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# GROWTH AND FISCAL STABILITY INITIATIVE (GFSI)

YEAR 2 – ANNUAL REPORT

Contract Number EEM-I-00-07-00005-00, Task Order 09

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**DISCLAIMER:**

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

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## ACRONYMS

Acronym	Definition
BD	Budget Department
BEEP	Business Enabling Environment Program
BOT	Build Operate Transfer
CAPEX	Capital Expenditures
CCN	Cooperating Country National
CFO	Chief Finance Officer
COP	Chief of Party
DFID	United Kingdom Department for International Development
DEMI	Democratic Effective Municipalities Initiative
DPM	Deputy Prime Minister
ECLO	European Commission Liaison Office in Prishtina
EDVAP	Economic Development Vision Action Plan
EIA	Environmental Impact Assessment
EPAP	European Partnership Action Plan
EPPD	Economic and Public Policy Department
ESTAK	Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
FBCC	Fiscal and Budget Committee of Cabinet
FDI	Foreign Direct Investments
FMIS	Financial Management Information System
G&A	General Overhead and Allowances
GDP	Gross Domestic Product
GFSI	Growth and Fiscal Stability Initiative
GIS	Geographic Information System
GIZ	German Agency for International Development
GoK	Government of Kosovo
IFC	International Finance Corporation
IMF	International Monetary Fund
ICO	International Civilian Office
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISC	Inter-ministerial Steering Committee
IT	Information Technology
KCA	Kosovo Cadastral Agency

KCB	Kosovo Consolidated Budget
KEK	Kosovo Energy Corporation
KFMIS	Kosovo Financial Management Information System
KIPA	Kosovo Institute for Public Administration
LOGOS	Swiss-Kosovo Local Governance and Decentralization Support Project
MoF	Ministry of Economy and Finance
MEI	Ministry of European Integration
MLGA	Ministry of Local Government Administration
MPA	Ministry of Public Administration
MOU	Memorandum of Understanding
MPA	Ministry of Public Administration
MTBF	Mid-Term Budget Framework
MTEF	Medium Term Expenditure Framework
M-MTEF	Municipal Medium Term Expenditure Framework
MPPS	Mid-term Policy Priority Statement
MTI	Ministry of Trade and Industry
MTPP	Medium Term Policy Priority
NCED	National Council on Economic Development
NPI	New Policy Initiatives
OAG	Office of the Auditor General
OECD	Organization for Economic Co-operation and Development
OPM	Office of Prime Minister
O&M	Operation and Maintenance
OSR	Own Source Revenues
PAK	Privatization Agency of Kosovo
PDF	Project Development Fund
PER	Public Expenditure Reforms
PEFA	Public Expenditure and Financial Accountability
PFI	Private Finance Initiative
PFM	Public Finance Management
PFMRAP	Public Financial Management Reform Action Program
PIA	Pristina International Airport
PIP	Public Investment Program
PIU	Project Implementation Unit
PMO	Prime Minister Office
PMU	Project Monitoring Unit
PPB	Program and Performance Budgeting

PPP	Public Private Partnership
PR	Public Relations
PSI	Private Sector Investment
PTD	Property Tax Department
PTK	Post and Telecommunications of Kosovo
PTS	Property Tax System
REPIM	Research on Economic Policy Implementation & Management
RFP	Request for Proposals
SEAD	Kosovo Systems for Enforcing Decisions and Agreements and Decisions
SER	Strategic Expenditure Review
SIDA	Swedish International Development Cooperation Agency
SMP	Staff Monitoring Program
SN	Sub-National
SOE	Socially Owned Enterprises
SPU	Strategic Planning Unit
STA	Swedish Tax Agency
STTA	Short Term Technical Assistance
SWM	Sewage Waste Management
TA	Technical Assistance
TAK	Tax Administration of Kosovo
TCN	Third Country National
ToR	Terms of References
ToT	Training-of-Trainer
TSA	Treasury Single Account
UNMIK	United Nations Mission in Kosovo
US	United States
USAID	United States Agency for International Development
VBA	Visual Basic for applications
VfM	Value for Money
WB	World Bank

# 1 GFSI ANNUAL REPORT SUMMARY

Highlights for the year included the award of the first municipal PPP, a Stand-By Arrangement with the IMF, a Strategic Expenditure Review, and commencement of activities for the Brezovica Resort Development.

**Municipal PPP.** The Peja Urban Bus project, awarded to Urban 029, reached financial close and is a milestone in the GFSI municipal PPP activity. In addition to the first PPP to close the Project successfully initiated/continued developing twelve PPP projects in urban transport, solid waste management and city car parking in five key municipalities. The projects are in various stages of development from feasibility studies to Request for Proposals (RFP). The Project has continued to provide support for strengthening the capacity of the Ministry of Finance's (MoF) PPP Department to perform its functions that now has a project pipeline of 20 potential projects, including the projects mentioned above. The Project successfully completed core PPP guidelines for the PPP Department covering the PPP Project life cycle and the procedures to be followed for approval. In addition the Project completed Guidelines on Environmental Impact and Compliance Procedures for Infrastructure Projects and completed draft Guidelines on PPP Contract Management

**Government Budgeting.** GFSI provided direct support to the MoF to conduct a Strategic Expenditure Review (SER) that involved examining current budget settings, conducting an analysis of regional and international comparisons of budget structure; and, the full costing of all EDVAP initiatives. The Project team also analyzed the establishment of a public policy unit within the MoF consistent with the EDVAP recommendations. The MoF has endorsed the report which recommends an expansion of the current macro-economic unit into a broader economic and public policy department. As an output of the SER Report the GFSI team assisted the MoF to hold a stakeholder workshop involving the Office of Prime Minister (OPM), Ministry of European Integration (MEI) and donors to identify measures to support the improved preparation of the national development strategies, MTEF, annual Budget Law and supporting budget papers. The findings from the SER report and the conclusions reached at the workshop resulted in a number of process improvements being included in the Minister of Finance's Circular for the preparation of the 2013-15 MTEF.

**Motorway PPP.** The Project produced a well-received study on procurement options for the construction of Route 6. The study concluded that the most optimal solution was to 'market test' a Public-Private-Partnership (PPP) for the financing, construction, operation, maintenance, and tolling of Route 6. However, in June 2012 the Government announced that Route 6 would be financed from public sources with the prerequisites for entering into contractual obligations being the completion of the privatization of PTK and the near-completion of highway R7, to have sufficient clarity about the available budgetary space. At the same time, the government expressed interest in entering into operations and maintenance (O&M) concession with the private sector for Route 7 including toll operations.

**Brezovica Resort Development.** Key activities and milestones for Brezovica Resort Development included the development of an Options Analysis and Business Case Recommendations and the development of a Legal Framework Assessment that identified and analyzed the legal issues surrounding the transaction. As the Strategic Adviser, GFSI met regularly with the ISC Chairperson and representatives of the Mayor's office in Strpce to more clearly develop and build consensus on the project objectives, scope, and process.

**PEFA Self-Assessments.** The Project's support to municipalities continued with the launch of six new Public Expenditure and Financial Accountability (PEFA) assessments. In performing this activity the GFSI team developed and coordinated a comprehensive strategy for the PEFA program that ensured participation of the leadership from the Ministry of Finance (MoF) and the Ministry of Local Government Administration (MLGA) as a confirmation of Government's commitment towards public finance management reforms. The Association of Kosovo Municipalities was brought into the process as a

partner for the PEFA undertaking. Other measures to support the improvement of financial management practices at the municipal level involved assisting with the development of a Public Financial Management Reform Action Plan (PFMRAP) for the municipalities included in the initial PEFA assessments and providing extensive support to six municipalities to prepare the MTEF 2013-2105.

**Office of the Auditor General.** A comprehensive outreach to those municipalities that remain with 'Qualified' audit reports was conducted. Outreach included follow-up with the Office of the Auditor-General's assessments of the interim financial statements. The Auditor General published the municipality audit reports which showed that a total of sixteen (16) municipalities achieved unqualified audit reports in 2011, up from twelve (12) in 2010 and two (2) in 2009.

**MoF Data Sharing.** Several key events highlighted the Project's support to the MoF Information Technology (IT) reforms. The Ministry of Public Administration confirmed the allocation of accommodation to the MoF within the government building for a dedicated server room to house all MoF IT server applications. A term of reference has been developed to procure a firm to undertake the necessary fit out and it is expected that all MoF servers will be housed in the one location early in 2012. The MoF IT organizational structure has also been approved including the establishment of an IT Technical Committee and IT Governance Committee to improve the communication and coordination of IT activities among all MoF IT units. A new IT Director was appointed and GFSI will now work closely with the new director on developing an ICT strategy and IT reforms generally.

**Economic Policy Assistance.** In March 2012 the Government of Kosovo (GoK), with the support of GFSI, took a decision to establish the National Council on Economic Development (NCED) with the responsibility for monitoring of the implementation of EDVAP and developing policy measures that promote economic growth. Members of this Council include all economic ministers and other ministers that cover economic priority areas of the GoK. The three Kosovo chambers of commerce also participate in the meetings.

In April, 2012 the GoK entered into formal program (Stand-by Arrangement) with the IMF valued at approximately 106 million EUR. Prior to entering into the program, the GoK, with the assistance of GFSI advisers had implemented a number of measures to improve the fiscal position, and fiscal discipline and strengthen the financial system's resilience. In June, 2012, the Stand-by Arrangement was reviewed by the IMF Mission. The Mission concluded that all quantitative criteria at end April, 2012 and most of the structural benchmarks had been met.

**Donor Coordination.** During the reporting period, all GFSI activities were well coordinated with other involved donors and partners. On municipal PPP's, GFSI continued to coordinate activities with the USAID funded projects BEEP, SEAD and DEMI and European Commission and European Commission Liaison Office. On the fiscal stewardship, donor cooperation and coordination efforts were focused on coordinating activities with DEMI, BEEP, DFID/REPIM and Swiss LLOGOS for International Cooperation on municipal related public financial management (PFM) reforms and property tax activities and United States Treasury, ESTAK, SIDA, DFID, World Bank, EU and IMF on Central level activities covering issues related to debt management, IMF Program, Public Expenditure Reforms (PER). In the Economic Policy area, extensive donor cooperation was centered on EDVAP and NCED activities, including cooperation and coordination of activities with BEEP and DFID.

## 2 ACHIEVEMENTS AND SUCCESS STORIES

### Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

- Successfully concluded the first Municipal PPP in Kosovo with bus services under the Peja urban bus PPP commencing in May 2012.
- Initiated and/or continued developing twelve PPP projects in urban transport, solid waste management and city car parking in five key municipalities. The projects are in various stages of development from feasibility studies to Request for Proposals (RFP).
- PPP Department now has a project pipeline of 20 potential projects, including the projects supported by GFSI mentioned above.
- Successfully completed core PPP guidelines for the PPP Department covering the PPP Contract Management and Project life cycle and the procedures to be followed for approval. Work is advanced on associated annexes and case studies.
- Completed Guidelines on Environmental Impact and Compliance Procedures for Infrastructure Projects.
- Assembly of Kosovo adopted a new PPP Law which entered into force in November 2011.
- Options Analysis and Business Case Recommendations, Legal Framework Assessment and initiation of Communication Strategy (incorporating a gender assessment) for Brezovica Resort Development Project.

### Objective 2 – Fiscal stewardship

- Completed the second Kosovo Local Government PEFA Performance Report based on the assisted self-assessments in six municipalities: Gjilan, Ferizaj, Peja, Gjakova, Istog and Novoberda.
- Rolled out a Municipal PFM Reform Action Plan for Local Governments, as a result of PEFA self-assessment. This plan has been used to create specific individual action plans for each PEFA participant municipality.
- Completed hands-on assistance in developing M-MTEF for the municipalities of Gjilan, Peja, Istog, Novoberda, Vushtrri and Gracanica. The assistance supported the selected number of municipalities in applying mid-term budget planning tools and guidance, given to all municipalities, in the previous budget cycle.

### Objective 2 – Assistance to the Office of Auditor General

- Unqualified audits from 12 municipalities in 2010 to 16 municipalities in year 2011, following GFSI engagement to provide assistance to municipalities in preparing financial statements and in coordinating engagement between the Treasury, municipalities and the Office of the Auditor General regarding preparation of financial statements.

### Objective 2 – Assistance to the Ministry of Finance

- Played a crucial role in assisting Government enter into a Stand-by Arrangement with the International Monetary Fund (IMF) valued at approximately 106 million EUR.

- Supported the MoF to conduct a Strategic Expenditure Review (SER) that involved examining current budget settings, conducting an analysis of regional and international comparisons of budget structure; and, the full costing of all EDVAP initiatives.
- Assisted with establishment of a public policy Department within the MoF consistent with the EDVAP recommendations that is led by a senior female economist.
- Assistance with the introduction of new arrangements and issuing of Administrative Instructions for the monitoring and reporting of payments arrears.

#### **Objective 2 – Assistance to the IT systems in the Ministry of Finance**

- The Ministry of Public Administration (MPA) confirmed the allocation of accommodation to the MoF within the government building for a dedicated server room to house all MoF IT server applications.
- A terms of reference was developed to procure a firm to undertake the necessary fit out and it is expected that all MoF servers will be housed in one location by the end of 2012.
- The MoF IT organizational structure was approved including the establishment of an IT Technical Committee and IT Governance Committee to improve the communication and coordination of IT activities among all MOF IT units.

#### **Objective 2 – Assistance to the Property Tax**

- Reformed inspection process, updated annual inspection report and continued to build capacity building in the PTD on implementation new inspection process.
- Developed new surveyor manual on gathering and registration of information on the property and taxpayer.
- Assessed impact of the new valuation mode and rate increases on the property tax collection documented for 21 municipalities.
- Provided assistance on migration properties resurvey data from quality control to ProTax DB.
- Municipalities enabled to plan revenues for property tax based on the data available from PTS.

#### **Objective 3 – Economic Policy Assistance**

- Supported the first annual review of Economic Development Vision Action Plan (EDVAP) that involved removing completed activities, reprogramming the timing of some existing activities and including new activities that will further contribute to the achievement of the economic vision's goals.
- Prepared a concept note on EDVAP that resulted in the development of the Government's economic Policy Priority Document.
- Supported the establishment of the National Council on Economic Development (NCED) that has responsibility for monitoring of the implementation of EDVAP and developing policy measures that promote economic growth.
- Assisted with strengthening of the linkages between the Government policy priorities, as set in its key documents, such as EDVAP, MTEF, EPAP, and the yearly budget spending allocations.
- Assisted the MoF in its discussions with the IMF on the introduction of a legally binding rules-based fiscal framework. .
- Assisted the MoF to establish the Economic and Public Policy Department (EPPD) that contains the macroeconomic, tax policy, public policy and legislative analysis sections.

## 3 PROJECT PROGRESS IN YEAR 2

### 3.1 OBJECTIVE 1: SUPPORT PRIVATE SECTOR PARTICIPATION

**A – Public-Private-Partnerships: Strengthen the Ability and Capacity of Central and Local Institutions to Identify, Develop and Implement Public-Private-Partnership (PPP) Projects as an Important Private Sector Funding Mechanism for Meeting Kosovo's Public Infrastructure Investment Priorities;**

#### 3.1.1 CONSOLIDATE THE LEGAL, INSTITUTIONAL, AND STRATEGIC FRAMEWORK FOR PPP

As in year 1 work in year 2 continued on multiple fronts to strengthen the legal, institutional and policy framework for PPPs in Kosovo.

The PPP Department increased its compliment by three new staff members covering legal, financial and procurement disciplines bring the department up to seven (excluding interns).

Our legal due diligence activities have continued on an ongoing basis and our important work on standardized tender and draft contract documentation has been well received by the PPP Committee, PPP Department and the contracting authorities that have used it to date.

A new Law on Public-Private Partnerships (Law No. 04/L045) entered into force in November 2011. The law was drafted with the assistance of GFSI and intends to address some of the systemic weaknesses that were identified during a preceding review of the PPP related legal framework. Harmonization with existing and new legislation, e.g. Law on State Aid, Law on Public Debt, Law on Public Procurement, as well as streamlining internal decision-making and approval procedures were among the key objectives of the new law.

The PPP Inter-Ministerial Steering Committee (now the PPP Committee) adopted three Directives that provide detailed rules and procedures for developing and implementing PPP projects. The Directives include

- PPP Directive No. 1 on Procedures for the Review and Approval of PPP Projects
- PPP Directive No. 2 on Project Management Teams
- PPP Directive No. 3 on Review and Approval of Municipal PPP Projects

The purpose of the Directives is to provide clear guidance to the PPP Committee, the PPP Department and project management teams of public authorities on the procedures to be followed for developing and implementing PPP projects, the preparation of project feasibility studies, and the composition of PPP project management teams. Directive No. 3 also sets out simplified and expedited procedures for the review and approval of municipal PPP projects, in order to avoid unnecessary delays and backlog and to ensure compliance with local self-government principles as guaranteed by the Constitution. The substance of Directive No. 3 is also reflected in the new PPP Law.

GFSI has assisted the Assembly of Kosovo in revising and adopting a new Law on Waste that is conducive to implementing PPP projects in the area of waste management. GFSI has also assisted the Government in ensuring that the Law on State Aid is consistent with PPP legislation and relevant EU criteria concerning state aid for PPP projects.

Basic PPP guidelines are complete and have been passed over to the PPP Department. Versions in Albanian and Serbian are expected to be ready for distribution soon. They are based on the PPP Project Life Cycle and comprise of:

- Phase 1 PPP Project selection and pre-feasibility study

- Phase 2 PPP Feasibility study, Draft PPP Contract and Draft Tender Documents
- Phase 3 PPP Tender Implementation
- Phase 4 PPP Contract Management & Performance Monitoring

The comprehensive Guidelines will include case studies, standard documentation and annexes covering topics like the hiring of consultants, etc. Not all these annexes and case studies are complete yet but are planned to be finalized in Y3 Q1.

Concentration in Years 1 and 2 on initiating transactions, the PPP law, institutions, systems and procedures, etc. and building up experience to include in comprehensive PPP guidelines has meant that the planned activities to develop a multi sector PPP strategy (incorporated into the Governments long term strategy and planning mechanisms) will be developed in year 3.

***Task order tasks completed during year two:***

- Draft, approve, and promulgate any required PPP Law amendments
- Develop and formalize institutional coordination procedures between municipalities and PPP-Committee / Refine PPP Committee by-laws and operating procedures
- Develop PPP Guidelines (project implementation, management/monitoring and closing) based on project pipeline, Amended PPP Law and adopted directives Establish working group to review PPP law and consider priority amendments. Core Guidelines complete.

