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KOSOVO GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 DECEMBER 2012

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

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

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ACRONYMS

Acronym	Definition
BD	Budget Department
BEEP	Business Enabling Environment Program
COP	Chief of Party
DFID	United Kingdom Department for International Development
DEMI	Democratic Effective Municipalities Initiative
DPM	Deputy Prime Minister
EDVAP	Economic Development Vision Action Plan
EIA	Environmental Impact Assessment
EPPD	Economic and Public Policy Department
ESTAK	Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
GFSI	Growth and Fiscal Stability Initiative
GIS	Geographic Information System
GIZ	German Agency for International Development
GoK	Government of Kosovo
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPSAS	International Public Sector Accounting Standards
ISC	Inter-ministerial Steering Committee
IT	Information Technology
KCA	Kosovo Cadastral Agency
KCB	Kosovo Consolidated Budget
KFMIS	Kosovo Financial Management Information System
KIPA	Kosovo Institute for Public Administration
LOGOS	Swiss-Kosovo Local Governance and Decentralization Support Project
MBD	Municipal Budget Department
MoF	Ministry of Finance
MEI	Ministry of European Integration
MTEF	Medium Term Expenditure Framework
M-MTEF	Municipal Medium Term Expenditure Framework
MTI	Ministry of Trade and Industry
NCED	National Council on Economic Development
NPI	New Policy Initiatives
OAG	Office of the Auditor General
OPM	Office of Prime Minister

O&M	Operation and Maintenance
OSR	Own Source Revenues
PAK	Privatization Agency of Kosovo
PDF	Project Development Fund
PEFA	Public Expenditure and Financial Accountability
PFI	Private Finance Initiative
PFM	Public Financial Management
PIU	Project Implementation Unit
PMO	Prime Minister's Office
PMU	Project Monitoring Unit
PPP	Public Private Partnership
PSI	Private Sector Investment
PTD	Property Tax Department
PTK	Post and Telecommunications of Kosovo
PTS	Property Tax System
RFP	Request for Proposals
SER	Strategic Expenditure Review
SIDA	Swedish International Development Cooperation Agency
SMP	Staff Monitoring Program
SN	Sub-National
SOE	Socially Owned Enterprises
SPU	Strategic Planning Unit
STA	Swedish Tax Agency
STTA	Short Term Technical Assistance
SWM	Solid Waste Management
TA	Technical Assistance
TAK	Tax Administration of Kosovo
TCN	Third Country National
ToR	Terms of References
ToT	Training-of-Trainer
TSA	Treasury Single Account
US	United States
USAID	United States Agency for International Development
WB	World Bank

1 CHIEF OF PARTY REPORT

During the December quarter, the GFSI Project continued to make important contributions to the USAID FORWARD initiative through assistance in strengthening central and local government Public Financial Management (PFM) capacities and reducing the risks related to the use, monitoring, and reporting of grants. Specific initiatives designed to strengthen budget planning, budget execution, debt management and financial reporting included:

Central Government PEFA. GFSI supported the Ministry of Finance (MoF) to conduct a PFM rapid assessment in preparation for next Central Government Public Expenditure and Financial Accountability (PEFA) assessment planned for early 2013. The results of the rapid assessment exercise were positive with 18 of the 28 PEFA indicators showing improvement or likely improvement in PFM performance. It is expected that the 2013 PEFA Assessment, involving the application of the internationally recognized methodology, will confirm these results and highlight the significant commitment that the MoF has made, with the support of GFSI and other donors, in introducing a range of PFM reforms contained in the 2009 Government's PFM Action Plan. The planned assessment will provide the basis for updating the action plan and facilitating further dialog with donors on direct funding support and technical assistance.

Budget Policy Formulation. To support the Government of Kosovo (GoK) in its efforts to introduce high quality policy oriented budgeting, GFSI assisted the MoF and the Office of the Prime Minister (OPM) to develop a process for the preparation of a Medium Term Policy Priority (MTPP) Statement. The purpose of the MTPP statement is to produce a single document containing a set of costed and prioritized GoK policy initiatives that are affordable against the budget and forward year expenditure constraints as set out in the Mid-Term Fiscal Framework. The MTPP Statement is intended to address a key deficiency identified in the 2012 Strategic Expenditure Review which found that the GoK had a significant number of unfunded policy initiatives in a numerous key policy statements and sector strategies. Other related PFM support included: the preparation of a draft Administrative Instruction, setting out the requirements to be followed by budget institutions in costing new policy initiatives; and the Preparation of a new Budget Calendar to improve the linkages between budget policy formulation; budget planning; budget execution; and budget reporting, monitoring and evaluation.

Debt Sustainability. Maintaining sound public finances while meeting the development needs of the economy is a key priority of the Government. To anchor future fiscal policy the GoK agreed, as part of the IMF's Stand-By Arrangements (SBA), to adopt a legally binding rules-based fiscal framework that is clear, transparent and implementable and that takes account of future large infrastructure investment and other development needs. During the IMF mission visit in October the key parameters of the Fiscal Rule were discussed, and it was agreed that to maintain debt sustainability that the Overall Budget Deficit should be capped at 2% of GDP and that debt to GDP should not exceed 40%. The GFSI project assisted the MoF to prepare for the negotiations with the IMF through the development of a debt sustainability model and subsequently provided support in drafting the proposed amendments to the Law on Public Financial Management and Accountability (LPFMA) to introduce the rule-based fiscal framework.

