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BUSINESS ENABLING ENVIRONMENT PROGRAM

QUARTERLY REPORT

FEBRUARY – APRIL 2012

April 30, 2012
This report was produced for review by the United Agency for International Development. It was prepared by the USAID Business Enabling Environment Program implemented by Chemonics International, Inc.

*Cover photo shows the participants of the April 2012, USAID-funded Joint Working Session to undertake a "guillotine" review of Government of Kosovo sub-normative acts.

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Contract Number: EEM-1-00-7-00008-00 Task Order 11

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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 (BEEP) 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 Quarterly Report and describes project activities from February through April 2012.

This quarter, reform momentum in the municipalities continued as new municipalities committed to and implemented elimination of various business license fees. Twenty-two (22) municipalities in total have committed to this reform with eight (8) already implementing and fourteen (14) in the process of adopting implementing regulations.

In April, our much-anticipated Municipal Partnership Program began, adding seventeen (17) new and eager Municipal Coordinators (MCs) to the reform team. The MCs are being introduced to their municipal administrations around the country, receiving warm welcomes from mayors and deputies. With the addition of these new members, we expect to provide more tailored and individualized service in the municipalities in an effort to drive local reforms.

Representing one of the most potentially impactful Doing Business reforms USAID BEEP will undertake, the Draft Law on Construction (DLC) saw impressive progress this quarter. In the first week of April, the Kosovo Assembly passed the DLC in the first reading. We assisted the reviewing Parliamentary Commission to publish the draft for public comment, and provided significant comment on stakeholder feedback. We expect the DLC to go to second reading next quarter.

In April, USAID BEEP sponsored a working session to conduct a substantive review of all sub-normative acts in Kosovo. The Office of the Prime Minister (OPM) is expected to compile the list and issue an Order next quarter detailing the acts that are in force (eliminating those that are not on the list). Further, the working group earmarked all sub-normative acts that deal with permits and licenses for a future Permissive System guillotine, contributing to the achievement of the Government of Kosovo (GoK) Economic Vision 2014 goal to eliminate 50% of all licenses and permits. In addition to creating predictability and rationality in the legal regime, this sub-normative review contributes to completion of the Legal Information Database (LID).

Also this quarter, our C2 team worked with Kosovo Customs to eliminate the duplicative and unnecessary registration requirement for businesses wishing to import or export. Customs used this separate registration number for purposes of collecting VAT if the business did not previously meet

the requirements for mandatory VAT registration. In March, Kosovo Customs issued a Decision eliminating the requirement, and stating that only the Tax Administration of Kosovo (TAK) fiscal number (required for all businesses) will be used to identify businesses instead. This reform not only contributes to the elimination of barriers to trade, but reduces the number of required business identification numbers, supporting improvement of business registration.

Important C3 activities were completed this quarter. The CRK software upgrade started this quarter with the CBK signing its contract with the software vendor. Technical specifications were complete and the vendor began transitioning to the internal testing phase. In late February, the CBK approved the USAID BEEP draft Regulation on the Credit Registry. The new regulation establishes a new borrower's rights and sets procedures for handling borrower complaints and informational disputes. The adopted regulation also allows insurance companies to access credit information from and provide information to the Credit Registry, contributing to our Project Result 5.

The e-procurement effort (C-4) remains on hold pending the resolution of a variety of donors' intentions. It is not likely that USAID BEEP will initiate working on this activity.

We also continue to work very closely with project partners to facilitate improved coordination of reform efforts and to avoid overlap in activities. This quarter USAID BEEP coordinated closely with the United Kingdom Private Sector Development (PSD) project to improve business association capacities. Also, a common interest in expanding the policy discussion in Kosovo brought our project together with the American University of Kosovo (AUK). Further, we continued to work closely with the European Union Small and Medium Enterprise (EU SME) project on important draft framework Laws on the Permissive System and Inspections.

Highlights of this Quarter include:

- Elimination of the separate Customs registration for businesses for import and export;
- Continued elimination of business license fees at the municipal level;
- Draft Law on Construction passed first reading in the Kosovo Assembly;
- Completion of Trade Policy Update;
- Adoption of the Regulation on the Credit Registry;
- CBK signing of the software upgrade contract and vendor begins work;
- Beginning of the Municipal Partnership Program, adding seventeen (17) new Municipal Coordinators;
- Substantive review of sub-normative acts, including representatives from every ministry and the Office of the Prime Minister; and
- Completion of Municipal Competitiveness Index 2012 survey.

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:

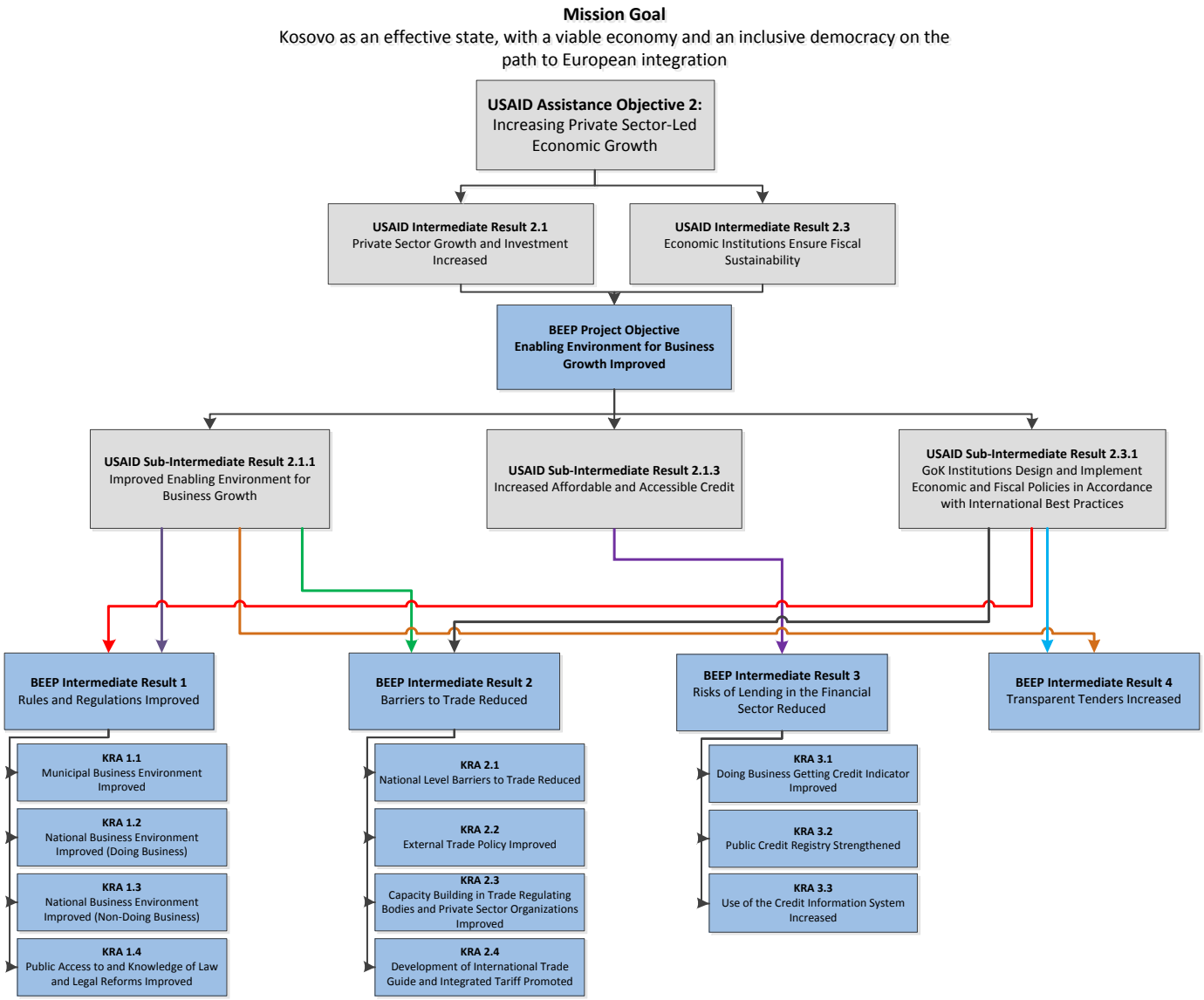
- Building the institutions of Kosovo's government and society;
- Encouraging a democratic process inclusive of all citizens, including all minority groups;
- Promoting economic development such that all people of Kosovo enjoy the benefits of prosperity;
- Ensuring that society and government are firmly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

