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# GROWTH AND FISCAL STABILITY INITIATIVE (GFSI)

YEAR 3 – 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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## ABBREVIATIONS AND ACRONYMS

Abbreviation / Acronym	Definition
AUK	American Education in Kosovo
BEEP	Business Enabling Environment Program
BOT	Build Operate Transfer
BRDP	Brezovica Resort Development Project
CAPEX	Capital Expenditures
CBK	Central Bank of Kosovo
CCN	Cooperating Country National
CFO	Chief Finance Officer
COP	Chief of Party
CPPPD	Central PPP Department
DFID	United Kingdom Department for International Development
DEMI	Democratic Effective Municipalities Initiative
DRBC	Disaster Recovery and Business Continuity
EBRD	European Bank for Reconstruction and Development
EIA	Environmental Impact Assessment
EPEC	The European Public-Private Partnership Expertise Centre
EPPD	Economic and Public Policy Department
ESTAK	Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
G&A	General Overhead and Allowances
GDP	Gross Domestic Product
GFSI	Growth and Fiscal Stability Initiative
GIZ	German Agency for International Development
GoK	Government of Kosovo
IFC	International Finance Corporation
ICT	Information and Communication Technology
IMF	International Monetary Fund
ISC	Inter-ministerial Steering Committee
ISD	Instruction Systems Design
IT	Information Technology
ITIL	Information Technology Infrastructure Library
KEK	Kosovo Energy Corporation
KFMIS	Kosovo Financial Management Information System
KfW	German development bank

KIPA	Kosovo Institute for Public Administration
LPFMA	Law on Public Financial Management and Accountability
LOGOS	Swiss-Kosovo Local Governance and Decentralization Support Project
MBD	Municipal Budget Department
MESP	Ministry of Environment and Spatial Planning
MoF	Ministry of Finance
Mol	Ministry of Infrastructure
MLGA	Ministry of Local Government Administration
MOU	Memorandum of Understanding
MTBF	Mid-Term Budget Framework
MTEF	Medium Term Expenditure Framework
M-MTEF	Municipal Medium Term Expenditure Framework
MTPPS	Medium Term Policy Priority Statement
MTI	Ministry of Trade and Industry
MTBF	Medium Term Budget Framework
NCED	National Council on Economic Development
NOA	New Opportunity for Agriculture
OAG	Office of the Auditor General
OPM	Office of Prime Minister
O&M	Operation and Maintenance
OSCE	Organization for Security and Co-operation in Europe
OSR	Own Source Revenues
PAK	Privatization Agency of Kosovo
PDF	Project Development Facility
PDTAF	Project Development Technical Assistance Facility
PEFA	Public Expenditure and Financial Accountability
PFI	Private Finance Initiative
PFM	Public Finance Management
PIA	Pristina International Airport
PIU	Project Implementation Unit
PMU	Project Monitoring Unit
POE	Publicly Owned Enterprise
PPP	Public Private Partnership
PTD	Property Tax Department
PDTAF	Project Development Technical Assistance Facility
PTS	Property Tax System
RFP	Request for Proposals

SBA	Stand-by Arrangement
SER	Strategic Expenditure Review
SIDA	Swedish International Development Cooperation Agency
SOE	Socially Owned Enterprises
STTA	Short Term Technical Assistance
TCN	Third Country National
TOR	Terms of References
TOT	Training-of-Trainer
UN	United Nation
UNDP	United Nation Development Programme
USAID	United States Agency for International Development
VAT	Value Added Tax
VfM	Value for Money
WB	World Bank
WDG	Waste Donor Group

# 1 GFSI ANNUAL REPORT SUMMARY

Highlights for GFSI's third year include successful negotiation and approval of a sound fiscal rule that enhances Kosovo's fiscal stability in a challenging economic environment, establishment of an effective policy costing and prioritization procedure to improve the budget planning process, successful implementation of the program with IMF, increasing significantly the number of Municipalities with unqualified audit reports, and successfully attracting international investors to participate in a tender process to develop the Brezovica resort area.

**Sound Fiscal Rule:** GFSI supported GoK in developing and **passing legislation to implement a rules-based fiscal framework** by incorporating the principles of a sound fiscal rule into Kosovo's Law on Public Financial Management and Accountability (LPFMA). The need for fiscal rule was part of Kosovo's Stand-By Arrangement with the IMF and will provide guidance to policy makers and the public on prudent spending limitations and debt levels to achieve sustainable public finance. After the Eurozone crises, the adoption of this rule is considered as key to future sustainability of budgets, capable of absorbing economic shocks and supporting long-term growth and development. Further, it is also a significant step toward anchoring future fiscal policy of the country.

**Stand-By Arrangement with IMF:** The Government of Kosovo (GoK), with the assistance of GFSI advisors, has **successfully implemented its Stand-by Arrangement (SBA)** with the IMF. So far, all the four program reviews were completed successfully by the IMF Missions, with conclusions that the authorities are making good progress on a number of reforms and that the Government is continuing with prudent approach towards keeping fiscal discipline. As a result of the progress made on implementing all the performance criteria and structural benchmarks, IMF has disbursed three tranches of program support, **amounting to around 94 million euros**. A portion of this money has been transferred to a special reserves fund at the Central Bank of Kosovo (CBK), to provide Emergency Liquidity Assistance to the banking sector if needed.

**Brezovica Resort Development:** GFSI helped the GoK attract **four qualified international investors** to participate in a competitive tender to develop the Brezovica resort area. GFSI supported the Project Implementation Unit (PMU) at the Ministry of Trade and Industry (MTI) to structure and market the transaction to develop the resort project. GFSI assisted the PIU to commence a competitive tender process seeking expressions of interest from qualified investors. Located within Serb-majority Shterpce municipality in southern Kosovo, Brezovica holds significant potential for both tourism growth, job creation and multi-cultural development in Kosovo.

**Effective Policy Costing and Prioritization:** GFSI assisted Kosovo to establish a formal costing methodology and incorporate a new policy prioritization procedure into Kosovo's formal budget planning process. GFSI worked together with DFID to develop a **Costing Manual and Administrative Instruction** that creates a uniform methodology for costing policies as part of the policy and budget planning process. Together with the Prime Minister's Office of Strategic Planning and the Budget Department of the MoF, GFSI assisted in developing and implementing **Kosovo's first Medium Term Policy Priorities Statement (MTPPS)**. The MTPPS integrates costing methodology into the policy making process so that new policies must be costed and then prioritized as they are introduced into the planning process. This completes a next stage in enhancing the stability of Kosovo's fiscal environment, by ensuring that the most productive initiatives are funded, given the limited resources.

**Economic Viability Analysis of Route 6:** GFSI assisted a GoK inter-ministerial working group in preparing an **economic viability assessment** confirming that GoK's planned construction of Route 6 motorway is economically viable. This assessment helped the government obtain World Bank confirmation of economic viability of the motorway, allowing authorities to move forward in its negotiations

with the IMF for the construction of Route 6 Motorway project. The Route 6 Economic Assessment is the first of its kind for the GoK and provides the MoF Economic Public Policy Department (EPPD) and MoF PPP Department with capacity to develop similar analyses in the future.

**Kosovo Membership in EBRD:** In December 2012, the Assembly of Kosovo ratified the Agreement for establishing the European Bank for Reconstruction and Development and after fulfilling a number of other formal criteria, ***Kosovo became full member of the European Bank for Reconstruction and Development*** (EBRD) with equal rights and responsibilities with all other members. GFSI assisted the MoF throughout the process to complete the necessary documents and legislation on time.

**Public-Private Partnership:** GFSI supported capacity building in PPP by working with the MoF PPP Department to develop a ***sustainable PPP Training Curriculum*** for delivery to central and municipal-government entities and to elaborate a ***multi-year PPP Development Strategy*** covering 2013-2016. GFSI also supported development of municipal-level PPP transactions in Suha Reka for waste management (the first waste sector PPP in Kosovo) and Gjilan for Urban Bus. At the Central level, GFSI supported Kosovo's Ministry of Infrastructure (MoI) in development, through PPP, of three Motorway Service Areas along the Route 7 motorway between Pristina and the Albanian border.

**MoF ICT Plan:** GFSI supported the MoF in ***creating critical governance structures***—the Minister-led IT Steering Committee and Technical Committee—and in developing an ***ICT Plan***. The Committees provide needed governance over the MoF's IT systems, while the ICT Plan addresses foundational IT elements, pillars of strategic implementation, vision of the future and Ministry IT Strategies. These GFSI-supported developments will allow MoF leadership to consistently identify and address top level issues and risks and are a dramatic improvement over the previous situation at the inception of GFSI, which found MoF's IT units highly siloed and compartmentalized with little intercommunication and no shared management.

**Municipal PFM Sustainability:** Following up on its successful PEFA assistance to 11 municipalities, GFSI helped build ***PEFA sustainability and capacity*** by engaging MoF Municipal Budget Department (MBD) personnel to participate in a PFM self-assessment process for Fushe Kosova. This approach served to build capacity of the MBD capacities in this area, now able to support further municipalities interested in commencing similar process.

**Improving Municipal Financial Reporting:** GFSI continued its capacity building with municipalities receiving qualified audit opinions. GFSI directly assisted nine of these municipalities to analyze external audit results for year 2011 and to develop action plans for addressing audit recommendations. For 2012, current audit results have ***increased to 30 the number of unqualified opinions for 2012***, up from 16 in 2011 (with results for additional municipalities still pending). This improved performance helps municipalities to meet legal qualification requirements under the Law on Public Debt to engage in borrowing.

## 2 ACHIEVEMENTS AND SUCCESS STORIES

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

- GFSI helped GoK to attract four pre-qualified potential investors for the Brezovica Resort Development Project. GFSI's support for GoK's preparation of the transaction area and finalization of the selection process continues into a six week no-cost extension period following Project Year Three.
- GFSI assisted a GoK inter-ministerial working group in preparing an economic viability assessment confirming that GoK's planned construction of Route 6 motorway is economically viable. This assessment is the first of its kind for the GoK and provides the MoF's Economic Public Policy Department and MoF PPP Department with capacity to develop similar analyses in the future
- GFSI developed a multi-year PPP Strategy for sustainable development of a PPP market in Kosovo. Among other things, the Strategy sets out strategic objectives that will link PPP project planning into Kosovo's developing mid-term planning and budgeting and policy priority process and support the MoF PPP Department's development and publication of a PPP Project Pipeline.
- GFSI assisted MoF PPP Department in developing and delivering a sustainable PPP Training curriculum through the Kosovo Institute for Public Administration (KIPA) and certifying trainers to deliver the training curriculum going forward. The PPP training curriculum has allowed the MoF PPP Department to roll out targeted PPP trainings to government offices at the central and local level, building awareness and competence in PPP. Course development was carried out through Training of Trainers following Instructional Systems Design (ISD) methodology.
- GFSI supported GoK to successfully conclude Kosovo's first Waste sector PPP, with the selection of the bidder and successful negotiation of a contract for waste collection services in Suhareka. Also initiated and continued developing twelve PPP projects with five key municipalities addressing needs in urban transport, solid waste management and city parking, and with the Ministry of Infrastructure to develop three motorway service areas along Kosovo's recently constructed Route 7 to the border with Albania. The projects are in various stages of development, and eight are in an advanced stage, ranging from PPP committee approval to the operational and monitoring phase.

### Objective 2 – Fiscal Stewardship

- GFSI assisted 11 PEFA municipalities to develop individual, workable action plans based on the municipal PFM reform plan that resulted from PEFA assessments, with the first six-month progress report against implementable action plans are showing significant progress. Meanwhile, GFSI extended PEFA capacity by assisting Fushe Kosova Municipality to complete its first PEFA Performance Report following GFSI's assisted self-assessment approach. From this, GFSI supported Fushe Kosova to develop and implement its own Municipal PFM Reform Action Plan.
- Completed hands-on assistance in developing M-MTEF for the municipality of Shterpce. The assistance supported Shterpce municipality in applying mid- term budget planning tools and guidance given in the previous budget cycle.

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

- With continued GFSI assistance, 30 municipalities received unqualified opinions on their 2012 financial statements, up from 16 municipalities last year. This improves municipalities' potential eligibility, under the Law on Public Debt, to engage in borrowing, as the law requires unqualified opinions for the two previous consecutive year in order to be permitted to incur debt. With Project Year Three assistance Kosovo now has 13 municipalities having achieving this status for 2014.

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

- GFSI built costing capacity for budget organizations by supporting the development and promulgation of the Administrative Instruction on Costing for Budget Organizations and by collaborating with DFID in producing a Costing Manual. Combined with GFSI's accomplishments in initiating the Medium Term Policy Priority Framework in Kosovo, building costing capacity is a crucial step toward linking policy prioritization with Kosovo's annual budget and planning cycles. With the Budget Department's instruction, all budget organizations are now using the Administrative Instruction for costing new policy initiatives.
- GFSI supported the development of a comprehensive budget cycle document for the Budget Department. The budget cycle outlines in detail the steps and institutions involved in planning, budgeting, execution and reporting in the GoK.
- GFSI assisted PEFA secretariat within the MoF conduct an assessment of the Central level PFM performance and the draft PEFA report indicates marked improvements compared with the 2009 PEFA assessment report

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

- With GFSI assistance the MoF has established critical IT governance committees—the IT Steering Committee and the IT Technical Committee. Formation of these governing committees provides needed executive level governance for further development of the MoF's IT systems, removed significant impediments to communication and collaboration among IT personnel in the Ministry, and allowed the GFSI-supported elaboration of a Strategic ICT Plan.