Municipal Financial Statements. The audit opinions issued for the 2011 Municipality Annual Financial Statements showed continued steady improvement in quality with 16 unqualified audit opinions compared to 12 in 2010. To continue this momentum in the quality of financial statements and to further support sustainability measures, GFSI worked with two assigned Treasury officials to prepare draft Action Plans containing necessary corrective actions for all 18 municipalities that received Qualified Opinions for their 2011 Annual Financial Statements. Effective internal financial controls and the preparation of unqualified Annual Financial

Statements are important factors in assessing the fiduciary risk environment of a municipality and the suitability for using municipal PFM systems to receive direct donor funding.

Municipal PFM Reforms. The Municipal Public Financial Management (PFM) component continued to make progress against the work plan during the quarter. With GFSI support Fushe Kosova embarked successfully on a PEFA self-assessment. In addition, GFSI supported the MoF in organizing a major PEFA training event that provided an introduction to PEFA framework for all municipalities that have not yet conducted a PEFA self-assessment. The involvement of municipal officials from the 11 municipalities that have performed a PEFA self-assessment proved to be very effective in leading the working groups during the practical part of the training. During this quarter, GFSI also formalized with the Director of Municipal Budget Department (MBD) the introduction of a sustainable solution for conducting future municipal PEFA self-assessments. The Director appointed four staff members to be trained and receive practical experience in facilitating PEFA self-assessments through their participation in the field visits to the Fushe Kosova municipality.

Other GFSI Highlights for the quarter included:

PPP Institutional Capacity Development. Following on from the development of the PPP training curriculum and the successful 'Train the Trainer' program reported in the last quarterly report, the PPP Department and KIPA have commenced delivering the 'Basic PPP' training module to public sector officials. To date, the PPP Department has received 148 applications for training from 43 central and local government departments and institutions. In November and December, 35 officials from 15 central government institutions attended two 2-day sessions. In parallel, the development of the 'Intermediate' PPP training module continued. In addition to the PPP training curriculum GFSI also organized and delivered training to municipalities on the PPP Environmental Guidelines that were prepared last year.

Central and Municipal PPPs. The Project continued to provide advisory support to five PPP projects in motorway service areas, urban transport, and solid waste management. The Suhareka Municipality awarded the Waste Collection and Sorting Project in November 2012 and final contract negotiations are in progress and expected to be completed shortly. In coordination with the PPP Department and the Ministry of Infrastructure (MoI) Roads Directorate the PPP Team has now completed the suite of tender documentation (RfQ, RfP and draft contract) for the Route 7 MSA concession. The current plan is to work with the MoI procurement and project staff to finalize all the documentation in late January 2013 for submission to the PPP Committee for approval. In December 2012 the Ministry of Environment and Spatial Planning issued a draft strategy paper on solid waste and an action plan for consultation. In the light of this development the Solid Waste Toolkit and Workshop were postponed until the government defines its position in the sector. It is expected that the toolkit and workshop taking into account changes in government strategy will be completed in the next quarter.

Brezovica Resort Development Project, Activities during the reporting period focused on undertaking an assessment to determine a range of options for accelerating the implementation of a the Brezovica Resort Development Project (BRDP). The assessment highlighted the fact that the project remains a priority for the country, due to its potential positive impact on economic growth and job creation. The assessment concluded that as a real estate development project the best course of action would be for the GoK to issue an expression of interest to assess investor interest and enable potential investors to present innovative development concepts aligned to their individual business plans. This option received broad support from the members of ISC and it was agreed that it should be formally proposed (accompanied by a new project implementation plan) at the next ISC meeting planned for mid to late January 2013. This new approach required a refinement of the baseline transaction concepts, including the need to delineate the development footprint, declaration of a

construction moratorium, and formal approvals by the ISC and others to launch the BRDP procurement via an invitation for Expressions of Interest.

Route 6 Highway, Under the IMF Stand-By Arrangement the Government agreed that construction of highway R6 will only commence when the government secures adequate resources, and a feasibility study confirming viability of the project has been completed and sent to the IMF and the World Bank for review. Under the Government's agreement with the IMF, the World Bank would be requested to confirm in a timely manner that; (i) the feasibility study is in line with sound international practices; and (ii) the results show economic viability of R6. In October 2012 USAID agreed with the Minister of Finance that a GFSI advisor would support a GoK Working Group to update previous economic studies on R6 based on new traffic flows and economic benefits. To initiate the new study and enable the Working Group to commence its activities the GFSI advisor prepared a comprehensive proposal containing the methodology and timelines, and submitted it to the WB for review. The Working Group held regular meetings and in December finalized the economic model with major support from the Ministry of Infrastructure (MoI) and their consultant (Egis). Early indications show that the study's results will confirm that the construction of highway R6 will be economically viable.

Economic Policy. GFSI contributed to the Government's Fiscal Reform Package by preparing a fiscal policy report containing specific proposals related to VAT, Customs and Corporate Laws. This report was presented to the Minister of Finance and the 'fiscal council' 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. GFSI also discussed the tax policy proposals with IMF representatives in Kosovo.