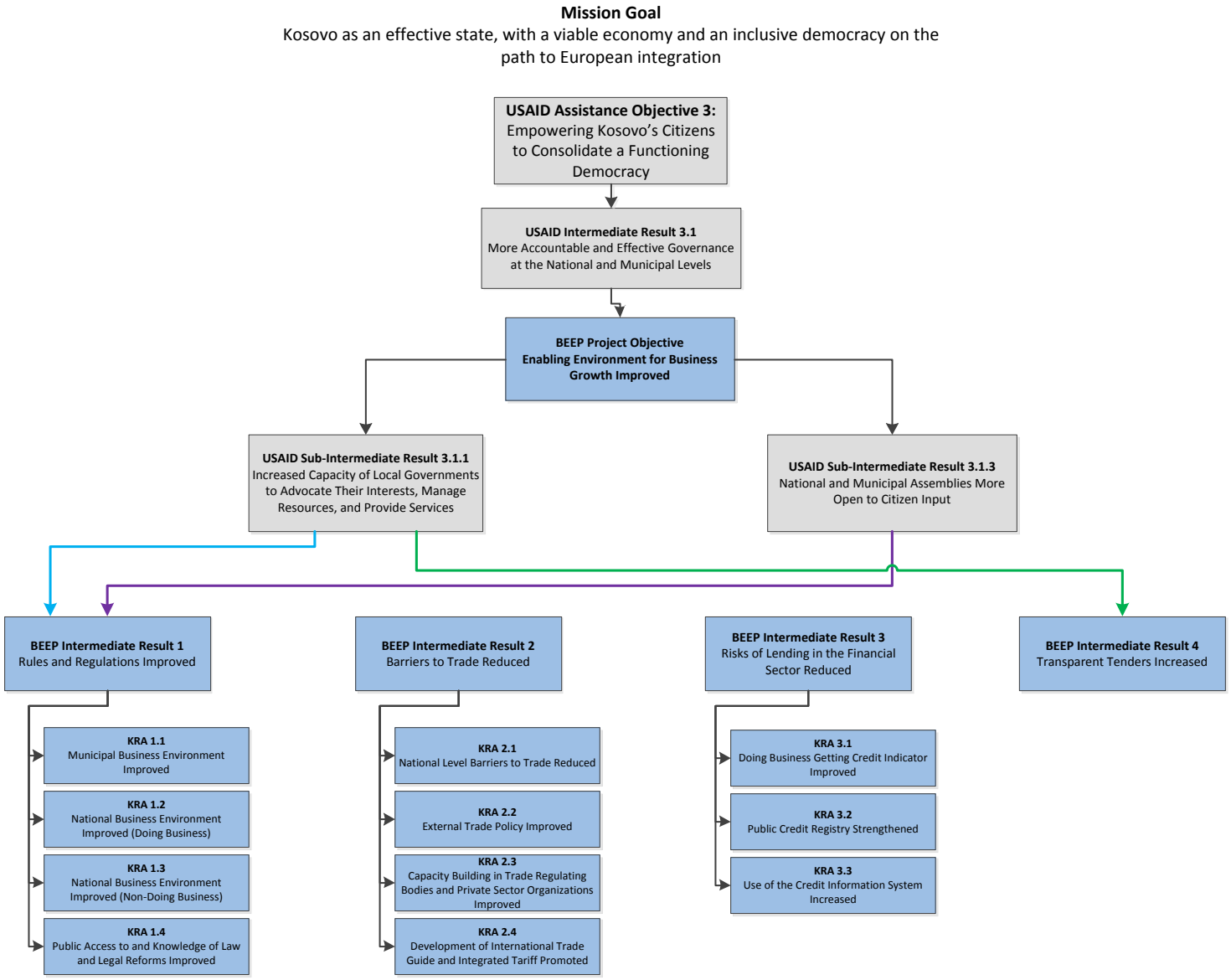
- **Assistance Objective 1:** Youth Are More Productive and Engaged Members of a Stable Kosovo
- **Assistance Objective 2:** Increasing Private Sector-Led Economic Growth
- **Assistance Objective 3:** Empowering Kosovo's Citizens to Consolidate a Functioning Democracy

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

USAID 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 there are four (4) priorities:

1. *Rules and regulations improved*: to identify, promote, and facilitate implementation of free market reforms.
2. *Barriers to trade reduced*: 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. *Risks of lending in the financial sector reduced*: to reduce risks of lending by increasing availability of credit information for effective use of risk management by the financial sector.
4. *Transparent tenders increased*: to increase transparency of local government tenders.

OVERVIEW OF PROJECT COMPONENTS

Component One (C1): Rules and regulations improved. C1 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 significant, system-wide constraint on business. CI has been working closely with the GoK – primarily with the Office of the Prime Minister (OPM) and the Ministry of Trade and Industry (MTI) – to carry out legal reforms that address impediments to business identified in the WBDB 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 (MCs) in the eight primary municipalities – Ferizaj, Gjakova, Gracanica, Mitrovica, Peja, Pristina, Prizren, and Strpce – and the seventeen (17) new Municipal Coordinators under the Municipal Partnership Program 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. The MCs have also gathered extensive information on the

organization, resources, operations, and practices of municipal administrations that are enabling the development of comprehensive reform strategies that encompass both the national and municipal levels.

Component Two (C2): Barriers to trade reduced. C2 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.

On average, 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, C2 is assisting the MTI and Kosovo Customs with institutional reforms and activities involving private sector partners (clearing agents, transporters, and business associations). The aim is to streamline trade-related activities by involving private and government stakeholders in the formulation, implementation, assessment, and fine-tuning of trade policy and customs procedures.

Component Three (C3): Risks of lending in the financial sector reduced. C3 aims to increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information. The C3 team works with the Central Bank of Kosovo (CBK) to ensure that more credit data is captured, stored securely, provided in a timely manner to authorized users, and that it is accurate. C3, based on the results of an assessment it completed of the Credit Registry's software, advised the CBK to upgrade its Credit Registry software to provide easier access to users and to ensure more accurate and timely credit information. Furthermore, the scope of the credit information system was expanded by adding insurance companies as new data providers. C3 activities are also tailored to incentivize borrowers to check and update their own credit information. Activities include the identification and elimination of barriers to the development of private credit bureaus.

Component Four (C4): Transparent tenders increased. C4 is tasked with helping to make the tendering process for goods and services conducted by Kosovo municipalities more transparent; and more specifically to assist at least two partner municipalities to introduce on a pilot basis the use of electronic tenders for the 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 Parliament in September of 2010. In May 2010 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. We are coordinating closely with the World Bank and other donors to monitor progress in this area.