***Task order tasks not completed but in process during year two:***

- Finalize PPP guidelines complete with Annexes & case studies
- Consolidate Municipal PPP institutional framework
- Establish satellite PPP units in qualifying line ministries and municipalities (some progress already in selected municipalities)
- Draft multi-year PPP strategy and work plan for central government and municipalities
- PDF viability and development

### 3.1.2 PROVIDE TECHNICAL ASSISTANCE FOR PRIORITY PPP TRANSACTIONS ACROSS MUNICIPAL MULTIPLE SECTORS

The GFSI Team continued to support the PPP Department and a number of contracting authorities (both central and municipal) in developing PPP projects during year 2.

The Peja urban bus project was launched in May 2012 and was the first Municipal PPP in Kosovo. Although a relatively small project, the lessons learned have been invaluable and being incorporated to our ongoing program of project development.

Much of the focus during year two has been on progressing feasible year 1 projects through the tendering process (Peja bus, Pristina Underground parking (3 projects) and Suhareka Solid Waste Management). As with all project screening and development processes many do not pass the pre and full feasibility stages and even those that do can experience delays and problems.

The following Table presents the key pipeline projects that have been supported by the GFSI Team during year 2 together with a brief description of the technical assistance provided to the municipal and central governments through the GFSI Objective 1.

**PROJECTS AT CENTRAL LEVEL - Status as of : July 11, 2012**

	<b>Project</b>	<b>Type of Project</b>	<b>Contact Point</b>	<b>STATUS</b>
1	Route 6	PPP/PFI (BOT)	Rame Qupeva (Ministry of Infrastructure)	Financing study and procurement options analysis completed, recommending PPP procurement and to proceed to market testing. The report was well received. Nevertheless, the Government of Kosovo has made a political decision to procure the project traditionally
2	Route 7 (maintenance and tolling)	Management Contract Minimal CAPEX to be invested by Private partner	Rame Qupeva (Ministry of Infrastructure)	Bechtel & Enka currently working on Segment 5. Short term maintenance contracts are currently being procured. Intention to enter into long term O&M concession. PPP feasibility study underway Tender documents for transaction advisor underway
3	Customs/TAK Bldg.	PFI	Lorik Fejzullahu - MF / PPP Dep (Customs/TAK Director)	Initial prefeasibility work was undertaken. Project was not progressed further by the relevant Ministries
4	Prishtina Int'l Airport	PPP (BOT)	Lorik Fejzullahu - MF / PPP Dep	Contract monitoring phase PPP Department acting PMU
5	The Solid Waste-Landfill	PPP (BOT/PFI)	Lorik Fejzullahu - MF / PPP Dep	IFC Transaction Advisor Project was delayed due to policy concerns by the Ministry of
6	Motorway Service Areas	PPP (BOT)	Rame Qupeva (Ministry of Infrastructure)	Feasibility study underway

	Municipality	Type of Project	Contact Point	Status
1	Pristina	Underground Parking- University BOT	Deputy Mayor	Prepared feasibility & supplied STTA technical support/draft tender & contract documentation. 1 <sup>st</sup> tender process failed but Municipality wants to proceed with new competition. Awaiting instruction.
2	Pristina	Underground Parking- Grand Hotel BOT		
3	Pristina	Underground Parking- Parliament/Municipality BOT		
4	Pristina	Urban Bus Concession	Deputy Mayor	Completed pre-feasibility & review of Trafiku Urban  Awaiting realistic response from the contracting authority
5	Peja	Urban Bus Concession	Mayor	Complete (provided feasibility study & draft tender & contract documentation)  At contract monitoring stage
6	Peja	Waste treatment/landfill BOT/concession	Mayor	Pre-feasibility
7	Peja	Municipal Parking BOT/concession	Mayor	Pre-feasibility
8	Suhareka	Solid Waste Management BOT/concession	Mayor	At RfP stage (provided feasibility study & draft tender & contract documentation)
9	Suhareka	Industrial Park BOT/concession	Mayor	Early pre-feasibility stage
10	Obiliq	Solid Waste Management BOT/concession		Pre-feasibility
11	Mitrovica	Waste treatment/landfill BOT/concession	Mayor	Pre-feasibility

### 3.1.3 ASSIST THE GOK AT THE CENTRAL AND MUNICIPAL LEVELS TO DEVELOP CONTRACT GOVERNANCE AND OVERSIGHT STRUCTURES FOR PPP

As explained in the year 1 Annual Report, the PPP Department was appointed temporary Project Management Unit (PMU) for the Pristina International Airport (PIA). This is still the case and represents a distraction to the PPP Department, tying up key staff and management time, as well as a possible conflict of interest in terms of their role as regulator for PPP projects in Kosovo.

During the year the PPP Department prepared tender documentation for the procurement of an outside company to carry out the role and a RFP is ready for issue. It is understood however that this is currently on hold awaiting approval from the MoF to fund the procurement.

As regards other aspects of this activity, work has been done setting up PPP PMUs for the selected Municipal projects currently being supported. Sample procurement documents (Request for Qualifications, Request for Proposal) and sample PPP contracts have been revised and updated based on lessons learned during the implementation of the PPP projects.

Additional specific stand-alone guidelines on PPP Contract Management were developed to provide an overview and explanation of applicable legislation and secondary rules related to contract management structures and processes. The Contract Management Guidelines also integrate parts of the general PPP Guidelines pertaining to contract management in order to provide a comprehensive understanding of all relevant contract management aspects. Owing to significant GFSI support provided to the PPP Department and consistent with the approach for more women participation, the PPP Department has two well qualified women personnel engaged in PPP transactions,

#### ***Task order tasks completed during year two***

- Ongoing support to PIA PPP PMU (PPP Department).
- Ongoing performance monitoring and compliance audit support to PMU
- Outline general framework for contract governance and oversight for PPP projects – draft completed
- Design project-specific PMU's (as so required)

#### ***Task order tasks not completed but in process during year two:***

- Recruit key PMU personnel for PIA PPP – A RFP for tendering an outside firm as the PIA PMU was prepared but is currently on hold awaiting MoF approval of the procurement
- PMU training / capacity building - PMU's are a critical function necessary for the implementation and operation of all PPP's. Once a firm is selected, we will work with them to ensure coverage.

### 3.1.4 IMPLEMENT A MULTI-SECTOR PPP AND PROJECT FINANCING CAPACITY BUILDING PROGRAM

Building on the foundation work carried out in year 1, the GFSI Team concentrated in year 2 on developing comprehensive PPP Guidelines to assist potential participants to understand the process for PPPs in Kosovo, and understand how PPPs and their project life cycles differ from traditional procurement options. As the guidelines took shape and became more developed it was then possible to carry out our planned activities on developing training curriculum, drafting content and a hierarchy of courses ranging from basic to advanced. The draft curriculum has been completed and the PPP Department has entered into an agreement (MOU) with the Kosovo Institute for Public Administration (KIPA) for delivering specific PPP training to government officials.

Other public sector and private sector (banks, companies, Chambers of Commerce, etc.) training are planned to be carried out by PPP Department and GFSI Team staff. To this end initial Train the Trainer

(ToT) training took place early July 2012 (3 day workshops). ToT feedback and a review of initial test sessions will determine if further trainers are needed.

The recent changes in the law regarding Waste in Kosovo and the new powers given to Municipalities has created a great interest in PPPs as a way of delivering their waste management plans. In view of this and as a way of introducing the PPP Guidelines, sample documentation, etc a workshop is planned early Y3 Q2 to promote PPPs to all the Municipalities in Kosovo. This will include a Solid Waste PPP Toolkit and will be attended by other key stakeholders including donors and potential investors/operators.

***Task order tasks completed during year two***

- Development of Targeted Training and Seminar Program
- Regular delivery of targeted training and seminars
- Design and Development of standardized curriculum (Draft completed)
- Train the Trainers – initial workshop July 2012

***Task order tasks not completed but in process during year two:***

- Selection of Trainers and Learning Center – work is well advanced on learning centers and PPP Department staff have been trained as trainers for PPP. Feedback and Assessments will confirm if more training resources are required.
- Development of course materials and manuals – these are under development and revision now the PPP Guidelines are near finalization.
- Identify and structure study-tour opportunities and undertake further study tour

### 3.1.5 PROMOTE POSITIVE ENVIRONMENTAL IMPACT THROUGH PUBLIC-PRIVATE-PARTNERSHIPS

As reported at the end of year 1 work continues to be focused on projects that have a positive environmental impact i.e. solid waste management, public transport and municipal car parking.

During year 2 the Team, with STTA support completed a comprehensive environmental guideline 'Guidelines for Environmental Impact Assessment for Infrastructure projects' which has been passed on to the PPP Department for distribution.

The guideline is for use in undertaking PPP Projects and guides the reader through the environmental issues that have to be taken into account particularly in the early stages of the PPP project life cycle together with the procedures that have to be followed to comply with Kosovo environmental laws, requirements for construction/operating permits, etc.

Using the guideline as a basis to work from, effective training activities can now proceed and an initial programme targeted at Municipal officials engaged in PPPs is planned for Y3 Q2.

***Task order tasks completed during year two***

- Lend ongoing technical assistance to the central and municipal governments evaluating a PPP for SWM (landfills and collection)
- Draft implementing regulations establishing general environmental guidelines for all PPP projects.

***Task order tasks not completed during year two:***

- Create a targeted training module regarding environmental planning, mitigation and monitoring measures in PPP projects.
- Deliver environmental training module as part of targeted training (see activity 4) –See previous comment.

- Now the guideline is in place the training module is under development and initial training using STTA support is programmed for Y3 Q2.

### 3.1.6 ASSISTANCE TO PAK

As part of the GFSI support under Component 3, GFSI advisers assisted the GoK to pass key legislation governing the Privatization Agency of Kosovo (PAK). It is expected that the package of legislation will be a catalyst in releasing approximately 500 million Euro from the PAK Trust Fund through a more streamlined liquidation process, with a significant portion of the Trust Fund potentially being released to the government (once claims have been resolved). Another implication of the revised legislation is the simplification of the processes to resolve the Trepca complex. PAK will now be able to undertake the role of Administrator of Trepca and resolve creditor claims and propose restructuring under the supervision of the Special Chamber.

The project also provided legal advice to the MOF on the new provisions of the PAK law that require PAK to transfer certain “surplus” funds from the trust funds to the Kosovo Consolidated Fund. The project also recommended provisions to authorize PAK to transfer a small percentage from the trust funds into a new dedicated revenue account of the PAK, in order to compensate PAK for the costs it incurs in administering SOEs (normal practice in Europe, the US and elsewhere). This new provision will not only assist PAK to become self-funded, it will also provide PAK with the resources needed to engage a team of outside international professionals to assist PAK implement the new legislation.

During this year, USAID decided not to trigger GFSI’s assistance to PAK under the task order.

### 3.1.7 ASSISTANCE TO MOTORWAY PPP

Assistance to Motorway PPP’s was added to GFSI through contract modification on September 28, 2011. The GFSI activities under this new sub component have the following objectives:

1. Analytical and technical support for (1) financing and transaction options for the construction of route 6;
2. A possible private sector role in the construction and/or maintenance and tolling of major new public transportation infrastructure.

In Project year 2, two studies have been completed that meet the first objective:

**Financing study.** The Financing study for route 6 construction was prepared in December 2011. The Project looked at the financing options for the route 6 project including private financing (Public Private Partnership) budget financing, public debt (Euro or Yankee bonds or short term T-Bills). The report covered each of the options and the likely costs and issues associated with each. At the time this report was being prepared, the IMF and World Bank advised that Kosovo should not enter into any binding commitments for ‘on budget’ or debt funding for the construction of Route 6 until the construction of Route 7 is complete and the full amount of the funding requirements for Route 7 are known and accommodated within the Kosovo Consolidated Budget (KCB). Based on the understanding reached with the IMF under their Staff Monitoring Program (SMP) the 2012 KCB does not include any provision for Route 6 construction.

**Procurement Options.** In early January 2012, and at the request of the MoF, the Project initiated a study of procurement options for the construction of Route 6. The study was based on an assessment of options for the construction of Route 6, identifying the option that would best accomplish three important objectives: (1) identifying the most advantageous arrangement for financing the construction and operation of Route 6, putting the least burden on the public budget; (2) what arrangement will permit Route 6 construction to commence as quickly as possible, consistent with prudent fiscal requirements, international commitments, and the need to ensure construction quality and timely performance; and (3)

the identified solution must be implementable by Kosovar institutions and capable of attracting broad support within the international community.

The Procurement Options Analysis recommended the most optimal identified solution – as declared by the Minister of Finance and (verbally) endorsed by the Prime Minister – was to ‘market test’ a Public-Private-Partnership (PPP) for the financing, construction, operation, maintenance, and tolling of Route 6. To improve the marketability of this recommendation, the market test was expected to include the operation, maintenance, and tolling of Route 7, ‘bundled’ with the Route 6 project so that near term cash flow can be achieved for the Route 6 investor. For ease of administration and to accommodate KCB constraints, the preferred project structure would include a one-time ‘construction subsidy’ to be paid by Kosovo on the date that the entire road (north and south sections) was formally accepted as complete and available for traffic. These recommendations were very well received by the Minister of Finance.

In June 2012 the Government announced that Route 6 would be financed from public sources with the prerequisites for entering into contractual obligations being the completion of the privatization of PTK and the near-completion of highway R7, to have sufficient clarity about the available budgetary space. At the same time, the government has expressed an interest in entering into an operations and maintenance (O&M) concession with the private sector for Route 7 including toll operations. The PPP options study for this concession is currently underway. The GFSI team is also supporting the procurement of a Transaction Advisor for this concession.

### **3.1.8 Assistance to Brezovica Ski Resort Development**

This Brezovica Resort Development task was also added to GFSI Project through the contract modification of September 28, 2011.

#### **Task Area Objective**

GFSI's objective in this task area is to support the Government of Kosovo and Municipality of Sterpce, through the ISC in investigating transaction options for the Brezovica Ski Resort or other high-priority tourist infrastructure, possibly through Public-Private-Partnership (PPP) arrangements. GFSI is to serve as a strategic advisor in this transaction, providing support to develop a Project Implementation Unit (PIU), preparing an options analysis, and supporting the engagement and management of transaction advisors to design the project, market the transaction, and conduct a competitive tender for selection of a private investor for Brezovica Ski Resort.

#### **Counterparts / Local Partners**

In October, 2011, the Government of Kosovo formed an Inter-ministerial Steering Committee (ISC) composed of:

1. Mimoza Kusari-Lila, Deputy Prime Minister and Minister of Trade and Industry;
2. Slobodan Petroviq, Deputy Prime Minister and Minister of Local Administration, member
3. Bedri Hamza, Minister of Finance, member (with veto right)
4. Vlora Citaku, Minister of European Integration, member;
5. Dardan Gashi, Minister of Environment and Spatial Planning, member;
6. Bratislav Nikolic, Mayor of Strpce, member; (with veto right) and
7. Blerand Stavileci, Minister of Agriculture, Forestry and Rural Development.

The Deputy Prime Minister/Minister of Trade and Industry serves as the Chairperson of the ISC. The ISC's function is to guide preparations for the project for Brezovica development and implement procedures, for the purpose of developing a project based on private investment.

## Activities

During the reporting period, GFSI supported the formation of a PIU at the MTI, filling positions for PIU Leader, PIU Legal Advisor, PR Advisor, Municipal Advisor, and Interpreter. Together with the PIU, GFSI worked with the MTI, assisting in organization of ISC meetings on February 20 and June 27 to build awareness and understanding of the project and seek decision on milestone issues. GFSI met regularly with the ISC Chairperson and representatives of the Mayor's office in Strpce to more clearly develop and build consensus on the project objectives, scope, and process.

Key activities and milestones during the reporting period include:

- Development of an Options Analysis and Business Case Recommendations (Business Case);
- Development of a Legal Framework Assessment that identifies and analyzes legal issues arising from the transaction; and
- Preparation of a TOR for a legal adviser.

**Business Case.** The Business Case incorporates a high level review of available options for resort development considering constraints within the current environment in Kosovo. It sets forth a vision for the transaction, a market analysis, and a high level site description for resort development. The Business Case suggested a preferred option, which would include a concession for the development of the existing resort with possible greenfield expansion into additional neighboring areas, together with residential development sales as a source of revenue to offset the cost of necessary infrastructure improvements. The Business Case concludes that development of this option would be expected to generate a sufficient Internal Rate of Return to attract international investors. At the close of the reporting period, the Business Case was being shared with ISC members.

**Legal Framework Assessment.** The Legal Framework Assessment assesses issues and obstacles to the transaction. Key issues addressed include the need to: 1) clarify the legal framework and contracting body for the transaction; 2) establish effective control and sequencing over land acquisition to permit a transaction; 3) set up effective regulatory controls to ensure effective development; and 4) simplify and streamline the permitting process.

**Legal Transaction Advisor.** GFSI, through the PIU, also worked with the MTI to develop the Terms of Reference for a Legal Advisor to conduct a full legal due diligence for the transaction and to conduct the tender process for selecting an investor for the resort. The MTI conducted an international tender to select the Legal Advisor generating proposals by seven international firms. GFSI provided the MTI's tender evaluation committee with a briefing on selection criteria. However, shortly after the end of the reporting period the MTI determined to cancel the tender on the ground that the highest evaluated bidder exceeded the funds available at the MTI for the advisor. GFSI's plan going forward will be to support the MTI in drafting Terms of Reference for a Transaction Advisor, which will include support for investment and marketing, transaction design, legal due diligence, and conducting the tender procedure. GFSI will also work with the MTI to prepare budget forecasting to support engagement of the Transaction Advisor.

**Gender issues:** During the reporting period, a Communication Strategy was initiated that will examine gender equity issues associated with the development of the Brezovica Ski Resort. The gender equity assessment component of the this strategy will look at the concerns woman may have for this project, such as safety issues as well as opportunities to increase the return on investment by introducing activities that will appeal to woman resulting in increased usage of the resorts facilities in the summer season.

## **Additional Key Activities;**

Additional key activities during the reporting period include:

- Development of Terms of Reference for Legal Advisor for the project and briefing evaluators on selection criteria and briefing of the tender evaluation committee on selection criteria;
- Drafting of Rules of Procedure for the ISC;
- Drafting of Rules of Procedure for the PIU;
- Building of Project website;
- Design of Project logo and letterhead;
- Opening of a local project office in Strpce municipality.