Donor Coordination. During the reporting period, all GFSI activities were well coordinated with other involved donors and partners. On municipal PPP's, GFSI continued to coordinate activities with the USAID DEMI Project. On the fiscal stewardship, donor cooperation and coordination efforts were focused on coordinating activities with DEMI, BEEP, DFID/REPIM and Swiss LOGOS for International Cooperation on municipal related public financial management (PFM) reforms and property tax activities and United States Treasury, ESTAK, DFID, World Bank, EU and IMF on Central level activities covering issues related to PFM reforms and debt management. In the Economic Policy area, extensive donor cooperation was centered on EDVAP and NCED activities, including cooperation and coordination of activities with USAID BEEP Project. Consistent with past IMF Stand-By Arrangement (SBA) Missions the GFSI team played an important role in preparing the Minister and the MoF for the discussions and negotiations conducted during the October Mission. During the quarter the Board of Governors of the European Bank for Reconstruction and Development (EBRD) approved a resolution, agreeing on the membership of Kosovo to this financial institution. GFSI assisted the MoF throughout the process to complete the necessary documents and legislation required to be formally accepted as a member.

2 CROSS-CUTTING THEMES

Gender. During the quarter 20 seminar, workshop and training events were held. These events involved 103 females and 46 males which represents a significant proportional increase in the percentage of women participating in public financial management training. The highest levels of proportional participation were in the areas of PPP and Property Tax. In addition to training activities we continued to work closely with senior women in PFM positions such as Valmira Rexhebeqaj the Director of Economic Public Policy Department within the MoF and Afërdita Grapci, Chairperson of the Committee on Budget and Finance, Association of Kosovo Municipalities. In the next quarter we are looking at an opportunity to organize an event with the

Kosovo Assembly's Women Members Group on contributions of prominent women in Kosovo working in the field of public finance management.

DEPARTMENT	4TH QUARTERLY REPORT 2012		
	MALE	FEMALE	TOTAL
PEFA	40	18	58
BUDGET	0	0	0
TREASURY	38	19	57
PROPERTY TAX	5	8	13
PPP Municipal and Central	46	103	149
Total per year			277

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 reporting period:

Training. Following on from the development of the PPP training curriculum and the successful 'Train the Trainer' program reported in the last quarterly report, the PPP Department and KIPA have commenced delivering the 'Basic PPP' training module to public sector officials. To date the PPP Department has received 148 applications for training from 43 central and local government departments and institutions. In November and December 2012, 35 officials from 15 central government institutions attended two 2-day sessions. Work will continue throughout 2013 in accordance with the training plan. In parallel, the development of the 'Intermediate' PPP training module continues.

In addition to the PPP training curriculum, the GFSI PPP Team together with the PPP Environmental Advisor (STTA) organized and delivered training to municipalities on the PPP Environmental Guidelines that were prepared last year. The training took the form of six 1-day workshops organized on a regional basis for Municipal officials, 113 participants from 30 municipalities attended these workshops. The training included the participation of a representative of the Ministry of Environment and Spatial Planning (MESP) who covered specific issues relating to the issuance of environmental permits.

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

- **Route 7 Motorway Service Area (MSA) Concession** - In coordination with the PPP Department and the Ministry of Infrastructure (MoI) Roads Directorate the PPP Team has now completed the suite of tender documentation (RfQ, RfP and draft contract) for the MSA concession. While some delays took place, largely as a result of limited availability of the key counterpart staff to progress important technical and contractual issues, preparation for a workshop is underway. The current plan is to work with the MOI procurement and project staff to finalize all the documentation in late January 2013 for submission to the PPP Committee for approval.
- **Suhareka Waste Collection and Sorting Project** – The Municipality made an award in November 2012 and final contract negotiations are in progress and expected to be completed shortly.
- **Gjilan Urban Transport** – The feasibility study of an urban bus concession in Gjilan is in its final stages of development, and the tender documentation preparation is well advanced. The Municipality is planning an investors' conference in January 2013 and submission of the project to the PPP Committee for approval is planned for February 2013.
- **Pristina Urban Transport Project** - A combination of slow project management unit appointments and lack of data and information has hindered progress on this project. However, the presence of a STTA in country at the quarter end has now revitalized the project and work is progressing on the feasibility study, including numerous surveys and studies to confirm routes and passenger data.
- **Route 7 Fibre Optic Network Concession** – A new law on electronic communications providing free access to public infrastructure to operators led to a conclusion that the PPP/Concession model is no longer feasible and, as a result, the project was terminated.
- **Other Solid Waste Management (SWM) Transactions** – In December 2012 the Ministry of Environment and Spatial Planning issued a draft strategy paper on solid waste and action plan for consultation. In the light of this development the Solid Waste Toolkit and Workshop were postponed until the government defines its position in the sector. It is expected that the toolkit and workshop taking into account changes in government strategy will be completed in the next quarter.

ISSUES/OBSTACLES

A number of areas continue to create difficulties for the PPP Team in progressing transactions. The lack of data and information from the contracting authorities on a timely basis continues to be a problem and causes real delays to our planned program. For example, the Ferizaj parking and transport projects reported last quarter have been placed on hold, and the Pristina Urban Bus project was delayed by many months while waiting for responses. Delays have also been caused by the non-availability of key counterpart staff and reluctance to appoint staff to PPP Project Management Units (PMU).