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

- GFSI enhanced tax audit capacity of Municipal Tax Departments. The capacity building process initiated by GFSI consultants was continued by MoF Property Tax Department (PTD) through inspections completed for the calendar year 2011. GFSI also assisted in improving property tax administration by developing different instructions for data administration, function development and new reports in the property tax program and trainings for property tax offices staff on the tax program. These activities will result in an increased efficiency of Municipalities in tax collection. The first months of 2013 show a marked increase in property tax revenues

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

- Assisted the MoF in designing and negotiating with IMF policy options for introducing a legally binding rules-based fiscal framework, which was approved by Assembly in July, 2013
- Assisted the MoF implement the necessary structural reforms which resulted in successful implementation of the Stand-by arrangement with IMF and on a 94 million euros of loan disbursement from the SBA program support
- Supported the MoF on completing all the requirements for Kosovo's membership at the European Bank for Reconstruction and Development
- Assisted the Strategic Planning Office on developing the first comprehensive Medium-Term Policy Priority Statement. The MTPPS consists of a consolidated set of costed and prioritized policy initiatives that are affordable against the budget and forward year expenditure constraints, as set out on the Medium-Term Expenditure Framework.

# 3 PROJECT PROGRESS IN YEAR 3

## 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**

In Project Years One and Two, GFSI strengthened the foundations for PPP implementation by improving the PPP Law and drafting implementing Administrative Directives as well as preparation of standard tender documents and draft contracts. In Project Year Three, GFSI focused on practical implementation of the laws and standard documents by supporting procuring agencies in the development of PPP projects according to the law and using the standard tender documents and contract. In addition, GFSI supported significant capacity building by helping the MoF PPP Department develop training and outreach capacity on PPP, finalizing guidelines on PPP, developing a multi-year strategy on PPP development, and significant progress on establishing a project development technical assistance facility.

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

Building on the foundation laid by GFSI assistance in previous project years, in the final year, GFSI assistance focused on transaction-based implementation GFSI helped strengthen Kosovo's PPP legal and institutional environment by developing sector-specific transaction documentation and assisting in legal due diligence on specific PPP projects. The institutional framework was further strengthened by Kosovo's admission to the European Public-Private Partnership Expertise Centre (EPEC), allowing access to European best practices, important documentation and lessons learned as well as expert advice. The Directives that GFSI helped develop in previous year are now tested in practice during the transaction development, MoF PPP Department review, PPP committee review and approval and tendering of several PPP projects.

The PPP Guidelines, substantially completed in Project Year Two, were finalized in Project Year Three and used as the basis for developing the MoF PPP Department's PPP training curriculum. GFSI, together with Kosovo Institute for Public Administration trained and certified trainers, who are now successfully rolling out a PPP training curriculum to budget authorities.

GFSI supported the MoF PPP Department in preparing, through an inclusive stakeholder consultative process, a PPP Development Strategy for 2013-2016. GFSI assisted the MoF PPP Department to consult with governmental and non-governmental stakeholders to identify development issues and form strategic objectives for the next phase of PPP development. The process resulted in five Strategic Objectives that include: 1) incorporating PPPs into Kosovo's policy and expenditure planning process; 2) study and establishment of a Project Development Technical Assistance Facility; 3) promoting Private Finance Initiative opportunities; 4) publishing a PPP transaction Pipeline; and 5) establishing a risk-based PPP contract management system. This Strategy covers three years going forward, includes annual action plans for the MoF PPP Department, and incorporates an annual strategy review and update. Following additional stakeholder consultation in early July, 2013, the MoF PPP Department plans to present the finalized draft at the next meeting of the PPP Committee, seeking approval and recommendation to pursue its adoption by government decision.

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

- Finalized PPP Guidelines and rolled-out PPP training curriculum by trainers certified and trained by GFSI.
- PPP institutional capacity was developed on a case-by-case basis within municipalities that are preparing PPP projects.
- Satellite PPP Unit established in Peja and Gjilan municipalities, where GFSI provided significant transaction development strategic advisory support.
- Multi-year PPP Development Strategy drafted through stakeholder consultative process work plan for central government and municipalities

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

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

The Suhareka Solid Waste collection project was successfully negotiated with the selected bidder and is currently awaiting contract signature pending final governmental approval. Three motorway service area concessions have been prepared together with the Ministry of Infrastructure and all three have been approved by the PPP Committee and are now in the tender phase. One of the Pristina underground parking project sites also moved forward in year three and is pending PPP Committee approval.

Much of the focus during year three has been on moving the Motorway Service Areas projects forward, the feasibility study and tender documentation for a urban bus project in Gjilan, and the development of a modern and efficient public transport plan for the municipalities of Pristina, Fushe Kosova, Gracanica and Obiliq. The following Tables present the key pipeline projects that have been supported by the GFSI Team during Project Year Three together with a brief description of the technical assistance provided to the municipal and central governments through the GFSI Objective 1.

**Table 1 – Central Level Projects**

	<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, The Government of Kosovo has made a decision to implement the project through traditional procurement. GFSI project successfully assisted in justifying the economic viability of the project and negotiations with IMF and World Bank
2	Route 7, Maintenance and tolling	Management contract minimal CAPEX to be paid by provider	Rame Qupeva (Ministry of Infrastructure)	Short term maintenance contracts are currently being procured. Intention to enter into long term O&M concession. Tender documents for transaction advisor provided by GFSI project.

				Further assistance to highway projects was stopped on request of USAID
3	Customs/Tax building	PFI	Lorik Fejzullahu – MoF PPP Dep. and Customs/TAX Director	Initial prefeasibility work was undertaken. Project was not progressed further by the relevant Ministries
4	Pristina International Airport	PPP (BOT)	Lorik Fejzullahu – MF/ MoF PPP Department	Contract monitoring phase MoF PPP Department acting PMU
5	The solid waste landfill	PPP (BOT/PFI)	Lorik Fejzullahu – MF/ MoF PPP Department	IFC Transaction Advisor Project was delayed due to policy concerns by the Ministry of Environment.
6	Motorway Service Areas	PPP (BOT)	Rame Qupeva (Ministry of Infrastructure)	Developed as 3 separate PPP projects for 3 locations and approved by PPP committee in April 2013. Tender phase ongoing
7	Fiber optic cabling along Route 7	PPP (BOT)	Rame Qupeva (Ministry of Infrastructure)	Feasibility study initiated but after change in law on telecommunication there was no longer scope for a PPP

**Table 2 – Municipal Level Projects**

	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. Grand hotel location was brought forward to the PPP committee for approval.
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  Completed Public Transport Plan and viability assessment as well as study tour for the PMU.

				Awaiting political decision on how to proceed from 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 showed that the project was not feasible without public financial contribution. Municipality is now considering other ways forward
7	Peja	Municipal Parking BOT/concession	Mayor	Pre-feasibility, project was no longer pursued by counterpart
8	Suhareka	Solid Waste Management BOT/concession	Mayor	At contract negotiation phase. Contract has been successfully negotiated with the preferred bidder, and municipality has now decided to ask opinion of the Anti-Corruption Agency before going forward.
9	Suhareka	Industrial Park BOT/concession	Mayor	Early pre-feasibility stage, no longer pursued by municipality
10	Obiliq	Solid Waste Management BOT/concession		Pre-feasibility, no longer pursued by municipality
11	Mitrovica	Waste treatment/landfill BOT/concession	Mayor	Feasibility showed that the project is feasible, but only in case in which the whole value chain is included in the PPP. This means the POE would cease to exist. Municipality is contemplating how to move forward.
12	Gjilan	Urban Transport PPP/Concession	Director of Public Works	Feasibility study and tender documents and draft contract completed and ready to be submitted to the PPP committee for approval
13	Prizren	Sports complex rehabilitation	Municipality of Prizren	Pre-feasibility study ongoing

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

GFSI prepared a complete set of guidelines for contract monitoring and management. The new law on PPP describes the roles and responsibilities of all parties in the institutional framework, including during the operational phase of the project. As set out in Project Year Two's Annual Report, the MoF PPP Department was appointed temporary Project Management Unit for the Pristina International Airport (PIA). This is still the case. During Project Year Two the MoF PPP Department had prepared tender documentation for the procurement of an outside company to carry out the role, however, a procurement tender has still not been issued to date. It is understood that this is currently still on hold awaiting approval from the MoF to fund the procurement.

As in previous project years, GFSI continued the practice of setting up PPP PMUs for the selected Municipal projects currently being supported on a case by case basis. Sample procurement documents (Request for Qualifications, Request for Proposal) and sample PPP contracts were revised and updated based on lessons learned during the implementation of the PPP projects.

#### ***Task order tasks completed during year three:***

- Ongoing support to the Prishtina International Airport PPP PMU (MoF PPP Department).
- Design project-specific PMU (as so required)
- PMU training / capacity building - PMUs are a critical function necessary for the implementation and operation of all PPPs. Once a specific project starts, GFSI team starts with training for the PMU.

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

- 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

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

Building on the foundation work carried out in Project Years One and Two, GFSI concentrated in Project Year Three on helping the MoF PPP Department develop a sustainable PPP Training Program. Using proven Instruction Systems Design methodology, GFSI supported the MoF PPP Department's development of a sustainable training curriculum and achieve certification of qualified trainers. The PPP Training Curriculum is now periodically delivered by the MoF PPP Department officials and other public sector and private sector (banks, companies, Chambers of Commerce, etc.), raising awareness and building capacity to identify and plan PPPs. Training are planned to be carried out by MoF PPP Department and delivered through the Kosovo Institute for Public Administration.

The recent changes in the Law on 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 a Solid Waste PPP Toolkit was developed. Its formal approval is pending before the Ministry of Environment and Spatial Planning, which is awaiting development and implementation of a National Environmental Strategy.

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

- Training of the Trainers and trainer certification for PPP Curriculum
- Regular delivery by MoF PPP Department of targeted PPP training and seminars

- Identify and structure study-tour opportunities and study tours have taken place to Dubrovnik Croatia in October 2012 and to Amsterdam in June 2013

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

As reported at the end of Project Year Two the GFSI continued to focus on projects that have a positive environmental impact i.e. solid waste management, public transport and municipal car parking.

During Project Year Three the Team, with STTA support and in close coordination with the Ministry of Environment and Spatial Planning, provided a comprehensive set of training sessions on Environmental Impact Assessment for Infrastructure projects, to introduce the Guideline for Environmental Impact Assessment for Infrastructure projects. Local authorities and central authorities were trained. The guideline is designed 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.

During Project Year Three, GFSI assisted in delivery of five training session for 30 municipalities throughout Kosovo for six regions and improved knowledge of the environmental issues and better understanding of the process of executing the Environmental Impact Assessment (EIA), EIA reporting, and conditions of issuing the Municipal Environmental permits to PPP projects. A total of 113 participants attended these trainings.

Training was also delivered on the central government level in three sessions scheduled to accommodate the busy schedule of the ministry staff – the participants. Training was attended by total of 51 participants, from the 13 following ministries:

1. Ministry of Finance
2. Ministry of Trade and Industry
3. Ministry of Economic Development
4. Ministry of Environment and Spatial Planning
5. Ministry of Health
6. Ministry of Agriculture
7. Ministry of Infrastructure
8. Ministry of Internal Affairs
9. Ministry of Communities
10. Ministry of Public Administration
11. Ministry of Labor
12. Ministry of Education
13. Ministry of Local Administration

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

- Technical assistance to the central and municipal governments on evaluating PPP for public transport projects
- Targeted training module developed regarding environmental planning, mitigation and monitoring measures in PPP projects
- Improved knowledge of environmental issues and development of Environmental Impact Assessments

### 3.1.6 ESTABLISH A PROJECT DEVELOPMENT FUND

To help local authorities overcome the capacity gap in the field of implementation and preparation of good and bankable PPP projects, GFSI is helping the MoF PPP Department to plan and design a Project Development Technical Assistance Facility (PDTAF). This Facility would support procuring authorities to acquire strategic support for the development of the feasibility study and tender documents and transaction advisory services for their PPP projects. The PDTAF as a concept is supported by the Minister of Finance in principle, and the study, planning, and development of the PDTAF is proposed as a Strategic Objective in the draft PPP Development Strategy.

In Project Year Three, GFSI with STTA support, worked with the MoF PPP Department in drafting a viability assessment for the PDTAF. It also drafted the guidelines for the fund as well as the chartered document. The GFSI support aimed to draft procedures and operations manual for the PDTAF, including internal control mechanisms, to assess the viability of the PDTAF concept, including a pipeline of potential projects to be supported by the PDTAF and to start marketing the PDTAF to potential providers of funds.

#### ***Task order tasks completed during year three:***

- Viability assessment of PDTAF concept
- Preparation of operations manual/guidance materials for PDTAF and internal control mechanisms
- Initial discussion of the PDTAF concept with donors and the MoF to build support for establishing the facility

#### ***Task order tasks not completed during year three:***

- Finalization and implementation of the PDTAF

### 3.1.7 ASSISTANCE TO ROUTE 6 MOTORWAY PPP AND ROUTE 7 O&M CONCESSION

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 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.

During Project Year Two, the Government decided to develop Motorway Route 6 as a traditional procurement project. Therefore, going forward in Project Year Three, the work plan activity under this PPP Sub-Objective was limited to initial support to developing PPP options for Operations and Maintenance on Route 7 and conducting an Economic Viability Assessment for Route 6. To this end, it was agreed with the IMF that to proceed with the construction of Route 6, the World Bank's confirmation was required that the project is economically viable. To obtain this confirmation the GFSI project assisted a GoK inter-ministerial working group with the preparation of an economic assessment. GFSI project also successfully assisted the government during the negotiations with IMF and World Bank regarding economic viability of this motorway.

### 3.1.8 ASSISTANCE TO BREZOVICA SKI RESORT DEVELOPMENT

During Project Year Two, GFSI was additionally tasked to assist Kosovo's government in developing a transaction to attract a private investor to develop the Brezovica resort area in south-eastern Kosovo – the Brezovica Resort Development Project (BRDP). To carry out the transaction, the government had

established, in 2011, an Inter-ministerial Steering Committee (ISC) to oversee the transaction. GFSI supported the creation of a Project Implementation Unit at the MTI for the project. Prior to the completion of Year Two, had engaged in significant transaction preparation due diligence, assisting the PIU to develop a business case for the transaction.