## **3.2 OBJECTIVE 2: FISCAL STEWARDSHIP**

### **A – Public Financial Management: Build Professionalism and Expertise in Sound Public Financial Management in Municipalities to Become Institutions Capable of Autonomously and Efficiently Stimulating Local Economic Development While Providing High Standard of Public Services.**

#### **3.2.1 PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY (PEFA)**

##### ***Conduct an inventory of current PFM practices through PEFA self-assessment***

GFSI efforts focused on technical and organizational preparations for an official launch of the second Kosovo Local Government PEFA Self-Assessment. The GFSI Team developed and coordinated a comprehensive strategy for the PEFA program that ensured participation of the leadership for this important initiative from the MoF and the Ministry of Local Government Administration (MLGA) as a confirmation of Government's commitment towards public finance management reforms. The Association of Kosovo Municipalities was brought into the process as a partner for the PEFA undertaking. The PEFA Team established principles for the application of PEFA methodology at the Kosovo Local Government level, including criteria for the selection of a representative sample of Municipalities. The following Municipalities were invited and accepted to participate in the second round of the PEFA Self-Assessment: Gjilan, Ferizaj, Gjakova, Peja, Istog and Novobërda.

The implementation of the second Kosovo Local Government PEFA was based on the self-assessment assisted jointly by GFSI and DFID/REPIM experts. It was carried out during the period May 2011 – February 2012 and comprised of a series of critical and important events, which supported a phased-in approach to the conduct of the PEFA:

1. **Official Launch of Local Government PEFA Round 2 Assessment (May 2011):** a high level meeting organized by GFSI with the six municipal officials who expressed the interest to participate in the PEFA Round 2 assessment under the auspices of MoF. The meeting provided an opportunity to discuss the general PEFA concept and framework, past Kosovo PEFA experiences, and the proposed implementation approach for Kosovo's local governments.
2. **PEFA Technical Workshop (June 2011):** a three-day workshop for the members of PEFA Municipal Teams organized in accordance with the PEFA recommended standard introductory training. Over 20 municipal officials attended a conference where they were introduced to the PEFA Framework and learned how to conduct and implement an effective PEFA evaluation in their own municipality, by use of lectures, seminars, and interactive group exercises. Overall, this USAID-supported conference provided a comprehensive overview of the PEFA Framework including a grounding and understanding of the tools for the evaluation of PFM systems and their performance with an emphasis on self-assessment and personal responsibility.

3. **Assisted Self-Assessment Process (September 2011 – December 2011):** Each Municipal Team who completed the PEFA training was able to embark on the effective tracking of the performance of their own municipal PFM practices in accordance with PEFA standard methodology. Through dedicated weekly meetings, each Team was supported by the GFSI/REPIM expert working with the Team on the information required to assess and score each of the PEFA Performance Indicators through the application of criteria, evidence gathering and documentation. All the Municipal Teams conducted a series of meetings with the representatives of the municipal administration in the areas such as municipal revenue collection, procurement, internal audit, as well as meetings with representatives of the Municipal Assembly.
4. **PEFA Progress Workshop (September 2011):** The Municipal Teams gathered in Pristina to review the assessment work on the first ten PEFA indicators assessed. From the 11 municipalities that worked with PEFA, 5 of them had at least one woman member of each municipal assessment team. One of the teams was led by Aferdita Grapci, Director of Finance for Peja Municipality, who is also the chairwoman for Finance Committee of Association of Kosovo Municipalities. The workshops served an opportunity for practitioners to raise and debate the actual challenges of the PEFA assessment process. Issues such as data collection, evidence documentation, realistic scoring methods, and the importance of argument supportive the narrative for each indicator were highlighted during this meeting. The Municipal Teams shared their own experience from the implementation of the assisted self-assessment since the commencement of the PEFA exercise. Following the workshop, the Municipal Teams together with GFSI/REPIM advisors met with Municipal Mayors to provide briefing on PEFA process progress and ensure continued support from the municipal leadership. Information for assessing the remaining indicators was then collected over the following weeks.
5. **PEFA Concluding Retreat (January 2012):** The work of Municipal Teams resulted in the preparation of the first draft of the PEFA Performance Report for each of the six Kosovo municipalities. Team Members participated in a three-day concluding retreat, which gathered the representatives of the six Municipalities, USAID and DFID. The retreat reviewed the output of PEFA process, and there was an exchange of lessons-learned between the Municipal Teams, as well as an opportunity to refine the scores and narrative of the first draft. It also served as an opportunity to launch the debate on a reform action plan oriented towards further enhancement and strengthening of municipal PFM practices.
6. **Draft PEFA Report Workshop (February 2012):** The draft Report was submitted to the PEFA Secretariat for review in February 2012. Upon the receipt of Secretariat's comments a dedicated workshop was organized for Municipal Teams. The workshop aimed at the discussion of PEFA Secretariat's comments, preparation of necessary amendments, and soliciting municipal ownership of final version of the Report.
7. **Local Government PEFA Report Dissemination (April 2012).** Organized a meeting with the Mayors to present the outcomes of the second round of PEFA assessments and discussed possible measures for further improvement and strengthening of municipal PFM policies and practices.

Apart from direct works with municipal counterparts, the GFSI Team conducted a series of meetings and consultations with some key stakeholders in the PFM area in Kosovo to solicit input into the assessment process. Meetings took place with such institutions as: MoF Treasury Department, MoF Property Tax Department, MPS Payroll Division, Auditor General Office, and EU-PIP project under the EU Support to Improving the Quality of Public Investments in Kosovo and Preparing the Ground for EU Funding.

### **Task order tasks completed during year two include:**

- Completion of the second Kosovo Local Government PEFA Performance Report based on the assisted self-assessment in five Municipalities

### ***Based on PEFA self-assessment, develop and implement municipal PFM***

The completion of the second Kosovo Local Government PEFA assessments supported the continuation of the GFSI activities under this element of task order.

The conclusion of PEFA assessments for the first round municipalities as well as second round was followed by the process of the developing the action plan on the municipal reform of public finances management, hereinafter PFM RAP. The PFM Reform action plan design and adoption process for **PEFA round one municipality** was subject to a number of consultative discussions and workshops organized with Municipality of Prishtina, Vushtrri, Podujeva, Shterpce and Mamusha. The latter contributed to the final Municipal PFM RAP containing measures, institutional responsibilities and timelines for implementation.

The process followed for round one municipality served as a good basis for PEFA round two municipalities which were exposed similarly. The PFM Reform action plan design and adoption process for **PEFA round two municipalities** was subject to the following phases:

- 1. Roundtable at technical level with municipal officials: Discussion on results shown by PEFA and identification of main issues for reform (May 4, 2012):** Supported by the GFSI program, the MoF organized a one day round-table with teams of Kosovo's municipalities that were part of the second round of PEFA process, in which groups were focused on PEFA results for each municipality. Organization of 3 working groups was done based on functional fields of reform (e.g. drafting the budget, execution of budget, procurement, internal audit etc) and the main focus was addressing fields with low scores (C, D) in terms of their performance. Involvement of main actors in developing the action plan on PFM reform at the municipal government level is essential in their commitment towards its implementation in the future and addressing the issues deriving from the resistance to make changes. Initially, the Action Plan on PFM Reform was designed by including the main activities, but not being an overloaded or complicated process that would be difficult to implement. Conclusions of the roundtable are the main input for developing this document.
- 2. Initiating meeting with the Mayors on agreement of measures to reform the Public Finance Management at Municipal Governments (May 22, 2012):** Supported by the program of GFSI the MoF organized an initiating meeting with Mayors of Municipal Government that participated in the second round of PEFA assessment on initiating the debate on measures proposed for further improvement and strengthening of municipal practices on PFM and the top priority actions to be undertaken, actors that would deal with their implementation and deadlines of their implementation. This meeting was preceded by the round table with municipality teams (as above) that drafted the action plan and identified the main issues in general for reform for six involved municipalities. In addition to the Ministry of Finance as the organizer, USAID/GFSI as the main supporter of this process and Mayors of Gjilan, Gjakova, Ferizaj, Peja, Istog and Novoberdo, representatives of the Kosovo Municipality Association and DFID were present as well. The meeting with the Mayors led to an agreement on implementation of proposed reforms included in the action plan.
- 3. Development of individual action plan on PFM Reform for each municipal government (May-August 2012):** The Ministry of Finance, with the support of GFSI is helping individual municipalities of Ferizaj, Gjakove, Gjilan, Peja, Istog and Novoberdo in drafting individual action plans on reforming PFM taking into account this document as the basis of this reform.

Development of individual plans for municipalities aims to adapt reforms with specifics of municipalities (where applicable) and to propose specific measures and solutions for weaknesses shown by PEFA. Development of individual plans will be carried out with the main coordinator of this process to be appointed by the Mayor, in cooperation with the senior management of Municipalities, especially with the heads of the fields where the weaknesses are identified. During the process there will be a link with the senior management and the Mayors to support formulation and adopting of action plan in the municipality, importance of this activity, delegation of responsibilities and the supervisory role of this process in the coming months/years.

**Task order tasks completed during year two include:**

- Municipal PFM reform action plan for local governments developed (general plan).
- Individual workable action plans to implement reforms (extracted from general plan), for both rounds of PEFA municipalities, formulated.
- Associated training program to improve some of the areas of weak performance found through PEFA, such as mid-term budget planning, property tax and on financial statements developed and included in year three of the project.

### 3.2.2 MUNICIPAL MEDIUM TERM EXPENDITURE FRAMEWORK

***Phase a Municipal MTEF (M-MTEF) approach into municipal budget process***

The GFSI team continued with the next phase of USAID's support to the local authorities in their efforts to strengthen public finance practices, with the focus on MTBF application during the 2013-2015 budget. The first event was organized on March 14, 2012 with about 80 municipal budget managers and CFOs participating. The conference benefited from the contribution of Municipal Budget Department of MoF, Strategic Planning Office of Prime Minister, Ministry of Health, Ministry of Education, and DFID-funded projects. The conference created the opportunity to discuss municipal medium-term budgeting in the context of national sectorial strategies, in particular to ensure their comprehensive implementation in health and education, for which municipalities are primarily responsible. Municipal practitioners were also presented with good practice principles and examples of MTBF application from other countries.

**Task order tasks completed during year two include:**

- Dissemination of observations from PEFA exercise on MTEF practices in the Kosovo Municipalities through the example of 11 PEFA municipalities
- Dissemination of sectorial costed strategies in health and education and its linkage to municipal mid-term budget through earmarked grants

***Strengthen the capacity of municipalities to integrate an M-MTEF approach into municipal budget processes***

GFSI Team used PEFA assessment work to observe material improvements in mid-term budget planning practices made during budget cycle 2012-2014, following the instructions given with the Municipal MTEF Technical Manual published in year one of the project (2010-2011). In order to maximize the impact, GFSI team decided to select a number of municipalities to assist in hands-on process during the development of their MTEF 2013-2015. In other words this work was about the application of tools given by GFSI team in year one of the project. Municipality of Gjilan, Peja, Vushtrri, Istog, Gracanica and Novoberda were selected (all of them except Gracanica were former PEFA municipalities). GFSI team prepared an M-MTEF template draft based on best practices and how an M-MTEF document should look like from lessons learned, shared with all six municipalities and at a daily workshop organized in April 25, municipalities provided amendments to that, based on their past experience. All were advised in using agreed MTEF document format for budget cycle 2013-2015.

Additionally, Municipalities of Gjilan, Peja, Vushtrri, Istog, Gracanica and Novoberda were individually decamped with their Board of Directors (including Mayor) for 1.5 days in Prevalle/ Prizren, end of May – begging of June 2012, in discussing and deciding on their mid-term budget document 2013-2015. GFSI team provided further guidance on MTEF document drafting, with workshops, and daily visits to each municipality, until this mid-term budget document approved with Municipal Assemblies. As the quality of past M-MTEFs varies among municipalities GFSI team had in accordance expected results.

**Task order tasks completed during year two include:**

- Development of complete M-MTEF document with all chapters included (Istog did not have a MTEF document in the past, used some tables with digits only), where projects, budgets are related directly to municipal priorities and policies 2013-2015
- Built a new approach towards budget planning (all departments sitting together and doing the plan) - no longer this is a document of Finance and Budget department
- Municipalities provided an extensive and clear list of their mid- term capital projects and their associated costs
- A new chapter for M-MTEF document introduced with performance indicators against municipal priorities. This is an initial chapter which gives enough room for improvements; however it serves as a good basis for municipalities in the future.
- Capacity building initiatives in particular with six hands-on process municipalities together with municipal budget practitioners, and municipal executive leaders
- M-MTEF Template suggested to municipalities for 2013-2015 budget cycle
- Six M-MTEFs developed and approved in Local Assemblies

### 3.2.3 PUBLIC FINANCIAL MANAGEMENT IN NEW MUNICIPALITIES

***Support establishment of a cadre of professional and competent financial officers; and***

***Assist new municipalities in the certification of treasury functions and provide continued professional development***

The GFSI team provided training for officers in new municipalities (Gracanica, Ranillug,,Kllokot and Partesh) in all financial management functions described in the financial management and control rules. The functions include: Commitment Officers, Expenditure Officers, Goods Receiving Officer, Approving Officer, Procurement Officer, Assets Officers and Revenue Officers.

**Task order tasks completed during year two include:**

- Identification, inviting and providing training to financial officers in the new municipalities
- Certification of financial officers to perform their respective functions in FreeBalance

### 3.2.4 ENABLING MUNICIPAL BORROWING

**B –Assist Office of the Auditor General (OAG) so that Their Ability to Review and Assess the Fiscal Operations of Municipalities is Strengthened and Made More Timely and Effective.**

***Ensure that KFMIS meets the needs of municipalities for accounting, financial control and reporting***

***Raise the standard of accounting professionals at municipal level / Enhance accounting; reconciliation and reporting through automation of municipal financial transactions***

A criterion related to the ability of municipalities to borrow, as set out in the Debt Law, is having two consecutive unqualified audit opinions from the external audit of annual financial statements. Municipalities and other budget organizations are required to produce annual financial statements in accordance with the International Public Sector Accounting Standards on a Cash Basis. The Law on

Public Financial Management and Accountability also sets out requirements to report annually on the municipality assets and liabilities. Treasury Department provides the instructions and forms to budget organizations, which are in accordance with the IPSAS.

The GFSI team has provided assistance in the drafting, updating and improving the Financial Reporting Administrative Instructions. A key initiative was the drafting of a Financial Rule on preparation of Interim Nine-Months Reports by budget organizations. It provides an opportunity for an interim audit of municipality accounts in order to prepare them for the final audit of financial statements. The GFSI team also drafted the end-year Financial Rule on the preparation of financial statements. This Financial Rule represents an update of previous years Administrative Instructions on Preparation of Financial Statements, taking into account recommendations by both Auditor General and the municipalities. The GFSI team held a presentation on the issued Financial Rule with Chief Financial Officers of municipalities, as part of a seminar organized by the Treasury on End-Year Procedures and participated in a discussion regarding commonly identified issues. Auditor general staff were present and participated as well.

A review in a selected number of municipalities was performed by the Project. Audit reports were analyzed, common issues identified and a questionnaire prepared with those common issues. The questionnaire was used during visits to municipalities and the issues were discussed. Most of the municipalities have taken steps to improve in matters such as complete asset records and complete contingent liability records. A report was prepared setting out the main issues and recommendations for improving the audit reports situation among municipalities.

A seminar was held with the budget organizations at each year end to announce the instructions and to provide the opportunity for questions. In addition, training was organized for all municipalities to explain to the staff how they use their data and KFMIS data to prepare financial statements, how to present the information and how to communicate with the auditors during the audit process. This provided the opportunity to discuss common problems of the municipalities during their respective audit process.

Task order tasks completed during years two include:

- Assistance in preparation and issue of Administrative Instructions on Reporting
- Assistance in preparation and issue of Administrative Instruction on Reporting Arrears
- Assistance in preparation and issue of Administrative Instruction on Three-Quarters Interim Reporting
- Presented at Treasury Workshop for municipalities regarding Financial Statements
- Review of municipalities audit reports, internal controls, visits to municipalities and report produced
- Training held on preparation of financial statements

## **C – Assist MOF to Develop and Implement an Action Plan to Enable Data Sharing Among the Various Legacy It Systems in the Ministry**

### **Task 1: Information Technology**

#### ***Establish a foundation for IT Governance at the MoF***

Progress has been achieved in the implementation of the proposed IT Organizational Structure. The IT Division has been transformed into a Department and an IT Director has been recruited.

#### ***IT Strategic Assessment and ICT Strategic Plan***

The GFSI IT Advisor developed high-level concept models “To-Be” for IT Organization, IT Infrastructure and Applications Integration. The drafting of the strategic plan is still pending due to the delays in

establishing the IT Governance Committee. As stated it was only in Q4 of Y2 that the recruitment for the new IT Director happened and the decision for the transformation of IT Division into Department.

### ***Improve data sharing among systems / Assist the MOF in Implementation of the SSC and Data Sharing Environment (DSE)***

The project previously initiated for building a joint server room and shared services data centre is in the tender process. The GFSI Advisors assisted in drafting the terms of reference for the project including TAK and Customs. It is anticipated that the full implementation of this project is finished by Q3 of Y3.

### ***MOF IT Staff skills improved***

Due to limitations already described related to the recruitment of key IT staff no specific activities and achievements in this area were possible during project year two (Y2), but all tasks under this activity remain with high priority within GFSI year three (Y3) plan.

## **D – Assist MOF to Assess Remaining Priority Capacity Building Needs in the Ministry's Budget and Treasury Functions and Design and Conduct Training Programs to Address Those Needs**

### **Task 2: Budget and Treasury**

#### ***Continue Implementation of PFM Action Plan***

#### ***Advance cash flow and asset management***

#### ***Introduce performance management in the Budget process***

Over the last 10 years, the Budget of Kosovo has been produced on an incremental basis, with new funding added for new functions and initiatives as these have been approved (or in many cases the function transferred from UNMIK). This has been possible due to the steady increase in revenues. However, as there are large deficits already planned in coming years and revenue growth less assured, it will be more important for the Government to re-align its expenditure profile to its current policy priorities. That is, new policies cannot simply be implemented by adding to the size of expenditures – offsetting savings must be found but cutting funding to lower priority areas. As a result, the MoF commenced a strategic expenditure review (SER) under the auspices of GFSI and in cooperation with DFID.

As part of the SER a review of Kosovo's historical and planned functional expenditure from 2007 to 2014. Compared against OECD countries and regional countries (Slovenia, Hungary, Germany, United Kingdom, Macedonia, and Albania, Montenegro), Kosovo allocates a higher percentage of its budget expenditure to public order and safety, economic development and education and less to environmental protection, health and social protection demonstrating the Kosovo government's commitment to investing in economic and human resource initiatives that will stimulate growth and provide a strong base for funding increased expenditure in social policy objectives in the future.