WORK PLAN PROGRESS REPORT

COMPONENT ONE: RULES AND REGULATIONS IMPROVED

C1-1: MUNICIPAL BUSINESS ENVIRONMENT IMPROVED

Municipal reform momentum continues. The momentum of municipal reform continued into this quarter with several municipalities embracing transformational change. From publicizing regulations and municipal meetings to eliminating unnecessary requirements and fees, municipalities have shown their willingness to drive reform in Kosovo.

Business License Fee Elimination or Suspension

Municipality	Status (Committed or Implemented)
Viti	Implemented
Shtime	Implemented
Junik	Committed
Peja	Committed
Decan	Implemented
Gjilan	Implemented
Hani i Elezit	Committed
Gracanica	Committed
Rahovec	Implemented
Dragash	Committed
Mamusha	Committed
Kaqanik	Implemented
Novo Berdë	Implemented
Mitrovica	Committed
Vushtrri	Committed
Skenderaj	Committed
Drenas	Committed
Prizren	Committed
Suhareka	Committed
Malishevo	Committed
Klina	Implemented
Istog	Committed

One of the primary reform activities taking place in the municipalities is elimination or suspension of the business license fee. Identified as one of the most burdensome and unnecessary municipal barriers to business activity, USAID BEEP recommended its elimination and supported local administrations to draft the corresponding regulatory amendments. So far, twenty-two (22) municipalities have either committed to or implemented reforms to eliminate or suspend the business license fee. Of these, eight (8) have implemented with fourteen (14) in the process of developing the appropriate regulations.

Following implementation of the USAID BEEP recommendation to eliminate the work permit, there has been some confusion on the part of municipalities as to whether the business license is required. For example, our C1 team worked with the mayor of Peja to show him that the business license is not required under the law[1], but is only discretionary. Following our discussions, the mayor committed to eliminating these fees.

Another important development is the transforming 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

[1] *See* Law No. 03/L-049 on Local Government Finance

beginning to shed old practices of ill-defined control, and developing more narrowly tailored regulatory practices. In Rahovec, for example, the municipal administration in late February committed to adopt a risk-based approach to their application of sanitary requirements, applying them only to businesses that undertake activities that pose appreciable risk to the public health and safety. In the absence of a risk-based approach, every business in the municipality had to comply with these requirements, creating an unnecessary barrier to business activity. Developing and adopting a risk-based approach to regulatory activity is a primary tenet of Permissive System and inspections reform (discussed in C1-3 below).

As further 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 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 said that departments in the municipality often compete with each other to collect the most revenue and expressed his opinion that there are departments that exist solely to collect fees without consideration of the service being provided. We supported his proposal to change the basis for the fee for changing use designation of a land parcel and are assisting to research the law and practice surrounding the imposition of this and related fees. The Director noted that USAID BEEP's support was very important as he seeks to get this policy changed.

> *"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

Municipal Partnership Program. This quarter, USAID BEEP took a big step to expand work activities and facilitate change in the municipalities. Partnering with a local subcontractor, seventeen (17) new Municipal Coordinators (MCs) were added to the existing eight (8). With a stronger presence in the municipalities, we expect to forge improved relationships with local administrations, raise our level of assistance, and 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 the reform momentum experienced in the municipalities, it is important that we continually spread the message to other administrations, encouraging them to follow

the lead, and our new MCs are facilitating this information coordination in their respective municipalities.

Municipal Partnership training session in Pristina, Kosovo

Beginning 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 in anticipation of continuing successful relationships with our project. The new MCs will work with these officials to remedy the identified constraints.

Municipal Competitiveness Index (MCI) 2012. This quarter, our subcontractor finalized the surveying for the MCI 2012. Building on the success of the MCI 2011, we expanded our sample population and surveyed over 3,000 sources, including businesses, citizens, and business associations. By surveying a larger sample, we can obtain a better understanding of how people perceive the business environment to more narrowly tailor our reform efforts.

> *Project Result 3:* MCI 2012 improvements will be captured in our Project Result 3 – 20 percent increase in MCI scores among our 8 primary municipalities.

Securing improvement in the MCI indicators is one of our project's five primary results areas. Through our analysis of the MCI 2011, our municipal coordinators developed tailored diagnostics for each of the municipalities and made important recommendations to facilitate improvement. Municipalities have responded even better than expected, committing to and implementing reforms in areas such as improved transparency, increased incentives to business formalization, and reduced barriers to business startup. We expect impressive results following completion of the survey analysis in June.

Municipal Own Source Revenue (MOSR). Understanding how municipalities generate revenue facilitates improved project assistance activities by allowing us to take a holistic approach to local reform. This quarter, our MCs undertook very important research initiatives to determine sources of MOSR, including collecting data on property tax collections, construction permit and business license fees, and the number of construction permits issued.

The research yielded interesting results as municipalities varied widely on the spectrum of MOSR sources. We found that in many cases municipalities are improperly using businesses licenses and construction permits as mechanisms for revenue raising 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.

This quarter, we began exploring possible grant opportunities to provide training on internationally recognized accounting methodologies to improve municipal capacities in this area. Our Technical Evaluation Committee (TEC) has identified a very good grantee for this project and they have begun work.

Our research further helps inform discussion around USAID BEEP's assistance in construction reform. Discussed in more depth in C1-2, our project-sponsored Draft Law on Construction (DLC) includes a provision requiring the municipalities to establish construction permitting fees on a cost recovery-basis, eroding the opportunity for administrations to use the permit as a revenue-raising tool. However, municipalities expressed their concern about the ability to fund budgets without this.

Our analysis revealed that property tax collections are weak, as much of the land and buildings are not included in the property tax rolls. Therefore, our assistance and recommendations focused on encouraging greater inclusion of properties and improved enforcement of the property tax to alleviate budgetary burdens from lost construction permitting revenue. As property tax is commonly recognized as one of the primary mechanisms for collecting MOSR, this research allowed us both to tailor recommendations for proper use of permitting and improve own source revenue practices.

Model municipal regulations. The USAID Democratic Effective Municipalities Initiative (DEMI) has changed its planning and has opted not to undertake this work so that they can focus on other opportunities. To date USAID BEEP has completed compilation of the list of core competencies and identified, within the core municipalities, where related regulations are in place. We are currently gathering this information for all municipalities.

With respect to developing model regulations, we have decided to approach the Association of Kosovo Municipalities (AKM), which has a handbook of municipal regulations that is outdated and not necessarily reflective of our approach. If the AKM is amenable and we can go forward and, through a working group formed under the auspices of the AKM that consists of legal officers from municipal administrations, update and revise the model regulations. We expect that this work will be substantially completed by the end of July 2012.

E-procurement. In early February, a USAID BEEP short term expert, Director of the Procurement Agency of Georgia, 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 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 because in order for the municipal level reforms to be effective, extensive work would need to be done at the national level where procurement policy is set.

C1-2: NATIONAL BUSINESS ENVIRONMENT IMPROVED (DOING BUSINESS)

Law on Construction. This quarter, steps were taken to move the USAID BEEP-sponsored Draft Law on Construction (DLC) to be adopted. As one of our project's most potentially impactful reform activities to improve Doing Business performance, significant resources were devoted to facilitating public discussion and raising support.

In early February, USAID BEEP met with officials from the Ministry of Environment and Spatial Planning (MESP) to develop the DLC concept paper. 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, our project provided significant support in reviewing and responding.

Project Result 1: Anticipate improvements through adoption of the Law on Construction will contribute to USAID BEEP's Project Result 1 – 20 percent improvement in overall project-supported Doing Business indicators.