Since the commencement of its assistance, GFSI has provided significant assistance in building and coordinating the relationships and communications among ISC members and providing regular briefings of ISC leadership and organizing ISC meetings. During Project Year Three, GFSI continued support to the PIU, based on the business case, by assisting in developing rules of decision of the ISC and rules of operation for the PIU. GFSI supported the PIU to draft a communications strategy, develop marketing materials, and prepare for engagement of a transaction advisor.

Early in Project Year Three GFSI engaged a senior PPP specialist to develop a TOR for an international tender for the MTI to engage transaction advisor to market, design, and conduct the transaction. After no bids were received following extension of the tender deadline, GFSI's senior PPP specialist assisted the GoK and USAID to examine options for accelerating the transaction. Concluding that the project remains a priority for the country, the assessment recommended that potential investors be consulted, that the baseline transaction concepts be refined with a more detailed delineation of the development footprint and a moratorium imposed on construction, and that the government measure investor interest through a procurement seeking expressions of interest in the transaction.

The ISC approved moving forward with the revised approach, and in January 2013, the GoK launched a tender for expressions of interest and pre-qualification of potential bidders for BRDP. The GoK, together with GFSI advisors and PIU members, engaged in four roadshow events in March 2013 to promote the BRDP in four cities—Denver, Dubai, Vienna, and Brussels. As a result of the tender for expressions of interest, in May 2013 four potential investors were approved by the ISC as qualified to participate in the transaction.

GFSI continued support for preparing the BRDP transaction helping the PIU work with the Ministry of Environment and Spatial Planning (MESP) to approve a spatial plan allowing development in the BRDP footprint area, coordinating with the Privatization Agency of Kosovo (PAK) for transfer to GoK of properties within the footprint, and preparing for expropriation of third party properties within the footprint.

## **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)**

#### ***a. Provide coaching and TOT to MoF in PEFA application, implementation and reporting for the future.***

Following its successful municipal PEFA assessment exercise in 11 municipalities in the first two years of the project, during Project Year Three GFSI focused on support for the final Kosovo Local Government PEFA with Fushe Kosova Municipality. Implementation of the Fushe Kosova PEFA process was based on the assisted self-assessment approach, where a core municipal assessment team equipped with necessary tools to perform the assessment. The assessment was carried out during the period November 2012 – March 2013 and was comprised of a series of critical and important events, which supported a phased-in approach to the conduct of PEFA.

This process was combined with the effort of building similar experience with the MoF – Municipal Budget Department (MBD) for their future reference and assistance to municipalities in need. Four staff members of MBD, as appointed by Department Director, were actively involved during the inception,

implementation and reporting phase of the PEFA process with Fushe Kosova. GFSI provided training and necessary resources, combined with practical PEFA support to Fushe Kosova municipality. This approach served to build capacity of the MBD capacities in this area, now able to support further municipalities interested in commencing similar process.

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

- PEFA Performance Report for Fushe Kosova Municipality completed and approved by the Mayor and municipal Board of Directors.
- Built capacities within the Ministry of Finance Municipal Budget Department to assist municipalities interested in commencing PEFA or similar self-assessment process.

***b. Based on PEFA self-assessment, develop and implement municipal PFM Action Plan and associated training program***

Following the conclusion of PEFA assessment in Fushe Kosova GFSI assisted in development of an action plan on the municipal reform of public finances management – the PMF Reform Action Plan. The PFM Reform Action Plan design and adoption process for Fushe Kosova municipality was subject to a number of consultative discussions and workshops organized with Municipality. The workshops contributed to the final Municipal PFM Reform Action Plan incorporating measures, institutional responsibilities and timelines for implementation.

In addition GFSI supported building monitoring and reporting measures on the implementation of already approved workable PFM action plans in the prior 11 PEFA municipalities. GFSI assisted individual municipalities in producing six-month progress reports against their approved action plans, with a comprehensive progress report shared with stakeholders.

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

- Fushe Kosova PFMAP developed together with municipality team and approved by the Mayor and municipal Board of Directors
- Progress reports completed on 11 prior PEFA municipalities and shared with stakeholders in a conference

### 3.2.2 MUNICIPAL MEDIUM TERM EXPENDITURE FRAMEWORK

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

The GFSI continued with the next phase of USAID's support to the local authorities in their efforts to strengthen public financial management practices, with the focus on Mid-Term Budget Framework (MTBF) application during the 2014-2016 budget cycle. The first event was organized April, 2013 with about 100 municipal budget managers and Chief Finance Officers participating. The conference benefited from the contribution of Municipal Budget Department of MoF, Strategic Planning Office of Prime Minister, Ministry of Health, and Ministry of Education. An assessment on prior budget cycle MTBFs and their alignment with Ministry of Finance budget circular requirements was an input to the conference. In addition a qualitative assessment on mid-term budget planning on sample municipalities followed by conclusions and recommendations was provided to all municipalities in order to utilize that for new budget cycle 2014-2016.

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

- Quantitative assessment of municipal MTBFs on their alignment with Ministry of Finance budget circulars' requirements

- Qualitative assessment of mid-term budget planning on sample municipalities followed by conclusions and recommendations was provided to all municipalities in order to utilize that for new budget cycle 2014-2016

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

Building from previous year experience with selected number of municipalities assisted in a hands-on process, GFSI team continued the same assignment during the development work of MTEF 2014-2016, with one additional municipality (and former PEFA beneficiary) – Shterpce. The work was based on the GFSI M-MTEF template developed in previous years for municipalities to use, following best international practices on mid-term budgeting. Municipality of Shterpce was originally provided with the past year trend of expenditure analysis followed by modified existing templates of budget requests to be used by each individual department at the Municipality during budget formulation process. Municipality was provided with necessary tools to advance an MTEF document in place of its previous capital project-only list. Shterpce's MTEF was approved by the local assembly.

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

- Shterpce M-MTEF document completed, with all chapters, and related budgets for municipal priorities and policies 2014-2016
- Incorporated a new M-MTEF approach towards budget planning in Shterpce (all departments sitting together and doing the plan) - no longer is this only Finance and Budget department document
- A new chapter for M-MTEF document introduced with performance indicators against municipal priorities.
- M-MTEF Template suggested to municipality for 2014-2016 budget cycle

***c. Ensure Sustainability of major activities related to municipal PFM***

At the outset of Project Year Three, GFSI worked with the MoF Municipal Budget Department to agree upon a sustainability solution for all municipal PFM activities. To this end, during the year GFSI co-organized all of its Year Three municipal PFM activities together with the Municipal Budget Department as part of an agreed approach towards ensuring sustainability of municipal PFM activities. In addition, in separate workshops, Municipal Budget Department staff was exposed in details to major findings and lessons learned in following themes: PEFA municipal application in Kosovo; PEFA-resulted municipal PFM action plans, monitoring and reporting; and municipal best practices in application of MTEF approach towards strengthened budgeting.

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

- Workshops where the following tools were elaborated
  - PEFA manual and technical guidance for municipalities
  - PFM action plan for Municipalities, as a result of PEFA findings
  - M-MTEF lessons learned and recommendations for the future

***d. Strengthen System of fiscal intergovernmental relations***

This activity was included in the Project Year Three work plan upon counterpart request, and was mainly related to the Grants Commission Secretariat of the MoF. The counterpart had requested:

- Assistance in modifying current draft annual report on appropriateness of municipal financing, a document submitted to Kosovo Government on annual basis
- Provision of training to the Grants Commission Secretariat in improving their reporting capacities as related to annual reporting and drafting of report on appropriateness of municipal financing

However, the activity was canceled due to counterpart's changing agenda and unavailability to commit to this requested assistance.

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

- N/A

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

- Modified draft annual report on appropriateness of municipal financing
- Training program to the Grants Commission Secretariat in improving their reporting capacities

### 3.2.3 PUBLIC FINANCIAL MANAGEMENT IN NEW MUNICIPALITIES

***e. 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***

New municipalities were formed in years 2010, 2011 and 2012, including municipalities of Partesh, Ranillug, Gracanica, Killokot and the North Mitrovica Administrative Office. GFSI immediately included staff from these municipalities in its Treasury training program on commitments, expenditures, assets and revenues. The municipalities' key staff members are now certified and the municipalities can record payments, execute their budgets and maintain accounting records. In addition, all four above municipalities have received unqualified audit opinions for their 2012 financial statements.

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

- Continuous training on FreeBalance (Kosovo Financial Management Information System - KFMIS) functions
- Training on preparation of financial statements

### 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***

To most directly address municipal audit issues, GFSI's activity in this area has focused on technical assistance to municipalities and to the MoF Treasury Department, as the institution responsible for accounting systems and financial statements.

During Project Year Three GFSI provided continued training to finance officers in all budget organizations, including municipalities. The GFSI trainer provided training on the use of Kosovo Financial

Management Information system for new users (occurring due to ordinary staff turnover), as well as advanced training for existing users, on the financial management policies and procedures, treasury financial rules and practical use of the KFMIS system. The standard training covered 4 days, with one day of testing leading to certification and obtaining a password to use the KFMIS system. The training prepared finance staff to use KFMIS for entering transactions including revenues, expenditures including all points of control (commitment, purchase order, goods receiving notes, payment approval), and assets.

GFSI also provided training on preparation of financial statements for municipalities. GFSI engaged an international advisor to analyze external audit results for year 2011 during the first half of Project Year Three. To help municipalities improve performance in 2012, the advisor conducted visits to nine municipalities that had received qualified audit opinions in 2011, and worked with these municipalities to develop action plans for addressing audit recommendations. This was carried out to significantly improve audit results for municipalities for year 2012. GFSI and the Treasury Department co-organized a seminar for municipalities and other parties involved in the financial reporting and audit process. At the request of several municipalities (Municipality of Suhareka, Municipality of Gračanica, Municipality of Fushe Kosove), GFSI provided guidance and technical assistance during their preparation of their respective financial statements, both the three-quarters financial statements (submitted in October 2012) and the annual financial statements (submitted in January 2013).

To enhance sustainability, in Project Year Three the Treasury Department Reporting Unit's role was significantly enhanced, with Treasury staff leading two days of the four-day training, assisted by GFSI staff. Training included financial statement forms with instructions and print screens from the KFMIS as a guide to support financial statement presentation. All 38 municipalities were invited, from which 28 participated. Audit reports for year 2012 for 27 out of 38 municipalities are available on the Auditor General's website and show the number of unqualified opinions increased from 16 for the 2011 audit, to 30 for the 2012 audit. These results are significant, as under the Law on Public Debt municipalities must have unqualified audits for at least the two previous years in order to borrow. As of July 2013 Kosovo now has 13 municipalities enjoying unqualified opinions for two consecutive years. All municipalities are now able to submit financial statements within the legal deadline (January 1). Training data are provided on the training section below.

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

- Training for budget organizations on KFMIS use.
- Training of Municipalities in preparing 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**

***Improve the communication and coordination among all IT units and make IT functions sustainable***

Following GFSI recommendation, the MoF established IT governance committees—the IT Steering Committee and the IT Technical Committee—by Ministerial Decision, specifying members and functions. The IT Steering Committee is co-chaired by Minister and Permanent Secretary and consists of General Directors of Budget, Treasury, Tax Administration, Customs, Property Tax, and Treasury Departments. The newly-formed IT Technical Committee has been established and is functioning by addressing foundational issues within the Ministry. The Management Committee (Steering Committee) is led by the Minister and has allowed the Technical Committee to collaborate and communicate across Agency and Departments, resulting in a well-functioning IT business environment. GFSI helped the Technical

Committee formulate a cost-effective plan for improving the performance and experience levels of the existing IT staff, a precursor to implementing long-term solutions to financing IT Staff.

GFSI also led a Technical Committee working group that developed a cost-effective approach to increasing the capabilities of existing government IT staff and reducing the risk of single point of failure caused by limited knowledge of systems.

GFSI provided assistance and advice to MoF IT Department in their efforts for building a new MoF Server room and the establishment of the dedicated fiber optics connection to the backup data center located at CBK. The MoF currently is in the final stages of the building the server room, and plans for migration of the infrastructure are already drafted. The physical move the new server room will provide the basis for the data sharing among systems. The fiber optics connection provided immediate benefits for Treasury, Property Tax and other MoF Systems who have already utilized the link and critical data are replicated on daily basis. GFSI IT Advisor provided the know-how, training and implemented the configurations for the Property Tax automatic backup/synchronization of its critical systems.

**Task order tasks completed during Project Year Three include:**

- Establish IT Governance Committee – Identify key members and institutionalize the Committees.
- Establish IT Technical Committee – Identify key members and institutionalize the Committees.
- Built IT Department capacity to ensure effective cooperation and coordination among all IT units.
- Helped Ministry develop a long-term solution for financing of the IT staff, including those functions that currently are being financed by donors
- Assist the Ministry to take measures that will enable other IT staff to perform key functions
- Help IT department draft and adopt key IT Policies and Procedures, including decision-making processes and risk management process

***Develop ICT Strategic Plan***

GFSI deployed an international advisor to work with the IT Department head in development of a comprehensive ICT Plan for the Ministry. The ICT Plan was developed incrementally, with briefs on important aspects, and feedback requested on the overall approach through numerous counterpart meetings. The plan addresses foundational IT elements, pillars of strategic implementation, vision of the future and Ministry IT Strategies and aligns well with the high level issues and risks that the Technical Committee has developed and present to the business leaders.

Going forward the ICT Plan will allow MoF leadership to address top level issues and risks, provides a consensus roadmap among all MoF Departments and Agencies and enables MoF to realize the anticipated benefits from IT investments.

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

- Advise the IT Department on the methodology and tools for the assessment
- Develop a Strategic ICT Plan for achieving the future state of the ICT Services at the MoF

***Bring the Budget and Treasury IT Systems to the next level of sophistication and integration***

The ICT Plan includes an assessment report on Budget and Treasury Systems. Additionally, skills inventories and detailed technical information has been developed that provides much clearer insights into all of the Ministries applications. Current systems have a number of substantial issues causing them to be quite fragile, and these issues are being addressed first, sequentially. Additional functionality needs

will be addressed second. GFSI, nevertheless, provided advance guidance on how to move to the next generation of applications that will support enhanced functionality.

