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KOSOVO | GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 MARCH 2012

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

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1 CHIEF OF PARTY REPORT

Highlights for the quarter include conclusion of contract negotiations for the first municipal PPP, completion of the second wave of PEFA municipal assessments, submission of the Strategic Expenditure Review for consideration by the Ministry of Finance (MoF), and progress Route 6 and Brezovica projects.

The first municipal PPP has been concluded and is awaiting formal approval by the PPP-Inter Ministerial Committee (ISC). The Peja Urban Bus project, awarded to Urban 029, has reached financial close and is a milestone in the GFSI municipal PPP activity being the first PPP to close following the launch of several PPP initiatives in the first 18 months of the project. In addition to the first PPP to close, a full suite of training material is close to finalization, with a process for their delivery under negotiation with the Kosovo Institute of Public Administration.

The second PEFA assessments were finalized during the quarter and a presentation ceremony is planned for April, following the incorporation of feedback from the PEFA Secretariat. Work is underway on Action Planning to meet identified gaps and in further reforming the municipal MTBF's for 2013-15.

A comprehensive outreach to those municipalities that remain with 'Qualified' audit reports occurred during the quarter. Outreach included follow-up with the Audit Office assessments of the interim financial statements. It is anticipated that up to 20 municipalities will receive Unqualified Audits for the 2011 financial year.

The Strategic Expenditure Review (SER) report was finalized and submitted to the Minister. Feedback confirms the Minister is pleased with the recommendations and the Budget Director is working with GFSI advisors in incorporating recommendations into the department structure and MTEF framework.

The IMF concluded a successful mission to evaluate the outcome of the Staff Monitoring Program. The Mission Team was highly complementary to the Ministry of Finance on progress and when conditions precedent are met, will recommend to the Board to return Kosovo to the Stand-by Arrangement (SBA) facility. This facility will run until the end of 2013, but during that time will convert to a Pre-Cautious arrangement from January 2013, signaling the government's intention to not draw down any funds during 2013. Kosovo will then successfully graduate from the SBA at the end of 2013.

The Route 6 motorway project is progressing well with the RFP for Transaction Advisor waiting formal approval, together with the 'go' decision of the government. Key staff have been identified for the Project Implementation Unit and work has begun on finalizing the feasibility study.

Following high level meetings of stakeholders for the Brezovica transaction, good progress is now being made in identifying a clear memorandum from the municipality on their vision and contribution to the development of the Sharr Mountain. The RFP for the legal/transaction advisor has been launched.

Finally, two very important appointments during the quarter. First, a new IT Director was appointed and GFSI will now work closely with the new director on the reorganization of the IT department and IT reform generally. Second, a new Macro-Economic and Public Policy Department Director was also finalized and no change to the past excellent cooperation is envisaged.

2 CROSS-CUTTING THEMES

The extensive work on developing a full suite of PPP guidelines and training material will aid transparency in PPP project development and implementation. Budget reforms identified in the SER report will lead to more transparency in the budget process, with greater accountability for results achieved from the allocation and use of public funds. PEFA self-assessment and Action plans will increase transparency and accountability in the use of public money. Ongoing work in the Route 6 motorway and Brezavica transactions will aid transparency in these vital capital projects.

3 ADMINISTRATION

Legal advisor, Bill Klawonn departed the project at the end of the quarter after a decade of service in Kosovo.

3.1 REPORTS AGAINST RESULT AREAS

3.2 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 reporting period:

Framework strengthening:

GFSI advisors continued worked on multiple fronts to strengthen the legal, institutional and policy framework for PPPs.

PPP Guidelines. GFSI has completed the Draft PPP Guidelines. The Guidelines, which are currently being translated and edited, will be used by the MoF PPP Department, the line ministries, municipalities (when acting as contracting authorities), and ultimately private sector investors, operators and technical/transaction advisors. The Guidelines include four sections (phases) that cover a PPP from project identification and feasibility studies to project management.

The GFSI Team is also finalizing the development of formal curriculum and training modules based on PPP Guidelines Manual which are near completion. GFSI staff together with the PPP Department has met with local Chambers of Commerce to discuss future cooperation on training initiatives (see training below).

Transaction Support: Through the March quarter, the GFSI Team provided support to several municipalities and ministries in developing their PPP projects.

