade Policy Working Group, the Project coordinates regularly with the EU Trade Project. USAID|BEEP remains as the primary supporter of the Trade Facilitation subgroup while the EU Trade Project supports the subgroups on Agriculture and Trade Agreements.

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

Operational Instruction on the Regulation on the Credit Registry. USAID|BEEP in September supported the

Project Result 5: Improved borrowers' rights and improved access to credit reports contributes to USAID|BEEP's Project Result 5 – an increased number of requests by businesses and citizens for their own credit reports.

Credit Registry of Kosovo (CRK) to review the existing Operational Instruction (OI) governing procedures for operation of the credit registry and put forth recommendations to bring it into line with the new software upgrade (discussed in more detail in C3-2 below). The new OI will act as the operational bridge between the new Regulation on the Credit Registry and the upgraded software.

USAID|BEEP expects the OI to be adopted by the CBK in November.

Getting Credit in Doing Business 2013. Kosovo already performs very well in the "Getting Credit" indicator of the Doing Business report; 23rd out of 185 economies studied. With adoption earlier this year of the Project-supported Regulation on the Credit Registry, the CBK permitted insurance companies access to the credit registry. Due to the timing of implementation and that of the World Bank's surveying, the Doing Business 2013 report did not capture this reform¹¹. However, insurance companies now can access and provide credit information to the credit registry and USAID|BEEP expects this reform to be captured in the Doing Business 2014 report.

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

¹¹ The Depth of Credit Information at Question #3 asks, "Does the registry distribute credit information from retailers, trade creditors or utility companies as well as financial institutions?" Because insurance companies are not considered financial institutions according to the Project's discussions with the World Bank Doing Business team, Kosovo could see improvements in next year's Doing Business report.

Credit registry upgrade. In early September, the CBK, with USAID|BEEP support, launched its recently-upgraded credit registry software. The new software expands the amount and types of credit information that can be captured for improved risk assessment; and to make it easier to report to and access information from the credit registry. These improvements were aimed to increase participation in the credit information system, reduce risks to lending through improved information and predictability, and increase access to finance, making it easier for businesses to obtain the working capital they need.

Already financial institutions have reported impressive improvements over the old system; within the first month, several banks reported a forty-five percent (45%) decrease in the time it takes to report credit classifications to the CRK, these banks, after only a month, reported up to an eighty-nine percent (89%) reduction in time.

To complement the new software's launch, USAID|BEEP is conducting comprehensive training for financial institutions as users of the credit information system; and, as the underlying technology, Oracle-certified training for Information Technology (IT) staff. The Project began training users of the new system in early October and completed the program, training four hundred (400) total participants.



Training for users of the new credit registry software upgrade, October 1, 2012

Users expressed positive feedback across all surveyed aspects, including, among other things, appearance, use, and functionality.

Further, USAID|BEEP conducted the first of three (3) Oracle trainings in

October for IT staff of the CBK, TAK,

and Kosovo Customs¹². Covering Structured Query Language (SQL) Fundamentals, twelve (12) participants attended the first training. The final two trainings, which focus on administration of Oracle-based systems, will take place in November.

A joint public outreach event between the CBK and USAID is tentatively planned for early December to both highlight the credit registry upgrade and unveil the launch of the web portal where citizens can request and receive their credit reports. Additionally, USAID|BEEP is developing a RFP for the creative design of a comprehensive media campaign on the credit registry upgrade, highlighting the importance of credit and demonstrating procedural improvements with the new system.

Through these critical improvements to the CRK's software, USAID is contributing to improved participation in the credit information system and increased accuracy and predictability of credit data to reduce risks to lending and increase access to capital.

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

Regulation on Credit Classifications. The CBK has convened a working group to review all of its regulations for harmonization with the new Law on Banks, Microfinance Institutions and Non-bank Financial Institutions¹³. USAID|BEEP helped bring these regulations into line with the new credit registry upgrade. Among these was the (previously known as) Regulation 9 on Credit Classifications, which governed the mandatory reporting times for banks to submit credit classification updates¹⁴.

An issue identified by the Project was the significant gap of three (3) months in required credit classification reporting. Credit reports are updated monthly and so credit classification information was unreliable for risk assessment. USAID|BEEP recommended monthly credit classification reporting for improved data reliability. The CBK incorporated these recommendations into the updated Rule 7 on Credit Risk Management and submitted it to the CBK Executive Board who approved the Rule in September. USAID|BEEP will continue to monitor implementation of this Rule.

¹² Although Oracle training originated from the credit registry upgrade, TAK and Customs use Oracle-based technologies and joined as a matter of efficiency.

¹³ Law No. 04/L-093 on Banks, Microfinance Institutions and Non-bank Financial Institutions.

¹⁴ Now known as Rule 7 on Credit Risk Management.

NEXT STEPS

Credit registry upgrade. The CBK is expected to finish the parallel software testing phase in November, afterward running only the new system. USAID|BEEP will continue to provide monitoring support during this time. Further, the Project will develop a comprehensive media campaign for public outreach on the new system that will highlight, among other things, improved data protections and data dispute resolution procedures, increased borrowers' rights, and easier access to credit reports.

Operational Instruction on the Regulation on the Credit Registry. The Project will continue to support the CBK Operations Team to develop the implementing AI of the Regulation on the Credit Registry. With improved procedures and data protection requirements under the new Regulation, the OI is critical to provide internal guidance to the CBK and make transparent the procedures for businesses and citizens. USAID|BEEP expects that the CBK will adopt this OI by the end of 2012.

CHALLENGES AND IMPLEMENTATION ISSUES

With the long-standing lack of emphasis on building credit, the absence of trust in personal data protection and the difficulty of obtaining credit reports, participation in the credit information system remains low. However, with the recently-upgraded credit registry, the upcoming web portal for electronic access to credit reports, and comprehensive public outreach, USAID|BEEP is taking every step to battle these challenges. The CBK maintains a high level of willingness and commitment to improving data protection, expanding available credit information, and increasing access to finance.

COORDINATION

USAID|BEEP's primary partner in reducing risks to lending is the Central Bank of Kosovo. Within the CBK, the Project works closely with the Credit Registry of Kosovo to improve the amount and reliability of credit information.