To mitigate delays, we discussed GFSI procedures at the beginning of each potential transaction to ensure complete understanding of the process, the nature and coverage of GFSI support and the commitment needed by the counterpart entity.

As reported last quarter, the reluctance to accept a move to service delivery by the private sector where there is an existing publicly owned enterprise (POE) continues to reduce the take up rates of PPP projects.

COORDINATION

GFSI coordinated activities with the European Commission and European Commission Liaison Office, and the following USAID funded projects; BEEP, SEAD and DEMI. GFSI is working with DEMI on the provision of PPP training within their Service Delivery Workshops for Municipalities. The PPP Team also participated in the Waste Donor Group (WDG) meeting during the quarter.

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 Public Financial Management (PFM) component continued to make progress against the work plan during the quarter in Local Public Expenditure and Financial Accountability (PEFA) Self-Assessments, PFM Reform Action Plans, and Municipal Medium Term Expenditure Frameworks (MTEF).

Local Municipal PEFA Self-Assessments. Fushe Kosova embarked successfully on a PEFA self-assessment. GFSI trained a team of four appointed municipality' staff members comprised of Municipal CFO, Budget Manager, Property Tax Manager and Internal Auditor, in the application of standard PEFA methodology. The training was followed by intensive field/assessment work performed by the municipal self-assessment team with the support of a GFSI adviser.

On November 14, GFSI supported the Ministry of Finance (MoF) in organizing a major PEFA training event that provided an introduction to PEFA framework for all municipalities that have not yet conducted a PEFA self-assessment. Standard PEFA materials prepared by GFSI were provided to all participants and applied in conducting hypothetical cases. The goal of this event was to ensure that all municipalities received a thorough understanding of the purpose and benefits of PEFA self-assessments. The involvement of municipal officials from the 11 municipalities that have completed a PEFA self-assessment proved to be very effective in leading the working groups during the practical part of the training.

During this quarter, we formalized with the Director of the Municipal Budget Department (MBD) the introduction of a sustainable solution for conducting future municipal PEFA self-assessments. The Director appointed four staff members to be trained and receive practical experience in facilitating PEFA self-assessments through their participation in the field visits to the Fushe Kosova municipality.

Local Government PFM Reform Action Plans. With the exception of Gjakova, all Municipal PFM Reform Action Plans developed as a result of PEFA self-assessments were successfully approved by the Municipality Board of Directors, and action was commenced to implement the plans during this reporting period.

To ensure effective monitoring, each municipality appointed a coordinator to report twice a year on the progress against the requirements set forth by the PFM reform action plans. In addition to the GFSI advisers supporting the municipal coordinators, a liaison role was established to gather information on the progress in some of the PFM areas related to the central government, (rather than municipal) responsibilities. With support from GFSI advisors, nine municipalities prepared progress reports during this reporting period. These reports were submitted to the respective Mayors and Municipality Directors for their review and approval. Gjakova and Ferizaj expect to prepare and submit progress reports at the beginning of the next reporting period.

Finally, GFSI advisors worked with MoF to plan a major event to report on the progress in implementing the PFM action plans. The event will host up to 100 guests from central government level institutions related to PFM, donor projects relevant to the area, all mayors/or deputy mayors and chief financial officers, and will include presentations to highlight improvements in several PFM areas, such as property tax, midterm budget planning, financial statements and fiscal rule as a pre-condition to sustainable borrowing.

Municipal Medium Term Expenditure Frameworks (M-MTEFs). GFSI advisors completed the first draft of the assessment of municipalities MTEF 2013-2015 and the compliance with MoF's Finance Budget Circular Instructions. In addition, the GFSI team selected a sample of Kosovo Municipalities (Municipalities of Prizren, Peja, Gracanica, Novoberda and Ranillug) to conduct a qualitative assessment of their mid-term budget planning and execution. To achieve a balanced selection of municipalities, the selection criteria included various factors, like the size of the municipal budget, MOSR, ethnicity and political party. This qualitative assessment will be included as part of the assessment of all M-MTEF 2013-2015.

ISSUES/OBSTACLES

As previously reported the Mayor of Gjakova has not yet approved the PFM reform action plan nor provided any comments on areas of concern. A joint meeting of USAID, GFSI and the Mayor is planned for January 2013 to agree on arrangements for future GFSI assistance. This meeting was successful in obtaining the mayors' agreement to approve the PFM action plan and enable the GFSI to recommence its support to the municipality.

COORDINATION

GFSI and DEMI have successfully coordinated during this reporting period on the preparation of a training program for Municipal Assemblies to enable them to perform a more effective oversight role (legislative scrutiny) over local government finances, including processes such as municipal budget planning and preparation of financial statements. Legislative Scrutiny of municipal finances was scored poorly in related PEFA indicators such as: PI-26 (ii) Timeliness of Submission of Audit Reports to Legislature; PI-27 Legislative Scrutiny of the Annual Budget Law; PI-28 Legislative Scrutiny of External Audit Reports. Based on the PEFA results GFSI contacted the USAID DEMI Project to partner with them in providing technical assistance to cover a broad range of necessary PFM improvements. The coordination with DEMI has resulted in a concrete plan of future assistance over the remaining months of the contract that will assist municipalities in the future to achieve improved PEFA indicator scores.

