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KOSOVO | GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 MARCH 2011

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1 CHIEF OF PARTY REPORT

The elections held in December 2010 influenced the political agenda throughout the first quarter of 2011. A new government was not formed until February, resulting in minor impact on some project deliverables.

Within the municipality component of the project, extensive work continued to finalize PEFA Reports for five municipalities. As of the end of the quarter, 28 out of 31 indicators had been scored. As soon as these reports are finalized, and, the PEFA Secretariat completes quality assurance, the GFSI team will compile a consolidated PEFA report at the beginning of the next reporting period.

In parallel to the PEFA activity, GFSI Advisors conducted a review and evaluation of the Medium Term Budget Framework (MTBF) documents produced by municipalities during the 2011 budget process. The review undertaken for 26 municipalities served as a basis for the preparation of a first comprehensive Municipal MTBF Assessment Report, emphasizing the application by municipalities of key aspects of multi-year, strategic, and policy oriented approach towards the development of municipal annual budgets.

Within the Treasury component, the GFSI team achieved a considerable outcome for the quarter by facilitating the submission of the financial statements by all municipalities – including those in the north of Kosovo. This is the first time that all municipalities are compliant with financial reporting and it was due solely to the outreach of the GFSI project and the success in working one-on-one with new municipalities such as Gracanica. In addition, other outcomes of our work in the Treasury included the finalization of the decentralization project, resulting in the certification of new municipalities and all central government agencies for devolution of payment processing through the Financial Management Information System.

Activities in the Project's Budget component were dominated in the early months by the delay in forming a government and the need to manage the Continuous Resolution phase to ensure the government had appropriations. Following the formation of a government and shifting focus to the IMF, the Project directed considerable resources to assist the government to reframe their budget, providing for implementation of key election commitments, and at the same time maximizing the potential to remain within the IMF Program.

In Public Private Partnerships (PPP), the Pristina International Airport (PIA) has now formally closed. Much has and will be written about this outstanding achievement. The government still needs to appoint an independent engineer and a management team to oversee the contract, both of which are underway.

There are 23 PPP projects in the pipeline at various stages. Of these, four solid waste landfill projects are expected to be awarded to one international private entity within the next six months, three underground parking garages (Pristina Municipality) are expected to be awarded separately to three local and regional private operator and investor groups, and the Peja urban transport project is expected to generate local investment and operating interest.

2 CROSS-CUTTING THEMES

The core areas of USAID/Kosovo's Strategic Plan 2010-2014 identifies cross-cutting factors as having a profound effect on the development environment in Kosovo. They are: 1) youth integration; 2) gender equality; 3) full participation of minorities; and 4) protection of Kosovo's environment. Cross-cutting themes have been taken into account during the work planning phase and are addressed where possible in day to day activities and program design.

The submission of financial statements by all municipalities, including the new municipalities and those in northern Kosovo is an outstanding outcome.. This is the first time all municipalities have submitted financial statements, a direct result of GFSI Project activities, highlighting the Project's commitment to full participation of minorities.

A major success of the project in enhancing transparency was finalizing the training and certification for financial officers associated with the ongoing decentralization of payment controls. We also worked on revisions to legislation impacting on PPP in order to strengthen clarity and transparency.

3 REPORTS AGAINST RESULT AREAS

3.1 OBJECTIVE 1

Support private sector participation through Public-Private-Partnerships and through support to the Privatization Agency of Kosovo

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;

Progress/success against the work plan

The Public-Private-Partnership component team continued to make progress against the work plan during the second quarter of GFSI:

Framework Strengthening: We continued working on multiple fronts to strengthen the legal, institutional and policy framework for PPP. To address some of the systematic weaknesses identified in the first quarter PPP program diagnostic, GFSI advisors continued drafting priority implementing regulations and secondary legislation for the PPP law in accordance with the PPP framework strategy and work plan. These guidelines aim to create greater procedural and legislative clarity for PPP.

As part of the process for undertaking the larger PPPs currently in the pipeline, GFSI advisors are undertaking a legal "due diligence" of all laws that could affect the implementation and operation of a PPP. The legal "due diligence" includes review of general laws that affect PPP transactions regardless of the sector, such as the PPP Law, the Law on Public Financial Management and Accountability and the State Debt Law, as well as sector specific laws, such as solid waste related regulatory and environmental laws that would only affect PPPs within specific sectors.