In the beginning of March, the MESP submitted the concept paper and draft law to the Government Meeting for review. Shortly thereafter on March 8, the GoK approved the DLC and submitted it to the Kosovo Assembly. Immediately following its approval by the GoK, we began garnering support and disseminating it through our information network. Our project assisted the MESP to make a presentation to the Parliamentary Committee to better familiarize the 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 toward the DLC were voiced largely by the municipalities through the AKM. The transformational nature of the law induced municipal concern that they would have difficulties with implementation. Municipalities cited several things as 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, our 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 we recommended be included in proposed amendments to the DLC for Parliamentary Committee consideration. Our efforts were rewarded when the Assembly passed the DLC in the first reading in the first week of April.

The Assembly wasted no time in moving the DLC forward, holding a public debate in mid-April. The debate was well attended with representatives from both the public and private sector putting forth their positions. Much resistance to the DLC was voiced during this debate, but resistance that we found was largely misinformed. For example, municipalities incorrectly asserted that their ability to assess an infrastructure fee on new constructions would be abolished. Further, architects claimed that the DLC eliminates professional licensure of their occupation. Neither of these, however, is true. Misunderstanding of the draft law sparked additional efforts to clarify certain provisions. We have drafted a response memorandum addressing the primary concerns expressed during the public comment period and we expect the MESP to officially release it to the public in early May.

Doing Business Task Force. In early February, the Doing Business Task Force met to take stock of the implementation of Doing Business reforms to date in preparation for a meeting with World Bank officials. USAID BEEP facilitated the Doing Business update by providing the team with an explanatory memorandum that detailed the status of reforms related to Doing Business. We maintain a very good relationship with the Doing Business team and regularly provide updated information to ensure that all reforms are captured in the next Doing Business report.

C1-3: NATIONAL BUSINESS ENVIRONMENT IMPROVED (NON-DOING BUSINESS)

Permissive System and Inspections. This quarter saw impressive progress in the area of both the Permissive and Inspections Systems. While originally activities in these two areas were on separate paths, it became apparent that it was necessary to drive these reforms in parallel. Our 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. We expect to complete the concept for discussion with the OPM and the draft laws on the Permissive System and Inspections in the next quarter.

In April, a USAID BEEP-sponsored working session to review sub-normative acts (discussed below) 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. USAID BEEP is developing these criteria through the draft laws on the Permissive System and Inspections, demonstrating our continued role as a leading driver of business environment reform in Kosovo.

Also in April, USAID BEEP attended a workshop held by World Bank experts on Inspections Research. There, the World Bank team presented their findings and recommendations related to the inspections regime in Kosovo. The experts updated and augmented the database created in 2009 on the laws giving rise to inspections and the number and frequency of inspections. The research provided confirmation of the problems surrounding inspections in Kosovo today, namely:

- The absence of a risk-management approach and arbitrariness of businesses targeted;
- Overlapping and duplicative competencies;
- A large number of inspectors (around 1,200) per capita as compared with the number of business operating in Kosovo;
- Poor management in inspecting authorities;
- Lack of records on inspections;
- Lack of training for inspectors; and
- Lack of coordination or information sharing among inspecting authorities.

This information could very well prove useful for reforming the Inspections System.

Draft Law on Condominiums. In early April, we 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 management companies who manage condominiums. C1 prepared a preliminary analysis and provided recommendations for improvement, but was met with unexpected resistance from the Head of the Construction Department who claimed the license was necessary to protect the public health and safety through management of common property and to stimulate competition. We found these arguments to be unfounded and will continue to assist the MESP to improve the draft.

Law on Tourism. At the request of the Deputy Prime Minister and Minister of Trade and Industry, USAID BEEP provided recommendations for amendments to the Law on Tourism to eliminate licensing and other unnecessary requirements as well as to clarify the role of the Kosovo Tourism Council. We received this request late in the drafting process as the GoK had already approved the law and submitted it to Parliament for the first reading. However, with our recommendations in hand the Minister recalled the law for additional input. The MTI is reviewing our comments further and we continue to support them to eliminate unnecessary barriers to economic activity in the law.

Management Expert Meetings. In mid-March, USAID BEEP utilized a subcontractor to present Human and Institutional Capacity Development (HICD) services to various ministries and municipalities, 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. The institutions showed exceptional interest and, with sufficient cooperation from ministries and municipalities, we expect to begin HICD assessments in the near future.

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 as a group 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 MCs. In the course of the discussion, the group identified several issues, ranging from municipal restrictions on transporting bees between municipalities to licensing requirements imposed by national bodies. USAID BEEP will analyze these issues more deeply and develop a plan of action to address them.

Prizren Municipal Coordinator leading the bee-keeper focus group in Gjakova in April

C1-4: PUBLIC ACCESS TO AND KNOWLEDGE OF LAW AND LEGAL REFORMS IMPROVED

Legal Information Database. As USAID BEEP works to establish the first-ever Legal Information Database (LID) in Kosovo, many project activities must be tackled together. First, a technical assessment must be made so that the necessary hardware and software can be procured and installed to facilitate operation of the LID. Second, the Law on Normative Legal Acts (LNA) must be drafted and passed to ensure that all legal acts must be uploaded to the LID before entering into force. Finally, reviews of legal acts in force must be completed to establish an accessible and harmonious legal base.

This quarter, the C1 team assessed the technical capacities of the government and is in the process of developing the technical specifications for the LID. C1 analyzed legal drafting processes as they are now and as they are expected to be with proper implementation of the Law on Normative Acts, and developed flow charts illustrating these processes. The analyses included processes starting at the initial drafting phase all the way to inclusion in the LID. With completion of technical specifications expected to complete next quarter, we will develop and release the Request for Quotes (RFQ) for procurement and installation.

Head of the Legal Office of the Office of the Prime Minister, Besim Kajtazi, leading discussion at the USAID BEEP-sponsored sub-normative act review

Also this quarter, the C1 lead worked with the Head of the Office of Legal Services (OLS) of the OPM to complete a draft of the Law on Normative Legal Acts (LNA). This is a crucial piece of the LID puzzle as the LNA will require each normative act to be published in the LID before it comes into legal force. This will ensure that the public can have full knowledge of the laws and regulations that are in force. The LNA is also expected to require that normative acts undergo public notice and comment for an established period of time, and that the acts be published on the LID for the public comment period. It is the current thinking that the LID will also serve as a HUB for comments on proposed normative acts during their public comment period.

As the third element for establishment of the LID, this quarter saw the second review of sub-normative acts. The first review took place last year to eliminate unnecessary, redundant, and illegal sub-normative acts. USAID BEEP sponsored a week-long, intensive working session in Tirana, Albania in April for 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. At the working session the working group designated some sub-normative acts for elimination; and others for revision. .

When the work of revising sub-normative acts is completed, the OPM is expected to issue an Order that identifies the full list of sub-normative acts in force (thereby eliminating any that are not on the list). This list should be published in early May.

Additionally at the working session, the team earmarked sub-normative acts that require a permit or license so that they may be reviewed in a future guillotine. This is part of the GoK's commitment to achieve the 50% reduction in permits and licenses goal of the Economic Vision 2014. The OPM continues to champion transformational business environment reform in Kosovo. USAID BEEP will establish the criteria for review in the Laws on the Permissive and Inspections Systems.

Levering synergies with the American University of Kosovo. Working from a promising collaboration with the American University of Kosovo (AUK), USAID BEEP anticipated a collaborative, grass-roots approach to policy making by engaging Kosovo youths. On March 12, USAID BEEP 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 to drive real implementation of recommendations. Students can gain practical experience, learn from project experts, and see the tangible impact they can

USAID BEEP Chief of Party encouraging students at the American University in Kosovo to get engaged in practical policy reform

have on the business environment in Kosovo. The annual USAID BEEP 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 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 transformation reform and empower citizens to unleash their unlimited inherent potential.