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

- Assess the systems regarding their functional completeness and performance.
- Support the MoF IT Department to identify functionalities that need to be added to each of the systems or functionalities that need to be changed

***Improve data sharing among systems***

Data sharing capacity was significantly improved during the project year. GFSI documented current systems data exchanges and Interface Exchange Requirements. The immediate benefit was that the Tax Administration was able to use property Tax MOU to obtain data needed from Civil Registry.

GFSI further developed a data governance approach for ensuring effective and efficient data and information sharing among systems and business units selected. A full-time Data Governance asset is required to organize and manage essential data, as shown in the ICT Plan. Repeatable IT services are introduced by the Information Technology Infrastructure Library (ITIL) and IT service management frameworks that have been licensed and are being deployed and trained across the Ministry.

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

- Identify needs of data and information sharing among systems (*Simultaneously with Strategic Assessment*)
- Recommend an approach for building and implementing data sharing solutions
- Identify IT Services that can be provided as shared (are currently provided in multiple MoF units)

***MFE IT Staff skills improved***

IT staff skills inventory has been completed and the skills gaps and assessments will be accomplished in upcoming months.

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

- Assess skills of the IT staff (*Simultaneously with Strategic Assessment*)

**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***

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

During Project Year Three, and further to the Strategic Expenditure Review (SER) conducted in Project Year Two, the budget processes in the Government of Kosovo were reviewed. Findings from the Strategic Expenditure Review produced by GFSI in Project Year Two highlighted key needs to better link organizational strategic planning to the budget processes, to ensure all planned activities are appropriately budgeted, and establish effective program performance measurement through performance indicators. Based on the SER findings, GFSI supported key reforms of developing Kosovo's first Medium Term Policy Priority framework; in coordination with DFID developed a Costing Manual and implemented

the Administrative Instruction, standardized budget calendar, and supported for a fiscal rule (discussed below in Objective three – Economic Policy).

GFSI helped the Budget Department produce a budget cycle calendar, establishing the current budget cycle in detail and in a visual form, with some proposals for changes to the process. This document was completed together with the Budget Department at the end of Project Year 3. The budget cycle document was requested by the Budget Department's Director, and it can serve as a permanent, standing budget calendar, obviating the need to produce a new budget calendar each year. In addition, unlike the previous budget calendars produced annually as part of the budget process, this document encompasses and clarifies all the steps of the budget cycle (policy formulation, planning, execution, reporting and audit). The calendar will also be useful to the Budget Department as material for training and presentation purposes.

In moving towards a program-based budgeting approach, another finding from the review of budget processes was that the cost of initiatives presented by budget organizations during the planning process is often not calculated or appropriately factored into the planning process. To address this, during Project Year Three GFSI worked closely with DFID to prepare a Costing Manual for budget organizations, based on a bottom-up costing approach and provided training to the MoF Budget Department. Further to training held with budget organizations, and in order to make costing of new policy initiatives a requirement for budget organizations, GFSI prepared an Administrative Instruction on Costing of New Policy Initiatives, which was signed and issued by the Ministry of Finance.

Together with the MoF Budget Department, GFSI supported development and delivery of an Administrative Instruction on Costing for line ministries. Two rounds of training were held with line ministries. One involved introductory sessions, half a day per group organized by functional sector, and the other one was practical and required the groups to calculate the cost of a chosen initiative of their own. The Administrative Instruction was presented to Budget Department staff that are to take over implementation of the instruction. GFSI worked with a dedicated Budget Analyst to develop the instruction and training. The MoF's Budget Analyst delivered the training jointly with GFSI.

In addition, GFSI supported the MoF to prepare a draft instruction to define the process for debt financing of capital projects. As no such process is in place yet, the goal is to provide clear procedures for such borrowing, starting from the application, negotiations, approval and disbursement. The MoF aims at linking the debt financing with the budget process.

Further training was provided by GFSI to line ministries on the implementation of this instruction. The training was well received and the Budget Department has recently issued a memo to line ministries that they need to begin with the implementation of the Costing Instruction, that is, they need to submit costing information for all new policy initiatives as part of the budget submissions process.

### **Central Level PEFA**

With the support of GFSI, GoK commenced a new PEFA assessment during Project Year Three, updating the last PEFA assessment conducted in 2009. A Steering Committee and a technical assessment team-PEFA Secretariat led by the Deputy Director of Treasury were established. GFSI delivered a one day PEFA training session for the Secretariat to refresh the main technical aspects of the assessment. Most of the team members were part of PEFA assessment in 2009 and therefore were familiar with the application of PEFA tool. GFSI advisors supported the Secretariat in their data collection and scoring work developed during this reporting period, reviewed the PEFA performance report, and provided quality assurance.

### ***Task order tasks completed during year three:***

- Budget Calendar document prepared and submitted to Budget Director
- Administrative Instruction on Costing prepared, finalized, signed and issued

- Training of line ministries on Administrative Instruction on Costing.
- Draft PEFA document for the central level produced

**E – Assist MoF 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***

GFSI continued support to the PTD in reforming the inspection process for property taxation purposes. Review of the inspection reports was conducted for thirty four (34) municipalities across seven inspection areas. Results of the review were presented in two documents, a matrix in Excel, and Report findings and recommendations. Both documents have been submitted to the PTD and can be used for evaluating the performance of municipalities, the quality of reports, as well as for recommendations for improvements in municipalities and in the PTD during the inspection process.

Based on the inspection reports, GFSI concludes that:

- Reform of the inspection process in municipalities and in the PTD should continue;
- PTD should work with municipalities in implementing the recommendations from the inspection reports within 90 days from report submission; and
- Capacities of the PTD staff for inspection and quality reporting, and adequate logistical support need to be enhanced.

Through the PTD, GFSI property tax advisor also provided support to a number of municipalities by training property tax officers in order to implement inspection recommendations for each area of inspection. Training was composed of two parts:

- Legal basis – Implementation of recommendations that relate with the property tax legislation
- Usage of functions in the Property Tax Program – Implementation of recommendations that relate to the property tax program.

In addition, GFSI, in cooperation with Swedish SIDA, assisted the MoF to prepare a project plan for expanding the property tax based to include taxation of land in Kosovo (ProTax2 – property tax on land). This will increase the tax base and, as a result, the municipalities' Own Source Revenues from property tax are expected to increase significantly. The land taxation reform is intended to provide municipalities with an effective means to introduce better incentives for the productive use of land. At the same time, the property tax on land is expected to support improvement of Kosovo's business climate by providing municipalities with appropriate revenue source, allowing for reduction and abolishment of inappropriate fees and taxes that adversely impact business growth. Based on initial estimate, the yearly impact from introducing property tax on land could be up to €20 million.

The GFSI team assisted in preparation of two instructions for the PTD – one on the use of a simulation tool for calculation of assessments and one on separation of debts by period before and after privatization of former Socially Owned Enterprises (SOE) between the Privatization Agency of Kosovo and new owners. The second instruction enables municipalities to better manage the data of former SOEs that have been privatized through advice on how to calculate and separate debts and payments (taxes, penalties and interest) in the Property Tax System (PTS) by periods before and after privatization.

Finally, in cooperation with SIDA, GFSI assisted the PTD to plan and manage the public campaigns through TV and billboards and prepare copies of the property tax publication containing the amended property tax law and sub-laws.

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

- Reviewed the 2011 inspection reports, including findings and recommendations and prepared a comprehensive report
- Developed instruction -- Use of simulation tool for calculation of assessments
- Developed instruction – Separation of debts for SOE by period before and after privatization
- Improvement property tax administration in the Property Tax Department and Municipalities

***Calibrate new mass appraisal models***

GFSI advisor supported PTD in documenting the new evaluation model for 34 municipalities, allowing for better understanding of the impact of the new evaluation model in the tax value, monitoring / control of the new evaluation model, and sustainable property tax planning. GFSI assisted in presenting the strategy / plan of the new evaluation model and to get the list of former privatized SOEs from the Privatization Agency of Kosovo.

GFSI advisors also assisted the PTD to prepare property tax bills for 2013. This assistance covered the property tax business policies and process as well as support for further PTS program developments. For business support, significant efforts were focused on the completion of all municipal regulations, follow-up of inspection results, registration of property parameters (values and tax rates), and verification and analysis of the property tax results. In 2013 the number of bills issued for properties subject to property tax is approximately 451,000, which is an increase of approximately 6% compared with 2012. The value of the property tax bills issued amounted to around 22 million Euros, which is around 5.5 million Euros more than in 2012, or an increase of around 33%. This significant increase on the amount of issued tax bills is mainly as a result of the increase in tax rates from 0.05% to 0.15% and registration of nearly 40,000 unregistered properties. This effort included coordinated assistance by GFSI, DEMI (USAID) and Swiss LOGOS project.

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

- Documentation of new tax evaluation model impact for 34 municipalities
- Presentation of the strategy / plan for the implementation of new evaluation model
- Property tax value planning opportunity for municipalities – providing data; developing tools and increasing capacities.

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

GFSI advisors supported PTD program developers in various business requests (defining/ explaining requests for existing or new functions, planning versions) and support in maintenance and infrastructure (IT support). The property tax program supports its new property registration with GPS equipment—data of resurvey (photography, coordinates, property condition) are entered in the property tax database for all municipalities. Existing functions have been improved and new functions developed supporting the law and administrative instructions, which also improve taxpayer services in property tax.

GFSI's assistance included developing two tools—one for simulation / planning and tax assessment with the old model and the new model of tax assessment, and one for production of summary reports, textures and graphics. These two tools were developed for support and management and for better property tax planning for PTD and municipalities. GFSI advisors have also helped PTD and IT Department to prepare the plan for transferring property tax servers to the new servers' room.

GFSI continued with trainings and capacity building of the municipalities' finance directors, property tax managers, surveyors and users of property tax system on:

- Planning and simulation of property tax collection
- Implementation of recommendations from the annual inspection reports
- Preparation of plans to conduct verification of registered properties
- New process for registering properties and taxpayers
- The use of new PTS functions, based on new processes

To support the future sustainability of the maintenance and upgrades of the PTS, GFSI coordinated efforts with SIDA counterparts to fund training for five MoF IT Infrastructure staff at American University of Kosovo (AUK) on Linux. After the completion of this basic training a tailored on the job training program on current Linux infrastructure has been provided by the GFSI IT Advisor to the PTS IT staff.

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

- Increased property tax capacity building in the municipalities
- Developed tool for simulation / planning and tax assessment for all municipalities
- Developed tool for production of summary reports, textures and graphics for all municipalities
- Impact of the new valuation model in the property tax amount documented for all municipalities
- Developed the plan for transfer of the property tax program to the new server room
- Property tax program has improved the property tax data administration and taxpayer services.

### **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.**

During Project Year Three, significant accomplishments have been achieved that will contribute to Kosovo's fiscal and economic stability going forward: 1) Drafting and approval of rules-based fiscal framework legislation; 2) building of a Debt Sustainability Model that enables Ministry of Finance to conduct long-term analysis of various debt scenarios; and 3) Successful implementation of the Stand-by arrangement with International Monetary Fund and membership at the European Bank for Reconstruction and Development are some of the main activities where GFSI project provided significant assistance.

**Rules based Fiscal Framework.** With Kosovo's Stand-by arrangement with IMF, it was agreed that the authorities will adopt a legally binding fiscal rule that would provide guidance to policy makers and the public on prudent spending and debt levels to achieve sustainable public finances. In addition, Ministry of Finance, in particular after the Eurozone crises, consider the adoption of a fiscal rule as key to future sustainability of budget, capable of absorbing most economic shocks and supporting long-term growth and development. In addition, both, the GoK and the IMF consider the adoption of the legally binding fiscal rule as a significant step toward anchoring future fiscal policy of the country.

GFSI project has provided significant assistance to the MoF and the Minister to discuss and negotiate with the IMF possible options for adopting the rule. Those discussions had started in June 2012 when a team of the IMF Fiscal Affairs Department Technical Assistance Mission visited Kosovo, to work with the authorities on the potential options for the rules based fiscal framework. After this mission, discussions and negotiations continued with IMF Mission team (in September and October 2012 and March 2013), and IMF Technical Mission in February, 2013.

In addition to assisting the MoF in negotiating policy options, significant support was also provided in drafting of the legislation of this rule, which was agreed to be incorporated into the Law on Public

Financial Management and Accountability. In summary, it was agreed that the rules based fiscal framework should be composed of two main components:

- a ceiling on the outstanding debt-to-GDP of 40%, and
- a mechanism that controls the speed of reaching the maximum debt limit, which is the overall deficit to GDP ratio of 2%.

On top of the overall deficit limit of 2%, it was agreed that under-execution of budget expenditures and over-performance of revenues will be added to the following year's budget expenditures. In addition, proceeds from privatization may be used as additional funding for capital investments, provided that the level of usable government bank balance amounts to at least 4.5% of GDP. This fiscal rule also foresees events when the deficit ceiling may temporarily increase and the criteria to return back to the deficit limit.

The legislative amendments related to fiscal rule were incorporated into the LPFMA and in March, 2013, Government approved those amendments and preceded the law to the Assembly. After the first reading at the Assembly, GFSI provided assistance to the Budget and Finance Committee during the review of the amendments. The second reading of the Assembly took place in July, 2013, and the rule-based fiscal framework was approved.

**Debt sustainability Analysis.** GFSI advisors built a comprehensive model for analyzing the debt sustainability for Kosovo. A baseline scenario that shows the level of outstanding debt for the next 20-30 years was produced. In addition, alternative scenarios were prepared to show the sensitivity to different assumptions. While building the model and conducting the analysis, all relevant units within the MoF and in particular the Economic Public Policy Department and Debt Unit of the Treasury were constantly involved. The model has been handed over to the EPPD and several MoF staff economists trained to use and maintain it.