The results of the SER confirmed strong alignment with the economic policy priorities contained in the Economic Development Vision Action Plan (EDVAP). However, the current budget formulation process lacks a mechanism to prioritize new policy initiatives contained in EDVAP, EPAP and sector strategies within the Medium Term Expenditure Framework (MTEF) that is consistent with the Government's medium term fiscal targets. For example none of the 183 initiatives contained in EDVAP were prioritized against each other in terms of the expected impacts on job creation, revenue generation, export generation and import substitution, FDIs, and private sector development. The GFSI Team recommended a process to prioritize new and existing policies into a Medium Term Policy Priority (MTPP) document. This particularly important as Kosovo moves from a period of 21.5% annual average growth in Budget expenditure over the period 2007 to 2011 to a planned annual increase of 2.91% over the period 2011 to 2014.

Key recommendations contained in the SER covered the continuing introduction of a comprehensive set of public financial management reforms, consistent with the country's implementation capacity, to introduce a high quality policy oriented program-based budget. The recommendations included:

- A consolidated Mid-term Policy Priority Statement (MPPS) should be developed and updated annually that contains costed and prioritized initiatives contained in EDVAP, EPAP and sector strategies that are affordable against the hard budget and forward year expenditure constraints;
- A Fiscal Rule should be introduced that will strengthen fiscal discipline and fiscal credibility and increase the transparency and accountability of public finances in Kosovo;
- The MoF should produce a guidance manual and deliver training to improve the process and methodology for costing New Policy Initiatives (NPIs);
- Processes and systems for monitoring and evaluating the results of individual initiatives should be put in place to support the achievement of Kosovo's strategic policy priorities and enhanced strategic planning.
- Improve the quality of Ministry Budget Submissions by having NPIs and Saving Options costed, the objectives, activities, outputs specified, and the source of funding identified;
- Further institutionalize the Fiscal and Budget Committee of Cabinet (FBCC) with responsibility for reviewing the MPPS, MTEF, ministerial budget submissions (containing new policy proposals), NPI fiscal impact assessments, Medium Term Budget Framework, Annual Budget Law, and evaluations;
- In accordance with a Government approved Action Plan implement Program and Performance Budgeting (PPB) prior to the 2015 Budget to improve measurement and reporting of the performance of budget organizations in achieving the stated socio and economic policy goals and objectives;
- Continue to implement the Action Plan for Public Financial Management (PEFA) in order to enhance public expenditure efficiency.

In finalizing the SER Report, the GFSI team conducted a costing exercise of EDVAP. Costing information was received from Ministries for 172 of the 183 initiatives that totaled 1.911 Billion Euros over the period 2011 to 2014. Out of the total funding cost of 1.911 Billion Euros, 1.851 Billion Euros is planned to be allocated through the annual budgets, with the remainder to be sourced from donors (54.9 Million Euros) and borrowing (5 Million Euros). Of the 172 costed initiatives 128 were assessed by the ministries as having a zero cost supporting the recommendation that more guidance and training needs to be provided to budget institutions on how to perform this task as part of producing future policy strategies containing new policy initiatives.

As an output of the SER Report the GFSI team assisted the MoF to hold a stakeholder workshop involving PMO, MEI and donors to identify measures to support the improved preparation of the national development strategies, MTEF, annual Budget Law and supporting budget papers. The findings from the SER report and the conclusions reached at the workshop resulted in a number of process improvements being included in the Minister of Finance's Circular for the preparation of the 2013-15 MTEF.

## **E – Assist MFE to Ensure that the Ministry's Property Tax Department and Supporting Systems Remain Robust and Capable of Meeting the Own-Source Revenue Needs of Municipalities.**

### **Task 3: Property Tax**

#### ***Ensure that annual audits of property tax offices provide feedback to municipalities***

One of the main GFSI Property Tax reform activities was to support the improvements to the inspection process. The improvements were initially trialed in three pilot municipalities: Pristina, Shtime and Strpce.

The pilots involved the following steps:

- Extraction and analysis of various data and the selection of cases for field inspection.
- Inspection of the PT in municipality property tax offices and also in the field.

- Questionnaire Improvement
- Development of a process for archiving of documentation related to the inspection process.
- Development of inspection reports.

To further facilitate the reforms, the GFSI advisor continued the support for additional two municipalities Partesh and Graçanica. Training was provided to the municipalities and MoF Property Tax Department on the implementation of the new improved inspection process.

Although initially not part of the work plan, at the request of the MoF's Property Tax Department (PTD), the GFSI advisors supported the MoF to draft a manual for surveyors based on the new administrative instruction 3/2011. The purpose of the manual is to provide sufficient theoretical and practical information to surveyors on procedures and taxpaying communications. The production of this manual has enabled the USAID DEMI and LOGOS projects to commence recording unregistered properties.

GFSI advisors supported the PTD in its consultations with SIDA to prepare a concept paper for the introduction of land tax in Kosovo that involved organizing and participation in several important meetings with the Deputy Minister of MoF, USAID, the Kosovo Cadastral Agency, World Bank, International Monetary Fund, Cadastral office of Ferizaj Municipality. SIDA has submitted a proposal to the Government to provide technical support to expand the property tax base by including land, to boost property tax revenues.

**Task order tasks completed during year two include:**

- Annual inspection report updated
- Developed new list of questions for each area of inspection
- Documentation of annual inspection for each municipality
- Improvement property tax administration in the Property Tax Department and Municipalities.

***Calibrate new mass appraisal models***

GFSI advisors also participated in mass preparation of 2012 bills (monitoring of production of bills, testing and verification of results such as list of bills and invoices in PDF, and approval of test results and verification of invoices sent for printing and distribution).

**Task order tasks completed during year two include:**

- Impact of the new valuation model in the property tax amount documented for 21 municipalities.

***Train in the use of the property tax IT solution and administrative best practices***

With respect to increasing the collection, in cooperation with the PTD and SIDA staff the GFSI team has mobilized the municipalities in identifying taxpayers with large debt. During the month of October and November final notices were produced and sent to the delinquent and large debt taxpayers.

Assistance to the department was also provided for the migration the Property Tax System in the new server infrastructure. To date the production environment has been migrated on the new servers infrastructure and other environments (testing and development) will be migrated as new servers are made available.

The GFSI advisors assisted the Property Tax Department in drafting the yearly activity plan for the further development of the Property Tax System. The plan has been approved by the Department Director and it foresees a 4 to 5 system releases which include some new functionalities and optimization of existing ones. The plan is very detail and it contains goals, timelines, activities, responsibilities and results.

The GFSI advisors also assisted the MoF in the meetings with the IMF and the development of reports and analysis requested by the IMF with regards to the simulation on the increase of the property tax rate base from 0.05 to 0.15%. The simulated results show that if the new rate is applied the property tax for the whole country will be 20.061.254 EUR or 4.324.383 EUR (22%) more compared to the previous year. With the current collection rate it is estimated that the collection would also increase above 16 million.

When talking about the Property Tax Department, it is important to note that this Department is an example of women empowerment where more than 53% of all employees are women, including some senior positions.

### ***Training***

Capacity building in the PTD and municipalities

- Property tax department
  - On implementation new process of annual inspection
- Financial director and managers of property tax
  - On planning or simulation of property tax amount
- Surveyors
  - On new process for registering properties and taxpayers
- Users of property tax system
  - On use of new PTS functions based on new processes

**Task order tasks completed during year two include:**

- Municipalities enabled to plan revenues for property tax based on the data available from PTS.
- Migration of the PTS System to the new server infrastructure

### **3.3 OBJECTIVE 3: ECONOMIC POLICY ASSISTANCE**

#### **Development and Implementation of an Action-Oriented Government Strategy for Profitable Private Sector Growth and the Attraction of Foreign Direct Investment Through Technical Assistance Provided to the Relevant Counterpart Institutions and Closely Coordinated with Other USG-Funded Development Initiatives.**

As reported last year the GFSI project worked extensively with Government Ministers to design and develop an Economic Development Vision Action Plan (EDVAP) for Kosovo for the period 2011-2014. With the support of USAID a conference was held in Bansko, Bulgaria in April 2011 to facilitate the development of the Government's economic vision and accompanying action plan. At the commencement of 2012 the first annual review of EDVAP was conducted to remove completed activities, reprogram the timing of some existing activities and to include new activities that further contribute to the achievement of the EDVAP goals. The annual review resulted in the preparation of new EDVAP document for the period 2012-2014 that was used as the main government policy document for preparing the MTEF.

This year, GFSI assisted with the organization of an inter-ministerial meeting on EDVAP. Apart from the five economic ministries, Ministry of Justice, Ministry of Labor and Social Welfare, Ministry of Health, Ministry of European Integration were also invited to participate since numerous EDVAP activities fall within their responsibility. GFSI prepared for the inter-ministerial meeting a concept note on EDVAP that resulted in the development of Government's Policy Priority Document.

At the end of March, 2012 the GoK, with the support of GFSI, decided to establish the National Council on Economic Development (NCED) with the responsibility for monitoring of the implementation of EDVAP and developing policy measures that promote economic growth. Members of this Council include all economic ministers and other ministers that cover economic priority areas of the GoK<sup>1</sup>. The three Kosovo chambers of commerce also participate in the meetings.

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<sup>1</sup> The following Ministries are members of the ECED: Ministry of Trade and Industry, Ministry of Finance, Ministry of Economic Development, Ministry of Agriculture and Rural Development, Ministry of Infrastructure, Ministry of Science and Technology, Ministry of Justice, Ministry of Labor and Social Welfare, Ministry of Health, and Ministry of European Integration.

In April, 2012 the GoK entered into formal program (Stand-by Arrangement) with the IMF valued at approximately 106 million EUR. Prior to entering into the program, the GoK, with the assistance of GFSI advisers had implemented a number of measures to improve the fiscal position, and fiscal discipline and strengthen the financial system's resilience. In June, 2012, the Stand-by Arrangement was reviewed by the IMF Mission. Throughout the Mission, GFSI advisers were active in providing constant advice and briefings to the Minister and Ministry's staff. The Mission concluded that all quantitative criteria at end April, 2012 and most of the structural benchmarks had been met.

In line with the GoK priorities for maintaining the macro-fiscal sustainability, as set out in EDVAP and the MTEF and the macro quantitative targets and structural benchmarks contained in the IMF Stand-By-Agreement, the MoF, with the assistance of GFSI, has successfully managed to maintain fiscal discipline and thus contribute further to the economic growth and macro-stability of the country.

### **A detailed description of tasks and activities**

The GFSI project assisted the MoF to conduct the Strategic Expenditure Review (SER) to assess the strength of the linkages between the GoK policy priorities, as set in its key documents, such as EDVAP, MTEF, EPAP, and the yearly budget spending allocations. The SER Report confirmed that past and future budget expenditures were aligned with economic policy priorities contained in EDVAP confirming that the government is directing funding to policy initiatives that are design to create better conditions for the functioning of a competitive market, strengthening the private sector, supporting employment generation, improving the image of Kosovo for investment, and creating a more secure and stable environment for business.

As part of the current Stand-By Arrangement the Government has committed to ensuring conditions for sustainable public finances in the post-program period. This includes the introduction of a legally binding rules-based fiscal framework that takes into account country-specific factors, such as Kosovo's large public investment and development needs, on-going structural changes of the economy, and its fiscal decentralization framework. In June, 2012, an IMF TA mission visited Kosovo to discuss the broad framework for a future fiscal rule. During the discussions GFSI advisers attended all the meetings and contributed to the preparation of the Ministry's responses to the IMF's recommendations. It is expected that during the upcoming IMF missions in September and October 2012 the Government will agree with the IMF on the structure and form of the fiscal rule.

With the assistance of the GFSI the MoF has established the Economic and Public Policy Department that combines the macroeconomic, tax policy, public policy and legislative analysis sections. The Director of Economic and Public Policy Department has been appointed and this Department now operates at close to its full staffing levels. This department and the main of its units are being headed by women, and together with a relatively large number of women working in this department (in total 50% pf this Department employees are female), they are all part of the discussions and decisions for major economic policies, including their key role in assisting the Government to design the program with IMF and the implementation of this program.

GFSI advisers assisted the NCED in conducting its initial three meetings. To date the NCED has produced the Government's Economic Policy Priority Platform, good progress has been on simplifying and reducing the number of licenses for and discussions on fiscal reforms and legislative agenda of the Government have taken place.

During March, key issues surrounding the challenges in organizational structure and management of the Ministry of Trade and Industry (MTI) were discussed including the implementation of the new law on public administration and civil service. GFSI suggested to the DPM several changes to the functioning of the Cabinet of the Minister to make it more functional and responsive to the daily needs and activities. With the GFSI suggestion, the DPM appointed an adviser who will serve as a liaison person with the Assembly of Kosovo, making sure that all the laws sponsored by the Government are properly defended

in the Assembly and they reflect the objective of the Government to reform the business environment in Kosovo and boost economic growth.

Regarding the fiscal system, GFSI advisors have initiated talks with key stakeholders to provide advice on tax reform. The initial reaction is positive and during the GFSI year 3 a concept document outlining the broad range of the fiscal reforms needed will be produced with the support of GFSI advisors.

The GFSI also advisor attended and presented at the Liberal Forum organized by University of Pristina. Professors and students from different universities of Kosovo attended the meeting dedicated to the topic *The Role and the Size of Government to Contribute to Growth and Development*. GFSI, through its advisors, has been present in few forums, conferences and meetings and has provided its contribution to a number of economic debates.

It should be noted that on this area, GFSI works closely with all institutions involved in this segment. In particular, there is a close coordination and cooperation of economic policy activities with the Office of Prime Minister, in particular with the Prime Minister's Advisor for Economic Policy issues, Ms. Mrika Kotorri. In addition, GFSI collaborates closely with the Strategic Planning Office within the OPM as well.

### **3.4 DONOR COORDINATION**

#### **Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo**

On municipal PPP's GFSI continues to coordinate activities with the European Commission and European Commission Liaison Office, and the following USAID funded projects BEEP, SEAD and DEMI.

Regular meetings have been established between the Strategic Advisory team and the ISC Chair. Visits have been made to the Municipality of Strpce. Important stakeholders relevant to the development of Sharr Mountain, including Ministries that have rights, control or responsibility for issuing permits, have been identified and outreach has begun. Given the high value of Sharr Mountain Assets, strong participation from international agencies such as USAID and ECLO will be required to ensure the tender process and concession development move forward in the most fair and transparent process possible.

GFSI coordinated with the Ministry of Infrastructure, Ministry of Finance and held discussions with the IMF on the construction of Route 6. A stakeholder map and stakeholder communication plan was prepared.

#### **Objective 2 – Fiscal stewardship**

Donor cooperation efforts primarily focused on coordinating the GFSI project with other projects in the USAID Local Government portfolio: DEMI and BEEP, DFID and Swiss LOGOS for International Cooperation.

Cooperation continued with DFID/REPIM advisors (two of them) in PEFA municipality self-assessment.

Cooperation with DEMI centered around the development of the M-MTEFs with DEMI is contributing an important role in civic engagement and assembly debate. GFSI Technical Manual on M-MTEF and other materials were provided to DEMI representatives.

Attended e-Government event organized by DEMI project. Three Ministries were present as well as most of the Municipalities. As part of this event, good examples from neighboring countries for connected online services for citizens at municipalities were demonstrated. While the need of e-services for citizens was recognized and agreed, no specific projects were mentioned as planned or ongoing.

Consultations continued with BEEP representatives working on policy alternatives about municipal construction permits and municipal fees on businesses.

A joint GFSI, DEMI, BEEP policy paper was produced on municipal owned-sourced revenues.

The GFSI was regularly represented on the Working Group on Donors Coordination and Capacity Building functioning under the auspices of the MLGA, as well as in Sub-Working Group for Public Finance working under the auspices of Ministry of Finance.

The GFSI dialog with other donors included EU Twinning project and DFID project supporting the decentralization of social services. GFSI advisors were asked to contribute a presentation on challenges and opportunities of decentralization of social services at the annual Conference on Social Services organized by Ministry of Labor and Social Policy with the support from Kosovo Social Services Decentralization project. The Conference will be held in November 2011 and will gather the key stakeholders in the area of planning and delivering municipal social services. GFSI also worked with the EU Twinning project and DFID on revisions to the Municipal Budget Circular, Pristina Municipality MTBF 2013-1015, and municipal financial reporting.

GFSI has also cooperation activities with the US Treasury Advisor at the Ministry of Finance, in particular, issues related to debt management from a budget perspective; the IMF program, and processes for controlling and reporting expenditure arrears.

## **Objective 2 – Assistance to the Office of Auditor General**

GFSI team participated in extensive and very positive communication with the Auditor-General's Office and MoF Treasury in the analysis and follow up with municipalities on their financial statements. In addition regular presentations were provided on municipal PEFA findings on 31 PEFA indicators assessing the municipal public finance management systems and practices

## **Objective 2 – Assistance to the Ministry of Finance**

GFSI coordinated during budget preparations with the United States Treasury Advisor for debt issues.

Throughout the SER process, the GFSI advisors collaborated extensively with a DFID team of international advisors and regional advisors from Albania. Under the agreed division of responsibilities, the GFSI advisors focused primarily on the review of the MOF's central budgeting processes and supported the finalization of the Medium Terms Fiscal Framework as part of the IMF SMP discussions in September. DFID advisors provided effective support to the individual ministry expenditure reviews that used the recent WB PER as a basis for assessing areas of potential improvements in cost effective delivery of Government Programs. Advisors from the USAID Agriculture Project provided valuable assistance in the review of the Ministry of Agriculture's current programs and new expenditure initiatives proposed under EDVAP.

The Project consulted with EU advisors responsible for the Public Investment Program, the European Accession Plan and the Public Administration Development Program.

## **Objective 2 – Assistance to the IT systems in the Ministry of Finance**

GFSI consulted with ESTAK, the United States Treasury Advisor. DFID and the EU PIP on the MoF's IT reforms.

## **Objective 2 – Assistance to the Property Tax**

The GFSI Team coordinated project activities with SIDA under the Swedish Tax Agency (STA) project. GFSI team coordinated with SIDA activities in developing further pro tax business processes. GFSI team cooperated with STA in developing concept idea and inception report for possible future project of SIDA, related to introduction of land taxation in Kosovo municipalities.

In addition GFSI Team coordinated its activities with DEMI and Swiss LOGOS for International Cooperation in their efforts to collect data on all unregistered properties (for the purpose of taxation) identified, in Kosovo Municipalities. GFSI team provided all necessary data and further instructions to DEMI and Swiss LOGOS team to perform this activity.