The purpose for including a legal "due diligence" in the process is to prepare the PPP Unit and the various contracting authorities for legal issues that may arise when potential private sector investors/operators undertake their own "due diligence" in the ordinary course of business. The

“due diligence” will also identify potential problems (e.g., conflicting laws) and develop a strategy for rectifying the laws. This exercise has developed into a draft revision of the PPP Law that is consistent with EU policy.

The GFSI PPP Team also prepared one directive on Procedures for the Submission and Processing of PPP Project Proposals and rule on Procedures of the Public-Private-Partnership inter-ministerial Steering Committee (“PPP-ISC”). Both documents are expected to be approved by the PPP-ISC early in the next quarter.

Transaction Support: As of the end of the quarter, the PPP Unit with the support of the GFSI PPP Team, had sixteen (16) municipal and seven (7) central government PPP transactions in the pipeline. The projects range in size from 1 billion Euro in capital investment (Route 6 BOT) to projects just below 1 million Euro (Peja urban transport / bus system). Although most projects are in the prefeasibility study stage, six projects are either in the full feasibility study stage or beyond. The projects that are at various stages beyond prefeasibility are:

- Pristina International Airport (PIA) has secured the debt and equity investment of Euro 106 million and at the time of writing this report, has now formally closed;
- Four solid waste landfill projects are expected to be awarded to one international private entity in either the upcoming or next quarter;
- Three underground parking garages (Pristina Municipality) are expected to be awarded separately to three local and regional private operator and investor groups; and
- Peja urban transport project is expected to generate local investment and operating interest.

PPP Contract Governance and Oversight: Significant progress was made in establishing contract governance and oversight mechanisms for PPP, specifically with regard to the Pristina International Airport, the solid waste landfill, and the Pristina underground parking projects. The GFSI Team assisted the PPP Unit in preparing a procurement/tender dossier of documents in compliance with local legal norms and international best practices, and recommended to hire an Independent Engineer to oversee the construction phase of design-build-finance-operate-transfer contract PIA Concession. Additionally, GFSI advisors developed the institutional management and reporting structure and terms of reference for the PIA Project Management Unit, which will provide the daily management of contract on behalf of the Government of Kosovo (GOK). Collectively, these elements constitute the majority of the contract governance structure. The performance monitoring methodologies and systems need to be fully defined and PMU staff need to be trained in contract governance best practices before completion of the transition phase.

Training: The GFSI team continued capacity building and training activities during the second quarter with targeted training seminars for municipal authorities. In coordination with the USAID SEAD and other projects, GFSI advisors provided PPP training as part of a larger legal training program. We also continued work towards development of the curriculum and content for the institutionalized training and certification program. During the quarter, the GFSI Team trained 90 government and 92 private sector participants on PPPs and organized a study tour to the Czech Republic PPP Unit for fourteen municipal and central government participants.

ISSUES/OBSTACLES

The principal obstacle to the implementation of PPPs is the discrepancy between the various related laws (the Law on Public Financial Management and Accountability, the Government Procurement Law, and the State Debt Law). As indicated above, the draft revision of the PPP Law was prepared and is expected to be presented to the PPP-ISC early next quarter. Sector-specific laws, such as solid waste related regulatory and environmental laws, have also slowed

down the progress of some critical municipal PPPs. Finally, land ownership issues present a major obstacle, especially at the municipal level.

PPP projects, as well as the program-at-large, require broad-based political support. In light of the current political environment, it is not clear whether the government will have a strong mandate to increase private sector participation through PPP.

COORDINATION

GFSI coordinated activities with SEAD and DEMI, including the joint delivery of training.

B – Privatization: Targeted technical assistance to the Privatization Agency of Kosovo (PAK) will be provided with the intention of bringing the liquidation of the more than 600 privatized SOEs to timely closure, putting the nearly €440 million of privatization proceeds currently held in trust and invested outside Kosovo to work in the Kosovo economy.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

As the government is yet to meet conditions precedent, there has been no activity under this aspect of the Work Plan in the first quarter of 2011.