NEXT STEPS

Municipal reforms. As municipal momentum continues to drive new developments, our work will revolve largely around monitoring and implementation. With fourteen (14) municipalities committing to suspend or eliminate the business license fee but not yet having implemented, we will have much to do to ensure that this takes place, including providing assistance in developing the implementing regulations. Our project MC's now have significant experience in developing these regulations and so we expect implementation to come quickly.

We will also assist the Viti municipality to amend existing municipal regulations to reflect a cost recovery-based fee for changing land use designations, in line with the Director of Finance's ambitious goals.

MCI 2012. The MCI 2012 survey was completed and analysis is underway. Next steps will be to finalize the analysis and develop the second MCI report. We expect the report to be complete in June with publication in July. In line with last year's activities, USAID BEEP will hold a public event to announce the MCI 2012 results and recognize top performers and reformers. Following completion of the MCI 2012, we will compare municipal results to the MCI 2011 and report on progress in Project Result 3.

Municipal partnership program. Our new MCs under the municipal partnership program are eager to promote municipal reforms and are already analyzing local business environment constraints. Over the next several months, the new MCs will undergo extensive, detailed training to become familiar with our project's successful reform methodology and apply it in their respective municipalities. Among the topics of training are root cause analysis, legal drafting and writing, economic impact quantification, and monitoring and evaluation. Equipping the new MCs with our project's successful reform tools will help drive the already impressive municipal reform results.

Law on Construction. Over the next couple of months, USAID BEEP will continue to support the MESP and the Kosovo Assembly to pass the Draft Law on Construction. If passed in the second reading and brought into force, there will be much required work to ensure proper implementation.

First, we will assist municipalities to assess internal resources and establish a cost recovery-based fee for construction permitting. This activity may include HICD support to not only look at human resource capacities, but to streamline municipal processes.

A second follow-on activity will be to support the development of a comprehensive Construction Code (construction technical requirements). This is usually a 3-5-year process and we expect the Construction Code development to continue beyond the completion of our project. However, we can work to support its development and ensure that the path forward is clear. Support to the Kosovo Standardization Agency (KSA) will be crucial in this regard as the KSA will be responsible for adopting international construction norms. These norms need to be tailored to the domestic situation in Kosovo and we can support these needs.

To alleviate concerns about municipal financing with the adoption of cost recovery-based fees for construction permitting, municipalities will need to increase the number of properties captured in the property tax rolls and improve property tax enforcement. USAID BEEP has already begun investigating ways to provide support to the municipalities in this regard.

Permissive System and Inspections. To capitalize on the enthusiasm recently expressed by the OPM, we expect to move forward quickly with the draft Laws on the Permissive System and Inspections. A major driver in this area is the OPM's willingness to carry out a future guillotine of sub-normative acts dealing with permits and licenses. As part of the guillotine, USAID BEEP will develop the review criteria through the draft laws. We are finalizing the dual concept paper for the Permissive and Inspections Systems and expect to submit the draft laws next quarter.

Legal Information Database. Leveraging momentum from the sub-normative review in April, USAID BEEP will finalize the technical specifications for the LID in the next quarter and release the RFQ for hardware and software implementation. Further, we expect support from the OPM to finalize the Law on Normative Legal Acts in order to capture important features for inclusion of current and future normative acts in the LID.

AUK policy conference. Following exciting discussions with the AUK about hosting a collaborative conference to present policy papers, the AUK submitted their formal grant application in April for review. The AUK has already received seventeen (17) letters of interest from international policy

experts to develop and present policy papers on Kosovo. This sort of in-depth analysis is largely non-existent for Kosovo and represents a great opportunity for international engagement.

We expect to work closely with the AUK over the next year to accomplish many exciting goals including holding a conference where international academics will present policy papers focused on economic development policies in Kosovo, and to partner them with domestic academics to provide local feedback. The AUK and USAID BEEP also envision the publication of international and domestic policy analyses to spark scholastic interest and act as a catalyst for grass-roots policy discussion.

CHALLENGES AND IMPLEMENTATION ISSUES

Although we have seen much success in assisting many municipalities to eliminate the business license fee, others have switched revenue-raising focus from the work permit (eliminated last year through the Amendment to the Law on Internal Trade) to the business license under the Law on Local Government Finance. The business license as it is currently being employed is not associated with any legitimate protection to public health and safety and is instead used as a *de facto* tax on business, representing a significant barrier to free economic activity. We recognize this issue and continue to work through our MCs to address this concern.

The new Municipal Partnership Program presents both enormous opportunities and challenges. Challenges are focused largely on bringing the new MCs up to speed with our reform methodology in time to make demonstrable impacts over the remaining life of the project. While the learning curve is steep, our staff is taking every step to leverage these new resources through intensive training and early involvement.

While potential results from adoption and proper implementation of the Draft Law on Construction are high, the transformational nature of the law brings intense scrutiny. We have experienced significant concern over the draft law, ranging from implementation of the silence is consent principle to issues surrounding professional licensure. Our C1 team is working closely with the MESP to address these concerns through public comment, meetings with interested stakeholders, and the provision of international construction experts. USAID BEEP has been able to technically address these concerns, but entrenched interests and political will to implement remain as ongoing concerns.

As the Legal Information Database gets closer fruition, ministerial coordination becomes a concern. Past sub-normative act guillotine efforts have shown that government-wide coordination and willingness is possible, but much more is to be done. Permits and licenses are often used for revenue raising purposes and efforts to eliminate of those mechanisms may be met with harsh resistance. However, there is a

reform champion in the OLS of the OPM who is overseeing this process and we expect continued success in this area.

COORDINATION

As one of C1's primary activities for achieving Doing Business improvement, USAID BEEP works closely with the Ministry of Environment and Spatial Planning on the Draft Law on Construction. C1 also consulted with the USAID Kosovo Private Enterprise Program (KPEP) on inclusion of professional architects in the construction permitting process.

C1 also worked with the USAID Young Entrepreneurs Program (YEP) and provided comments on the YEP manual for businesses as part of a training program.

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.

COMPONENT TWO: BARRIERS TO TRADE REDUCED

C2-1: NATIONAL LEVEL BARRIERS TO TRADE REDUCED

Law on Anti-dumping and Countervailing Measures. In February, C2 completed its analysis of and recommendations for amending the current Law on Anti-dumping and Countervailing Measures[2]. USAID BEEP submitted its recommendations to the Minister and General Secretary of the MTI and conducted internal technical trainings on the amendments with the Trade Department. Technical discussions were also included in a USAID BEEP workshop on trade contingency measures discussed in C2-3 below. C2 also produced the Standard Operating Procedures for the application of these trade remedies, whose adoption is a prior condition within the Central European Free Trade Agreement (CEFTA) for Kosovo to apply Anti-dumping, Countervailing and Safeguard Measures.

The proposed amendments will allow the amended Laws to be applied in Kosovo for the first time (previously, the Anti-dumping and Countervailing Measures Law called for an operational role for the European Commission on investigations in such cases; this was inoperable because Kosovo is not yet a member of the European Union (EU)). The new Law is in full conformity with EU and World Trade Organization (WTO) principles and practices for the application of both anti-dumping and countervailing measures. On the other hand, the Law on Safeguards is the first for Kosovo in the application of this EU

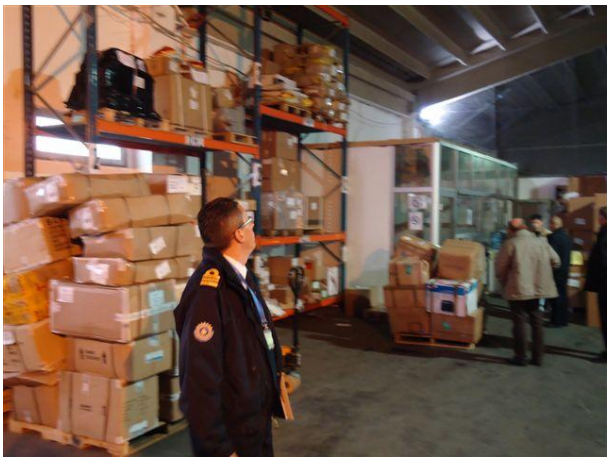
[2] *See* Law No. 03/L-097 on Anti-dumping and Countervailing Measures

and WTO trade contingency measure for the protection of domestic producers who are materially injured by a flood of imports.