## **Objective 3 – Economic Policy Assistance**

DFID will fund an international advisor to work with the Strategic Planning Unit (SPU) in the Office of the Prime Minister. It will be important that the performance monitoring framework at the national planning level dovetails with the performance monitoring framework developed for programs. Meetings will be arranged in the next quarter to ensure an adequate level of coordination takes place.

Close coordination occurred with the BEEP and ESTAK projects in relation to single business number which also involved discussions with the WB and IFC.

Close coordination with the USAID BEEP project and the Office of Prime Minister, Strategic Planning Unit on the establishment of the National Council on Economic Development, the review of EDVAP and the preparation of the Economic Policy Priorities Platform document.

# 4 PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

## **Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo**

**Capacity within the PPP Department** – The PPP Department has focused primarily on its regulatory function, i.e. to review project proposals submitted by public authorities to the PPP Committee, and on exercising contract management unit functions with respect to the Airport Concession. The provision of technical assistance to public authority’s strategic advisory role for the purpose of developing PPP projects and related documentation as well as the delivery of training on PPP matters has as a consequence been rather limited. In addition GFSI faces constraints in the availability, quality and timeliness of data necessary to conduct certain PPP feasibility study steps, most notably the information necessary to prepare a Public Sector Comparator (PSC) model. The PSC is used to determine the value-for-money of a proposed project.

**Proposed solution:** The GFSI team will continue to work with the PPP Department in its efforts to become a center of excellence for PPP’s at both the central and municipal government level and initiate training and propose organizational structuring to establish a strategic advisory function.

**Lack of permanent Contract Management Unit for Airport Concession** – The PPP Committee has not yet established a permanent Contract Management Unit (CMU), as required by law and by the Airport Concession Agreement, which would oversee the implementation of the concession agreement awarded to the Limak/ Aeroport de Lyons consortium. CMU functions are being exercised by the PPP Department, which was authorized by the PPP Committee to perform such functions only on a provisional basis until a proper Contract Management Unit is established. Two attempts to establish such a unit have so far failed (the first attempt was to hire qualified individuals, the second attempt aimed at qualified companies).

**Proposed solution:** A joint recommendation from the GFSI Project and the Director of the PPP Department will be submitted to the Minister of Finance to issue a new tender to appoint a firm to perform the functions of the CMU.

**Lack of clarity regarding Environmental Policy & Strategy** - Current lack of clarity regarding the issuance of Environmental Permits and a lack of a clear policy delineating economic development and environmental protection goals are likely to result in delays for the development and implementation of PPP projects and other capital projects. In addition, the current backlog in processing environmental applications (EIAs) is a further cause of concern.

**Proposed solution:** GFSI will use its recent inclusion of the Team (as an observer) in a Donor Waste Sector group to find solutions to these issues and build consensus to implement adopt the solutions.

**Lack of clarity regarding applicable regulatory framework for selecting an investor for Brezovica Resort Development-** The decision establishing the ISC for the Brezovica Resort Development Project does not specify the legal framework for selecting the private investor or who the contracting authority will be.

**Proposed solution:** GFSI will work with the government and the ISC to resolve these issues by preparing a draft procedures to govern the role of the ISC and PIU.

## Objective 2 – Assistance to the Ministry of Finance

**Municipal PFM** – The GFSI team’s work with municipal counterparts in improving the quality of M-MTEFs proved to be very successful. However, apart from direct work with municipalities this component is dependent on the MoF actions with regard to the circulation of information on grants financing for the next three years and providing high quality budget instructions.

**Proposed solution:** GFSI will work more closely with the Director of the Municipal Budget Department in preparation of the budget circulars and associated instructions and timely dissemination of such information.

**Budget Department** - Efforts to obtain the information on the cost of the individual EDVAP initiatives from the line ministries proved a difficult task given a lack of previously issued methodology and guidance material covering this important process. It was clear that more guidance and training needs to be provided by the MoF to budget institutions on how to perform this critical task prior as part of the 2013 Budget process.

**Proposed solution:** Advisers from DFID and the GFSI Project will work with the Budget Department to develop a costing manual and accompanying Minister of Finance instruction.

**IT operations** - While good progress was been achieved through the establishment of the IT Department and appointment of a new IT Director the major problems associated with a lack of connectivity, the need to transfer donor funded IT staff resources to the MoF, and the absence of an ICT strategy remain.

**Proposed solution:** GFSI will deploy an experienced CIO to work with the Director of the IT Department to prepare an ICT strategy and establish a committee to oversee the implementation of the strategy.

**Property Tax** - A review conducted on the progress in property tax showed that impressive results were achieved in the modernization of the system implementation and re-survey effort. However, progress in the valuation, collection, billing and audit functions continues to be held back due to inadequate and insufficient support for the property tax by Mayors and Directors as well as the staff engaged in administration of property tax.

**Proposed solution:** GFSI will support the MoF to provide more training, tools and policy incentives to municipalities to achieve improvements in property tax administration and collections in Kosovo.

## Objective 3 – Economic Policy Assistance

**Economic Assistance** - A weakness in the GoK’s budget planning process is the lack of an established mechanism to prioritize new policy initiatives contained in EDVAP, EPAP and sector strategies into a fully funded National Development Plan that is consistent with the fiscal targets contained in the MTEF and the IMF’s SMP. For example, the initiatives contained in EDVAP were not prioritized against each other in terms of the expected impacts on job creation, revenue generation, export generation and import substitution, FDIs, PSI and environmental impacts.

**Proposed solution:** To assist the MoF address this deficiency the SER Report included a proposed process for prioritizing new policy initiatives (NPI). GFSI will work with the Budget Department to adopt the process and train staff to apply it to NPIs.

## 5 VARIANCES FROM THE YEAR 1 WORK PLAN

GFSI work has broadly continued in line with the Year 2 Work Plan but with the following variances:

### Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

- **Assistance to Motorway PPP's** was added to GFSI through contract modification on September 28, 2011. The GFSI activities under this new sub component have the following objectives: analytical and technical support for financing and transaction options for the construction of route 6; and a possible private sector role in the construction and/or maintenance and tolling of major new public transportation infrastructure. The first objective was completed through the preparation on the Route 6 Financing Study and the follow-up Procurement Options Paper. As noted in Section 3 of this report the Government announced in June 2012 that Route 6 would be financed from public sources with the prerequisites for entering into contractual obligations being the completion of the privatization of PTK and the near-completion of highway Route 7. At the same time, the government expressed its interest in entering into an operations and maintenance (O&M) concession with the private sector for Route 7 including toll operations. Further assistance to the Route 7 O&M concessions will be subject to decisions taken in finalizing the GFSI Year 3 Work Plan.
- **The Brezovica Resort Development** task was also added to GFSI Project through the contract modification of September 28, 2011. GFSI's objective in this task area is to provide strategic advisory support to the MTI, Municipality of Strpce, and the MOF in investigating transaction options for the Brezovica Ski Resort. While there was some an initial slippage in project timelines the transaction is now on track with consensus reached by the ISC to issue a TOR for the transaction advisor.
- **Assistance to PAK** – As previously noted in this report USAID decided not to trigger GFSI's assistance to PAK under the task order. Under the GFSI Project's Component 3 advisers assisted the GoK to pass key legislation governing the Privatization Agency of Kosovo (PAK) that is expected to be a catalyst in releasing approximately 500 million Euro from the PAK Trust Fund through a more streamlined liquidation process.

### Objective 2 – Assistance to the Ministry of Finance

- **Land Tax** - GFSI advisors provided support to the MoF's PTD in its consultations with SIDA for the preparation of a concept paper on the extension of property tax to include a tax on land. The support involved organizing and participating in several important meetings held with the Deputy Minister of MoF, USAID, the Kosovo Cadastral Agency, World Bank, International Monetary Fund, Cadastral office of Ferizaj Municipality. Further support for this activity will depend on the Government's acceptance for SIDA's proposal to extend property tax in include introduce the land tax and further discussions on the finalization of the GFSI Year 3 Work Plan.

- **Further measures to introduce program performance management in the Budget process** were put on hold while priority PFM reform areas identified in the SER Report were addressed. These areas included: the introduction of a Fiscal Rule; preparation of a costing manual for new policy initiatives; and broadening the budget calendar to cover the full cycle of budget preparation, execution and policy review and formulation. improve the quality of Ministry Budget Submissions by having NPIs and Saving Options costed, the objectives, activities, outputs specified, and the source of funding identified;

## 6 UPCOMING EVENTS AND ACTIVITIES FOR THE NEXT YEAR

### Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

PPP Projects expected to be closed or near completion (subject to PPP Committee approval) for the remaining life of the GFSI project:

- Brezovica Ski Resort Development
- Route 7 Motorway Service Stations
- Route 7 – Fibre optic communication services
- Ferizaj Underground Parking
- Ferizaj Urban Bus
- Peja Car Parking
- Suhareka Solid Waste Management
- Mitrovica Solid Waste Treatment
- Peja Waste treatment/landfill BOT/concession
- Pristina Underground Parking – University
- Pristina Underground Parking – Municipal Building
- Pristina Underground Parking – Grand Hotel
- Pristina Urban Bus Concession

### Objective 2 – Fiscal stewardship

PEFA:

- Regional roll out of the PEFA Self-Assessment initiative to the next group of municipalities
- Design and adopt municipal PFM Action Plan, for the subsequent group of PEFA municipalities
- Assistance in the implementation of PFM Action Plan for municipalities participating in the PEFA program/design and implement associated training program in the areas of GFSI portfolio
- Assisting municipalities in monitoring and reporting progress against implementation of municipal PFM reform action plan. Providing monitoring tool to municipalities for their future application

Municipal MTEF:

- Review municipal MTEF's 2013-2015, disseminate lessons learned and recommendations
- Assistance in the implementation of a new MTEF model during the 2014-2016 municipal budget cycle
- Assistance to MoF Grants Commission Secretariat
- Assessment and recommendation to MoF for Municipal Budget Circulars 2014-2016
- Hands-on process on M-MTEF development for selected number of municipalities

Assisting Municipalities on Financial/Treasury activities and Property tax

- Assist new municipalities in the certification of treasury functions and provide continued professional development
- Improve financial reporting for Municipalities to comply with borrowing requirements
- Ensure that annual audits of property tax offices provide feedback to municipalities
- Calibrate new mass appraisal models
- Train in the use of the property tax IT solution and administrative best practices

## **Objective 2 – Assistance to the Ministry of Finance**

- Continue Implementation of PFM Action Plan and conduct new PEFA
- Introduce performance management in the Budget process
- Budget 2013 due to Assembly October 31 2012 with non-financial performance information measures
- Medium Term Expenditure Framework, incorporation the Governments Economic Vision and Action Plan and the outcomes of the SER, due 30 April 2013
- Adoption of a fiscal rule on time to be implemented with 2014 budget
- Assist authorities implement the IMF Stand-by arrangement program
- Improve the communication and coordination among all IT units and make IT functions sustainable

## **Objective 3 – Economic Policy Assistance**

- Assist Government, through national Council for economic Development, implement EDVEP measures
- Conduct an assessment of the need for ‘fiscal reforms’ and if needed, assist Ministry of Finance conducting the reforms
- Provide support to the EPP department to conduct complex analysis on economic policy impacts of specific initiatives,
- Assist the EPP Department conduct Debt Sustainability Analysis
- Promote regular dialogue through discussion forums, between Government, Business associations and Higher education institutions to discuss what economic policy reforms work best for Kosovo

# 7 INDICATOR DEFINITIONS AND COLLECTION AND REPORTING PLAN

## 7.1 GROWTH IN GDP

Element: High-Level Indicators							
Indicator Title: <b>Growth in GDP</b>							
<i>Definition/Rationale:</i>							
GDP growth indicates real growth of economy of Kosovo							
<i>Calculation:</i>							
Each year GDP growth over previous year							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Sector			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE and SOK data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
	Baseline	2010	2010	2011	2011	2012	2012
Baseline Year	Value	Target	Actual	Target	Actual	Target	Actual
2009	4.4%	4.8%	3.9%	6.1%	5.3%	5.7%	
Notes:							
Source for actuals for the past years and targeted data for 2012: MTEF 2013-15.							
Target not met. Lower than anticipated growth for 2011 mainly due to the eurozone crises, which has indirectly affected Kosovo's economy.							

## 7.2 VALUE OF PRIVATE INVESTMENT

Element: High-Level Indicators							
Indicator Title: Value of private investment							
<i>Definition/Rationale:</i>							
Total value of private investment in Kosovo economy							
<i>Calculation:</i>							
Amount in Euro that represents a sum of all private sector investment in the economy							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Amount, Euro				Sector			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE and SOK data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
Year							
2009	844	934	914	1068	1012	1203	
<i>Notes:</i>							
Source for actuals for the past years and targeted data for 2012: MTEF 2013-15.							
Target not met: Investment in 2011 affected by eurozone crises							

### 7.3 OVERALL BUDGET DEFICIT

Element: High-Level Indicators							
Indicator Title: Overall Budget Deficit							
<i>Definition/Rationale:</i>							
Percent of GDP. 2009 Baseline from the 2011-13 MTEF. Analyses of GFSI impacts will take into account changes in expenditure programs, the economy, tax law, other exogenous factors.							
<i>Calculation:</i>							
Calculated as a percentage of overall budget deficit to nominal GDP.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Lower = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	-1.1%	-5.1%	-2.5%	-7.1%	-1.7%	-5.4%	
<i>Notes:</i>							
Source for actuals for the past years and targeted data for 2012: MTEF 2013-15.							
Target met/exceeded: A much lower than expected deficit in 2011 is mainly due to the better performance of revenues as well as due to the under-execution in capital projects							

## 7.4 BUDGET RESERVES AS % OF GDP

Element: High-Level Indicators							
Indicator Title: Budget reserves as % of GDP							
<i>Definition/Rationale:</i>							
Budget reserve is achieving a balance between economic investment and managing fiscal risk. Hence a relatively stable budget reserve as a % of GDP is a measure of fiscal discipline							
<i>Calculation:</i>							
Percentage of GDP							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Stable = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
Year							
2009	8.7%	5.7%	5.7%	7.7%	3.5%	5.1% (10.2%)	
<i>Notes:</i>							
Source for actuals for the past years and targeted data for 2012: MTEF 2013-15.							
Target not met: The significant reduction in reserves for 2011 is mainly due to the fact that it was expected that PTK would be privatized during 2011. PTK privatization is now expected to be finalized during 2012; consequently, the target for 2012 has been revised accordingly (in brackets). Those data in brackets indicate revisions as per 2013-15 MTEF.							

## 7.5 TOTAL ANNUAL GOVERNMENT REVENUES

Element: High-Level Indicators							
Indicator Total Annual Government Revenues							
<i>Definition/Rationale:</i> All revenues collected by central and local government (tax, customs, municipal own- source revenues etc.)							
<i>Calculation:</i> Amount of collected revenue							
<i>Unit:</i> Euro				<i>Disaggregate by:</i> Central / Municipal			
<i>Type: Output/Outcome</i> Impact				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> MFE data				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	1146	1106	1126	1068	1308	1203	
<i>Notes:</i>  <i>Target met/exceeded: In 2011, revenues significantly exceeded target , mainly due to higher tax revenues as well as own source revenues.</i>							

## 7.6 EXPORTS AS % OF GDP

Element: 1.3 Economic Policy Assistance							
Indicator Title: Exports as % of GDP							
<i>Definition/Rationale:</i>							
Exports include the export of goods only, as percent of GDP. 2009 Baseline from the 2011-13 MTEF.							
<i>Calculation:</i>							
Percent of GDP.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
National Accounts				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End (Dec 31)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	4.2%	4%	7.3%	5%	6.8%	8%	
<i>Notes:</i>							
Source for actual as well as targets for 2012: MTEF 2013-2015.							
<i>Target met/exceeded:</i>							
.							

## 7.7 FISCAL IMPACT ASSESSMENT OF LAWS

Element: High-Level Indicators							
Indicator Title: Fiscal impact assessment							
Definition/Rationale: The ratio of the fiscal assessment of new/revised laws							
Calculation: Yearly ratio of the fiscal assessment of new/revised laws to the total number of laws drafted/revised and sent to Government for approval							
Unit: Percentage				Disaggregate by:			
Type: Output/Outcome Impact				Direction of Change: Higher = Better			
Source of Data/Responsibility for Data Reporting: MFE data				Timing and Availability of Data: Annually			
Frequency of Data Availability/Collection: Annually				Timing of Data Collection, Consolidation and Reporting: GoK Fiscal Year-End			
Frequency of Data Reporting: Annually				Reporting and Target-Setting Deadline: 15-Oct			
Frequency of Target Setting: Annually				Responsibility for Target-Setting: USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2011	100%				100%	100%	
Notes: New indicator							

## 7.8 NUMBER OF KEY PERSONNEL IN FISCAL POLICY AND ADMINISTRATION TRAINED WITH GFSI ASSISTANCE

Element: High-Level Indicators							
Indicator Title: Number of Key Personnel in Fiscal Policy and Administration Trained With GFSI Assistance							
<i>Definition/Rationale:</i>							
Number of key personnel engaged in fiscal policy and administration work who received training with involvement of GFSI project.							
<i>Calculation:</i>							
Number of people who participated in training programs organized by GFSI project.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Headcount				Gender			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Project Reports				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sep 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	n/a	125* (F30%-M70%)	1,216 (F 490 or 40.3% - M 726 or 59.7%)	280 (F35% - M65%)	870 (F 300 or 34.5% - M 570 or 65.5%)	350 (F35% - M65%)	
<i>Notes:</i>							
Target met/exceeded: The number includes officers trained on using different functions of the Freebalance system.							

## 7.9 NUMBER OF PPP/PRIVATIZATION DEALS COMPLETED

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Number of PPP/privatization transactions completed with USAID/GFSI support							
<i>Definition/Rationale:</i>							
Tracked number of PPP/privatization transactions completed with USAID support							
<i>Calculation:</i>							
Number of transactions completed							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Central / Municipal			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Project Data				Quarterly			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Quarterly				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	N/A	1	1	4	2	7	
<i>Notes:</i>							
Large PPP projects will generally take more than one reporting cycle to be completed.							
Target not met:: Variance for 2011, due mainly to unforeseen delays in PPP process for 3 Pristina underground parking facilities.							