3.2 OBJECTIVE 2

A – Fiscal Stewardship: Build professionalism and expertise in sound public financial management in municipalities so that they become institutions capable of autonomously and efficiently stimulating local economic development while providing a high standard of public services.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

The Municipal PFM component continued to make progress against the work plan during the quarter:

Local Government PEFA Self-Assessment: Building upon extensive preparatory work during the past reporting periods, the GFSI Team continued efforts to advance the implementation of PEFA Self-Assessment process in five counterpart municipalities. GFSI advisors instituted a practice of regular collaboration with municipal counterparts in a form of weekly work sessions in each municipality. Capacity building and skills development were in the center of these efforts. As of the end of March, assessment, evidencing and scoring of 28 standard PEFA Performance Indicators was completed for all municipalities. The GFSI Team, in cooperation with a DFID expert, held meetings with the Mayor and staff of each PEFA municipality in order to provide municipal leadership with the presentation of preliminary results and to update on progress in the PEFA process. Based on the preliminary assessment results, draft PEFA Reports were compiled and thoroughly reviewed against PEFA reporting criteria for each counterpart municipality. The completion of five PEFA Reports, quality assurance by the PEFA Secretariat, and compilation of Consolidated Local Government PEFA Report are now scheduled to take place at the beginning of the next reporting period.

In addition to working with municipal counterparts, the GFSI Team conducted a series of meetings and consultations with key stakeholders in the PFM area to solicit input into the assessment process. The Team conducted meetings with the following institutions: MOF Treasury Department, MOF Property Tax Department, MPS Payroll Division, Auditor General

Office, and EU-PIP project under the EU Support to Improving the Quality of Public Investments in Kosovo and Preparing the Ground for EU Funding.

Municipal MTEF: During this reporting period, the Project achieved considerable progress in phasing in GFSI activities in the area of municipal budgeting reforms. GFSI Advisors conducted a review and evaluation of the MTBF documents produced by municipalities during the 2011 budget process. The review undertaken for 26 municipalities served as a basis for the preparation of a first comprehensive Municipal MTBF Assessment Report, with the emphasis on the application by municipalities of key aspects of multi-year, strategic, and policy oriented approach towards the development of municipal annual budgets. The Report includes a range of recommendations for municipalities and MOF, designed to guide the 2012 budget process. GFSI Advisors also delivered a workshop for the Municipal Budget Department's management and staff with the presentation of the Municipal MTBF Assessment Report on March 24. The workshop centered around the discussion of key findings, recommendations, and proposed next steps. Advisors also commenced work on developing a draft template and technical guidance to implement the new format and approach to preparation of the MTBF by municipalities. The template is intended to serve as the input into municipal Budget Circular for 2012 cycle.

GFSI Advisors, jointly with DEMI project, organized a one day capacity building workshop for the 25 members of Municipal Assemblies in Mamusha and Junik municipalities. GFSI contributed with a dedicated training session on key principles for municipal financing and current budget process in Kosovo municipalities. The main emphasis was on the role and responsibilities of Municipal Assembly in the PFM processes, focusing on legislature involvement in the policy conduct, oversight, and accountability. The workshop was received with a great interest from participants. We plan to roll out this training initiative to outreach other municipalities in the future.

Assistance to New Municipalities: GFSI Advisors continued providing support to newly established municipalities and to engage them in implementing decentralization of Treasury expenditure functions. PFM officers from Partesh Municipality received a dedicated training in seven KFMIS functions (commitment, assets, revenues, procurement, goods receiving, expenditures, and certifying) Training and certification was completed at the end of March. MOF Treasury Department provided Partesh with equipment, including computers and printers, allowing the municipality to connect to the government system, and provide a live access to the KFMIS from the beginning of April. Subsequently, certification process and connection to the KFMIS for all new municipalities were successfully completed.

With support of GFSI Advisors, Treasury finalized the delegation of expenditure functions to the vast majority of Budget Organizations, including recently established new municipalities (except the north of Kosovo, see details below). An event will be held on 8 April to present certificates to Budget Organizations and their staff for successful training, testing and meeting the required standards for decentralized payment control.

ISSUES/OBSTACLES

GFSI activities during the reporting period did not face major issues or obstacles. Cooperation with five PEFA counterpart municipalities was excellent and progressed in accordance with the work plan. Municipal staff deserve credit for their engagement, enthusiasm, and professional contributions.

It is noteworthy that progress in the implementation of new municipal MTBF approach, including leadership, support and engagement of MoF, will remain conditional on the successful resolution of challenges facing the 2011 and 2012 Budget.

Certifying municipalities in the north of Kosovo remains problematic, with those municipalities as yet not willing to engage in this process. However, successful engagement of these municipalities in preparation of KCB financial statements (as described below) provides some hope of cooperation on this aspect of decentralization.

COORDINATION

Donor coordination efforts primarily focused on the cooperation with DEMI project's activities. Joint training initiative for Municipal Assemblies was successful and well received by municipal counterparts.