Reduced documentary requirements for import/export transactions. Following the issuance of the Kosovo Customs Internal Administrative Instruction at the end of 2011 that drastically reduced the number of documents required for important and export, our project's monitoring of implementation revealed that Customs was not sufficiently advertising their reform. As a result, importers and exporters continued to produce an unnecessary amount of documentation, while Customs officials were simply using what they needed without informing the customers of the change.

This quarter, C2 worked with both Kosovo Customs and the Clearing Agents' Association to ensure that information on the Kosovo Customs Internal AI on reduced documentary requirements was sent to all members of the Association. The Association undertook spreading the message to non-member spediteurs (customs brokers) as well. Further, C2 visited the Customs Offices at Hani i Elezit, Vermica, and Peja and verified that only the required import and export documents are being required. Spediteurs are no longer requesting the additional documents from their clients as was previously the case. As a result of USAID BEEP's suggestion, the Director General of Kosovo Customs ordered that each and every Customs Office post a message describing the change, clearly describing the documentary requirements. These validation measures demonstrate that importers and exporters are now aware of the reduced documentary requirements and cost and time savings are being realized.

Customs import/export registration requirement eliminated. On March 27, the Director General of Kosovo Customs issued an important decision that eliminates the need for all importer and exporter businesses to register with Customs for all international trade transactions. Only spediteurs will be required still to register with Customs as third party representatives who have powers of attorney to provide cargo clearance services on behalf of importers and exporters.


Kosovo Customs processing incoming goods

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

Registration Agency (KBRA). Instead, Customs will avoid duplicative processes and simply utilize the TAK fiscal number for all transactions. This important decision came into effect on April 2, 2012.

Kosovo Customs took this transformational step with USAID BEEP support, identifying the registration as an unnecessary and burdensome procedure that created extra costs for traders and a barrier to trade. In the World Bank Doing Business 2012 report, Kosovo ranks 131st out of 183 economies studied in the "Trading Across Borders" indicator. Determined to improve the weak ranking, Kosovo Customs demonstrated its commitment to change and embraced USAID BEEP's recommendation to eliminate the import/export registration.

Elimination of the registration is not only expected to improve Kosovo's Doing Business ranking, but produces real results felt by businesses. In 2011, 1,443 businesses registered with Customs, costing on average €12.50 for each registration and taking average 1 day to complete. The elimination of the registration requirement, therefore, saves business an estimated $140,268 in compliance costs on an annual basis. In combination with the October 2011 Kosovo Customs Administrative Instruction 01/2011 reducing the documentary requirements for import and export, it is becoming easier and easier to conduct trade in Kosovo.

Customs Code. C2 engaged in much discussion with business representatives on the Trade Policy Working Group (TPWG), with Kosovo Customs, and the MoF as to how to proceed on the Customs Code. EULEX recommended that we wait to develop amendments because the EU is currently undertaking efforts to modernize the EU Model Code. However, the 2008 EU Model Code contains several trade facilitation measures that are not included in the current Customs Code, and therefore USAID BEEP recommended that amendments to the Customs Code move forward.

> *"With actions like this, Customs is continuing to facilitate trade for businesses in Kosovo, by reducing the time for clearance of import/export shipments. These are part of reforms that are happening in Kosovo to create a better environment for business."*
>
> Naim Huruglica, Director General, Kosovo Customs

At the TPWG Trade Facilitation Subgroup in early February, C2 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 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.

In late March, the Director General of Kosovo Customs agreed to move forward with the analysis of the EU Model Code. C2 immediately went to work, undertaking the analysis and developing recommendations for amendments to the current Customs Code. We expect to complete our recommendations in May and submit them to Kosovo Customs for review.

C2-2: EXTERNAL TRADE POLICY IMPROVED

Kosovo trade policy update. The C2 team provided a Trade Policy Update to the Deputy Prime Minister of Economic Development and Minister of Trade and Industry this quarter. The update describes the available instruments of trade policy to Kosovo, including:

- Tariffs;
- Non-tariff measures;
- Contingency measures;
- Trade facilitation measures; and
- Trade agreements.

C2 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. Currently, tariff levels (for non-CEFTA countries) are set at a flat 10% rate without regard to trade policy. C2 will continue to explore additional opportunities to improve Kosovo's trade policy, including through support of the TPWG discussed in C2-3 below.

C2-3: TRADE CAPACITY BUILDING IN TRADE REGULATING BODIES AND PRIVATE SECTOR ORGANIZATIONS IMPROVED

Trade Policy Working Group. The TPWG continues to be a platform for domestic trade policy improvement. This quarter, the TPWG hosted three Subgroup meetings on Trade Facilitation, Industry, and Agriculture. C2 continued to provide significant managerial, organizational, and technical advice to the working group.

In February, the Trade Facilitation Subgroup met where USAID BEEP made a presentation on the technical perspective of the Customs Code as discussed in C2-1 above.

Further, the Industry Subgroup met for the first time in March where six major producers participated in the discussions. USAID BEEP made a presentation on reforms in the business environment that affect efficiency and productivity gains for Kosovo producers and that are expected to improve competitiveness of domestic exports in regional and international markets. Following this meeting, we provided significant assistance to track issues noted by businesses for follow-on action by Kosovo Customs and the MTI.

Trade Policy Working Group Industry Subgroup meeting in Pristina

The third TPWG meeting was convened with the Agriculture Subgroup, where only three business members of the Subgroup were in attendance. These members became repeatedly exasperated by the lack of responsiveness from Government members of the Subgroup on the range of issues under consideration. Also at this meeting the members advocated for the removal of the excise tax on fruit juices containing less than 100% juice. The next Industry Subgroup meeting is in June where we expect to obtain additional clarity, if not resolution of this issue.

Trade capacity building and technical training to the MTI provided. Occupying a primary support role for trade capacity building at the MTI, C2 continued to provide technical training to various departments. In February, USAID BEEP held a 4-day workshop on trade contingency measures (Anti-dumping, countervailing, and safeguard measures) attended heavily by Kosovo Customs and the MTI. In addition, seven Kosovo producers attended the session in order to build the capacity of businesses to understand these trade remedy measures, and to build advocacy for the recommended amendments to the Law. The C2 team, along with a STTA, received high acclaim for the applicability and timeliness of the training. Providing the officials with background and technical knowledge of these contingency measures is also expected to assist in discussion on amendments to the Customs Code when analyzing the EU Model Code.

Training on International Trade conducted by a USAID BEEP short term trade expert

Related to contingency measures, USAID BEEP supported the MTI Department to respond to a petition received from an agricultural trade feed producer. The producer complained that the fiscal policy on imports of corn, soy bean and sunflower components used in the production of manufactured animal feed (all subject to the 16% VAT) was inconsistent with domestic production and encouraged import of the same product from Serbia, which is free of VAT. The producer also complained that the feed was not compliant with Kosovo technical requirements for health and safety and warned that if the fiscal policy was not changed, he would have to close the business. In a similar matter, C2 assisted the MTI in reviewing a petition to invoke safeguard measures against imported cement from Albania, providing advice on how to process the petition, what data confirmations were necessary, and what additional information might be requested. We expect resolution of the VAT issue and action on the cement case next quarter.