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

The audit opinions issued for the 2011 Municipality Annual Financial Statements showed the continuation in the steady improvement in quality with 2 Unqualified Audit Opinions, 14 Opinions of Unqualified with Emphasis of Matter, 15 Qualified Opinions, 3 Opinions of Qualified with Emphasis of Matter and 3 Disclaimers of Opinions. This compares favorably to the 2010 outcome where there were 0 Unqualified Audit Opinions, 12 Opinions of Unqualified with Emphasis of Matter, 16 Qualified Opinions and 9 Disclaimers of Opinions. See Annex A for a comparative table of audit opinions from 2008 to 2011.

To continue the momentum in improving the quality of financial statements and to further support sustainability measures, the GFSI international audit adviser returned during the quarter to work with the Treasury Department of the MoF and the OAG. The adviser worked with two assigned Treasury officials to:

- conduct a review of all the Auditor-General's reports on the 2011 Annual Financial Statements of Municipalities and prepare a table showing the findings of each Municipality;
- develop a questionnaire and visit 9 municipalities to discuss findings and recommendations;
- prepare draft Action Plans (containing necessary corrective actions) for all 18 municipalities that received Qualified Opinions for their 2011 Annual Financial Statements; and
- prepare an Action Plan template for those Municipalities that received Unqualified Opinions with Emphasis of Opinions.

In October the GFSI Project, in collaboration with the MoF, organized a seminar to present the findings of the review to Mayors, Directors of Finance, and Chief Financial Officers. The main conclusions were the following:

- Municipalities still need to do more work in improving the quality of the asset registers and in improving revenue management of own source revenues;
- to address a continued lack of implementation of the Auditor-General's recommendations, Audit Committees in Municipalities should be involved in ensuring that the Auditor-General's recommendations are implemented in accordance with detailed Action Plans;
- by contrast to previous years, there were no major breaches of the Procurement Law in the 2011 Annual Financial Statements. The findings all related to minor technical breaches, or to inadequate performance by contractors.
- there are no legislative or administrative impediments to Municipalities preparing sound annual financial statements that would receive Unqualified Auditor-General Opinions.

Through the implementation of the Action Plans and further training and support from the OAG and the MoF it is forecast that for the 2012 Annual Financial Statements there will be 23 Unqualified and Unqualified with Emphasis of Matter, 11 Qualified and 3 Disclaimer of Opinion. It is assumed that the three Municipalities in the North; Leposaviq, Zubin Potok and Zvecan will continue with their current stance and not submit Annual Financial Statements.

During the reporting period GFSI team also directed their efforts towards building sustainable capacity within the MoF, to support the preparation of the annual municipal financial statements. In conjunction with Treasury officials, the project team further enhanced the guide for the preparation of financial statements and updated it for the 2012 statements. The guide covers an example municipality and provides completed templates (of financial statements) and screen shots of KFMIS to show how data can be extracted and used for reporting. In addition, a GFSI advisor worked with two Treasury staff to prepare them for joint training delivery for the preparation of 2012 financial statements.

ISSUES/OBSTACLES

There are no legislative impediments to Municipalities preparing sound annual financial statements that would receive Unqualified Auditor-General Opinions. There were initial concerns about the clarity of the requirements for the valuation of assets. However, after

discussions with the Auditor-General's Office we confirmed that Administrative Instruction No.21/2009 clearly states how assets should be registered and valued.

It is expected that at least four municipalities (Partesh, Kllokot, Mamusha and Obiliq) will continue to receive Qualified Opinions due to a lack of allocated resources and systems and qualified personnel constraints. With the necessary support from the MoF and OAG and the allocation of sufficient resources by municipalities to implement the requirements contained in the Financial Statement Action Plans, it should be possible for all municipalities lodging financial statements to obtain unqualified opinions in the next two to three years.

COORDINATION

A representative from the EU Twinning Project provided an overview of this project's current activities at the Financial Statements Seminar.

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

A Charter and Internal Ministry Decision were prepared for the establishment of the Ministry of Finance Information Technology Steering Committee and the Technical Committee. The purpose of both committees is to foster IT collaboration and governance across the Minister organizations, including Customs and Tax Administrations. It is proposed that the IT Steering Committee will have the responsibility for assigning the IT Technical Committee to develop policies and common standards on system interoperability and data exchange and formulate IT recommendations on the future state of the MoF IT systems. A meeting was held with the Minister who confirmed his support for the establishment of both of the committees. His official approval of the decision is expected early in January with the first meeting of the Steering Committee later that month.

The procurement for the new MoF server room was finished and the contract awarded to one of the local vendors. The work is expected to be finished by the end of the first quarter and it will serve the needs for the Ministry and its agencies (TAK and Customs). Upon implementation, the new data center will make data sharing among systems more feasible and it will open many other possibilities for merging some of the shared services within the MoF departments and agencies.

The procurement of the dedicated fiber optics connection between MoF and CBAK was completed. It enabled the establishment of the backup server room within the CBAK Building. As a result of GFSI training and oversight, the MoF IT Infrastructure team was able to implement disaster recovery procedures for a number of the Ministry's IT systems. In addition, as part of handover arrangements, GFSI provided training to MoF IT staff on the Property Tax production environment, the infrastructure monitoring systems and backup and restore best practices.