- Peja Urban Bus Project - Negotiations with the preferred bidder, Urban 029, were completed successfully in March. A concession agreement initialed by the Municipality and Urban 029 was submitted to the PPP Committee. Final approval is expected in

April. This will be the first municipal PPP under GFSI with the expectation of more to follow in calendar year 2012.

- Pristina International Airport - The operator reported a very successful 1st year of operation and the project continues to be implemented under the oversight of the PPP Department.
- Pristina Public Underground Parking Projects - The procurement procedure for the award of a concession for the construction, operation and maintenance of an underground facility with commercial premises was cancelled by the Municipality of Pristina because of unsatisfactory designs submitted by bidders for the surface above the underground parking. The Municipality is planning to re-issue procurement procedures for a PPP for the construction, operation and maintenance of three (3) underground parking facilities in accordance with the PPP Law. The Municipality will initially conduct a design contest for the surface, which will then be used by all bidders for the implementation of the PPP. The procedures for the conduct of a design contest were initiated by the Municipality in March.
- Suhareka Waste Collection and Sorting Project - Following approval of the project by the PPP Committee, the Municipality of Suhareka held an investors conference in March explaining the project to interested investors. Procurement procedures are expected to be launched in April.
- Pristina Urban Transport and “Trafiku Urban” Project - The GFSI Team conducted a review of the operation and financial status of Trafiku Urban for the Mayor of Pristina in Feb/March. As a result, it is expected that a process similar to the successful Peja Urban Bus project will be launched in Pristina.
- GFSI, together with the PPP Department, has identified several other municipal PPP projects, which may be subject to further assessment. These include:
 - Waste collection, including the refurbishment, operation and maintenance of landfill in Mitrovica and Peja
 - Bus terminal in Drenas

The GFSI Team is also undertaking a feasibility study for Motorway service stations on Route 7.

Training: The PPP Department, with the support of GFSI advisors, are in the process of finalising a formal relationship with the Kosovo Institute of Public Administration (KIPA) to develop a sustainable institutional PPP training program that will focus on civil servants and private sector participants engaged in potential PPP activities. In addition to developing a formal PPP curriculum, GFSI advisors are developing PPP training modules based on the PPP Guidelines described above. GFSI will also assist in the hiring and training of trainers.

ISSUES/OBSTACLES

Following the approval of two municipal PPP projects (Peja – urban transport, and Suhareka – waste collection/separation) relations between municipal and central government show signs of improvement.

Lack of clarity for the issuance of Environmental Permits and a lack of a clear policy delineating economic development and environmental protection goals are likely to result in delays for the development and implementation of PPP projects and other capital projects. The draft Law on Waste, which is currently being reviewed by the Assembly of Kosovo, is, in the version submitted by the Government, very supportive of municipal PPP projects in the waste sector.

COORDINATION

GFSI coordinated activities with the European Commission and European Commission Liaison Office, and the following USAID funded projects BEEP, SEAD and DEMI.

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

In mid-December of 2011, PAK announced a tender for the services of professional service providers who would, at PAK expense, provide the assistance specified under this activity. It is expected that PAK will award the concerned contract sometime in April of 2012. The ability of PAK to self-fund this assistance is a direct consequence of the Project’s earlier work on the PAK Law, which, consistent with international practice, authorized PAK to retain a small percentage of the privatization proceeds as an administration fee (something that was always contemplated since the creation of the KTA, but was never implemented). The referenced administration fee is to compensate PAK for the costs it incurs in administering SOEs (again, this is quite a normal practice in Europe, the US and elsewhere). This fee constitutes PAK’s “dedicated revenue” under the Law on Public Financial Management and Accountability and is the source of funding for the professional service provider contract.

During the quarter, the assistance provided to PAK was exclusively devoted to assisting with the design of new law to replace UNMIK Regulation 2003/13, which - in Article 10 – contains cumbersome provisions on the entitlements of employees of privatized SOE’s. The replacement legislation being worked on by PAK is specifically intended to simplify the process of identifying both the concerned employees and the extent of their entitlements. The replacement law is also intended to cure a number of other oddities in the current UNMIK Regulation.