## 7.10 VALUE OF PRIVATE INVESTMENT FROM COMPLETED PPP/PRIVATIZATION DEALS

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Value of private investment from completed PPP/privatization transactions with USAID/GFSI support							
<i>Definition/Rationale:</i>							
Monetary value of private investment in public sector from completed PPP and privatization deals							
<i>Calculation:</i>							
Progress measured annually against PPP program work plan							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Million Euros				Central / Municipal			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	n/a	€0	€106	€120	€107	€180	
<i>Notes:</i>							
Target not met: *Variance of 2011 Actual from 2011 Target due to transaction complexity, local capacity and available resources, and duration of transaction process							

**7.11 NUMBER OF STAFF TRAINED IN PPP ADMINISTRATION (DISAGG. BY CENTRAL/MUNICIPAL, INDIVIDUAL MUNICIPALITIES AND GENDER)**

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Number of public and private sector Kosovars trained in PPP							
<i>Definition/Rationale:</i> Number of staff trained on PPP with assistance of GFSI project							
<i>Calculation:</i> Number of staff who participated in training organized by GFSI project							
<i>Unit:</i> Headcount				<i>Disaggregate by:</i> Central/municipal/private sector, individuals and gender			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Training Logs				<i>Timing and Availability of Data:</i> Quarterly			
<i>Frequency of Data Availability/Collection:</i> Quarterly				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID + GFSI			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	0	50	376	200	593	300	
<i>Notes:</i> Target met/exceeded: Variance of 2011 Actual from 2011 Target, due to significant training needs and high level of demand experienced for training.							

## 7.12 NUMBER OF PEFA ASSESSMENTS CONDUCTED AT THE MUNICIPALITIES

Element: 1.2.1.1 Public Financial Management							
Indicator Title: Number of PEFA assessments – number of municipalities capable of conducting PEFA assessment							
<i>Definition/Rationale:</i>							
Self Assessment completed for each municipality utilizing PEFA methodology							
<i>Calculation:</i>							
Report issued by municipality							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Project / Municipal PEFA Reports				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010/11 Target	2010/11 Actual	2011/12 Target	2011/12 Actual	2012/13 Target	2012/13 Actual
2009	0	5	5	10	11	13	
<i>Notes: assessments are completed prior to end of project</i>							
Target met/exceeded: Cumulative number of PEFA assessments completed from 2010 – 2013							

### 7.13 MUNICIPAL PEFA ASSESSORS TRAINED

Element: 1.2.1.1 Public Financial Management							
Indicator Title: Municipal PEFA assessors trained							
<i>Definition/Rationale:</i> A cadre of PEFA Assessors will be trained through a dedicated training in PEFA methodology with monitoring by GFSI advisors during PEFA Self Assessment exercises. Training of PEFA assessors will increase capacity of municipalities.							
<i>Calculation:</i>  Number of trained municipalities PEFA assessors							
<i>Unit:</i> Number				<i>Disaggregate by:</i> Gender, Municipalities			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Project reports				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	No	15	17 (F 3 or 18% - M 14 or 82%)	40	42 (F 7 or 17% - M 35 or 83%)	45	
<i>Notes:</i>  Target met/exceeded: Actual number of assessors trained in 2011 is cumulative.							

## 7.14 NUMBER OF MUNICIPALITIES WITH LOCAL ASSEMBLY APPROVED MTEF'S

Element: 1.2.1.2 Municipal Medium-Term Expenditure Framework (M-MTEF)							
Indicator Title: Number of Municipalities that produce MTEF-s							
<i>Definition/Rationale:</i>							
Local Assembly has approved MTEF and hence it is a public document at the beginning of municipal budget process							
<i>Calculation:</i>							
Number of municipalities that publish MTEF-s on their website and submit a copy to MFE							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Municipal Assembly records				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010/11 Target	2010/11 Actual	2011/12 Target	2011/12 Actual	2012/13 Target	2012/13 Actual
2009	0	n/a*	n/a	25	32	30	
<i>Notes:</i>							
Target met/exceeded: MTEFs are due to be produced by June 30 each year, hence for 2010/11 the target is not applicable due to project beginning July 2010.							
Actual numbers in 2011/2012 column reflect the number of municipalities approving MTEF's document in the Municipal Assembly – hence making it a public document on required date – June 30.							

**7.15 NUMBER OF NEW MUNICIPALITIES CERTIFIED AS INDEPENDENT BUDGET ORGANIZATIONS FOR THE DELEGATION OF EXPENDITURE MANAGEMENT**

<b>Element: 1.2.1.3 Public financial Management in New Municipalities</b>							
<b>Indicator Title: Number of New Municipalities certified as independent budget organizations for the delegation of expenditure management</b>							
<i>Definition/Rationale:</i>							
Budget organization certification conducted within 9 months following certification of financial officers. Targets subject to establishing new municipalities.							
<i>Calculation:</i>							
Number certified by Treasury / MFE							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
<b>Targets and Baselines</b>							
<b>Baseline Year</b>	<b>Baseline Value</b>	<b>2010 Target</b>	<b>2010 Actual</b>	<b>2011 Target</b>	<b>2011 Actual</b>	<b>2012 Target</b>	<b>2012 Actual</b>
2009	0	n/a	3	4	4	5	
<i>Notes: cumulative</i>							
<i>Target met: No new municipalities were formed after 3 in 2010 (Kllokot, Ranillug and Gracanice) and 1 in 2011 (Partesh). Data expressed in cumulative.</i>							

## 7.16 NUMBER OF MUNICIPALITIES WITH UNQUALIFIED AUDITS OF THEIR FINANCIAL STATEMENTS

Element: 1.2.1.4 Enabling Municipal Borrowing							
Indicator Title: Number of municipalities with unqualified audits of their financial statements							
<i>Definition/Rationale:</i>							
Unqualified audit reports demonstrate a certain level of financial management maturity within each municipality							
<i>Calculation:</i>							
Review of audit reports							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
OAG Annual report				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	2	2	12	10	16	15	
<i>Notes:</i>							
Target met/exceeded: Year relates to the year for which the municipal financial statements apply. Audit process occurs in subsequent year. E.g. target for 2011 is for 2011 financial statements that are audited in 2012.							

## 7.17 ANNUAL MUNICIPAL FINANCIAL STATEMENTS

Element: 1.2.2 Treasury Functions and Accounting							
Indicator Title: Annual municipal financial statements							
<i>Definition/Rationale:</i>							
Preparation of financial statements is a legal requirement. Number of municipalities preparing annual financial statements within 1 month of end of Fiscal year.							
<i>Calculation:</i>							
Treasury data							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number of municipalities				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Auditor General, MFE Treasury				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009			37	34	31	34	
<i>Notes: dependent on all municipalities being fully established</i>							
<i>2010 actual data include three municipalities which submitted their reports after 1 month deadline In 2011, 3 northern municipalities did not submit financial statements at all. According to Treasury data, the number submitted within 1 month after end of fiscal year was 31. The remaining 3 municipalities submitted financial statements shortly after the 1 month deadline,</i>							

## 7.18 BUDGET SPENDING COMPARED TO BUDGET ALLOCATION

Element: 1.2.3.2 Budget and Treasury							
Indicator Title: Budget spending compared to budget allocation							
<i>Definition/Rationale:</i>							
Increase in budget spending compared to budget allocation indicates increased fiscal efficiency.							
<i>Calculation:</i>							
Percentage of budget spending compared to budget allocation.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Capital vs. recurrent exp.			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Treasury Financial Statements				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				Kosovo Government Fiscal Year (Jan-Dec)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	85%	>89%	94%	>90%	92%	>92%	
<i>Notes:</i> Target met							

## 7.19 BUDGET SPENDING COMPARED TO INITIAL BUDGET

Element: 1.2.3.2 Budget and Treasury							
Indicator Title: Budget spending compared to initial budget							
<i>Definition/Rationale: Comparisons are made with the original budget, approved at the end of previous year.</i>							
<i>Calculation:</i>							
Percentage of budget spending compared to original budget.							
<i>Unit:</i> Percentage				<i>Disaggregate by:</i> Capital vs. recurrent exp.			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Treasury Financial Statements				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> Kosovo Government Fiscal Year (Jan-Dec)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	101%	>89%	105%	>90%	94%	>92%	
<i>Notes:</i>							
Target met: Higher than 100% execution for 2009 and 2010 is because compared with the original approved budget; the yearly budget was increased with the Midyear budget review.							
<i>New indicator</i>							

## 7.20 AMOUNT OF PROPERTY TAX COLLECTED

Element: 1.2.3.3 Property Tax							
Indicator Title: Amount of Property Tax collected							
<i>Definition/Rationale:</i> All property taxes collected by municipalities							
<i>Calculation:</i> With monthly collection of tax revenue statistics, calculation of tax revenue collected is reported annually as per Kosovo Government Fiscal Year-31 Dec							
<i>Unit:</i> Value in Millions of Euros				<i>Disaggregate by:</i> Municipality			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Property Tax Department data				<i>Timing and Availability of Data:</i> Quarterly			
<i>Frequency of Data Availability/Collection:</i> Quarterly				<i>Timing of Data Collection, Consolidation and Reporting:</i> GoK fiscal year (Dec 31)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	€ 11.3	€ 12.4	€ 13.44	€ 14.0	€ 14.55	€16.6 (€15)*	
<i>Notes:</i> <i>Target met</i> <i>*The Target for 2012 assumed that higher tax rates would be effective on 2012. The revised number in parenthesis reflects delays on implementing new tax rates until 2013.</i>							

## 7.21 PERCENTAGE OF PROPERTY TAX IN OSR

Element: 1.2.3.3 Property Tax							
Indicator Title: <b>Percentage of Property Tax in OSR</b>							
<i>Definition/Rationale:</i>							
Share of property tax in OSR							
<i>Calculation:</i>							
Percent of property tax amount in OSR - estimated based on MTEF projection of MOSR							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE Property Tax Dept				Quarterly			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Quarterly				GoK fiscal year (Dec 31)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	23.4%	24.6%	25.8%	27.0%	27.7%	31.0% (29.5%)*	
<i>Notes:</i>							
<i>Target met</i>							
<i>* The Target for 2012 assumed that higher tax rates would be effective on 2012. The revised number in parenthesis reflects delays on implementing new tax rates until 2013.</i>							

## ANNEX 2: FINANCIAL STATUS

The table below summarizes financial status of the GFSI program as of the end of Year 2, and includes: (1) budgeted amounts by line item, (2) amounts committed, disbursed and expended (with disbursements plus accrued amounts shown separately) and (3) estimated costs to complete the contract)

Budget Cost Elements	Budgeted Amounts	Disbursed Amount	Accrual Amount	Expended Amount (Disbursed + Accrual)	Remaining Budget to Complete
Fixed Daily Rate - Labor	\$3,262,592.00	\$1,684,534.06	\$56,764.50	\$1,955,087.00	\$1,307,505.00
TCN - Labor	\$3,409,097.00	\$2,140,879.85	\$36,652.50	\$2,324,992.45	\$1,084,104.55
CCN - Labor	\$2,564,071.00	\$1,595,337.38	\$45,000.00	\$1,861,882.29	\$702,188.71
Other Direct Costs	\$3,551,385.00	\$1,894,667.15	\$64,525.55	\$2,194,041.36	\$1,357,343.65
Retainage	\$0.00	-\$50,000.00	\$0.00	-\$50,000.00	\$50,000.00
G&A	\$709,119.00	\$400,866.50	\$13,182.57	\$462,039.12	\$247,079.88
<b>Total</b>	<b>\$13,496,264.00</b>	<b>\$7,666,284.94</b>	<b>\$216,125.11</b>	<b>\$8,748,042.22</b>	<b>\$4,748,221.78</b>
				Disbursed Amount includes Invoice 8001682082 (invoice# 22)	
				Invoice #24, 8001713805 is for P1 6/3/12-6/30/12	

## ANNEX 3: GFSI BIBLIOGRAPHY

### *GFSI Project Deliverables:*

GFSI Annual Work Plan Year 2 (July 15, 2010 – July 15, 2013)

GFSI Quarterly Report (September, 2011)

GFSI Quarterly Report (December, 2011)

GFSI Quarterly Report (March, 2012)

### *Other GFSI Documents during Year 2:*

Guidelines for Environmental Impact Assessment for Infrastructure Projects

Directive on the Review and Approval of Municipal PPP

Directive for Publication of PPP Notices

Procurement Options Analysis for the Route 6 Motorway, February 2012

Options Analysis and Business Case Recommendations, Brezovica Sharr Mountain Alpine Resort Development Area, June 2012

Public Expenditure and Financial Accountability (PEFA), Public Financial Management Assessment, Kosovo Local Government Level, February 2012

Action Plans for Reform of Public Financial Management, Local Government Level, May 2012

Municipal Medium Term Expenditure Framework documents, July 2012

Report on Analysis of the Auditor-General's Reports on 2011 Interim Financial Statements for the Period Ending 30 September 2011, April 2012

Municipal Financial Statement Training Program

Proposed Approach for IT Transformation, November 2011

Scope of Work for Ministry of Finance Server Room, October 2011

Property Tax Inspection Report for the Municipalities of Pristina, Strpce and Shtime

The Strategic Expenditure Review Policy Prioritization Framework and related documents contained in the Annex's - Proposed new Budget Calendar; Illustration of Societal Outcome Descriptions; Components of Program Performance Budgeting; Suggested 3 Year Time Line for Introduction of Program Performance Budgeting.

Various documents associated with PPP Transactions (as part of the individual project development and approval processes)

# ANNEX 4: TECHNICAL ASSISTANCE ACTIVITIES, ACHIEVEMENTS & PROBLEMS ENCOUNTERED

Set out below is a high-level summary of the main technical assistance activities conducted by GFSI team members, excluding translators and administrative support staff, during Year 1. The main achievements and problems encountered (where applicable) with these activities are also listed below and specified in more detail in the main body of this report.

## (1) Chief of Party – Matthew Smith (July 2011 to May 2012) and Bruce Reid (May 2012 to July 2012)

### Activities:

- (a) GFSI team leadership and advisor to the Minister of Finance
- (b) GFSI program introduction and ongoing liaison with stakeholders
- (c) GFSI annual work plan, updates and quarterly report preparation
- (d) GFSI external evaluation
- (e) Transition to new COP
- (f) Advisor to the broader group of Economic Ministers
- (g) Donor coordination with DIFD, SIDA, EU, ESTAK, USAID Energy (transaction and KEK projects), BEEP, DEMI and US Treasury.
- (h) Coordination and liaison with IMF and World Bank on fiscal and development issues

### Achievements:

- (a) GFSI project management including preparation of project deliverables
- (b) Effective transition to new COP
- (c) Update to Economic Development Vision and Action Plan of the government
- (d) Completion of the Strategic Expenditure Review
- (e) Establishment of an Economic and Public Policy Department and IT Department

## (2) Scott Jazyuka (July 2011 – April 2012)

### Activities:

- (a) Oversight/coordinator of the PPP component of the GFSI
- (b) Supporting the GFSI and PPP Unit staff in developing a Kosovo based "best practices" project identification, prioritization, selection and monitoring matrix.
- (c) Assessing the economic viability and providing transactional support to GFSI and PPP Unit staff on various municipal and central government urban transport, accommodation, parking, sports & recreation, fruit & vegetable market and solid waste projects.
- (d) Supporting and coordinating the GFSI development of pre-feasibility, full feasibility and Public Sector Comparator systems (including Excel models)
- (e) Providing input and support to the GFSI lawyer in the creation and review of PPP tender RfQ, RfP and BOT/Concession contract documents in respect of ongoing projects.
- (f) Mentoring & coaching of GFSI & PPP unit staff

### Achievements:

- (a) Development of pipeline and identification, prioritization, selection and monitoring matrix based on conditions in Kosovo and industry "best practices"
- (b) Development and implementation of initial process for analyzing potential PPPs (pre & full feasibility stages including determining the "affordability" and value-for-money of a project)
- (c) Completion of standard PPP documentation including RfQ, RfP and BOT/Concession contract
- (d) Assisted the PPP Unit and/or the municipalities in taking four projects to the bidding stage and one to the RfQ stage.

### Problems Encountered:

- (a) Creating a new PMU for the Pristina International Airport. Lack of capacity/interest in the private sector to join the newly created PMU. The PPP Unit is acting as interim PMU and an RfP will be issued under the Procurement Law to hire a firm that will perform Airport PMU services.
- (b) Limited capacity at the PPP Unit and Municipal levels to manage PPP programs. GFSI is assuming a broader role than originally anticipated until our counterparts within the PPP Unit achieve proper staffing for its role (see above).

### **(3) Nienke Uil (December 2011 - July 2012)**

#### **Activities:**

- (a) Assisting authorities in preparing procurement options analysis for the route 6 construction project and the route 7 O&M concession;
- (b) Assisting authorities in preparing transaction design options for route 6 construction project and route 7 O&M concession, using existing engineering, environmental and economic viability studies;
- (c) Examine tolling options for route 6 and 7;
- (d) Present and defend the analysis to stakeholders and work towards consensus for action;
- (e) Assistance to counterparts in work planning and budgeting;
- (f) Procurement management assistance / negotiation assistance to the contracting authority of the transaction advisors;
- (g) Assistance in developing decision-making criteria for the PPP Committee;
- (h) Assistance to counterparties to prepare PPP viability studies and value for money analysis for the PPP projects, including the Motorway Service Areas on route 7;
- (i) Review and verification of existing studies including traffic forecasts, economic viability studies, and assist counterparts in identification of needs.

#### **Achievements:**

- (a) Prepared Procurement Options Analysis report and promoted it to stakeholders;
- (b) Reviewed existing studies and reports and identified needs for updates or additional studies. Recruited capacity under the GFSI project to support counterparts with the update of traffic forecast
- (c) As part of capacity building task, worked jointly with local GFSI staff in the development of PPP feasibility financial model and report for Motorway Service Areas;
- (d) As part of capacity building task, worked jointly with local GFSI staff in the development of PPP Value for Money Assessment for Motorway Service Areas.

#### **Problems Encountered:**

- (a) A political decision was made to procure the construction of route 6 traditionally, despite of GFSI's advice being well received by the authorities.
- (b) Difficult to schedule regular meetings with the counterpart due to busy schedule and lack of capacity in the Roads Directorate.

### **(4) Don Selby (July 2011 to July 2012)**

#### **Activities:**

- (a) Since April 2012 assumed oversight/coordination role from Scott Jazyanka. Responsible for overseeing teams plans and actions on a day to day basis covering training, capacity building, process and systems development, transaction support and delivery.
- (b) Transactional support to the contracting authority officials, GFSI & PPP unit staff on all projects (bus concessioning, underground & surface parking, motorway service areas, solid waste and other projects)
- (c) Specific hands on work in the transport sector including Motorway Service area feasibility studies, Pristina bus concessioning prefeasibility and a review of Pristina's bus company Trafiku Urban for the Mayor.
- (d) Review & development of pre & full feasibility and Value for Money (VfM) studies (including excel modeling & economic analysis)
- (e) Mentoring & coaching of GFSI & PPP unit staff on techniques, best practices and case studies.