ISSUES/OBSTACLES

No obstacles to report this period.

COORDINATION

Coordination was conducted with counterparts from SIDA in regards to funding the training on the Linux Operating System for MoF IT staff at the American University of Kosovo.

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

Implementation of the Strategic Expenditure Review's (SER) Recommendations. In March 2012 a Government Working Group, with the support of GFSI and DFID advisers, completed a SER to assess the Government's progress in introducing high quality policy orientated budgeting. In response to the key recommendations in that report, GFSI assisted the MoF with the following activities:

- To improve alignment between the Government's policy priorities, the MTEF and Annual Budget allocations, developed a draft instruction for line Ministries on the preparation of policy priority submissions for inclusion in the consolidated Medium Term Policy Priority (MTPP) Statement. The 2013 MTPP statement is expected to contain a consolidated set of costed and prioritized policy initiatives that are affordable against the budget and forward year expenditure constraints as set out in the Mid-Term Fiscal Framework;
- Preparation of a draft Administrative Instruction, setting out the requirements to be followed by budget institutions in costing new policy initiatives. A draft instruction requires the specification of the objectives, activities, outputs, and performance indicators for each New Policy Initiatives (NPIs) and Savings Option;
- Preparation of a new Budget Calendar to improve the linkages between budget policy formulation; budget planning; budget execution; and budget reporting, monitoring and evaluation.
- Development of a PFM rapid assessment was conducted in October to prepare for the next Central Government PEFA assessment in 2013 and update to the PFM Action Plan. The assessment was conducted using intensive team interaction in both the collection and analysis of data (instead of extensive fieldwork data collection exercises associated with the PEFA methodology) to quickly assess the status of Kosovo's PFM framework. The results of the rapid assessment exercise indicated that there had been improvement or likely improvement in 18 of the 28 PEFA indicators. Based on this result, the Government can expect to see significant improvement in the scores from the next PEFA assessment that is scheduled for February 2013.

GFSI support for another SER recommendation to introduce a Fiscal Rule, to strengthen fiscal discipline and fiscal credibility and increase the transparency and accountability of public finances in Kosovo is discussed below under Objective 3.

Kosovo Financial Management Information System (KFMIS) Training. GFSI continued to support the Treasury to provide training on KFMIS. The GFSI trainer worked in accordance with the Treasury training schedule, which is compiled on the basis of requests for training submitted to Treasury by budget organizations. During the quarter 10 training courses were delivered involving 57 participants (38 males and 19 females) from a wide cross section of central and local government institutions. Training covered the following KFMIS modules - commitments, purchasing, expenditure, revenue, assets, accounting, and reporting.

ISSUES/OBSTACLES

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

COORDINATION

GFSI continued its coordination with the WB Line Ministry PFM Project on the MTPP, Costing Instruction and Budget Calendar.

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

Preparation of tax bills for the year 2013: GFSI advisors have assisted the Property Tax Department (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.

Assistance with the development of the property tax program involved technical preparations for 2013 tax bills were performed in both the testing environment and live version of the PTS. This included performing significant work in simulating and testing the calculation and generation of property tax bills for 2013 through the use of different interest rates and quality of construction rates. After the PTD completed the necessary program developments all 34 municipalities were able to start issuing tax bills for 2013 on time (January 3). This was considered a significant achievement given delays in issuing tax bills in past years.

In 2013 the number of bills issued for properties subject to property tax is approximately 451 thousand 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%. The reason for a higher increase in the overall tax bill, compared with the increase in the number of bills is the expected increase in the minimum tax rate from 0.05 to 0.15% and registration of unregistered properties.

Enforced collection process: GFSI assisted the PTD and Municipalities with a number of activities related to enforced collections of property tax. The main activities performed during the quarter involved: identifying bad debtors with higher obligations; filtering of taxpayers to eliminate those with no address; and preparation of reminder and warning letters. The additional efforts enforcing collection resulted in better performance during November and December 2012, with a 5% and 19% increase respectively in collections compared with the same months of 2011.

Property Tax on Land: Further assistance was provided to the PTD to extend the current property tax system to also include the taxation of land. A draft inception report has been produced by SIDA with most of the issues in the planning and implementation phase having been defined. The final report is expected to be completed during the first quarter of 2013, with implementation to commence at the start of June 2013. As previously reported, the objectives of this extension to the current property tax is to introduce better incentives for the productive use of land and improve the business climate by providing municipalities with the financial means to reduce and abolish other licensing and permit fees.

PTS User Training: During the reporting period, a total number of 13 officials (8 female and 5 male) were trained in the following areas within the PTS: registration of properties and taxpayers; preparation of bill reports with total debt for the period 2002-2011; correction of street names and assigning properties or taxpayers correctly to the right municipality. Training was also provided to the following Municipalities for implementing recommendations from the 2011 Annual Inspection Reports: Pristina, Klina, N. Brdo, Istog, Gracanica, Lipjan and Partesh.

PTS Developments: GFSI advisors have supported the new version of PTS to go live on 26 Dec 2012. Two new functions were introduced to print certificates for non-taxpayers and mass production of final notices. This new version also fixed a number of problems/bugs related to the calculation of tax, splitting socially owned enterprises before and after privatization; and updating the Manual Correction Form.