ISSUES/OBSTACLES

Substantial “capacity” issues continue to affect PAK’s ability to operate professionally and efficiently. PAK currently lacks sufficiently qualified professionals (legal, insolvency and transactional) to implement the new legislation effectively. To what extent the new professional service contractor is able to address this deficiency remains to be seen.

COORDINATION

The Project closely coordinated its assistance during the quarter with the team leader of the ECLO project at PAK which is providing liquidation assistance.

3.3 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 in Local PEFA Self-Assessments, PFM Reform Action Plans, and Municipal MTEF.:

Local Municipal Self-Assessments. The completion of the second phase of Local Government PEFA Assessment marked the reporting period. Individual PEFA Reports for the six counterpart municipalities of Gjilan, Ferizaj, Gjakova, Peja, Istog and Novoberdo were finalized and

submitted to the PEFA Secretariat for the review and comments. Upon the receipt of comments from the PEFA Secretariat a dedicated workshop gathering municipal representatives was organized for March 21, 2012 to share the Secretariat's feedback, and discuss appropriate revisions. The publication and delivery to Mayors of the comprehensive PEFA Report is planned for April.

Local Government Reform Action Plan. The first phase of the PEFA process served as a platform for the development of municipal PFM reform program. On February 29, 2012 the GFSI team launched PFM Reform Action Plan for Local Governments, which was drafted in consultation and with input from five counterpart municipalities: Prishtina, Podujeva, Vushtrri, Shterpce, Mamusha. The GFSI team commenced cooperation with these municipalities in the implementation of PFM Action Plan. The municipalities from the second phase of PEFA will be incorporated into the PFM Action Plan following the publication of PEFA Report.

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

ISSUES/OBSTACLES

GFSI work with municipal counterparts proved to be very successful, in particular in the area of PEFA process. This generated an increasing interest among municipal officials in seeking cooperation and advice from the project team. Our MTBF-related activities aim at building on this momentum during the 2013-2015 budget. However, apart from direct work with municipalities this component is dependent on the MoF actions with regard to the circulation of information on grants financing for the next three years and high quality budget instructions. Potential delays in the dissemination of such information might affect GFSI work plans.

COORDINATION

During this reporting period GFSI team coordinated its activities with other donors working on similar areas such as EU/Twinning project for Stronger Municipalities at MLGA, which is working on revisions to the Municipal Budget Circular, Pristina Municipality MTBF 2013-2015, and municipal financial reporting. Activities were also coordinated with DFID project on Social Services which is planning events related to municipal MTBF focused on Social Services.

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 assisted the Treasury in the preparation and issuance of Financial Rule No. 07/2011 – On Annual Financial Statements of Budget Organizations. Following issuance of the instruction, GFSI Advisors provided training to all municipality finance officers on the preparation of the 2011 Annual Financial Statements for Municipalities. As a pre-cursor to the training a handbook was produced setting how to prepare annual financial statements.

This training was provided to assist Municipalities to improve their annual financial reporting so as to increase the number of “Unqualified” audit opinions. With the 2010 Municipality Annual Financial Statements 12 received “Unqualified with Emphasis of Matter” Opinions and the objective is to increase the number of “Unqualified” reports received for the 2011 Annual Financial Statements. In addition, during the preparation of the statements on-going advice was also provided to municipalities.

During the quarter, the GFSI Advisors visited eight municipalities - Fushe Kosova, Lipjan, Mitrovica, Podujeva, Novoberdo, Strepce and Decan. All received “Qualified” reports for their 2010 Annual Financial Statements. It is pleasing to report that most of these Municipalities had made great efforts to implement previous audit recommendations, in response to our follow-up visits earlier in the year, and overcome the likelihood of receiving another “Qualified” report. However, some of the Municipalities that received a “Unqualified” report had not made similar efforts. The major problems identified related to the registration and valuation of assets and property, plant and equipment.

In mid-March 2012 the GFSI Advisors received from the Auditor-General’s Office reports on the interim audits conducted in the municipalities for the period January and September 2011. The thrust of these reports was that most municipalities had taken steps to implement previous audit recommendations and had shown improvement in their financial reporting. However some of the newer municipalities had not improved their performance citing a lack of resources for the lack of action. Municipal audit reports for 2011 are due to be finalized by the end of June 2012.

ISSUES/OBSTACLES

There were no issues or obstacles in this area during the quarter.