**Achievements:**

- (a) Sound progress on supporting a number of Ministries and Municipalities on some 16 potential projects (including a number that failed a prefeasibility test).
- (b) Improved process for analyzing potential PPPs (pre & full feasibility stages including VfM methodology)
- (c) Advanced standard financial modeling & methodology
- (d) Continued to advance the application of generally accepted 'best practices'.

**Problems Encountered:**

- (a) Key GFSI municipal team staff were reallocated to other 'objective 1' projects during the second half of the year reducing the resources available to support ongoing Municipal projects and advance a number of transactions.
- (b) General difficulties with regard to data collection/availability and a lack of capacity within the contracting parties
- (c) Some cases where the contracting authority is not fully committed and/or engaged in the process i.e. Pristina Municipality inactivity regarding the Urban bus issues and Trafiku Urban financial status and lack of commitment re underground parking.

**(5) Scott Frisby****Activities:**

- (a) Provided direct advice to the DPM and ISC on all aspects of the Brezovica concession with a view to maximize the success of this vital transaction.
- (b) Drafted TOR for Tender Dossier for Legal Advisor;
- (c) Undertook original development of Options Analysis through data gathering and analysis, market research, and GIS mapping;
- (d) Outreach and coordination with ISC members.

**Achievements:**

- (a) Periodic briefings with DPM and ISC members on transaction needs.
- (b) Set up and partial staffing of PIU;
- (c) Design and collection of market data, GIS data for site description;
- (d) Partial development of financial model for transaction
- (e) Tender issued for Legal Advisor
- (f) Project Website initial design
- (g) Project Logo and letterhead design
- (h) Opening of Strpce office
- (i) Two ISC meetings

**Problems Encountered:**

- (a) Lack of clear commitment at municipal level for transaction involving residential development

**(6) Chris Thompson****Activities:**

- (a) Worked with the PIU to develop capacity and organized approach to project management;
- (b) Oversaw development of Options Analysis and pre-due diligence activities;
- (c) Assisted in developing strategic approach to communications;
- (d) Outreach and coordination with ISC members.

**Achievements:**

- (a) Project Plan developed and standard management processes initiated for PIU;
- (b) Finalized staffing of PIU through engagement of local PR Advisor;
- (c) Regularized status briefings of Chairperson of ISC and representatives of Strpce Municipality;
- (d) Oversight of Development of Options Analysis and Business Case Recommendations for Brezovica Sharr Mountain Alpine Resort Development Area;

- (e) Oversight of development of Legal Framework Assessment;
- (f) Initiation of communications strategy building process for project.

**Problems Encountered:**

- (a) Lack of clear commitment at municipal level for transaction involving residential development;

**(7) Robert Muharremi (July 2011 to July 2012)**

**Activities:**

- (a) Reviewed and prepared amendments to Law on Waste
- (b) Reviewed legal framework for specific PPP projects
- (c) Prepared
- (d) Reviewed and updated sample PPP procurement and contract documents
- (e) Prepared/ assisted in preparing procurement documents for specific PPP transactions (Suhareka Waste Collection, Brezovica Project – initial RFQ/RFP, Route 6)
- (f) Oversee and coordinate the Suhareka waste collection project
- (g) Provide legal assistance to Brezovica Project
- (h) Provide legal assistance to Route 6 Project

**Achievements:**

- (a) Primary Legislation
  - Law on Waste
- (b) Legal Review
  - Legal Framework Assessment for Brezovica Project
  - Legal Framework Assessment for Construction, Operation and Maintenance of Route 6
  - Legal Framework Assessment for Construction, Operation and Maintenance of Motorway Service Stations
- (c) Transaction documents
  - 'PPP: Waste Collection and Separation, Municipality of Suhareka'
    - Legal due diligence & procurement plan for feasibility study
    - Draft concession agreement
    - Draft Request for Qualifications
    - Draft Request for Proposals
  - 'PPP: Urban Bus Transport Services', Municipality of Peja
    - Revised concession agreement
- (d) Guidelines on Contract Management for PPP Projects

**Problems Encountered:**

- (a) There is a lack of precedents and case-law with respect to PPP legislation which leads to interpretations of applicable law bearing to some degree uncertainty and risk.
- (b) The legal environment of PPP is subject to constant changes. Laws having an impact on PPP projects, e.g. Law on Construction, have changed while other PPP relevant legislation, e.g. Law on Spatial Planning, is expected to change in the near future. In addition, the European Union's rules on PPPs and concessions, which Kosovo legislation attempts to follow, are expected to change in the near future as a result of an ongoing revision of relevant EU directives by the European Commission.

**(8) Lindita Kuraja (July 2011 to July 2012)**

**Activities:**

- (a) Liaison with municipalities for potential municipal PPP projects; capacity building on the identification and prioritization of potential PPP projects.
- (b) Maintained and enhanced relationship and capacity building with the Peja Municipality towards their goal of closing their first PPP transaction
- (c) Worked on Value for Money studies
- (d) Worked with short term technical experts to assess municipal waste management projects

- (e) Work on pre-feasibility reports in the sectors of urban bus transport and waste collection and landfill management
- (f) Work on feasibility reports on waste collection and landfill management
- (g) Continuous on-the-job capacity building of municipal authorities
- (h) Assisted in setting up the office and recruitment of local staff for the Brezovica PIU

**Achievements:**

- (a) As part of capacity building task, worked jointly with Peja Municipality towards successful closing of for urban bus transport transaction
- (b) Prepared standard financial and Value for Money excel models including visual basic for applications (VBA)
- (c) Contributed to the PPP Guidelines
- (d) Provided presentation on GFSI activities and support at conference with local business community
- (e) Continuous on-the-job capacity building of municipal authorities

**Problems Encountered:**

- (a) Difficulty in receiving proper data on a timely basis

**(9) Gazmend Ahmeti (July 2011 to July 2012)**

**Activities:**

- (a) Coordinating and liaising with other GFSI Team members, the PPP Department and contracting authority officials and contacts in relation to all potential PPP Transactions
- (b) Work on policy, background research and economic and other statistics in support of pre and full feasibility work by the Team
- (c) Specific ad hoc work on specific feasibility studies, case studies and policy reports
- (d) Coordinating and delivering training to public and private sector participants including liaison with the PPP Unit, other GFSI members, STTAs and key stakeholders
- (e) Coordination of STTA input regarding PPP Guidelines and training curriculum development
- (f) Work on preparation of training programs and standards

**Achievements:**

- (a) Successfully completed core PPP guidelines and well advanced on associated annexes and case studies.
- (b) Initiated draft PPP Training curriculum with STTA support and planning the next stages of training roll out
- (c) Coordinating and delivering training to over 200 participants from public and private sector
- (d) Participating in designing and drafting the pre-feasibility for Obiliq SWM project.

**Problems Encountered:**

- (a) The lack of knowledge and information on PPP by some government officials.

**Magdalena Tomczynska (July 2010 – July 2011)**

**Activities:**

- (a) Led and coordinated the conduct of the second Kosovo Local Government PEFA Self-Assessment
- (b) Led and managed GFSI activities supporting the strengthening of Municipal MTEF practices across the Kosovo Municipalities
- (c) Coordinated and contributed to the municipal PFM training and capacity building initiatives for the Kosovo Municipalities
- (d) Provided assistance and guidance to Property Tax Department of MoF
- (e) Led and coached a team of local GFSI experts working under the municipal PFM component of GFSI project

**Achievements:**

- (a) Completion of the second round of the PEFA self-assessment for six Municipalities: Ferizaj, Gjakova, Peja, Istog, Gijlane, and Nove Brdo
- (b) Preparation of joint policy document on Municipal OSR.
- (c) Capacity building initiatives addressed to the key municipal stakeholders
- (d) Donor coordination

**Problems Encountered:**

- (a) Delays in the commencement of the 2012 Municipal Budget process by the MoF negatively affected timetable and strategy for the implementation of new approach towards the Municipal MTEF practices during the 2012 budget cycle.

**Fortuna Haxhikadrija (July 2011 – July 2012)****Activities:**

- (a) Contributed to the selection of sample municipalities for the second round of the Kosovo Local Government PEFA assessment
- (b) Contributed and provided input to Technical Guidance manual, based on PEFA methodology, for municipal teams carrying out PEFA self-assessment
- (c) Trained 11 municipal PEFA self-assessment teams on PEFA methodology and its application to SN level
- (d) Coached PEFA self-assessment teams in two municipalities of second round (Ferizaj and Gjila) during the assessment period
- (e) Drafted individual PEFA self- assessment reports for two municipalities
- (f) Contributed to the draft PEFA self-assessment comprehensive report for second round municipalities of PEFA
- (g) Organized M-MTEF conference for budget cycle 2013-2015
- (h) Coached three municipalities in M-MTEF development hands-on process

**Achievements:**

- (a) Human capacities built: Eleven municipal teams trained and acquainted with the application PEFA methodology at SN level
- (b) Comprehensive second SN PEFA self-assessment report produced as a guiding document for the future municipal PFM reform
- (c) Municipal PFM Reform action plan drafted and disseminated for both PEFA rounds municipality

**Problems Encountered:**

- (a) The participation of municipalities in PEFA self-assessment exercise was purely on voluntary basis. However the burden on municipal staff was high, acknowledging the fact that this was an additional work to their day-to-day responsibilities. Therefore, from time to time the advisor had to confront and manage conflicting agendas disturbing the PEFA process. Overall, the PEFA process and advisor's assistance were strongly supported by municipal staff.

**Ramadan Matarova (July 2011 – July 2012)****Activities:**

- (b) Implementation of the second Kosovo PEFA assessment for the local government level
- (c) Training and coaching of two counterpart municipalities in the conduct of PEFA self-assessment
- (d) Prepared draft PEFA report for two counterpart municipalities
- (e) Organized M-MTEF conference for budget cycle 2013-2015
- (f) Coached three municipalities in M-MTEF development hands-on process

**Achievements:**

- (a) Two PEFA counterpart municipal teams were trained in the PEFA methodology application and successfully undertaken self-assessment
- (b) Comprehensive second Sub National PEFA self-assessment report produced as a guiding document on future municipal PFM reform

## **Besa Gashi (July 2011 – July 2012)**

### **Activities:**

- (a) Implementation of the second Kosovo PEFA assessment for the local government level
- (b) Training and coaching of two counterpart municipalities in the conduct of PEFA self-assessment
- (c) Prepared draft PEFA report for two counterpart municipalities
- (d) Municipal PFM Reform action plan drafted and disseminated for both PEFA rounds municipality

### **Achievements:**

- (a) Two PEFA counterpart municipal teams were trained in the PEFA methodology application and successfully undertaken self-assessment
- (b) Comprehensive second Sub National PEFA self-assessment report produced as a guiding document on future municipal PFM reform
- (c) Municipal PFM Reform action plan drafted and disseminated for both PEFA rounds municipality

## **Bruce Reid (July 2011 – April 2012)**

### **Activities:**

- (a) Developed a TOR for the MoF lead Strategic Expenditure Review
- (b) Reviewed Kosovo's Functional Expenditure against International and Regional Countries (Macedonia, Albania, Montenegro, Serbia, OECD) for the period 2007 to 2010.
- (c) Performed a costing analysis of EDVAP (Including start-up/construction costs and ongoing costs) to determine funded and unfunded Initiatives of EDVAP based on the 2012 Budget Circular Ceilings
- (d) Identification of funded and unfunded Initiatives of Other Strategic Government Priorities Including Capital and Joint Donor Projects
- (e) In conjunction with DFID developed an improved process (methodology and guidance materials) for costing New Policies/Legislation
- (f) Developing a criteria for the prioritization of policy measures
- (g) Conducted a review of the Annual Performance Reports submitted by Ministries
- (h) Drafting of the Strategic Expenditure Review Report sections covering sector expenditure analysis, economic policy prioritization, costing EDVAP initiatives, situation analysis of the budget process.
- (i) Organized a meeting for February 22 involving representatives from MoF, OPM, MEI, DFID, KIZ, EU to discuss the planned improvements to the 2013 Budget process.
- (j) Provided advice to the Auditor-General and Budget Director on salary payment provisions contained in the 2012 Budget Law.
- (k) Prepared a briefing note for the Minister on the adoption of a Fiscal Rule,
- (l) Delivered a presentation to the Auditor-General's Office on Kosovo's PFM reforms.

### **Achievements:**

- (a) Coordinated the activities of the Strategic Expenditure Review and drafted the report.
- (b) As part of the SER produced the following documents - Policy Prioritization Framework; Proposed new Budget Calendar; Illustration of Societal Outcome Descriptions and Components of Program Performance Budgeting; Proposed Timetable for Introduction of Program Performance Budgeting.
- (c) Cooperated with the DFID team in developing and issuing costing instructions and a preparing a training manual for ministries that will contribute to improved accuracy in the costing on new policy initiatives.

## **Mirjeta Hysa (July 2011 – July 2012)**

### **Activities:**

- (a) Participated in the Strategic Expenditure Review team. This work involved: extracting information on actual data for years 2007 to 2011 and budgeted data for 2012 from Freebalance and other

- sources, analyzing the data and preparing graphs; and participating in visits to Ministries to complete assessments on budget planning and execution functions.
- (b) Participated in workshop held in September 2011 regarding SER findings, conclusions and potential recommendations
  - (c) With the Treasury reporting team and the CBK team, participated in meetings with IMF regarding inclusion of Kosovo data into the IMF GDDS (General Data Dissemination System), prepared metadata document and prepared the first reports
  - (d) Assisted in drafting, finalizing and disseminating the Annual Reports Administrative Instruction during 2011. The Instruction required central level ministries to provide some performance data along with the published financial statements
  - (e) Drafted Administrative Instruction on Reporting of Arrears for municipalities and budget organization. The instruction requires budget organizations to report arrears on a monthly basis. In addition, designed a table and a report for the Monitoring Unit within Treasury to collect the data and present it in an aggregated form
  - (f) Organized and participated in a meeting with a group of municipalities regarding reviewing FMIS in respect to needs of the municipalities
  - (g) Updated Administrative Instruction on Reporting for a Nine-Month period for Budget Organizations for 2011, in line with Auditor General recommendations
  - (h) Reviewed and finalized debt recording procedure further to comments by Treasury, with the Debt Management Unit
  - (i) Coordinated follow up with audit recommendations from 2010 regarding consolidated financial statements of the Kosovo Budget
  - (j) With Gary Smith, visited municipalities and discussed issues that had arisen during the 2010 audit process. Collected information on the main problems, provided some answers to questions from municipalities regarding proper presentation of financial statements
  - (k) Updated Administrative Instruction on Annual Financial Reporting by Budget organizations for year 2011 and the accompanying forms and held presentation on behalf of Treasury on the promulgation of Administrative Instructions on Annual Financial Reporting by budget organizations
  - (l) Organized training on preparation of financial statements for all municipalities, prepared booklet explaining all steps in the preparation process, held training
  - (m) Updated Debt Recording Procedure to include the process of recording transactions from issuing Securities
  - (n) Prepared a first draft of a New Policy Initiative Costing Manual and prepared a case study on costing of legislation that was included in the final version.

**Achievements:**

- (d) In cooperation with the Treasury/GFSI team, increased annual reporting quality among municipalities (16 unqualified opinions).
- (e) Production of financial rules, administrative instructions and Treasury procedures that contributed to the improved financial management and reporting within the government of Kosovo.
- (f) Cooperated with the DFID team in developing and issuing costing instructions and a training manual for ministries that will contribute to improved accuracy in the costing on new policy initiatives.
- (g) Provided input to Strategic Expenditure Review process and report that contained a number of recommendations to improve PFM policies and practices in Kosovo.

**Neli Baeva (July 2011 – February 2012)**

**Activities:**

- (a) Progressed the implementation of proposed IT Organizational Structure aimed at establishing single IT Department at the MoF HQ to provide ICT Services to all MoF Departments and Units, except Customs and TAK Agencies,
- (b) Preparing a location for Server Room / Shared Serviced Data Center.
- (c) Presented the concept for IT “to-be” at the Minister and drafted an approach for IT Transformation at the MoF.
- (d) Coordination meetings with:

- MoF HQ, TAK, and Customs;
- other donors' projects, such as: EU project at Budget Department, SIDA – Property Tax Project, and others;
- Other Government institutions, such as: Business Registration Agency, and Ministry of Public Administration

**Problems Encountered:**

- (a) Delays in hiring the new IT Director to commence the process of establishing the single IT Department.
- (b) Lack of cooperation between the discrete IT teams (MoF, Treasury, Tax, Customs, Property Tax).

**Burim Meholli (July 2011 – July 2012)**

**Activities:**

- (a) Managed the development and enhancements of the Property Tax System (PTS)
- (b) Managed the development of the Survey Application for the devices used in the field and set-up infrastructure for the synchronization of the devices with the central database of the PTS.
- (c) Migration of PTS to the new server hardware
- (d) Daily maintenance of the PTS infrastructure
- (e) Assisted MoF in the 2012 mass taxation and bill production

**Achievements:**

- (a) Successful implementation of the new appraisal model reflecting the quality of construction for two pilot municipalities of Shtime and Fushe Kosove
- (b) Migration of the PTS system to a new hardware
- (c) Property Tax System improved performance

**Problems Encountered:**

- (a) While very important functionalities were added to the PTS system (GIS) it still remains mostly underused due to the dependency on the parcel map data from Kosovo Cadastral Agency. Although the GFSI in cooperation with SIDA and MoF counterparts managed to provide for an agreement between MoF and KCA, KCA still refuses to provide relevant data to MoF. This issue needs to be resolved at higher levels in order to get the benefits of the GIS interface and it is crucial for the Land Taxation for the future.

**Agron Cerkini (July 2011 – July 2012)**

**Activities:**

- a) Inspection in three pilot municipalities (Prishtina, Shterpc and Shtime) in order to reform inspection process in property tax department and ensure that annual audits of property tax offices provide feedback to municipalities.
- b) GFSI adviser for property tax department has prepared working plan for 2012 on business and development side.
- c) It is prepared surveyor manual based on administrative instruction "On Gathering and registration of information on the property and taxpayer"
- d) I have prepared cooperation agreement (Written document) between Prishtina and F. Kosova municipality in solving problems with properties that erroneously registered in one or another or in both municipalities, but should be only in one municipality. The agreement contains: Identification procedures, improving procedures in the pts and move payment through treasury from one to another municipality.
- e) Preparation instruction for register unregister properties payment of date December 30/31 2011- For users of pts I have prepared instruction how to register some unregister payment of December 30/31 2011 and how to correct calculated interest and penalty for these properties.