USAID BEEP Component Two conducting a workshop on contingency measures in February

Standard Operating Procedures for Anti-dumping, Countervailing, and Safeguard measures. In March, C2 completed Standard Operating Procedures (SOP) for Anti-dumping, Countervailing, and Safeguard measures. Each manual explores an overview of and procedures for investigations, determination of injury and causation, steps to final determination, and a review of the respective law. Kosovo Customs and the MTI provided positive feedback on these documents as USAID BEEP continues to facilitate trade

capacity building in these institutions. C2 provided the SOPs to counterparts following the USAID BEEP training on contingency measures discussed above. The adoption and publication of these SOPs are a prior condition within CEFTA for Kosovo to apply these trade contingency measures.

Trade and Customs Lexicon. This quarter, the C2 team finalized the Trade and Customs Lexicon, intended to create uniformity in understanding of trade-related terminology. It is now being translated into Albanian and Serbian for country-wide distribution. The Lexicon is now ready for final formatting, after which this reference tool will be sent to the MTI and Kosovo Customs for publication on their websites, and to public communications counterparts to be sent to members of the Kosovo press for their use in better reporting on trade and customs issues and news.

Training on Harmonized System Tariff Classification. In late February, USAID BEEP reached an agreement with the Kosovo Customs Training Department to collaborate on development and delivery of an effective training program on Harmonized System (HS) Tariff Classification training. A Kosovo consultant has been selected and final administrative arrangements are nearing completion for this training to be delivered starting in May.

C2-4: INTERNATIONAL TRADE GUIDE AND INTEGRATED TARIFF PROMOTED

Kosovo International Trade Guide. The Kosovo International Trade Guide (ITG) is a "tool of the trade", which will provide transparency for Kosovo businesses in better understanding their obligations and rights when it comes to engaging in external trade. This quarter saw impressive progress in obtaining information and data for use in the guide. The C2 Customs Expert obtained buy-in from counterparts and coordinated with several domestic institutions, including Kosovo Customs, MTI, MoF, Food and Veterinary Agency (FVA), Ministry of Agriculture, MoFA, and TAK. C2 also worked closely with the American Chamber of Commerce (AmCham), who offered support and information regarding development of the guide.

The MTI Trade Department demonstrated their commitment to completion of the guide in February when they dedicated an official to the USAID BEEP ITG team. Further, the Director General of Kosovo Customs agreed to nominate a customs officer to work with BEEP on the ITG, 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. Further, in late March Kosovo Customs provided C2 with a demonstration on 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. We expect completion of the first draft of

ITG by June. Thereafter, we will have the Secretary General of the MTI obtain official approval of the content of the ITG prior to finalization and publication.

NEXT STEPS

Customs Code. Next steps on the Kosovo Customs Code are to complete our analysis of the EU Model Code of 2008 and adapt it to the specific situation in Kosovo. Collaboration with Kosovo Customs, the MoF, and the MTI will be crucial, as well as working with private sector stakeholders on advocacy for Government approval of the new Law. C2 will provide technical advice and support on the draft law to the Parliamentary Commission on Economic Development, Infrastructure and Trade & Industry when it reaches the level of the Kosovo Assembly.

Law on Anti-dumping and Countervailing Measures. C2 will provide further technical support to the Trade and Legal Departments at the MTI on the USAID BEEP analysis on the law. We expect to hold roundtables on the draft Law with all stakeholders, depending on prior approval of the draft by the MTI, to solicit public comment and create an opportunity for additional explanation. C2 will also provide technical advice at the Parliamentary level.

Kosovo International Trade Guide. The first draft of the ITG will be produced by the end of June. From there, additional input and feedback will be obtained from all stakeholders, and the ITG will then be turned over to the MTI website developer for installation of the guide on the website. We 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.

Capacity Building in the Trade Department at MTI. C2 will continue daily mentoring of Trade Department officials, as well as provide managerial advice to Senior Ministry officials and advisers. Attempts will continue to be made to overcome difficulties on this critical activity.

CHALLENGES AND IMPLEMENTATION ISSUES

While initial enthusiasm drove several preliminary results, the TPWG has been criticized by private sector participants as non-responsive. In many cases, businesses have voiced their concerns on a plethora of trade-related issues with few being addressed by the Government. C2 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.

As Kosovo adopts reforms and transitions to more sophisticated trade policy measures, the need to provide technical support to Kosovo Customs and the MTI will continue. While C2 has committed to and delivered a number of workshops and technical briefs, more advanced knowledge and skills are required. C2 will continue to occupy its role as a primary contributor to improving capacity building in trade related bodies.

Collection of information to compile the ITG is moving forward with high levels of cooperation and acceptance. However, some institutions have been reluctant to provide information, creating barriers to timely completion. We expect to overcome these informational gaps, but it remains as a challenge to progress.

COORDINATION

C2 works closely with the EU trade project on capacity building in the MTI Trade Department, in sharing the USAID BEEP Trade Policy Update, and in developing training course materials. Kosovo Customs is also a recipient of C2 support in reducing barriers to trade. The C2 team worked closely with both the MTI and Kosovo Customs to facilitate improved interaction between the two institutions, including joint border visits, career development assignments, increased information exchanges, joint training, and closer collaboration on the Trade Policy Working Groups.

Late this Quarter, the C2 brought together officials from the new GIZ EU Integration Project and the EU trade project to share information, find ways to collaborate, and to identify the most effective ways to deliver on common objectives.

C2 provided strategic and technical advice to the International Finance Corporation (IFC) regional project planning team this quarter to eliminate redundancies in proposed donor activities and develop more practical activities to serve Kosovo's interest.

In early March, USAID BEEP brought together the MTI and the AmCham to discuss an agenda of collaboration nine strategic areas of interest. Also in March, C2 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.

The C2 team assisted in research and analysis on Non-tariff barriers for Kosovo's application to the United States Millennium Challenge Corporation (MCC).

In mid-April, C2 hosted a representative from the American National Standards Institute 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: RISKS OF LENDING IN THE FINANCIAL SECTOR REDUCED

C3-1: DOING BUSINESS REFORM GETTING CREDIT INDICATOR IMPROVED

Regulation on the Credit Registry approved. In late February, the Central Bank of Kosovo (CBK) issued a new Regulation on the Credit Registry that increases the types of users of the credit information system, improves borrowers' rights, makes it easier for businesses and individuals to obtain credit reports, and streamlines credit information dispute procedures.

The Central Bank of the Republic of Kosovo

USAID BEEP was instrumental in the new regulation's development and adoption, starting with recommendations made to the CBK in May 2011.

The CBK Working Group responsible for overseeing the regulation's development relied heavily on USAID BEEP technical assistance. The project team supported the working group in releasing the draft Regulation for private sector comment and feedback. The new Regulation came into effect in early March. Its impact should be wide, including more confidence in the credit reporting system and a greater use of credit information in the default risk assessments of banks, microfinance institutions, and non-bank financial institutions.

Further, the new regulation is expected to affect improvement in the "Getting Credit" indicator of the Doing Business report. Within this indicator, the World Bank asks "Does the registry distribute credit

information from retailers, trade creditors or utility companies as well as financial institutions?[3]" Currently, Kosovo receives a "No" for this question, awarding them no points. However, the new regulation is expected to change the answer to "Yes" by allowing insurance companies to access and report to the Credit Registry. In our consultations with the World Bank Doing Business team, they have indicated that insurance companies are *not* financial institutions for the purpose of this question, validating our efforts and increasing the potential for improvement in this question.