COORDINATION

Extensive and very positive communication with the Auditor-General’s Office and MoF Treasury in the analysis and follow up with municipalities on their financial statements during the first quarter.

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

There has been small, but significant progress in IT this quarter. Firstly, the server room tender is due to close mid-April and it is expected that up to seven companies will submit a bid to develop the first joint server room, servicing all IT programs within the MoF portfolio. Works should start in May.

The second development is that IT formally became a department within the MoF and finally, Agim Qela has been formally appointed as the Head of the IT Department. GFSI will now locate one of our local IT staff (Burim Meholi) to work with the new Head of IT to assist him in the full implementation of the IT reform.

ISSUES/OBSTACLES

Lack of IT leadership has been a key obstacle, but the appointment of a new IT Director is expected to bring new focus to the IT reform program.

COORDINATION

No coordination to report for the quarter.

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 ties.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

This quarter the GFSI team focused on the finalization of draft report of the Ministry of Finance's Public Expenditure Review. Key recommendations contained in the report covered the continuing introduction of a comprehensive set of public financial management reforms, consistent with the country's implementation capacity, to introduce a high quality policy oriented program based budget. The recommendations include:

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

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

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

ISSUES/OBSTACLES

The PER identified major strengths in the existing approach to budgeting in Kosovo in the quality of Law on Public Financial Management and Accountability (LPFMA) that is based on modern principles of public financial management and the MTEF that contains a comprehensive fiscal outlook, links the national economic and social development priorities to government sectors and sub sectors and contains budget ceilings and forward year estimates for each BO. However a number of areas were identified that require further action such as: improving the linkages between policy making, planning and budgeting; introducing performance measures and indicators to assess the impacts of government programs; and establishing a process and methodology to cost and prioritize new policy initiatives. Initiatives to improve the linkages between policy making, planning and budgeting are being introduced as part the preparation of the 2013-2015 MTEF and GFSI assistance is currently focusing on assisting with the preparation and introduction of improved costing methodology.

COORDINATION

Close coordination continued to occur with DFID, who provided advisors to the PER project team.

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 to support and enhance the capacities of the department staff for the inspection process. After the successful reforms of the inspection process introduced in three pilot municipalities last year the focus now has been on training department staff to continue reforms for the rest of municipalities.

The Property Tax Department staff of the Ministry has been trained on the following topics:

- Reforms and the new methods of inspection,
- Inspection questionnaire checklist,
- Preparation and content of the inspection report,
- Documentation of the inspection process (physical and digital archiving),
- Methods of extracting, analyzing and preparing the statistical data,
- Available data and possibilities for the inspection on the Property Tax System.

To further facilitate the inspection process the GFSI advisors provided hands-on training for the department staff. The inspection in the municipalities of Graçanica and Partesh, served as a case study to provide the staff with real field examples on how to perform the inspection process.

GFSI advisors provided assistance to the Department on mass calculation of property tax for 2012 for the whole country, completed by January 2, 2012. This is also the first time when fiscal and calendar year started at the same time for property tax issues. The calculations were based on the approved municipal regulations for 2012 and taxpayers seeking municipal services could have been supplied individually with the 2012 tax bills from the beginning of year.

The mass distribution of bills has not started yet due to the anticipated adoption of the amendments to the law which raises the minimum tax rate from 0.05% to 0.15%.

In 2012, the number of invoices is 421,497 while the amount billed is 16,412,858 EUR, with an average bill of 39 EUR.

GFSI advisors also assisted the Property Tax Department in drafting the annual activity plan for the further development of the Property Tax System. The detailed plan (including goals, timelines, activities, responsibilities and results) has been approved by the Department Director. It foresees up to 4-5 system releases, which include some new functionalities and optimization of existing ones.

GFSI advisors assisted the department in migrating the Property Tax System to the new server infrastructure. This move has been documented in a very detail manner, including training plans for some of the IT staff to ensure recovery capacities in case of a disaster at the MoF IT.

The resurvey project has restarted after a short recess during the harsh winter. Currently more than 85% of all properties are resurveyed and the project is anticipated to be completed by June 30, 2012. The quality control of the data is being checked by six SIDA funded students. The transfer of the data to the real property register has been already completed for 7 municipalities. The municipalities will benefit from it with the ability to implement the new appraisal model, including properties' GPS location and photo.