- f) Assist on BEEP (USAID) project about research tender- I've attended in the BEEP meetings for defining the data that must be collected and in commission to evaluating the bids of the participants companies in the research tender.
- g) Ongoing conducted analysis , testing, and acceptance of result for the 2012 mass taxation
- h) GFSI adviser assist I developing and Maintenance Property tax system-Support on managing, planning activities and prioritization, define new requirements, testing, training, analysis, decisions etc.
- i) Ongoing support PTD in the implementation of reforms of 2011 inspection based on the lessons learned from pilot municipalities. My support has been in three areas: Provided data for inspection report; training for PTD staff and I have inspected two Municipalities: Graqanica and Partesh.
- j) Acceptance and definition of maintenance request from municipalities for the pts such as: Moved properties or taxpayer from one to other municipalities, moved properties from one to other valuation zone etc.
- k) In cooperation with the Ministry of Finance our GFSI Advisors upon Municipalities request in order to increase property tax revenues are prepared final notice.
- l) Ongoing managed and responded to ad-hoc property tax data requests from various stakeholders: Municipalities, SIDA, PTD, MoF, GFSI, DEMI and General Auditor etc.
- m) Support Defining and prioritizing requirements for the property tax system for the new functions such as: Manage business parameters, manage system parameters, Create report based on tax and calendar year, view ortophoto of property, view of photographs, update property GPS coordinates, print financial card manage notes for properties and taxpayers, view map, view history for property and taxpayer, preparation requirements of municipality splitting etc.
- n) Ad-hoc pts training for Municipalities.
- o) Different Trainings of: PTD staff-On implementation new process of annual inspection; Municipalities Financial director and managers of property tax-On planning or simulation of property tax amount; Surveyors-On new process for registering properties and taxpayers; Users of property tax system-On use of new PTS functions based on new processes.

#### **Achievements:**

- (d) Property Tax is more stable, the 2012 mass taxation for all municipalities was finalized on January 2, 2012. This is first year in property tax that tax year is qual with calendar year. Also in PTS developed new functions, support new registration processes of properties and taxpayers.
- (e) Improving annual inspection-Inspection process has been reformed in three pilot Municipalities; In 31 Municipalities are in process. It's improved property tax administration in property tax department and in Municipalities.
- (f) Increased capacity building in the PTD and municipalities
- (g) For 19 municipalities it's done migration resurvey properties data from database of quality control system in the database of property tax. Now are migrated only three properties data from resurvey properties: Condition; picture and coordinates.
- (h) Municipalities are now able to monitor the process of property surveying; on issues of municipal budget planning and simulation based on the amount of tax for year 2013; they are able to audit and monitor changes in the property tax program and use the detailed reports generated by the property tax program for various planning, simulation, reporting etc
- (i) For 2011 the collection amounted 14.55 million Euro (the target was 14.00 million) or 8% increase as compared with 2010.

#### **Problems Encountered:**

- (b) Problems with development and maintenance of Property Tax system- Due to problems with wage payments for 5 developers and maintainers of property tax program since March 2012, the realization of business plan is at risk, but also further functioning of the property tax system.
- (c) Problems in the resurvey process: many properties are not resurveyed and data quality for many properties is poor due to errors.

## **Driton Hajrizi (July 2011 – July 2012)**

### **Activities:**

- (a) Daily maintenance of Treasury Department's IT infrastructure.
- (b) Distribution of computer packages to Budget Organizations as requested.
- (c) Support to all the Budget Organization's users that uses KFMIS (Free Balance).
- (d) Support and maintenance of seven systems on Treasury
- (e) Formatting PEFA Reports
- (f) Preparation for the new version of Free Balance (web version)
- (g) Intranet Server for Treasury needs.

### **Achievements:**

- (a) Daily maintenance of IT Infrastructure which includes Servers, Computers, Printers and Local Network.
- (b) Successful distribution of computer packages to each Budget Organization and direct connection to Treasury terminal servers has been made for each PC.
- (c) More than 1000 KFMIS (Free Balance) active users have been supported daily, including onsite visits. Currently, there are around 340 PCs in Budget Organizations, that have been sent by Treasury IT Department to connect to KFMIS. The support has been given for: network problems PC hardware problems, which includes fixing and changing of parts; software problems; security issues; and printing problems.
- (d) Support and maintenance on these systems: KFMIS, Debt Software, Digital Archive, Cash Plan System, Help Desk System, CS-DRMS and Grants System.
- (e) Formatting and the designing of PEFA reports, both volumes, in three languages. In cooperation with PEFA team we have set the formatting standards and each page has been formatted according to those standards. Also a front page has been designed for each language.
- (f) A new version of Free Balance is being implemented on Treasury Department. Once the new version is based on Web, there are going to be a lot of changes that affects each user and computer. A training room has been prepared for the new version trainings. Also all computers in Budget Organizations have to be reformatted to meet the new web version criteria. Right now the security policies are being defined.
- (g) An intranet server has been finalized. The database, structure and design have been completed. Currently, the process is in data entry phase, in cooperation with Treasury managers of divisions. The purpose of this server is to ensure access to all employees for these resources: Administrative Instructions, Treasury Standardized forms, Published Documents, Books, Procedures and other information. The intranet page is up and running and can be accessed from inside MF Offices through this address:  
<http://10.41.0.44/intranet>

### **Problems Encountered:**

- a) Permission has been requested several times from Ministry of Public Administration for Remote Control to PC's on site. The purpose is access to PC's so problems be solved remotely which in some cases would save time. There have been meetings between Treasury IT, Ministry of Finance IT and MPA and all agreed, but the access has never been given.

## **Sevdije Mehaj (July 2011 – July 2012)**

### **Results Achieved:**

- a) During January 2012 I participated for a week in the presentation and demonstration of Freebalance Version. The program was presented by a Freebalance Canadian Consultant, Mr. Aldo and the Freebalance Kosovo team. The purpose of the presentation was for us to become familiar with the new Freebalance version (7).
- b) I took part in 3-week training on the new Freebalance version (7)

- c) In early June, I assisted the Freebalance Team in preparation of "Summary Training Report" for training held during the three weeks of May 2012, in which we also included recommendations and requirements coming from participants regarding improvements in version 7. The report was prepared for the Director of Treasury and Freebalance.
- d) I participated in a meeting held with Treasury management team and Freebalance to discuss the above report.
- e) Assisted the Treasury in designing draft forms of expenditure through procurement process under version 7 of Freebalance

## ANNEX 5: TRAINING ACTIVITIES

15 July 2011 TO 15 July 2012

### Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
PPP Implementation	PPP Muni Team	Jul - Dec 2011	Central Gov and Muni	21	105
Introduction to PPP	PPP Muni Team	Various	Muni, Private Sector, Ministries, Chamber of Commerce	54	24
Training of trainers	PPP Muni Team	Various	Central Gov and Muni	10	3

### Objective 2 – Fiscal stewardship

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Municipal PFM Reform Action Plan I workshop	Fortuna Haxhikadrija Ramadan Matarova Besa Gashi	Sept 6, 2011	Reps from Municipality of: Prishtina, Podujeva, Vushtri, Shteprece and Mamusha	13	1
Kick-off event for municipality technical staff on PEFA methodology application for round II	Fortuna Haxhikadrija Ramadan Matarova Besa Gashi	Sept 6, 2011	Reps from Municipality of: Gjilan, Gjakova, Peja, Ferizaj, Istog and Novoberda	22	3

Municipal PFM Reform Action Plan II workshop	Besa Gashi, Ramadan Matarova Fortuna Haxhikadrija	May 4, 2012	Reps from Municipality of: Gjilan, Gjakova, Peja, Ferizaj, Istog and Novoberda	75	10
Mid-Term Budget Planning and the importance of sectorial strategies	Ramadan Matarova Fortuna Haxhikadrija Magdalena Tomczynska	March 14, 2012	All municipality reps, line ministries, AKK, donor	61	15
Mid-Term Budget Planning MTEF	Ramadan Matarova Fortuna Haxhikadrija	May-June 2012	Board of Directors from municipality of: Vushtrri, Gjilan, Novoberda, Gracanica, Istog and Peja	92	15

#### Objective 2 – Assistance to the Office of Auditor General and to the Ministry of Finance

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Financial Statements	Mirjeta Hysa	13-14-17 Jan 2011 22 Feb 11, 3, 9, 14 March 2011	19	15	4
Financial Statements	Mirjeta Hysa	16 – 19 January 2012	38	30	8

Commitments	Sevdije Mehaj	various	39	14	25
Procurement Officers	Sevdije Mehaj	various	28	15	13
Income Officers	Sevdije Mehaj	various	8	3	5
Property Officers	Sevdije Mehaj	various	36	21	15
Internal Controllers of Public Finance	Sevdije Mehaj	various	71	33	38
Acceptance of Goods	Sevdije Mehaj	various	50	38	12
Expenditure Officers	Sevdije Mehaj	various	47	20	27
Certification Officials	Sevdije Mehaj	various	50	27	23
Internal Auditors	Sevdije Mehaj	various	130	92	38
Chief Financial Officers	Sevdije Mehaj	various	6	2	4

## Objective 2 – Assistance to the Property Tax

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Simulation and planning property tax amount	Agron Cerkini and MoF	Oct.11	Gjilan, Deqan	2	0
Simulation and planning property tax amount	Agron Cerkini and MoF	Oct.12	Kamenic, N. Berd	1	1
Training for users to use new functions in the PTS	Agron Cerkini and MoF	Oct.11	Deqan, gjakov, Istog, Klinë, Kamenic, Pej, Prizren,	5	4

			Suharek, Vushtrri, junik		
Training for users to use new functions in the PTS	Agron Cerkini and MoF	Oct.11	F. Kosov, Mitrovic, N. Berd, Lipjan, obiliq, Prishtin, Podujev, Shtrpce, Skenderaj, H. Elezit	6	5
Training for users to use new functions in the PTS	Agron Cerkini and MoF	Oct.11	Glllogovc, Gjilan, Dragash, Ferizaj, Viti, Malishev, Mamush, Shtime	6	2
Training for users to use new functions in the PTS	Agron Cerkini and MoF	Oct.11	Graqanic, Partesh, Ranillug, Rahovec	4	0
Training of new inspection process	Agron Cerkini	Mar.12	Staff of property tax departament	3	3
Presentation surveyoy manual and new survey process	Agron Cerkini and MoF	Apr.12	Staff of property tax departament	6	1
Surveyor training+New survey process	Agron Cerkini and MoF	Apr.12	Prizren, Suharek	17	1
Simulation and planning property tax amount	Agron Cerkini and MoF	May.12	Prishtin, Ferizaj, Prizren, Gjilan, Pej, mitrovic, Gjakov, Suharek, Istog	17	0
Simulation and planning property tax amount	Agron Cerkini and MoF	May.12	Lipjan, N. berd, Obiliq, Rahovec, Podujev, skenderaj, Shtime, Vushtrri,	14	2

			Malishev		
Simulation and planning property tax amount	Agron Cerkini and MoF	May.12	Deqan, Glllogovc, Dragash, Istog, Kaqanik, F. Kosov, Kamenic, Hani Elezit	9	1
Surveyor training+New survey process	Agron Cerkini and MoF	May.12	Prishtina	20	4
Simulation and planning property tax amount	Agron Cerkini and MoF	May.12	Graqanic, Partesh, Ranillug, Klllokot, Shtrpce, Junik, Mamush, Klin	12	3
Surveyor training+New survey process	Agron Cerkini and MoF	Jun.12	Pej, Gjakov	20	4
			TOTAL	142	31

# ANNEX 6: EQUIPMENT AND MATERIALS PURCHASED

(a) Equipment:

The GFSI project purchased the following equipment during the year:

<b>Type of Equipment</b>	<b>Purchase Date mm/dd/yy</b>	<b>Purchase Price \$</b>
x3 chairs	04/19/12	524.86
Printer	05/07/12	535.74
GPS	05/05/12	532.00

These were added to the inventory, along with the previous items transferred from the predecessor EMSG project.

The project also shares a common project office with the ESTAK project, the office equipment for which is recorded under the GFSI project.

## ANNEX 7: SUCCESS STORIES

### ***USAID supports Kosovo municipalities to strengthen their framework for the planning of municipal budget expenditure***

On March 14, 2012, the USAID Growth and Fiscal Stability Initiative (GFSI) project, in close cooperation with the Ministry of Finance (MoF) organized a Conference on Municipal Mid-Term Budget Planning Practices. The Conference marked the commencement of the second phase of USAID's support to the local authorities for strengthening public financial management practices. Last year the GFSI launched the assistance to both the MoF and municipalities to equip local decision makers with a best practice model for enhancing their medium term strategic budget planning.

This year the cooperation continued building on the past experience, and focused on helping Kosovo municipalities to use the opportunity of the 2013-2015 budget cycle to further enhance the implementation of a MTEF approach to budgeting.

The event involved participants from central government and the municipal authorities. Participants included: Strategic Planning Office of the Prime Minister, and Ministries of Health and Education. A conclusion reached from the discussions was that municipal mid-term budget must take place in the context of national sectorial strategies, especially to ensure their comprehensive implementation of health and education policies, for which municipalities are primarily responsible. Consideration was also given to the need for enhancing municipal autonomy in designing priorities and the implementation of the decentralization process.

Strengthening public financial management systems is in line with Government of Kosovo's Economic Development Vision and Action Plan (EDVAP) as well with USAID FORWARD initiative. The overall goal of reforming public financial management and improving public sector services at the central and local levels brings direct benefits to the Kosovo citizens.

### ***USAID supports training for municipalities on the processes for conducting property surveys and using the new property tax system***

The USAID Growth and Fiscal Stability Initiative (GFSI) Project in cooperation with the Property Tax Department in the Ministry of Finance organized trainings with the Directors of Economy and Finance and the Property Tax Managers from thirty four property tax implementing municipalities over four separate in days in May 2012.

The training participants were provided with information on the new process for surveying the properties and taxpayers. The information covered the following areas:

- the responsibilities of the surveyor, the manager and the IT system operators in the new process;
- the content of the new guidelines prepared for the surveyors and the new forms for surveying properties and taxpayers;
- the application of the new GPS equipment for obtaining pictures and geographic coordinates of properties;
- guidance on using the value simulation tool for estimating the amount of property tax for 2013 using different property values and tax rates;
- the use of the summary and detailed reports that can be generated by the property tax program for the purposes of conducting analysis and planning the amount of property tax to be collected, identifying properties and taxpayers with unpaid debts, and identifying unregistered properties;

- guidance on the features and application of the auditing program; and

Participants were provided with a demonstration of the property tax program's function that enables the viewing of registered properties in orthographic maps and the identification of unregistered buildings. A presentation was also provided on the results of the simulation of the projected amount of tax for 2013 using the increased property tax rate of 0.15%.

After attending this training, that was made possible by the assistance of the American People through USAID, the participants are now equipped to use the new processes for conducting property surveying and using the new property tax system for budget planning and simulation, auditing and monitoring and generating detailed reports.

### ***USAID Mission in Kosovo – Implementation of USAID FORWARD Initiative through Strengthening Local Government Public Financial Management in Kosovo***

Implementing USAID FORWARD initiative through strengthening host country government systems in the Public Financial Management (PFM) area at local levels to ensure transparency, accountability, and sustainability is one of the key priorities of USAID Mission in Kosovo.

To this end, the USAID Growth and Fiscal Stability Initiative (GFSI) project is working in rolling-out of a comprehensive Municipal PFM reform program, with all municipalities that completed Public Expenditure and Financial Accountability (PEFA) assessment. A comprehensive Municipal PFM reform action plan was drafted in September 2011, serving as a good basis for municipal individual action plans, to be implemented during 2012.

Since GFSI's inception in June 2011, eleven teams of practitioners in Kosovo municipalities benefited from USAID experts in cooperation with British DFID short-term technical assistance. The municipal staff was equipped with necessary skills to apply Public Expenditure and Financial Accountability framework, also known as PEFA. The first round of PEFA assessment included five municipalities, including the capital city Pristina and the final assessment reports were completed and published in May 2011. In the second round of PEFA assessment, a total of 25 practitioners from six municipalities assessed their performance over time in budget planning and execution, procurement, internal audit, payroll, external scrutiny towards local government, and scored all of them, in six crafted individual municipal PEFA performance assessment reports which are to be published beginning of 2012.

The efforts in strengthening Kosovo municipal governments—a key component of USAID's Growth and Fiscal Stability Initiative (GFSI), was preceded by a comprehensive PEFA assessment of the Government of Kosovo institutions at the central level. This program represents successful donor cooperation in promoting overall financial reform and accountability in Kosovo. PEFA work, both at the central and local levels, was supported by DFID advisors, who were involved closely during the entire process. Additionally, PEFA work performed in Kosovo is quality assured by PEFA Secretariat in Washington D.C.

USAID Kosovo will continue to strengthen Kosovo's institutions to ensure fiscal stability, transparency, and effectiveness in managing public money. Strong and transparent financial management systems of the host country will contribute to a more reliable environment for USAID channel its aid through these systems and at the same time improving these systems over time.

**USAID supports Kosovo's first municipal project involving a Public Private Partnership -  
Peja Urban Bus Service**



On May 23, 2012 the Mayor of the Municipality of Peja and “Urban 039” a local private company signed a Public Private Partnership (PPP) agreement to provide urban bus services in Peja. The transaction was closed following a competitive tender under the Public Private Partnership Law, through a two-phased bidding process designed to provide a high level of service at the lowest tariff for the citizen.

The transaction was supported by the USAID Growth and Fiscal Stability Initiative (GFSI) PPP Team as part of its capacity building program. The USAID GFSI Team worked closely with municipal officials to strengthen their skills and capacity to identify, develop and implement PPP projects including developing the PPP feasibility study, tender documents and draft contracts.

This PPP takes the form of a concession to the private operator for 10 years to provide bus services on four key city routes, build new bus stops and develop modern ticketing and information systems. Initially, Urban 039 has invested in 6 new modern buses, a GPRS tracking system and an advanced ticketing system involving smart cards with on bus Wi-Fi planned for September 2012. The technological aspects of this project are a first for Kosovo.

The PPP will help Peja Municipality implement an urban transportation strategy to connect key neighborhoods of the city via a modern bus transport system, providing essential mobility for its citizens. The reliable and efficient bus service will help reduce traffic congestion, improve traffic safety and contribute to the city center's revitalization.

PPPs are arrangements through which the private sector provides infrastructure assets and public services that traditionally have been provided directly by the government and or municipalities. PPPs offer new sources of finance and improve efficiency through the use of private sector management skills and expertise in delivering better public services on time and on budget.