Taxpayer Information: In cooperation with SIDA, GFSI assisted the PTD to plan and manage the public campaigns through TV and billboards and printing copies of the property tax publication containing the amended property tax. Assistance was also provided to the PTD on publishing on the Property Tax Website information from municipalities on investments funded from property tax revenues in 2011 and 2012.

ISSUES/OBSTACLES

Increasing the performance on property tax revenues continues to be challenging. Although collections performed better during November and December, the annual growth was 2% below expectations of around 16 million Euros. One reason for this performance was the delay in implementing the decision to increase the minimum rate from 0.05% to 0.15%, mainly due to the late approval of the Law. In addition, during 2012 the distribution of tax bills to the taxpayers was not completed on time and in some municipalities, conditioning of some public services with the property tax payment was not fully enforced.

After the approval of the amendments to the Property Tax Law in May 2012, which provided for the increase in property tax rate from 0.05% to 0.15%, effective from January 2013, some municipalities responded by reducing the tax base (property values). A review needs to be conducted to ensure that lower property values are based on legitimate valuation methods and not capricious changes to compensate taxpayers for the increase in the tax rate.

The start of the project to extend property tax to include taxation of land will be delayed, mainly due to the problem the Ministry of Finance is facing in obtaining data on land parcels from Kosovo Cadastral Agency (KCA). In discussions with SIDA representatives, the Minister of Finance has agreed to amend the Law on Public Financial Management and Accountability (LPFMA), to assure that KCA provides this data to MoF free of charge in a timely manner. GFSI advisers will assist in drafting the necessary revisions to the LPFMA.

COORDINATION

Close coordination of activities continued with the SIDA on the preparation of the inception report and with the DEMI Project on a number of municipal training events.

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

Implementation of the IMF Stand-by arrangement (SBA): After the approval of the Stand-by Arrangement between Kosovo and the IMF in April 2012 and the successful first review of this program in July, the IMF Mission team visited Kosovo in October to review progress towards achieving benchmark performance criteria and to agree on the 2013 Budget. During this visit, discussions were focused on revenue projections for 2013, expenditure ceilings and in particular

on the highway project Route 6. The Mission team also discussed with MoF representatives the Fiscal rule. After two weeks of negotiation a draft budget was agreed with authorities. An agreement was also reached on the main contents of the fiscal rule. During this visit, GFSI team played an important role assisting the Minister and the MoF to be better prepared for discussions and negotiations with IMF.

The Mission's report concluded that the SBA supported program is on-track, with all performance criteria and structural bench marks met. As a result, on December 20, 2012 the IMF Executive Board completed the second review of the 20 month SBA enabling the disbursement of the third tranche of program support to Kosovo of an estimated 41 million EUR. Together with the previous two tranches, the total disbursement under SBA now amounts to an estimated 94 million EUR.

GFSI team has also assisted the MoF to coordinate and prepare the regular monthly SBA committee meetings, where all Government institutions, relevant to the SBA, report on the progress made on specific areas.

Membership of European Bank for Reconstruction and Development (EBRD): 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 induction. This included the Law for the ratification of the Agreement for establishing the European Bank for Reconstruction and Development, approved by the Assembly on December 13, in time to complete all requirements for membership by December 17, 2012, as required by the EBRD resolution. All political parties represented at the Assembly voted in favor of the Law. With the payment of an estimated 1 million EUR of share capital, approval of the membership law and submission of all legal forms to EBRD, Kosovo became the 66th 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.

Tax reform: GFSI prepared a short fiscal policy report with specific proposals for the Government fiscal package reform. These proposals include the recommendation to amend all the three main tax laws; VAT, Customs and Corporate Laws. The objective of this work is 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 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. GFSI also discussed the tax policy proposals with IMF representatives in Kosovo.

Fiscal rule: During the IMF mission visit in October, Fiscal rule was discussed, and it was agreed that the Overall Budget Deficit will be 2% of GDP. It was also agreed that any under-execution of budget and over-performance of revenues will be added to the next year's budget expenditures, on top of the 2% deficit. Furthermore, proceeds from privatization may be used as an addition to the deficit, for capital investments only. GFSI assisted the MoF to be better prepared for the negotiations with IMF.

The GFSI project provided support in December in drafting proposed amendments to the Law of Public Financial Management and Accountability (LPFMA) for the adoption of a fiscal rule. The draft amendments were sent to IMF representatives who will be in Kosovo in February 2013 to assist the MoF to finalize this legislation. The Minister has agreed that by March, 2013, this legislation will be approved by the Government and submitted to the Assembly.

National Council for Economic Development (NCED): Three meetings of the NCED were held during the quarter, with the participation of all relevant Ministries as well as the Kosovo business associations (the Prime Minister attended the final two meetings). GFSI assisted in the organization of these meetings and prepared materials for specific policy issues. Issues discussed included: progress made on reforming the system of licenses and permits, including preparation of draft law on permits and licenses; the progress of the fiscal cashiers project; the idea of purchasing domestic made products with public money; the project of matching statistics of social scheme beneficiaries with those receiving subsidies for agriculture; and the need to revise the legislation on public holidays.