Preparation of this Debt Sustainability Analysis had two main roles: First, to show to the Ministry and the Government what level of future debt is sustainable and what is the level of deficit that leads to that sustainable debt, and second to use this analysis for discussions and negotiations with the IMF missions, in particular when deciding on the level of the overall budget deficit. A short presentation of the output of this analysis was also presented to the IMF team.

**Successful implementation of the IMF Stand-by arrangement.** As noted in the GFSI Year 2 Annual Report, the IMF Executive Board approved in April 2012 a 20 month program with Kosovo, known as a Stand-by Arrangement. The key objective of this program is to continue on the path to fiscal sustainability that was embarked on in 2011 and anchor fiscal policy in the long-term, complemented by structural fiscal reforms and steps to further strengthen the financial system's stress resilience.

To measure the progress of Government in achieving the programs' objective, a significant number of the quantitative and structural benchmarks were set for the Government institutions, with specific deadlines for completion. After the approval of this program, there have been a numerous IMF Mission visits to review the program and so far, all the four reviews were completed successfully, with conclusions that the authorities are making good progress on a number of reforms and that the Government is continuing with prudent approach towards keeping fiscal discipline.

As a result of the progress made in implementing all the performance criteria and structural benchmarks, IMF disbursed three tranches of program support, amounting to around 94 million euros. A portion of this money is transferred to a special reserves fund at the Central Bank of Kosovo, enabling the CBK to provide Emergency Liquidity Assistance to the banking sector if needed.

GFSI project has constantly provided assistance to the MoF in conducting all the reforms related to the SBA as well as on discussions and negotiations with IMF missions. Support was also provided to coordinate and prepare the regular monthly SBA monitoring committee meetings, where all Government

institutions, relevant to the SBA, report on the progress made on specific areas. There remains only one more review to be conducted in October and the program will graduate by the end of 2013.

**Membership at the European Bank for Reconstruction and Development.** On November 16, 2012 the Board of Governors of the EBRD approved a resolution, agreeing on the membership of Kosovo to this financial institution. After the approval of this resolution, the MoF, with the support of other Governmental institutions prepared all documentation required for the completion of the membership process. This included the Law for the ratification of the Agreement establishing the European Bank for Reconstruction and Development, which was approved by the Assembly on December 13, 2012. All political parties represented at the Assembly voted in favor of the Law. With the payment of an around 1 million EUR of share capital, approval of the membership law and submission of all legal forms to EBRD, Kosovo became the 66<sup>th</sup> EBRD member on December 17, 2012, with equal rights and responsibilities with all other members. GFSI assisted the MoF throughout the process to complete the necessary documents and legislation on time.

**Approval of Medium-Term Policy Priority Statement.** In April, 2013, Government approved the Medium-Term Policy Priority Statement, a new planning process supported by GFSI. This strategic policy document contains a number of costed new policy initiatives and is a significant step towards more policy-based budgeting. Flowing from the recommendations on the SER, it will operate as key input to the Medium-Term Expenditure Framework and annual budgets and serve to provide a budget-based reality check on new policies. GFSI provided significant assistance in its contribution in preparing this document.

**Support to the National Council for Economic Development (NCED).** During Project Year Three, National Council for Economic Development continued its regular meetings with the participation of all relevant Ministries as well as the Kosovo business associations. Starting from last quarter of 2012, the Prime Minister participates regularly in these meetings, reflecting the commitment of the GoK for economic policy reforms. GFSI advisors have assisted the NCED secretariat in organizing these meetings as well as preparing the materials for specific policy initiatives.

Issues discussed during this year include the progress made on reforming the system of licenses and permits; inspection; the fiscal reforms; sector strategies, such as mining and agriculture sectors, court system and access to finance, etc. This Council more and more is serving as a good forum for policy dialogue between Government and businesses and as a result, more informed and inclusive decisions on economic policy reforms are being taken.

**Tax policy reform.** GFSI prepared a short tax policy report with specific proposals for the Ministry of Finance. These proposals include the recommendation to amend all the three main tax laws; VAT, Customs and Corporate Laws, with the objectives to:

- Increase the number of goods exempted from customs duty for goods that contribute positively to domestic production;
- Remove all VAT exemptions;
- Consider a slight increase in the VAT rate (offsetting losses from additional customs duty exemptions), and
- Provide businesses with additional flexibility on depreciation of fixed assets.

This report was presented to the Minister of Finance and the 'Fiscal Council', within the Ministry of Finance who welcomed the proposals. It was agreed that during 2013, when Tax laws are amended, recommendations from the GFSI report will be taken into account.

In addition, assistance was provided to the MoF in drafting the amendments to the Law on Goods exempted from customs duties and goods with zero tariffs. Several changes to the draft law were suggested in order to increase the competitiveness of the domestic producers. Other economic policy assistance provided to authorities includes:

- Assistance to the Economic Public Policy Department to propose policy options for introducing a rules based minimum wage levels for Kosovo and negotiate with IMF
- Provision of support to Treasury, EPPD and Budget to draft an Administrative Instruction to define clearly the process for debt financing projects
- Support for revision of macro-fiscal projections to reflect the most recent data and trends from the economy of Kosovo and regional economies. These projections were used by the Strategic Planning Office to produce the Medium Term Policy Priority document and the same were used for the Medium Term Expenditure Framework.
- Assistance to MoF in discussions and negotiations with Government of the Federal Republic of Germany for the 2012 Development Cooperation program. Through these negotiations some 28 million euros, mostly grants, were committed from the Government of Germany to support a number of important projects in the area of energy, water and education
- Coordination of activities among stakeholders (CBK, IMF, MoF, KfW) in relation to the revision of the Law on the Deposit Insurance scheme.
- Meeting several times, together with MoF representatives, with the USAID funded program 'New Opportunities for Agriculture' to discuss the proposal for removing VAT on dairy products.

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

- Amendment of the Law on Public Financial Management and Accountability to include legislation on rules based fiscal framework
- Preparation of the Debt Sustainability Analysis model for Kosovo and provided the EPPD with the necessary training to use this model for future analyses
- Preparation of a comprehensive Medium Term Policy Priority Statement, covering 2014-16
- Successful implementation of all reforms related to the SBA program with IMF
- Approval of the Law on Kosovo's Membership at the European Bank for Reconstruction and Development
- Produced a Tax Policy Proposal document with specific recommendations for the Ministry of Finance to consider
- Approval of the Law on goods exempted from Customs duties and goods with zero tariff
- Prepared a draft Instruction on Debt Financing Projects
- Produced draft secondary legislation on the minimum wage level
- Regular assistance and support to the National Council for Economic Development

It should be noted that in this area, GFSI worked closely with all institutions and relevant stakeholders. In particular, there is a close coordination and cooperation of economic policy activities with the Office of Prime Minister, in particular with the Strategic Planning Office within the OPM.

### **3.4 DONOR COORDINATION**

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

In PPP area, GFSI coordinated activities with the European Commission and European Commission Liaison Office, UN Habitat and USAID funded projects, BEEP and DEMI. GFSI worked with DEMI on the provision of PPP training within their Service Delivery workshops for Municipalities and on development of the Gjilan urban transport transaction. The GFSI PPP team also participated in the Waste Donor Group (WDG) during Project Year 3 on the development of PPP in the waste sector (development of sector specific toolkit) and in particular with GIZ. The economic assessment of motorway Route 6 was developed in coordination with the World Bank and IMF.

In developing the PPP Development Strategy and feasibility documentation for the Project Development Technical Assistance Facility together with the MoF PPP Department, GFSI supported consultation with the World Bank, IMF, Western Balkans Investment Framework, IFC, European Bank for Reconstruction and Development, and UNDP.

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

Donor cooperation efforts primarily focused on coordinating GFSI activity with other projects in the USAID Local Government portfolio—DEMI and BEEP, and with Swiss LOGOS for International Cooperation and the EU Twinning project at MLGA. Cooperation with DEMI culminated with joint successful activity on Municipal PFM. Municipal PFM Action plans that resulted from PEFA assessments suggested necessary training for local assemblies in improving their oversight role in municipal budget formulation process and public accounts, which DEMI committed to provide, while GFSI provided necessary input to related program.

DEMI, BEEP and EU Twinning Project representatives, contributed to GFSI's conference February 2013, on municipal PFM progress against approved action plans. In addition, successful coordination with a number of donors in the area such as GIZ, Swiss LOGOS, UNDP, OSCE, DEMI, was key to “Promoting Equality through Gender Sensitive Budgeting” forum, organized by the MoF and Women Chamber of Commerce and supported by GFSI.

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

A representative from the EU Twinning Project presented an overview of the project's current activities at the financial statements seminar.

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

GFSI coordinated with DFID and the WB Line Ministry PFM project on its support for costing and budget calendar.

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

GFSI's IT Advisor led the process of training Ministry IT Infrastructure team and coordinated efforts with SIDA to fund professional courses for the staff.

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

The GFSI Team continued to coordinate activities with SIDA project for further development of Property Tax business processes. GFSI cooperated with SIDA on documentation and finalization of a project plan for MoF on the new project Property Tax 2 – Land Taxation. GFSI Team also continued to coordinate 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 provided all necessary data and further instructions to DEMI and Swiss LOGOS team to perform this activity. Finally, GFSI delivered a presentation on property tax administration to BEEP's municipal coordinator staff.

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

GFSI coordinated closely with the IMF on all issues related with the Stand-by Arrangement. GFSI also coordinated with USAID BEEP on activities related with the National Council for Economic Development. For activities related to tax policy and administration GFSI coordinated with USAID ESTAK project. For the discussion of the proposal to remove VAT on dairy products, GFSI coordinated with USAID NOA project.

# 4 PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

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

### PPP –

The PPP Team encountered challenges in moving some transactions forward. The lack of data and information from the contracting authorities on a timely basis continued to be a problem and caused delays to our planned PPP implementation program. A number of potential projects, *i.e.*, Ferezaj parking & transport projects reported in the first quarter of Project Year 3, have been placed on hold, while the Pristina Urban Bus project was delayed for several months waiting for responses to requests for data and decisions on certain steps and, as a result, did not progress as much as GFSI had anticipated. Delays have also been caused by the non-availability of key counterpart staff and reluctance to appoint staff to PPP working groups/Project Management Units.

Projects in sectors where currently Publicly Owned Enterprises (POEs) are active have also proven politically challenging to implement, especially with upcoming local elections in the second half of 2013. This has caused delays in decision making in several project, most notably Pristina public transport project and Mitrovica solid waste management project.

As reported last quarter the reluctance to accept a move to service delivery by the private sector where there is an existing POE involved continues and makes PPP development problematic.

**Solution:** To mitigate decision making problems we amended our procedures at the beginning of each project to ensure a deep understanding of the process, the implications of our support and commitment needed by the entity.

## Objective 2 – Fiscal Stewardship

### Municipal PFM –

The main concern during Project Year Three relates to sustainability of municipal PFM activities in the future. It took some time for the MoF through its Municipal Budget Department to agree on workable solution which would address this concern.

**Solution:** GFSI engaged more intensively with Municipal Budget Department of MoF, gaining its involvement in activities and related outcomes as part of a capacity-building exercise. Active engagement by the MoF Municipal Budget Department in GFSI's municipal PFM activities helps improve sustainability of these activities post-GFSI.

**Treasury** –The Treasury Department has been slow in finalizing the draft instruction on the process for debt financing of capital projects.

**Solution:** GFSI has worked with the US Treasury Advisor to expedite the finalizing of the instruction so that the new process is applied during the preparation of the 2014 budget.

**Budget Department** –No problems encountered

### IT operations –

The Minister's support and leadership are key to the continued success and progress of the IT Committees. The Committees, while making significant progress, are not yet institutionalized. There is a

risk that without the Minister's continued and active leadership through the Steering Committee, the foundational improvements in IT governance will be slowed or reversed.

**Solution:** This increased level of joint discussion and problem resolution as a result of the IT Committees is becoming the norm within the Ministry. This should continue until many of the top level problems are satisfactorily resolved, and it becomes the standard way of doing business. To minimize the risk of falling back to the previous business-as usual, support should be continued until the joint discussion and problem solving become the new business-as-usual.

### **Property Tax –**

Notwithstanding the property tax update and achieved progress in municipalities, some issues remained outstanding in Project Year Three:

- Unrealistic tax basis (most properties are underestimated), lack of real sale/purchase contracts, and lack of sufficient staffing in municipalities to administer property tax.
- Unsatisfactory collection levels – insufficient engagement of municipal officials
- Non-implementation of the new evaluation model in all municipalities
- Problems with the resurvey data quality.
- Lack of cooperation from Kosovo Cadastre Agency on providing cadastral property data.

**Solution:** GFSI supported MoF and municipalities to overcome these issue areas by organizing training for municipal staff and developing tools and data for simulation or different analysis. To resolve the issue with Kosovo's Cadastral Agency charging inappropriate fees, GFSI provided support for an amendment to the LPFMA to permit free and efficient data exchange between institutions.

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

While exploring options for introducing the legally binding fiscal rule, reaching an agreement with IMF on the level of overall deficit was the most difficult issue. While IMF initially proposed a 1.5% cap, the MoF argued that for the rule to be workable and contribute to the growth and development of the country, the deficit limit should be at around 3% of Gross Domestic Product.

**Solution:** GFSI constructed a model for the Kosovo Debt Sustainability and assisted the EPPD to run a number of alternative scenarios through the model to present a case to the IMF to negotiate a higher overall deficit ratio. After intensive discussions and negotiations, the Ministry of Finance agreed with IMF for a limit of 2% deficit to GDP.