ISSUES/OBSTACLES

Due to the amendments to the property tax law the 2012 bills are still not delivered. It has been expected that the law would be approved much sooner and the 2012 bills would be delivered reflecting the new rates. Currently the law is still not approved and the legal deadline for bills' delivery (i.e. 31st of March) has passed. Further delay in bills delivery could potentially result in collection decline in 2012, while statistics for the months of February and March already show this trend. To avoid any legal issues with the passing of the deadline the Minister has to postpone the bills' delivery and first installment's penalty deadlines. Legally this can be done by the Minister only after a request has been made by a municipality.

Municipalities did not take into account the recommendations for changing the tax rates or values and in order to avoid a decrease in revenues in 2012 the new appraisal model has not implemented. It was anticipated that the new model will be implemented for at least 12 municipalities in 2012.

A delay of the resurvey project has postponed the SIDA cooperation for the land tax project.

3.4 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

During the month of March, GFSI was able to organize and hold an inter-ministerial meeting on the Economic Development Vision and Action Plan (EDVAP). Apart from the five economic ministries, Ministry of Labor, Education, Justice and Spatial Planning were also invited to participate in the meeting and be part of EDVAP since numerous activities deriving from EDVAP fall into the responsibility of these ministries. Apart for organizing the inter-ministerial meeting with the MTI staff, GFSI prepared for the Deputy Prime Minister, Economic a Concept Note on EDVAP and how this document could be changed into a Policy Framework so that it is more easily communicated to the public and contains government of Kosovo's policy priorities. Based on this document, a decision was taken to draft a Policy Framework/Platform on Government of Kosovo's development priorities.

During March, key issues surrounding the challenges in organizational structure and management of the Deputy Prime Minister and Ministry of Trade and Industry (MTI) were discussed including the implementation of the new law on public administration and civil service. GFSI have suggested to the DPM several changes to the functioning of the cabinet of the Minister as to make it more functional and responsive to the daily needs and activities. With our suggestion, the DPM/MTI is going to appoint a person who will serve as a liaison person with the Assembly of Kosovo, making sure that all the laws sponsored by the Government are properly defended in the Assembly and they reflect the objective of the government of Kosovo to reform the business environment in Kosovo and boost economic growth. We are also working with the cabinet on the Public Outreach and planning several events to be undertaken by the Deputy Prime Minister.

Government of Kosovo has taken a decision at the end of March on the formation/establishment of National Council on Economic Development which will be responsible also for the monitoring of the implementation of EDVAP among other duties and responsibilities. MTI will serve as a secretariat for this Council and the decision authorizes MTI to draft a working plan for the Council. GFSI are assisting Deputy PM and her staff in preparing these documents.

In addition, GFSI are facilitating and assisting the DPM/MTI in organize and preparing the documents on the Status Report meeting on EDVAP which is to be held at the end of April. The meeting will be held as part of the National Council on Economic Development. In this meeting, the Government of Kosovo Policy Framework/Platform will be approved as well as reporting by ministers regarding the achieved progress on the implementation of EDVAP will be carried out.

ISSUES/OBSTACLES

There has been some delay in the reformatting of the EDVAP and conducting of the revision meeting. The outcome of which should have fed into the MTEF, which is due by April 30.

COORDINATION

Close coordination with the USAID BEEP project and the Office of Prime Minister, Strategic Planning Unit.

3.5 TASK ORDER MODIFICATION # 1

A - Support the Municipality of Strpce and the Ministry of Finance in investigating transaction options for the Brezovica Ski Resort or other high-priority tourist infrastructure.

PROGRESS/SUCCESS AGAINST THE WORK PLAN

The GoK via Government Decision on October 10, 2011 established an Inter-ministerial Steering Committee (ISC) to be chaired by Deputy Prime Minister, Economic to develop and implement the Brezovica project. The ISC is to be supported by a Project Implementation Unit (PIU) as well as the ability to procure a Transaction Advisor (TA).