The GFSI dialog with other donors included EU Twinning project and DFID project supporting the decentralization of social services.

GFSI Advisors attended a three-day international conference "Trust and Accountability in Public Finance Management" organized by Chartered Institute of Public Finance and Accountancy/CIPFA in London. The conference gathered experienced speakers and delegates from around the world to discuss principles, practices, and recent research trends in public finance. Kosovo was represented by the officials from MOF, Auditor General Office, and SCAAK.

B –Assist the Office of the Auditor General (OAG) so that their ability to review and assess the fiscal operations of the municipalities is strengthened and made more timely and effective.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

GFSI Advisors continued their engagement with the Auditor General aimed at improving the quality of municipal financial statements and audit. GFSI Advisors coordinated and participated in a seminar for all municipalities, the Treasury and OAG summarizing 2009 audit findings, identifying common themes and establishing a strategy for addressing these issues. This seminar was well received by all stakeholders and was timely input to the finalization of municipal financial statements.

In consultation with the Auditor General, GFSI supported seven municipalities whose financial statements are being audited by the Auditor General by providing classroom training and follow-up support.

GFSI's intervention had a particularly high impact for the municipality of Gračanica and the four northern municipalities. For Gračanica, GFSI staff conducted one-on-one training in the Treasury and in the offices of the finance director, coaching the municipal staff in all stages in finalizing their financial statements. Similarly, GFSI advisors worked with staff of the Community Office of the four northern municipalities and coached them in preparing financial statements for the KCB funds spend in these municipalities. This will be the first time that these municipalities have submitted KCB financial statements and is thus a significant step forward in enhancing fiscal transparency.

GFSI has acted as a conduit between Treasury, the municipalities and the Office of the Auditor General in ensuring that the interim audit findings sent to Treasury in February, were forwarded onto each municipality, enhancing their ability to progressively improve their financial statements prior to their final audit.

ISSUES/OBSTACLES

While the framework for public financial management in Kosovo (including the KFMIS) is very strong, it is focused on cash controls and accounting. Many of the issues that municipalities

face in preparing financial statements relate to non-cash accounting items (such as assets, arrears and revenues receivable) that are not managed through KFMIS. The challenge for 2011 is to enhance or support KFMIS with systems for better recording and managing non-cash items.

COORDINATION

The project facilitated coordination between the Auditor General and the Controller Office of USAID to discuss support and assistance issues.

C – Assist the MOF to develop and implement an action plan to enable data sharing among the various legacy IT systems in the ministry

PROGRESS AGAINST THE WORK PLAN

In the interest of preserving project funds while the Ministry was not in a favorable position to reform due to elections, the IT advisor was relocated to other international projects for most of this reporting period. The work in this area will resume in late April 2011. However, there were some activities and outcomes in IT area during the quarter. These included the letter from the Permanent Secretary addressing location / premises for the new server room was drafted and sent to the MPA for approval. The project also made progress in the FIN (Fiscal Identification Number) implementation in Property Tax System and enabling TAK to access, search, and view information. TAK has nominated people and Property Tax project will ensure access upon obtaining the necessary information for opening users' accounts. Relevant changes to the Property Tax System are going.

ISSUES/OBSTACLES

Due to elections and expected change of Minister, there was little interest for reform within the MoF IT department. A concerted effort for reform will be made with the new Minister and Deputy Minister of MoF in Quarter 2, 2011.

D – Assist the 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

PROGRESS/SUCCESS AGAINST THE WORK PLAN

The elections continued to dominate the political and fiscal landscape in the first quarter of 2011. For the entire period, the Government has been operating under appropriations authorized by continuing resolution. Due to the delays in finalizing election results and forming the new Government, approval of the 2011 Budget was delayed until the end of March 2011.

A new Finance Minister was appointed in the new Government and the POE Unit and privatization functions of the Ministry moved to a new Ministry of Economic Development.

GFSI advisors were actively involved in ensuring that the operation of Government was able to continue under "continuing resolution" by actively supporting the process of gaining the necessary Assembly approval for extension to the continuing resolution before the end of February. GFSI Advisors worked with the new Minister and Directors of Budget and Treasury in finalizing the 2010 financial accounts, preparing 2010 financial statements and in finalizing the 2011 Budget.

Finalizing the 2011 Budget faced additional challenges due to the desire of the Government, even during the "caretaker" period, to implement a range of new policies. This included a substantial 50% pay raise for Education workers and 30% for other civil servants. Prior to the

finalization of election results, the Government passed a decision to immediately implement these pay rises. GFSI advisors were active in providing advice to the Ministry on the implications for this decision and alternative scenarios that would result in a milder fiscal impact.