## 5 VARIANCES FROM THE YEAR 3 WORK PLAN

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

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

#### **Brezovica –**

GFSI made significant progress on the Kosovo's high-priority project to attract private investment into the Brezovica resort area. GFSI's Work Plan for Year Three envisioned engagement of a transaction advisor to design, market, and conduct the transaction. After receiving no bids in a tender by the GoK to engage a transaction advisor, GFSI engaged in discussion with USAID and the GoK and adopted a revised approach to proceed without a Transaction Advisor, supporting GoK outreach to consult investors directly, detailing the development footprint, and supporting a tender process to seek Expressions of Interest. As a result of this revised approach, five international investors responded to the request for EoI, four of which have been qualified to compete for the investment. GFSI's support for this transaction continues into the no-cost extension period, including the assistance to ISC and Government of Kosovo in preparing and executing the transfer of ownership of assets within the Development Footprint to the Republic of Kosovo; assistance to the ISC in ushering the spatial planning and zoning plan through legally required processes; procurement management activities related to the project implementation, public relation activities, etc.

#### **Route 6 PPP –**

During Project Year Three, GFSI's Work Plan envisioned support for a PPP transaction to construct Route 6. However, during the year the GoK decided to develop Motorway Route 6 as a traditional procurement project. Therefore, in consultation with USAID and the GoK, GFSI adopted a revised support approach during Project Year Three by assisting an inter-ministerial working group to prepare an assessment of the economic viability of Route 6. This assessment, which determined economic viability assisted the government in negotiations with IMF and also provided capacity to the MoF in preparing complex infrastructure economic assessments in the future.

### **Objective 2 – Fiscal Stewardship**

#### **Municipal PFM –**

##### ***Strengthen System of fiscal intergovernmental relations***

Strengthening the system of fiscal intergovernmental relations was included as an activity in the Project Year Three Work Plan upon counterpart request, and was mainly related to the Grants Commission Secretariat of the MoF. However, the activity was canceled due to counterpart's changing agenda and unavailability to commit resources to this requested assistance.

#### **Budget Department –**

No variances.

#### **Treasury –**

No variances.

**IT operations –**

During the Project Year, the IT assessment and ICT Strategic Plan identified a number of critical points with a very high probability associated with almost all of the MoF Systems, the effects of which would be catastrophic for the normal operations. To mitigate some of the risks and minimize the impact, GFSI advisors assisted the MoF IT Committees to start planning and budgeting for a Disaster Recovery and Business Continuity (DRBC) plan. The GFSI IT Advisors drafted an Administrative Instruction, expected to be signed by the Minister, which would require each department to implement a DRBC plan.

**Property Tax –**

No variances.

**Objective 3 – Economic Policy**

No variances.

## 6 UPCOMING EVENTS AND ACTIVITIES FOR NO-COST EXTENSION PERIOD

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

#### Brezovica:

- Continued asset preparation, site availability, environmental considerations for Brezovica Resort Development Project
- Transaction implementation activities

### Objective 2 – Fiscal stewardship

#### Municipal MTEF:

- Hands-on process for Shterpce municipality to introduce performance indicators on municipal mid-term strategic priorities as part of 2014-2016 MTBF
- Provide performance measures and indicators training program to former PEFA municipalities that didn't benefit from this program yet. Municipalities to benefit: Prishtina, Gjakova, Mamusha, Shterpce, Podujeva and Fushe Kosova.
- Workshop for Municipal Budget Department staff of MoF on lessons learned from MTEF work with municipalities, future recommendations

### Objective 2 – Property Tax

- To ensure normal operations for Property Tax Offices, during the extension period support will be provided in maintenance of the PTS, IT Infrastructure support and the facilitation of the migration of the PTS infrastructure to the new MoF Data Centre.
- Ensure PTD obtains data from the Kosovo Cadastral Agency in order to meet the conditionalities for SIDA to start funding the new Property Tax 2 project (property tax on land).

### Objective 3 – Economic Policy Assistance

Objective Three is closed out

# 7 INDICATOR DEFINITIONS AND COLLECTION AND REPORTING PLAN

## 7.1 GROWTH IN GDP

Element: High-Level Indicators							
Indicator Title: Growth in GDP							
<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> Percentage				<i>Disaggregate by:</i> Sector			
<i>Type: Output/Outcome</i> Impact				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> MFE and SOK 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	4.4%	4.8%	3.2%	6.1%	4.5%	5.7%	2.4%
Notes: Source: MTEF 2014-16  Target not met. Lower than anticipated growth mainly due to the eurozone crisis, 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> Amount, Euro				<i>Disaggregate by:</i> Sector			
<i>Type: Output/Outcome</i> Impact				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> MFE and SOK 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	844	934	887	1068	1003	1203	1046
<i>Notes:</i> <i>Source: MTEF 2014-16</i>  <i>Target not met: Lower than anticipated investments mainly due to the eurozone crisis, which has indirectly affected Kosovo's economy.</i>							

### 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%	-2.8%	-7.1%	-1.6%	-5.4%	-2.6%
<i>Notes:</i>							
<i>Source: MTEF 2014-16</i>							
<i>Target met/exceeded: A much lower than expected deficit mainly due to the better performance of revenues as well as due to the under-execution in expenditures</i>							

## 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 Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	8.7%	5.7%	6.7%	7.7%	4.3%	5.1%	5.63%
<i>Notes:</i>							
Source: Treasury and MTEF 2014-16							
Target met:							

## 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	1322
<i>Notes:</i> Source: MTEF 2014-16  Target met/exceeded, mainly due to higher tax revenues.							

## 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%	5.8%
<i>Notes:</i>							
Source: MTEF 2014-2016							
Target not met: Exports were lower, mainly due to the effect of the eurozone crises							

## 7.7 FISCAL IMPACT ASSESSMENT OF LAWS

Element: <b>High-Level Indicators</b>							
Indicator Title: <b>Fiscal impact assessment</b>							
<i>Definition/Rationale:</i>							
The ratio of the fiscal assessment of new/revised laws							
<i>Calculation:</i>							
Yearly ratio of the fiscal assessment of new/revised laws to the total number of laws drafted/revised and sent to Government for approval							
<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>			
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 Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2011	100%				100%	100%	100%
<i>Notes: New indicator</i>							
<i>Target met</i>							

## 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
2001	No	125 (F30%-M70%)	337 (F28%-M72%)	280 (F35% - M65%)	381 (F26.5%-M73.5%)	350 (F35% - M65%)	616 (F23%-M77%)
<i>Notes:</i>							
Target met/exceeded: The number includes officers trained on using different functions of the FreeBalance system.							

## 7.9 PRIVATE INVESTMENT BECOMES A VIABLE OPTION FOR FUNDING PUBLIC INFRASTRUCTURE

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Private Investment becomes a viable option for funding public infrastructure							
<i>Definition/Rationale:</i> Tracked number of PPP/privatization transactions completed with USAID support.							
<i>Calculation:</i> Number of transactions completed							
<i>Unit:</i> Number				<i>Disaggregate by:</i> Central / Municipal			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Project 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> 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	N/A	1	1	4	2	7	8*
<i>Notes:</i> Target met: USAID strategic support ends at PPP-C approval stage. Large PPP projects will generally take more than one reporting cycle to be completed.  * Of which: 6 projects have been approved by PPP-C before reporting date July 8 2013 and 2 more projects pending to be approved by mid- July 2013.							

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

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 to be generated in public sector from completed GFSI support to PPP and privatization deals							
<i>Calculation:</i>  Progress measured annually against PPP program work plan							
<i>Unit:</i> Million Euros				<i>Disaggregate by:</i> Central / Municipal			
<i>Type: Output/Outcome</i> Outcome				<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> 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	n/a	€0	€106	€120	€107	€180	€130
<i>Notes:</i>  <i>Target not met:</i> Variance of 2012 actual from 2012 target due to relatively small size of projects, and upcoming local elections which have slowed down decision making processes for PPP implementation, in particular in sectors with acting POE's .							

**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	584
<i>Notes:</i> Target met/exceeded: Variance of Actuals from Targets, 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	12
<i>Notes: assessments are completed prior to end of project</i>							
Target substantially met: Instead of conducting more PEFA assessments at Municipalities, it was decided to conduct central level PEFA and assist PEFA Municipalities implement recommendations from Action plans							

### 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	44 (F 8 or 18% - M 36 or 82%)
<i>Notes:</i>  Target substantially met: Actual number of assessors trained in 2011/2013 are 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	30
<i>Notes:</i>							
Target met: Actual numbers in 2012/2013 column reflect the number of municipalities approving MTEF's document in the Municipal Assembly							

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

Element: 1.2.1.3 Public financial Management in New Municipalities							
Indicator Title: Number of New Municipalities certified as independent budget organizations for the delegation of expenditure management							
<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			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	0	n/a	3	4	4	5	5
<i>Notes: cumulative</i>							
Target met: No new municipalities were formed after 3 in 2010 (Klokot, Ranillug and Gracanice) and 1 in 2011 (Partesh). Data expressed in cumulative. The North Mitrovica Administrative Office was formed, with staff trained and certified, equipped with KFMIS access in 2012.							

## 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	30
<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 2012 is for 2012 financial statements that are audited in 2013.							

## 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	35
<i>Notes: dependent on all municipalities being fully established</i>							
<i>Target met.</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%	93%
<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%	95%
<i>Notes:</i>							
Target met: Higher New indicator							

## 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	€ 15	€ 14.6
<i>Notes:</i> Target not met							

## 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> Percentage				<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> MFE Property Tax Dept				<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	23.4%	24.6%	25.8%	27.0%	27.7%	29.5%	26%
<i>Notes:</i> Target not met The Target for 2012 assumed that higher tax rates would be effective on 2012. A lower than projected share in 2012 come mainly as a result of delays in applying new rates							

## ANNEX 2: FINANCIAL STATUS

The table below summarizes financial status of the GFSI program as of the end of Project Year Three, 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	\$2,806,366.06	\$2,784,769.99	\$71,596.06	\$2,856,366.05	(\$50,000.00)
TCN - Labor	\$3,194,123.67	\$3,180,391.65	\$13,732.02	\$3,194,123.67	\$0.00
CCN - Labor	\$3,235,270.57	\$3,136,496.61	\$98,773.96	\$3,235,270.57	\$0.00
Other Direct Costs	\$3,551,385.13	\$3,384,687.48	\$174,577.56	\$3,559,265.04	(\$7,879.91)
Subcontractors -ODC	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Retainage	\$0.00	(\$50,000.00)	\$0.00	(\$50,000.00)	\$50,000.00
G&A	\$709,118.59	\$655,288.13	\$45,950.55	\$701,238.68	\$7,879.91
<b>Total</b>	<b>\$13,496,264.02</b>	<b>\$13,091,633.86</b>	<b>\$404,630.16</b>	<b>\$13,496,264.02</b>	<b>\$0.00</b>

# ANNEX 3: GFSI BIBLIOGRAPHY

## *GFSI Project Deliverables:*

- GFSI Life of Project Work Plan Year 3 (July 15, 2012 – July 15, 2013)
- GFSI Quarterly Report (September, 2012)
- GFSI Quarterly Report (December, 2012)
- GFSI Quarterly Report (March, 2013)

## *Other GFSI Documents during Year 3:*

### **PPP**

- Sector specific legal framework for underground parking projects
- Sector specific legal framework for bus projects
- Gjilan urban bus workshop
- Peja Waste management scenario analysis
- Peja Waste Management Technical analysis
- Peja Waste Management waste treatment options assessment
- Peja Waste Management workshop slides
- Pristina bus quick wins
- Pristina bus Memorandum of Objectives and Implementation/Public Transport plan
- Toolkit for Solid Waste Management PPP
- Environmental training for local authorities
- Environmental training for central authorities
- Mission reports by environmental expert
- PPP Development Strategy 2013-2016
- PDTAF Feasibility Study and guidelines
- PDTAF Draft Charter

### **Brezovica**

- DBFOT Tender Dossier – EOI
- BRDP EOI Information Memorandum
- BRDP Roadshow Presentation
- BRDP Video
- BRDP Website
- BRDP Communications Strategy
- BRDP Transaction Advisor Tender Dossier

## **Municipal PFM**

Public Expenditure and Financial Accountability (PEFA), Public Financial Management Assessment for Fushe Kosova Municipality, May 2013

Action Plans for Reform of Public Financial Management, for Fushe Kosova Municipality, June 2013

Municipal Medium Term Expenditure Framework for Shterpce Municipality, June 2013

Qualitative and Quantitative assessment report on prior year municipality medium-term budget framework , April 2013

Gender Sensitive Budgeting Brochure, July 2013

PEFA Performance report for Kosovo Government, July 2013

## **Treasury and Budget**

Guidelines for Preparation of Financial Statements final updated 2013

USAID-GFSI presentation on Treasury component

Administrative Instruction on Costing New Policy Initiatives

Presentation slides on Costing New Policy Initiatives

Budget Cycle Calendar Document

## **Property Tax**

USAID-GFSI Presentation on Property Tax in Kosovo

USAID-GFSI Presentation for BEEP - Property Tax in Kosovo

Instructions for Completion of Decision on Manual Improving

## **Economic Policy**

Letters of Intent from the second, third and fourth review of the Stand-by arrangement,

Law on Kosovo's Membership at the European Bank for Reconstruction and Development

Amendment to the Law on Public Financial Management and Accountability to include legislation on rules based fiscal rule

Medium Term Policy Priority Statement 2014-16

Kosovo's Debt Sustainability Analysis

Tax Policy Proposal document

Draft Instruction on Debt Financing Projects

## **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.

### **Chief of Party – Bruce Reid (July 2012 to June 2013)**

#### **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) Advisor to the broader group of Economic Ministers
- e) Donor coordination with DIFD, SIDA, EU, ESTAK, USAID Energy (transaction and KEK projects), BEEP, DEMI and US Treasury.
- f) 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) Development of Medium Term Policy Priority Statement

### **Hajdar Korbi – Senior Economic Advisor (July 2012 to June 2013) / Chief of Party (June 2013 to July 2013)**

#### **Activities:**

- a) Assisted the Ministry of Finance design and negotiate with IMF a broad based legally binding fiscal rule
- b) Provided continues assistance to the Minister and Ministry of Finance to implement all the quantitative and structural benchmarks, for a successful implementation of the Stand-by Arrangement program
- c) Supported the MoF on completing all the requirements for Kosovo's membership at the European Bank for Reconstruction and Development
- d) Produced and transferred to the Ministry of Finance the Debt Sustainability Model
- e) Assisted the Economic Public Policy Department propose policy options for introducing a rules based Minimum wage levels
- f) Provided regular support to the National Council for Economic Development
- g) GFSI annual work plan, updates and quarterly report preparation
- h) Project leadership
- i) Coordination and liaison with IMF and World Bank on fiscal and development issues

#### **Achievements:**

- a) Law on Kosovo's Membership at the European Bank for Reconstruction and Development approved
- b) Letters of Intent from the second, third and fourth review of the Stand-by arrangement, signed
- c) Amendment to the Law on Public Financial Management and Accountability to include legislation on rules based fiscal rule approved
- d) Kosovo's Debt Sustainability Analysis model developed and scenario analysis conducted
- e) Draft Instruction on Debt Financing Projects prepared

#### **Problems Encountered:**

- a) Difficulties on agreeing with the level of the overall budget deficit between Ministry of Finance and IMF were resolved after a series of discussions and negotiations

### **Nienke Uil (July 2012 - July 2013)**

#### **Activities:**

- a) Assisting authorities in preparing route 7 O&M concession;
- b) Assisting authorities in preparing economic viability study for motorway route 6;
- c) Assisting authorities in negotiations with IMF and World Bank about motorway route 6 economic viability
- d) Assistance to counterparts in work planning and budgeting;
- e) Strategic and project preparation advisory for the PPP projects, including the Motorway Service Areas on route 7, public Transport projects, Waste management projects;
- f) Review of financial assessments and contribution to value for money assessments for Mitrovica Waste management project, Gjilan bus, Pristina bus, Motorway Service Areas
- g) Assistance to STTA on development of PDF study;
- h) Since March 2013 assumed oversight/coordination role from Donald Selby. 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.
- i) Mentoring & coaching of GFSI & PPP unit staff on techniques, best practices and case studies.