While progress at the political level has been slow, work behind the scenes to establish the supporting infrastructure has been intense; in summary, the following has been achieved:

- A Project Implementation Unit has been created and staffed to support the ISC.
- An RfP has been developed and launched to obtain a Legal/Transaction advisor to support the ISC in administering a PPP tender process.
- Due diligence has begun on behalf of the ISC to:

- Assess existing legislation on forests and forestland that will effect a Sharr Mountain PPP concession;
- Review spatial plan and its effect on a Sharr Mountain PPP concession;
- Obtain and analyze data such as cadastral that will effect a Sharr Mountain PPP concession; and
- Prepare Government Decisions to move the project forward.
- A Project website, branding and desktop publishing services have been developed/procured.
- A feasibility analysis on options for developing Sharr Mountain was initiated and material prepared for the ISC explaining options for the development of Sharr Mountain PPP concession.
- The project has engaged extensively with the leadership of the Municipality of Strpce to develop an Memorandum of Understanding (MOU) to be sent to the ISC on the process of revitalizing the Sharr Mountain Recreation area, proposed terms for a PPP concession agreement and amending its urban regulatory plan and infrastructure plan to be consistent with the plan for the revitalization of Sharr Mountain.

ISSUES/OBSTACLES

There was much uncertainty regarding the involvement of the Municipality of Strpce in the transaction and discussions are taking place between the GFSI strategic advisor to the ISC and the Municipality on developing a vision and implementable plan for the revitalization of Sharr Mountain Recreation area. These discussions will continue to be fruitful and that as a result will be achieved in this quarter allowing the tender process to move forward.

Other potential political obstacles have been placed on hold until the MOU from Strpce has been completed. These include:

- Action on SOE Brezovica;
- Completion of the Sharr Mountain Spatial plan currently being developed by the Ministry of Environment and Spatial Planning;
- Clarification of Ministry of Agriculture and Forestry rules on the lease of National Forest land as part of a PP concession for the revitalization of the Sharr Mountain recreation Area; and
- Clarification of laws governing municipal land and the rights of those lands to be granted to a private developer through a PPP concession agreement.

However, it is apparent from progress to date that significant resources will be required to assist the municipality of Strpce in developing a spatial and zoning plan to facilitate attracting a private investor. It is also somewhat unclear at this stage the amount of legal and regulatory work required, and the timeframe in which to complete it, in order to bring this deal to a timely closure.

COORDINATION

Regular meeting have been established between the Strategic Advisory team and the ISC Chair and the Municipal of Strpce. Coordination needed with other stakeholder Ministries and official entities will be moved forwarded post completion of MOU. Additional assistance in facilitating these tasks may be requested going forward.

B - ROUTE 6 MOTORWAY

To support to the GoK in identifying financing and transaction options for the construction and/or operation, maintenance and tolling of new motorway infrastructure and in procuring and managing transaction advisors through a Project Management Unit (PMU) within the Ministry of Infrastructure (MoI).

PROGRESS/SUCCESS AGAINST THE WORK PLAN

A procurement options analysis was completed and the report and its recommendations were presented to the Minister of Finance prior to his meetings with IMF in February. The IMF supported the market test of Route 6 as a PPP and the World Bank has also given its concurrence to the Minister. An RFP for a Transaction Advisor has been completed, and has incorporated comments from the PPP Department and Ministry of Infrastructure (MOI). The project is waiting for the formal approval of the government, which has been delayed due to the Minister of Infrastructure being overseas.

Next steps will be:

- The Government to adopt a Government Decision to prepare route 6 as a PPP – GFSI team provided draft decision;
- Transaction advisory services need to be procured to market test the various PPP project structures and to lead the tender process up to contract close;
- A Project Management Unit is to be established within the Ministry of Transport, USAID through GFSI team will help in the recruitment process. CVs have been shortlisted for 2 out of 4 positions; and
- In the meantime, the feasibility study will be updated and completed by GFSI team.

ISSUES/OBSTACLES

The Ministry of Infrastructure is a key stakeholder of the project but until now, our main counterpart has been the Ministry of Finance. We are trying to further stress our cooperation with the MOI and to arrange office space within the Ministry of Infrastructure to ensure our cooperation. Until now this has not materialized.

The Government decision to proceed with a market test of a PPP for Route 6 has been delayed, leading to a delay in the procurement of the Transaction Advisor. This may lead to overall project delay.