With the adoption of the new Regulation on the Credit Registry, we are assisting the CRK to develop the implementing Operational Instruction that sets out the procedures for issuing credit reports and handling borrower complaints. An important part of the new regulation was to establish the framework to allow borrowers to challenge incorrect credit information. C3's work in this area will be important to ensure proper implementation of this Regulation.

Law on the Pledge Registry. This quarter, C3 worked with the MTI working group headed by the Kosovo Business Registration Agency (KBRA), financial institutions, the banker's association, and the World Bank to improve the MTI's draft Law on the Pledge Registry. Among others, our primary recommendations on the draft law were to:

- **Establish the Pledge Registry as a clearing house**. Eliminating discretion on the part of registry officials is important, because the Pledge Registry properly acts only to serve as notice of a pledge or lien interest in moveable property.
- **Improve court access to the Pledge Registry.** Courts reported trouble obtaining certified pledge or lien information from the Pledge Registry for introduction of evidence in cases. Our recommendations included improved provisions for easier court access to certified pledge and lien information.
- **Introduce "batch processing".** Financial institutions reported the unnecessary hassle of submitting pledge information on a single entry-basis. In line with international best practice, our recommendations included the introduction of "batch processing" (submitting multiple entries at once). As financial institutions deal with thousands of new pledges every month, this recommendation has received significant attention and praise from lenders.
- **Create harmonization with other laws.** Establishing a predictable and consistent legal framework is of the upmost importance in improving a business environment. Our

[3] http://www.doingbusiness.org/data/exploreeconomies/kosovo/#getting-credit

recommendations focused on harmonizing the draft law with other laws in force[4] and eliminating outdated United Nations Mission in Kosovo (UNMIK) regulations.

In mid-February, we received a separate draft Law on the Pledge Registry from a World Bank consultant. The C3 team immediately analyzed the draft law and prepared recommendations for amendment and included justifications for changes. Our determination was that the draft fell short in a few key areas and did not fully comply with the World Bank's own Pledge Registry principles.

Following incorporation of several of our recommendations, the MTI working group released the draft law for public comment for forty (40) days starting in mid-March. During that period, the USAID Systems for Enforcing Agreements and Decisions (SEAD) program, the banker's associations, financial institutions, and the World Bank submitted comments. The KBRA will submit the new draft to the MTI Legal Department for review where we will have an additional opportunity to provide comment.

C3-2: PUBLIC CREDIT REGISTRY STRENGTHENED

Credit Registry upgrade. In early March, the CBK, and the vendor for the Credit Registry software upgrade, signed a contract to begin activities. Immediately following the contract signing, USAID BEEP met with the vendor to discuss technical specifications and ensure a common understanding of expected results. C3 also attended meetings chaired by the CRK for banks and micro-finance institutions (MFIs) to inform them of pending changes to the CRK software.

CRK Software Upgrade Work Plan

Phase	Activity	Deliverables
Phase 1:	Inception Phase	**System Upgrade Development**
Phase 2:	Functional Requirements Phase	
Phase 3:	Development Phase	
Phase 4:	Implementation Phase	**System Upgrade Implementation**
Phase 5:	Documentation Phase	
Phase 6:	Monitoring Phase	

The upgrade work plan is divided into six (6) phases as described in the table to the left. During this quarter, the vendor completed Phase 1, is in the process of obtaining CRK signoff on Phase 2, and transitioning to Phase 3. Technical specifications are complete and the vendor is developing the software program tailored to those specifications.

Study tours. USAID approved the Credit Registry's proposal to undertake a study tour and course work in Rome, Italy in June. Training will cover areas essential for managing the pending software upgrade, such as improving data quality and overcoming the pitfalls of automation software testing. CBK capacities will be strengthened to:

[4] Primarily with Law No. 03/L-154 on Property and Other Real Rights

- Implement a framework for information quality;
- Identify legislative issues related to the Credit Registry;
- Implement borrowers' rights; and
- Manage information systems.

C3-3: USE OF THE CREDIT INFORMATION SYSTEM INCREASED

Regulation on the Credit Registry. As discussed in C3-1, the CBK approved the new Regulation on the Credit Registry. In addition to contribution to Doing Business improvement, the regulation also contributes to increasing the use of the credit information system. By establising a framework for handling borrower complaints and informational disputes, borrowers are more likely to participate in the credit information system due to increased predictability and reliability.

The regulation contains provisions to allow insurance companies to access and contribute to the Credit Registry. Insurance companies use credit information as a factor to assess risk, which should promote improved service and increased coverage. By the same token, insurance companies report to the Credit Registry, providing additional information to establish a stronger credit information base. Through increased use of the improved credit information system, credit providers are more able to assess risk, have more confidence in lending, and increase access to capital.

Credit Registry brochures. Public outreach to consumers about the Credit Registry and about the importance of credit has been met with an enthusiastic reception, such that the commercial banks have requested thousands more of the USAID BEEP/CBK-sponsored brochures. Financial institutions report that the brochures are being distributed as a regular practice at branches and with loan applications. This quarter we procured additional brochures to meet the excess demand and continued to encourage their distribution.

Rule No. 9. We reviewed Rule No. 9 on Credit Classifications and provided preliminary commentary to the CBK. The CBK established a working group to amend, replace, and consolidate its rules judged that they do not need assistance to complete the task. We may have the opportunity to make comment on a draft in the future and will report results on those activities if they arise.

NEXT STEPS

Regulation on the Credit Registry. Now that the regulation has been adopted, we are supporting the CRK with issuing the implementing Operational Instruction. This instruction details the rules for the receipt, processing, and issuance of credit reports and the handling of borrower complaints and informational

disputes. The Head of Operations of the CRK continues to be a champion of reform at the CBK and relies heavily on the assistance of C3 in this endeavor.

Draft Law on the Pledge. Future work with the Pledge Registry involves managing various sensitive political issues. The MTI working group on the draft law has submitted it to the MTI's Legal Department for review. We expect to stay engaged and provide support as requested by MTI.

Credit Registry upgrade. As the vendor transitions into the Development Phase of the software upgrade plan, C3 will assist the CRK to prepare for installation and internal testing. During this time, C3 will also support the Operations Department to develop Operational Instructions that establish the procedures for receiving applications, filling, and issuing credit reports and for handling borrower complaints and informational disputes.

CHALLENGES AND IMPLEMENTATION ISSUES

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. The MTI, USAID BEEP, and other donor projects are aware of this issue, and are making recommendations consistent with the idea that the law and the software system should be fashioned around a viable set of user requirements As the political environment currently exists, it appears that the MTI is ambivalent about embracing our recommendations.

As the CRK software upgrade remains on a tight schedule, we expect to devote significant resources to providing assistance to the CRK during each Phase of the software upgrade plan. Further, it will be very important to facilitate improvement of internal CRK capacities to operate and monitor the system. Lastly, in combination with implementation of the new Regulation on the Credit Registry, the software upgrade will require significant operational updates to internal procedures and amendments to governing Operational Instructions. We maintain a strong working relationship with the Head of Operations of the CRK and will focus intensive efforts to facilitate this transition.

COORDINATION

During this quarter, C3 met with the Micro-finance Institution KEP to discuss both the draft Law on the Pledge Registry and to elicit feedback on the utility of the CRK's consumer brochure. C3 also met with the Executive Director of the Banking Association to receive the Association's comments on the draft Law on the Pledge Registry and to discuss potential fields for cooperation. C3 continues to work closely

with the CBK and CRK as primary recipients of assistance. Further, we collaborated with the World Bank on the draft Law on the Pledge Registry and we expect continued coordination in the future