#### **Achievements:**

- a) Prepared positive economic assessment report together with the Working Group, and successfully assisted in the negotiation with World Bank and IMF;
- b) Recruited capacity under the GFSI project to support counterparts with the development of an urban transport plan for Pristina as well as to support with fiber optic cabling projects
- 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, waste projects and public transport projects;
- 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 waste projects and public transport projects;

#### **Problems Encountered:**

- a) Some cases where the contracting authority is not fully committed and/or engaged in the process i.e. Pristina Municipality inactivity regarding the public transport plan issues, and difficulty to schedule regular meetings with the counterparts due to busy schedules and lack of capacity in for instance the Roads Directorate and difficulties within the Ministry of Infrastructure to get their procurement department to publish the tender documents as approved by the PPP-C.
- b) Key GFSI municipal team staff were reallocated to other 'project components during the second half of the year reducing the resources available to support ongoing Municipal projects and advance a number of transactions and support the development of other deliverables such as PDF charter documents;
- c) General difficulties with regard to data collection/availability and a lack of capacity within the contracting parties
- d)

### **Don Selby (July 2012 to February 2013)**

#### **Activities:**

- a) Until end February continued oversight/coordination role of the PPP Component. 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, urban transport and other projects)
- c) Specific hands on work in the transport sector including Motorway Service area feasibility studies, Pristina bus concessioning memorandum of objectives and implementation and other projects.
- 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 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'
- e) Played an important role in the Waste Donor group meetings and contributed substantially to the Solid Waste toolkit for PPP.

**Problems Encountered:**

- a) General difficulties with regard to data collection/availability and a lack of capacity within the contracting parties
- b) 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 the Ministry of Infrastructure regarding the Motorway Service Areas

**Chris Thompson**

**Activities:**

- a) Assisted PIU in managing communications with ISC and organization and conduct of ISC meetings
- b) Worked with the Brezovica PIU to develop transaction communications strategy and gender findings;
- c) Assisted PIU in tender for Transaction Advisor;
- d) Assisted MoF PPP Department to develop three year PPP Development Strategy;
- e) Assisted in development of Tender Documents for Motorway Service Area and Gjilan Urban Bus Transport PPP transactions
- f) Managed development of Year Three Annual Report and final reporting for project.

**Achievements:**

- a) Motorway Service Area and Gjilan Bus Transfer Tender Documents approved by PPP Committee
- b) Draft PPP Strategy developed and presented to stakeholders / anticipated for adoption by Government.

**Problems Encountered:**

- a) Cancellation of tender for Legal Advisor and lack of bidder interest in Transaction Advisor tender resulted in realignment of transaction support approach.

**Lindita Kuraja (July 2012 to July 2013)**

**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 a number of Municipalities (including Peja after closing their urban transport transaction, Gjilan on their urban transport project, Mitrovica and Peja on their solid waste management projects)
- c) Worked on Value for Money studies
- d) Worked with short term technical experts to assess municipal waste management projects and urban transport projects;
- e) Work on pre-feasibility reports in the sectors waste collection and landfill management and sports complex
- f) Continuous on-the-job capacity building of municipal authorities

**Achievements:**

- a) As part of capacity building task, worked jointly with Gjilan Municipality towards successful preparation of feasibility report and tender documentation for urban bus transport transaction;
- b) Capacity building to the MoF PPP Department on Value for Money assessment for Pristina underground parking project;
- c) Organized and implemented a market consultation for the Pristina Bus concession project;
- d) Financial modeling and value for money assessment for Pristina public transport plan
- e) Contributed to the Solid Waste PPP Guidelines
- f) Continuous on-the-job capacity building of municipal authorities

**Problems Encountered:**

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

**Gazmend Ahmeti (July 2012 to July 2013)****Activities:**

- a) Coordinating and liaising with other GFSI Team members, the MoF 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, coordinated the Training of Trainers with the MoF PPP Department and KIPA, organized and supported the Environmental Impact Assessment trainings
- e) Project manager of Pristina public transport project, support to STTA and coordination with counterpart
- f) Continued work on preparation of training programs and standards

**Achievements:**

- a) Implemented Training of Trainers PPP Training curriculum with STTA support and planning the next stages of training roll out
- b) Coordinating and delivering training to over 200 participants from public and private sector
- c) Management of Pristina public transport plan activities and assisted in the preparation of an improved and more efficient public transport plan;
- d) Successfully organized study trip for the municipality of Pristina to Amsterdam.

**Problems Encountered:**

- a) The lack of knowledge and information on PPP by some government officials;
- b) General difficulties with regard to data collection/availability and a lack of capacity within the contracting parties, in particular in the case of Pristina public transport plan
- 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.

**Fortuna Haxhikadrija (July 2012 – July 2013)****Activities:**

- a) Co-author of PEFA Municipal Performance Report for Fushe Kosova municipality
- b) Co-author of PEFA Performance Report for Kosovo Government
- c) Lead PFM action planning development for Fushe Kosova municipality as a result of PEFA findings
- d) Lead the organization of M-MTEF conference for budget cycle 2014-2016
- e) Lead M-MTEF development, hands-on process with Shterpce municipality
- f) Lead the organization of Promoting equality through gender sensitive budgeting forum

**Achievements:**

- a) Municipal PEFA self-assessment report for Fushe Kosova produced as a guiding document for the future municipal PFM reform
- b) PEFA performance report for Kosovo government produced as guiding document to adjust ongoing PFM reforms
- c) New approach towards M-MTEF formulation established among Shterpce municipality departments.

**Problems Encountered:**

- a) N/A

**Ramadan Matarova (July 2012 – July 2013)****Activities:**

- a) Training and coaching for Fushe Kosova municipality in the conduct of PEFA self-assessment
- b) Prepared draft PEFA report for Fushe Kosova municipality

**Achievements:**

- a) One PEFA counterpart municipal team trained in the PEFA methodology application and successfully undertaken self-assessment
- b) PEFA Municipal report for Fushe Kosova produced as a guiding document on future municipal PFM reform

**Besa Gashi (July 2012 – July 2013)****Activities:**

- a) Assisted in development of PFM action plan for Fushe Kosova municipality which came out as a result of PEFA findings. Plan was approved with municipality mayor and board of directors.
- b) Assisted 11 PEFA municipalities, from both rounds, in their effort to monitor and report the progress against PFM action plans.
- c) Prepared comprehensive report on municipal progress achieved against action plans and disseminated that at the conference
- d) Municipal PFM Reform action plan drafted and disseminated for both PEFA rounds municipality
- e) Assisted in drafting quantitative and qualitative M-MTEF assessment as an input provided for municipalities for 2014-2016 budget cycle. The report was disseminated at a conference.
- f) Assisted in hand-on process provided to Shterpce municipality in preparing their M-MTEF

**Achievements:**

- a) Fushe Kosova PFM reform action plan drafted and approved
- b) M\_MTEF assessment drafted and disseminated as an input for municipalities on budget cycle 2014-2016
- c) M-MTEF document for Shterpce produced within suggested GFSI format
- d) Comprehensive report on progress achieved by municipalities, against implementation of their action plan

**Alban Kaciu (July 2012 – July 2013)****Activities:**

- a) Prepared quantitative and qualitative M-MTEF assessment as an input provided for municipalities for 2014-2016 budget cycle. The report was disseminated at a conference.
- b) Assisted in hand-on process provided to Shterpce municipality in preparing their M-MTEF
- c) Assisted in organizing Promoting equality through gender sensitive budgeting forum
- d) Assisted in developing costing of new policy initiatives manual with the MoF
- e) Assisted in drafting AI on costing new policy initiatives

**Achievements:**

- a) M\_MTEF assessment drafted and disseminated as an input for municipalities on budget cycle 2014-2016

- b) M-MTEF document for Shterpce produced within suggested GFSI format
- c) AI on costing new policy initiatives developed and utilized by BOs
- d) Manual on costing new policy initiatives developed and handy for BOs

### **Mirjeta Hysa (July 2012 – July 2013)**

#### **Activities:**

- a) Assisted in visits conducted to municipalities that received qualified audit opinions during 2012 to address the issues that the audit process encountered. Assisted with the organization of a seminar by GFSI with municipalities to address such issues and the action plans required to improve their audit results.
- b) With the Treasury Department planned for and conducted training for municipalities on the preparation of financial statements in January 2013. Updated previously prepared guidelines for the preparation of financial statements, and provided overall assistance as needed for municipalities during their financial statements preparation.
- c) Drafted a Budget Cycle document for the Budget Department, with GFSI advisors, participated in meetings with parties in the budget cycle, incorporated comments, finalized and submitted document to the Budget Department.
- d) Assisted in the preparation of training materials for the training on implementation of Administrative Instruction on Costing of New Policy Initiatives with the GFSI Team (Alban Kaciu) and the Budget Department Analyst, participated in the training, facilitated working groups during training.
- e) From time to time, provided to PEFA team and to other team members data on expenditures, revenues and budgets from the Kosovo Financial Management Information System for purposes of reporting and analyses
- f) From time to time, provided information to GFSI on specific budget items included in the budget process

#### **Achievements:**

- a) In cooperation with the Treasury/GFSI team, increased annual reporting quality among municipalities (21 unqualified opinions as of July 3, 2013).
- b) Trained line ministry officers on providing costing information during budget submissions.

### **Burim Mehulli (July 2012 – July 2013)**

#### **Activities:**

- a) Assessment and drafting activities for the ICT Plan.
- b) Established, Facilitated and organized IT Steering and Technical Committees.
- c) Training for the MoF IT Infrastructure team on maintenance of the PTS System.
- d) Daily maintenance of the PTS infrastructure.
- e) Assistance and coordination with SIDA Donor on drafting the Property Tax Project Plan.
- f) Assistance to MoF PT meeting the conditions set by SIDA for the funding of the ProTax II project on Land Tax.

#### **Achievements:**

- a) Established IT Steering and Technical Committees.
- b) Well-functioning Property Tax System with almost zero downtime.
- c) ICT Plan and Strategy.
- d) Increased staff capacities in the MoF IT Department for the maintenance of the PT System.

#### **Problems Encountered:**

- a) The Minister's support and leadership is key to the continued success and progress of the IT Committees. The Committees, while making significant progress, are not yet institutionalized. There is a real danger that without the Minister's leadership through the Steering Committee, that the foundational improvements will be showed.

## **Agron Cerkini (July 2012 – July 2013)**

### **Activities:**

- a) Advising the Director of Property Tax Department and Department staff as well as advising municipal staff.
- b) Preparing various instructions for law implementation, administrative instructions and usage of property tax program.
- c) Supporting business staff and property tax program developers to identify, define, prioritize requests for improvement or new functions as well as in planning, monitoring and production of new versions in the property tax program.
- d) Completion of 2011 inspection reports review for 34 municipalities
- e) Production of reports, analysis, development of tools for different simulations for MoF – PTD or for municipalities.
- f) Analysis, testing, and acceptance of result for the 2013 mass taxation.
- g) Assist in developing and Maintenance Property tax system-Support on managing, planning activities and prioritization, define new requirements, testing, training, analysis, decisions etc.
- h) Acceptance and definition of maintenance request from municipalities for the property tax system such as: Moved properties or taxpayer from one to other municipalities, moved properties from one to other valuation zone etc.
- i) Manage and response to ad-hoc property tax data requests from various stakeholders: Municipalities, SIDA, PTD, MoF, GFSI, DEMI and General Auditor etc.
- j) Ad-hoc property tax system training for Municipalities.
- k) Different Trainings of PTD staff- implementation new process of annual inspection; for municipalities Financial director and managers of property tax-On planning or simulation of property tax amount, Implementation recommendations of annual inspection, Preparation plan to conduct verification 1/3 of registered properties; for surveyors-On new process for registering properties and taxpayers; for users of property tax system-On use of new PTS functions based on new processes.