There is a lack of agreement with the MOI and MOF on using the formal PPP-ISC or establishing a project specific Route 6 ISC. The PPP law is clear that all PPPs should go through the one government PPP committee, chaired by the Minister of Finance, with the Minister from the sector responsible to be made a member; in this case the MoI would be a member of the PPP-ISC considering the Route 6 PPP.

COORDINATION

The advisor is coordinating with the Ministry of Infrastructure and the Ministry of Finance. A stakeholder map and stakeholder communication plan was prepared.

4 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS

Objective	Problem/Issue	Migration Plan	Status
Central Government and Municipal Government PPP reform	Municipal vs. central government responsibilities are clearly set forth by law, however mistrust and misunderstanding continues to exist	The new PPP Committee should facilitate the implementation of the new laws and directives routinely and in line with applicable time lines	The new PPP Law or recently passed Directives; a) provide the municipality, as contracting authority, with a veto right on the ISC; b) sets forth the conditions to be considered by the ISC in reviewing municipal projects; and c) a project is automatically considered approved 30- days after the original filing of the request for approval of the PPP-ISC by the contracting authority.

5 MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
Peja Urban Transport	ISC approval for the first Municipal PPP	ISC and Peja Municipality	16 April 2012
Municipal Government PPP Transactions	Re-tendering of three Pristina underground parking concessions.	Pristina Municipality	Target completion Sept/Oct 2012
Suhareka SWM project	Commencement of tendering	MoF, Suhareka Municipality	April 2012 Target completion Sept 2012
Completion of the PPP Guidelines	Translation, printing/posting on PPP Department website and distribution of Guidelines	PPP Department, line ministries, POEs, municipalities and private sector (investors, operators and transaction advisors)	End April 2012
Launching of a module based PPP curriculum	Signing of MOU with the Kosovo Institute of Public Administration (KIPA) for the implementation of a PPP program	PPP Department, line ministries, POEs, municipalities and where possible, based on space, private sector (investors, operators and transaction advisors)	May 2012

Municipal PFM	Workshop with municipal focus group on proposed MTEF draft template	Six municipality counterparts	April 12
Municipal PFM	Regional workshops to introduce MTEF format applicable for 2013-2015 Budget	All municipalities MoF	April 23-27
Economic Growth and Policy Coordination	Direct assistance to select municipalities in drafting MTEFs	Select counterpart municipalities	May-June
Economic Growth and Policy Coordination	Status Report on EDVAP will be held as part of the National Council on Economic Development	DPM/MTI	23 of April, 2012
Brezavica Development Project	Legal and Transaction Advisor RFP	Ministry of Trade and Industry / Brezavica ISC	8 May 2012
Route 6 and 7	Update feasibility study (traffic forecast and Strategic Environmental Assessment)	Ministry of Infrastructure	May - June
Route 6 and 7	Hiring of PMU	Ministry of Infrastructure, Ministry of Finance, Deloitte EC	May
Route 6 and 7	Attracting Transaction advisor, RFQ – Shortlisting – RFP - Selection	Ministry of Infrastructure	May – mid July
Route 6 and 7	Request for EOI and start market testing, start due diligence, Value for Money Assessment	Transaction Advisor, PPP Committee, Ministry of Infrastructure, Ministry of Finance	Mid-July – Onward

6 FINANCIAL DATA

Budget Cost Elements	Budgeted Amounts	Disbursed Amount	Accrual Amount	Expended Amount (Disbursed + Accrual)	Remaining Budget to Complete
Fixed Daily Rate - Labor	\$3,262,592.00	\$1,354,580.00	\$226,951.19	\$1,581,531.19	\$1,681,060.81
TCN - Labor	\$3,409,097.00	\$1,692,757.76	\$301,985.35	\$1,994,743.11	\$1,414,353.89
CCN - Labor	\$2,564,071.00	\$1,302,068.62	\$193,912.87	\$1,495,981.49	\$1,068,089.51
Other Direct Costs	\$3,551,385.00	\$1,603,961.74	\$241,359.21	\$1,845,320.95	\$1,706,064.05
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	\$709,119.00	\$343,669.38	\$13,022.64	\$356,692.02	\$352,426.98
Total	\$13,496,264.00	\$6,247,037.50	\$977,231.26	\$7,224,268.76	\$6,271,995.24

**Accrual amounts include invoice #8001632937 (dated 03/29/12) and estimates for period11 (03/04/12-03/31/12)