GFSI advisors assisted the Ministry in a series of interactions with the IMF, with the objective of avoiding the IMF program being deemed “off track” – which would result in the loss of IMF loans and donor budget support. Advice provided by the GFSI team assisted the Ministry in reaching agreement with the IMF on most aspects of the Budget, including higher revenue estimates and cuts in other expenditure categories. GFSI advisors also provided advice on options for reducing the cost of salary increases, helping to close the gap between the government's desired budget for salaries and the amount proposed by IMF staff.

At the end of the quarter, the Budget has been passed and there is hope that agreement/waiver at the level of the IMF Board will result in Kosovo's IMF Program remaining on-track.

Even though the focus on finalizing the 2011 Budget left less time to finalize the 2012-14 Medium Term Expenditure Framework, the GFSI team has been engaged in preparing fiscal background briefing and other material for a USAID sponsored economic planning retreat that will provide meaningful input to the MTEF. Further, the instructions for the MTEF foreshadow a commitment by the MOF to commence collecting performance information in the context of the 2012 Budget.

The GFSI Advisor continued work with Treasury in addressing the issue of recording and managing payment arrears. In this regard, local and international advisors in the Treasury assisted in preparing an administrative instruction for the collection of payment arrears information from all Budget Organizations on a monthly basis.

ISSUES/OBSTACLES

The structure and resourcing of the Budget Department remain a serious impediment to future budget process enhancement, including achieving the objectives of the GFSI Project.

The extremely tight fiscal situation emerging in 2011, including accommodating salary increases within the available appropriation, requires enhanced discipline by the Government in managing its payroll, obligations and arrears. It is necessary to move the payroll into the MOF and focus the Treasury on managing commitments, obligations and arrears – including improvement monitoring of compliance with the relevant fiscal rules.

COORDINATION

Meetings were held with the IMF Resident Representative to maintain active dialogue and discuss developments in fiscal issues.

E – Assist the 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.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

GFSI Advisors continued efforts in enhancing the capacity of Property Tax Department to perform a high quality audit function. In cooperation and agreement with the Department leadership, an audit plan was developed for implementation during 2011. The plan envisaged initiation of the 2010 audit for three pilot municipalities, with the view to serve as a testing sample for the introduction of improved auditing and reporting model as well as a feedback mechanism for the next steps. The audit of the remaining municipalities will be conducted on a full annual basis and performed during the period of January – March 2012.

The GFSI team continued assistance in establishing a new appraisal model for two pilot municipalities: Fushe Kosove and Shtime. Based on thorough analysis of data resulting from the survey the quality of construction was identified as the key decisive factor affecting the value of the property. The new appraisal model for pilot municipalities centers around this finding, with focus on the verification and adjustments in the quality of construction attribute based on survey results. This new appraisal model was successfully introduced in both municipalities and informed the 2011 mass taxation and mass bill production. During this process, the GFSI team assisted the municipalities in deciding on the coefficients for different levels of quality of construction attribute. With the introduction of the new appraisal model the projected revenue from property tax was in general kept at the 2010 level; however the tax burden was distributed more fairly with poorly constructed building charged with lower tax compared to the same size buildings better quality construction. This enhancement will make property tax fairer while increasing the taxpayers' willingness to pay property tax. The GFSI advisors also assisted in preparing an information leaflet, which was distributed with the 2011 bill to all taxpayers in pilot municipalities targeting to create awareness of the benefits of the new appraisal model among taxpayers.

In coordination with our counterparts in the Property Tax Department, IT within the MOF, and SIDA the GFSI advisors started preparations for the transition of some SIDA-employed staff to MOF financing. SIDA funding for the project will end on December 31, 2011 and the maintenance and development needs of the PTD system require that some staff is retained. Although the discussions are at early stages they will remain a priority focus to ensure the sustainability of the PTD system for the years to come. Further, the GFSI advisors in coordination with TAK started integration efforts between the TAK and PTD systems. The FIN (Financial Identification Number), which is unique to TAK, will be implemented in the PTD system. This will enable TAK to identify taxpayers who own property and enforce collection on the delinquent taxpayers.