### **Achievements:**

- a) Improvement of property tax administration in compliance to the Law and Administrative Instructions.
- b) Property Tax system is more stable, the 2013 mass taxation for all municipalities was finalized on January 3, 2013. This is second year in property tax that tax year follows the calendar year. Also in PTS developed new functions which enable a better management of data for properties, taxpayers and the financial part.
- c) Taxpayer services in property tax have improved.
- d) Increased capacity building in the PTD and municipalities
- e) For all municipalities it's done migration resurvey properties data (Condition, pictures, coordinates etc.) from database of quality control system in the database of property tax.
- f) 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 2014, 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.
- g) For 2012 the collection amounted 16.6 million Euro or 2% increase as compared with 2010.

### **Problems Encountered:**

- a) Municipalities have difficulties with evaluating properties since they lack real market information and there is insufficient staff capacity.

- b) Problem of mandatory collection is a challenge for municipalities since municipal officials are not seriously dedicated and there is a lack of coordination between Directorates in applying prohibitions in taxpayer services.
- c) Problems with the resurvey data: many properties are not resurveyed and data quality for many properties is poor due to errors.

### **Driton Hajrizi (July 2012 – July 2013)**

#### **Activities:**

- a) KFMIS - FreeBalance Upgrade to Web Version (V7)
- b) Intranet Server for Treasury needs
- c) Procedures and Policies
- d) Upgrade of Treasury IT infrastructure.
- e) Preparation of infrastructure for remote access
- f) Support the IT Local Staff of Treasury
- g) Support to all the Budget Organization's users that uses KFMIS (Free Balance).
- h) Support and maintenance of seven systems on Treasury
- i) Formatting PEFA Reports

#### **Achievements:**

- a) A new version of Free Balance is being implemented on Treasury Department. Changes affect 1400+ users and 340 computers. The security policies have been defined and accepted by management and currently we are implementing changes on these client pc's all over Kosovo. Currently around 45% of all clients have been prepared for the new version.
- b) The 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 MoF Offices.
- c) Assistance was provided in improvement on Treasury IT Procedures and Policies.
- d) Support and Improvement of IT Infrastructure which includes Servers, Computers, Printers and Network.
- e) In cooperation with the Ministry of Finance and Ministry of Public Administration the infrastructure for remote access on clients' terminals has been implemented. This will significantly reduce transportation costs and time.
- f) Provided support and guidance to the IT Local Staff of Treasury, which resulted in overall improvement of Treasury IT services.
- g) More than 1400 KFMIS (Free Balance) active users have been supported daily, including onsite visits. To date the KFMIS infrastructure
- h) PC hardware problems, which includes fixing and changing of parts; software problems; security issues; and printing problems.
- i) Maintenance was also provided for other Treasury IT Systems: Debt Software, Digital Archive, Cash Plan System, Help Desk System, CS-DRMS and Grants System.
- j) Upon completion of PEFA assessment reports, provided design, standardized formats before printing.

## ANNEX 5: TRAINING ACTIVITIES

15 July 2012 TO 15 July 2013

### 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
Introduction to PPP	KIPA Certified PPP trainers	6 1-day trainings between Jul 2012 and Jun 2013	Central Gov and Municipalities	206	60
New Methodologies on Improving Public Services	Gazmend Ahmeti Kreshnik Kurtishi (as a contribution to USAID DEMI project)	February 2013	Central Gov and Municipalities	75	15
Training of trainers	Ned White Edon Kurtishi Gazmend Ahmeti	Aug 2012 and October 20-12	MoF PPP Department staff KIPA	26	12
Environmental Impact Assessment for local authorities	Andrew Popelka	5 days between 12 November 2012 and 5 Dec 2012	Representatives from 30 municipalities, MESP, UN Habitat and GFSI-DEMI	25	88
Environmental Impact Assessment for central authorities	Andrew Popelka	3 days between 29 Apr and 17 May 2013	Representatives from 13 Ministries	34	17

## Objective 2 – Fiscal stewardship

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Vushtrri PFM Reform action plan presentation	Fortuna Haxhikadrija Besa Gashi	August 16, 2012	Municipal Board of Directors, from Municipality of: Vushtrri	12	1
Technical workshop on application of PEFA Framework to Fushe Kosova Municipality and four staff members of Municipal Budget Department (MoF)	Fortuna Haxhikadrija Ramadan Matarova Besa Gashi	Dec 6 & 7 2012	Reps from Municipality of: Fushe Kosova and four staff members of Municipal Budget Department (MoF)	3	3
Introduction to PEFA framework and its application as part of strengthened approach to support local government PFM reform”	Fortuna Haxhikadrija Ramadan Matarova Besa Gashi	Nov 14, 2012	MoF staff members from Municipal Budget Department, AKM chairwoman of Budget and Finance Committee, municipalities (including 4 reps from northern part municipalities of Leposavic and Zvecan), BEEP and DEMI representatives	37	15
Conference on Municipal PFM Reform key achievements (progress report)	Ramadan Matarova Fortuna Haxhikadrija Besa Zogaj	February 5th	Mayor of Lipjan, Mitrovica and Gjakova were present, 10 deputy mayors and the rest were chief financial officers. Of the total number, 8 participants were from minority communities.	69	17
PEFA technical workshop for application of methodology for upcoming PEFA assessment of Kosovo Government.	Ramadan Matarova Fortuna Haxhikadrija	March 8, 2013	Members of government PEFA Secretariat	5	1

The conference on the application of medium term budget framework as strengthened approach to budgeting	Fortuna Haxhikadrija Besa Zogaj Alban Kaciu	April 25 2013	All municipalities, sector ministries, OAG and other projects in related field such as EU Twinning, OSCE	74
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## 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 / Treasury	21 – 24 January 2013	42	32	10
Costing of New Policy Initiatives	Alban Kaciu / Mirjeta Hysa / Budget	20 – 24 May 2013	70	39	31
Commitments	Sevdije Mehaj	various	79	42	37
Purchase Order	Sevdije Mehaj	various	8	5	3
Income	Sevdije Mehaj	various	15	9	6
Assets	Sevdije Mehaj	various	23	21	2
Internal control of public finance and public accounting	Sevdije Mehaj	various	47	31	16
Expenditure	Sevdije Mehaj	various	47	25	22
Reporting	Sevdije Mehaj	various	8	6	2
Certifying and approving of payments	Sevdije Mehaj	various	24	15	9
Accepting of Good	Sevdije Mehaj	various	12	9	3

## Objective 2 – Assistance to the Property Tax

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
New property registration process in property tax system	Agron Cerkini and MoF	Jul-12	All 34 municipalities	25	14
Issuance of the certificate of payment from pts	Agron Cerkini and MoF	Jul-12	PTS Users of Prishtina Municipality	0	5
Presentation for BEEP-Property tax in Kosovo	Agron Cerkini	Sep-12	BEEP-Coordinator of Municipalities	24	9
Prishtina Property tax users	Agron Cerkini and MoF	Oct-12	New process of registration properties in pts	0	6
Training for DEMI project		Nov-12	Using report of collection progress in pts	2	0
Prizren property tax officers	Agron Cerkini and MoF	Dec-12	Preparation property tax regulation for 2013	2	0
Istog property tax officers	Agron Cerkini and MoF	Dec-12	Correct street name	0	2
Prishtina property tax manager	Agron Cerkini and MoF	Dec-12	Implementing the recommendations on the annual inspection report 2011	1	0
Prishtina Property tax users	Agron Cerkini and MoF	Jan-13	Use certificate of payment from pts	0	3
Obiliq, Mamush pts users	Agron Cerkini and MoF	Jan-13	Registration/Correction payment in pts	1	1
Shtime pts users and manager	Agron Cerkini and MoF	Jan-13	Implementing the recommendations on the annual inspection report 2011	2	1
Partesh, Graqanic and Shtpce pts users and manager	Agron Cerkini and MoF	Feb-13	Implementing the recommendations on the annual inspection report 2011	12	0
Obiliq, pts user	Agron Cerkini and MoF	Feb-13	Registration/Correction payment in pts	0	1
Viti-pts user and manager	Agron Cerkini and MoF	Mar-13	separation of financial card for former social enterprises	2	0

Simul and planni pro tax for 2014 and verification plan of 1/3 properties	Agron Cerkini and MoF	May-13	All 34 municipalities	54	7
Training on PT IT Infrastructure	Burim Meholli	Dec-12	MoF IT Department	3	2
			TOTAL	128	51

# ANNEX 6: EQUIPMENT AND MATERIALS PURCHASED

(a) Equipment:

The GFSI project purchased the following equipment during the Project Year Three:

Type of Equipment	Purchase Date	
	mm/dd/yy	Purchase Price \$
Binding machine	07/16/12	333.78
USB3.0	08/03/12	137.08
Router	09/06/12	44.33
4 Desks	09/12/12	288.13
4 Drawers	09/12/12	387.98
2 Book Shelves	09/12/12	226.61
2 Cup boards	09/12/12	152.21
2 Chairs, black/gray	09/12/12	213.33
2 Coat hangers	09/12/12	87.13
1 Chair Black/grey	09/12/12	106.67
6 Chair Black/grey	10/12/12	669.67
Projector Screen	11/19/12	173.22
Radiator	11/14/12	53.29
Electric (thermo) heater	12/17/12	386.13
3 External drives	11/13/12	331.79
Monitor	02/01/13	263.06

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

## ANNEX 7: SUCCESS STORIES

### USAID Supports Government Initiative to Promote Equality through Gender Sensitive Budgeting



Minister of Finance Mr. Besim Beqaj, in a high-level forum co-organized together with the business community as represented by Ms. Linda Shala, Board Member of Kosovo Women Economic Chamber, on July 10, 2013, commenced an initiative to promote equality through Gender Sensitive Budgeting. The forum was supported by USAID Growth and Fiscal Stability Initiative in Prishtina.

The Minister of Finance emphasized the progress the government has made in last 12 years in developing its own budget and building relevant capacities. Still, Mr. Beqaj said, “the Kosovo government is keen to taking a step further in addressing equal access to resources through gender sensitive budgeting”

The Forum on Promoting Equality through Gender Sensitive Budgeting aimed at enhancing political ownership of this process and promoting discussion on possible opportunities for budget formulation process to incorporate gender.

USAID Director Maureen A. Shauket praised Kosovo Government in their important initiative to address gender disparities through GSB. *“Achievement of human development is heavily dependent on the development and empowerment of women, who comprise half of the population of Kosovo and yet face inequalities in access and control over resources,”* said Ms. Shauket in her speech.

Linda Shala, Board Member of Kosovo Women Economic Chamber, believes that women are an important resource of any country and not affordable to lose, through either gender injustice or gender inequities in the system. *“Any discrimination against women or man is an obstacle not only to economic growth but also to human development in general,”* said Ms. Shala in her speech, ensuring Women’s Economic Chamber further active lobbying and advocating on this topic.

The forum was followed by panel discussion including Parliament Budget and Finance Committee Chairwoman Ms. Safete Hadergjonaj, Head of Women Parliamentary caucus Ms. Teuta Sahatqija, GIZ PFM Expert Lukas Fischer, Mayors, NGO and academia representatives as well as donors.

The forum agreed on further awareness rising, campaign and capacity building on main GSB concepts, opportunities, benefits and challenges for the process become inclusive.

\* \* \*

## **Kosovo Has Made Key Achievements in Municipal Public Financial Management (PFM) Reform**

On February 5, 2013, USAID's Growth and Fiscal Stability Initiative (GFSI) Project organized a Conference on "Key Achievements and Further Work on Municipal Public Financial Management Reform".

The conference was attended by the Deputy Minister for Finance, the Auditor General, Mayors and Deputy Mayors, Department Heads from the Ministry of Finance, municipal government budget and finance officials and representatives from the Ministry of European Integration, Association of Municipalities; and Office of the Auditor General. In addition, representatives from USAID Mission, the USAID's Democratic Effective Municipalities Initiative, USAID's Business Enabling Environment Program, and the European Union Twinning Project were present at this event.

The aim of the Conference, as stated by the Deputy Minister of Finance, Mr. Ramadan Avdiu was to unveil the PFM achievements in specific areas for each municipality. Mr. Avdiu thanked USAID's Growth and Fiscal Stability Initiative (GFSI) for their support on the reform program over the past two years. He stated that in the future a similar program of reform is expected to expand into other municipalities to support fiscal discipline, improved strategic allocation of resources, and efficient service delivery and financial accountability.

Key achievements of eleven local governments were presented at the Conference (the municipalities of Prishtina, Podujeva, Shtërpce, Vushtrri, Mamusha, Gjakova, Peja, Gjilan, Ferizaj, Novobërda and Istog) that received USAID assistance in the implementation of the PFM reform action plans, as part of the comprehensive PFM reform program of the Kosovo government.

Results were presented from the Consolidated Progress Report on the Implementation of the Public Financial Management Reform Action Plan, showing that progress has been made in the following areas:

- improved budget performance in some municipalities by reducing the percentage of deviation in budgeted expenditure against actual expenditure;
- more realistic planning of Own Source Revenue;
- significant increase of property tax debt collection rate (this refers mainly to municipalities with a majority Serbian community);
- progress in several municipalities on functioning and operations of the Internal Audit Union, and efforts in several municipalities to increase the number of internal audit recommendations implemented;
- preparation of financial statements in accordance with the rules and accounting standards (IPSAS);
- improved oversight of municipal assemblies on the plans and uses of municipal finances;
- improved processes for addressing recommendations from the Office of the Auditor General.

Areas in need of further improvements and further steps were also presented at the Conference. Progress in strengthening central and local governments' Public Financial Management capabilities through the implementation of these plans is in line with USAID FORWARD Initiative.



Photo taken by Arlinda Vllasolli - Municipal Activities Coordinator, Pal Lekaj- Mayor of Municipality of Gjakova; Avni Kastrati- Mayor of Municipality of Mitrovica; Bruce Reid- GFSI Chief of Party; Catriona McHugh- EU Twinning Project; Qerkin Morina- OAG; Fortuna Haxhikadrija- Municipal PFM Team Leader