The GFSI advisors assisted in the process of the 2011 bill production. Unlike prior years, this activity was managed by a local team without any assistance from advisors. The bill production was finished on the 13th of February for 34 municipalities, with over 411,000 bills produced and total tax assessment of 15.7 million euro. In addition, GFSI coordinated and assisted in the creation of the new municipality Partesh and splitting cadastral zone Cagllavica between municipality of Pristina and Gracanica.

The properties resurvey process is ongoing currently in 15 municipalities and is already completed in 4 municipalities. The main focus of this process is on quality control and improving the resurvey data.

With respect to legislative affairs, the GFSI advisors drafted the new administrative instruction for the collection and registration of the Taxpayer Identification Number, and supported the Property Tax Department working group in drafting and updating administrative instructions based on the new Property Tax Law.

ISSUES/OBSTACLES

Despite expressed readiness to continue the financing of the Resurvey Project, there still is no official confirmation from SIDA. The consequences of interruption in funding of this activity may be severe and put at risk the completion of the resurvey, and jeopardize the implementation of the new appraisal model in the rest of municipalities. The resurvey of the zones inhabited by Serbian majority continues to be challenging as the resurvey companies are not granted access to the property.

COORDINATION

The GFSI Team coordinated project activities with STA project.

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.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

GFSI team supported an extensive effort to assist USAID in conducting a week-long workshop for the senior Economic Ministers to reach consensus and report to the Prime Minister on an economic vision for Kosovo. The GFSI team participated with USAID in planning the retreat, assisting in PowerPoint presentations, briefing Ministers and general brain storming of ideas. At the time of writing this report, the retreat has been held (April 11-14) and has been an outstanding success.

Follow-through and implementation of the vision will be key to ensure this event is a success. Follow up meetings with key Ministers and reaching quick and effective government decisions to implement the agreed upon program is required to maintain the momentum. As discussed in the fiscal section, maintaining budget discipline will present a challenge to the new administration. It was noted at the meeting that economic Ministers now have a weekly meeting to coordinate activities. In addition, they will require administrative support in driving the agenda forward and accessing analytical and policy advice to support good decision making. This effort also will require a mechanism of follow-up to ensure approved actions are properly coordinated and implemented.

A key outcome of the retreat will be the recognition, as discussed in Minister Hamza pre-briefing, that the Kosovo Budget offers limited capacity to fund additional incremental growth-oriented infrastructure spending. The solution put forward by the Minister to (1) conduct and expenditure review to create more fiscal space and reorient spending toward growth oriented priority areas, and (2) look at private sector participation such as PPPs for new infrastructure such as Route 6, mining, minerals, transport hubs etc. However, the Government does not possess the skills to undertake an effective expenditure review or engage in further large PPPs – external assistance will be required.

ISSUES/OBSTACLES

Due to the extended delay in forming the government, the dedicated private sector economic advisor left the project in January. The decision on the advisor replacement has been postponed until the government retreat outcome.

COORDINATION

Extensive coordination was undertaken with USAID, BEEP, KPAP and the USAID Agriculture Project. Further advisors have engaged with the Ministers and their advisors before, during and since the retreat to coordinate the preparation and implementation of the action plan.

4 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS

Objective	Problem/Issue	Migration Plan	Status
Central Government financial and PPP reform	Early elections slowed down the flow of projects and reform activity within the central government	The GFSI PPP component took the opportunity to focus on primarily municipal level PPP training and projects	Currently underway with a draft amended PPP Law, a procedural PPP-ISC directive, a draft set of PPP processing related rules
Municipal PFM	Late approval of the 2011 Budget slowed down the commencement of the 2012-2014 budget development cycle	GFSI worked on the development of amended municipal MTEF process for reform measures be available for the inclusion into the first municipal budget circular	Draft technical guidance and municipal MTEF model under development

5 MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
Municipal Government PPP Transactions	Three Pristina underground parking projects issuance of PPP procurement documentation	Pristina Municipality	June 2011
Central Government PPP Transactions	Pristina International Airport PPP Contract entry into force.	Republic of Kosovo acting through Ministerial Project Steering Committee	April 2011
Central Government PPP Transactions	Issuance of PPP procurement Solid waste landfill projects.	Republic of Kosovo acting through Ministerial Project Steering Committee	June 2011
Municipal PFM	Conference on Municipal Budget Practices	MoF; MLGA; Municipalities; Association of Kosovo Municipalities	April 26, 2011
Municipal PFM	Local Government PEFA Concluding Retreat	MoF; Five PEFA counterpart Municipalities; Association of Kosovo Municipalities	May 4-6, 2011