Other support: GFSI coordinated activities among stakeholders in relation to the revised Law on the Deposit Insurance scheme. IMF insisted that before the commercial banks' contributions to the deposit insurance fund are reduced or eliminated, the Deposit Insurance Fund reimburses to Government all capital contributions. KfW, as a 'founder' of this scheme opposed the IMF stance. Agreement was reached that, for the time being, Government financial contributions will remain in the Fund. This law is expected to be approved by the Assembly soon.

GFSI, together with MoF advisors from the Economic Policy Department and the Minister's cabinet have met with the USAID funded program 'New Opportunities for Agriculture' to discuss the proposal for removing VAT on Dairy products. During the discussions, MoF representatives expressed the view that removing VAT for this sector may negatively affect the sector and that it would be difficult for the Tax Administration to implement such a proposal. It was agreed that after discussions with other stakeholders, another meeting will be held in early 2013.

ISSUES/OBSTACLES

During discussions on fiscal rule, reaching agreement with IMF on the level of overall deficit was the most difficult issue. GFSI worked with the EPPD to run a number of alternative scenarios through the Debt Sustainability Model to present a case to the IMF to negotiate a higher overall deficit rate.

COORDINATION

Close coordination was undertaken with USAID BEEP, ESTAK and 'New Opportunities for Agriculture' projects and International Monetary Fund.

3.4 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

ISC approval was provided on September 6, 2012 to initiate the issuance of the Request for Proposal. During the tender period several potential bidders requested an extension of the time to respond. In response the ISC approved an extension to the deadline for proposals until November 6, 2012. Despite the extension, no proposals were received by the deadline.

Given the extensive amount of due diligence and preparatory work that has already gone into project development and with a need to hasten implementation of this national priority project, during the fourth quarter of 2012, a senior PPP specialist was brought into the project to assess options for accelerating the implementation of a the Brezovica Resort Development Project. The assessment focused on three basic options: (i) continued efforts to hire an independent transaction advisor; (ii) initiating investor consultations on BRDP; and (iii) aborting the project.

The assessment highlighted the fact that the project itself remains a priority for the country, due to its potential positive impact on economic growth and job creation, and noted that difficulties in procuring the right caliber of advisors is not a justifiable reason for abandoning the project. Furthermore, the assessment concluded that aborting the project before undertaking some form of market testing would be inadvisable, particularly in light of the extensive amount of time and money that had been invested in preparing the development concept and the project framework. It recommended that, at a minimum, potential investors and developers should be invited to make comments on the development concept before any serious consideration be given to cancelling the project.

Given that the underlying economic justification for the project persists, the remaining question was whether the ISC would need to procure additional assistance *prior to* initiating investor consultations. It was noted in the options paper that while a new advisor might offer a fresh perspective on the development concept and how to structure the BRDP transaction; ultimately, this is a real estate development project and investors should be given broad discretion to present innovative development concepts aligned to their individual business plans. That's to say, it does not behoove the ISC to be overly prescriptive when pursuing world-class mountain resort developers/operators. Furthermore, the procurement timeline, coupled with the time needed for new advisors to become familiar with project details, would delay the investor consultation process by at least four months. It was also noted that project costs would be unnecessarily elevated and risks would increase, as there are no guarantees that the new advisors would be able to effectively deliver on this new assignment. The assessment also argued that with a revised approach, GFSI could more than adequately support the ISC to deliver successfully on investor consultations and these activities are considered to fall within the current GFSI scope.

The paper concluded that launching the investor consultations should help accelerate the transaction, while also offering invaluable insights into market receptivity of the development concept. Furthermore, option 2 was considered to be very low risk to USAID and the RoK, as it did not preclude the ability to hire additional advisors in the future, if need be. Option 2 would allow for investor consultations to take place as soon as possible. For this reason, option 2 was recommended as the most sensible approach.

After consultations with the USAID, Mission meetings were held with the Minister for Trade and Industry, the Minister of Finance, the Mayor of Strpce, other members of the ISC, and other stakeholders to discuss the Brezovica Resort Development Project, implementation and

acceleration options, and other items (i.e. expropriation issues associated with certain BRDP footprint options, and the funding of ongoing Brezovica Ski Facility operations). There was broad support by the members of ISC that option 2 should be formally proposed (accompanied by a new project implementation plan) at the next ISC meeting planned for mid to late January 2013. This new approach required a significant refinement of the baseline transaction concepts, including the need to delineate the development footprint, declaration of a construction moratorium, and formal approvals by the ISC and others to launch the BRDP procurement via an invitation for Expressions of Interest.

As proposed, the revised implementation plan will allow the ISC to better understand the level of investor interest by March, in accordance with the following timeline:

Activity	Date
Approve Implementation Plan	January 2013
Launch Invitation for Expressions of Interest	January 2013
Investor Roadshows / Consultations	February / March 2013
Receive Expressions of Interest	March 21, 2013
Launch Request for Proposals to Qualified Bidders*	April 2013
Public Consultations of Development Concepts	June/July 2013
Competitive Dialogue / Selection of Developer	August/September 2013

**Assuming adequate levels of investor interest*

Other significant BRDP activities conducted during the quarter included:

- ongoing work with the Assembly to monitor and amend relevant legislation that may reasonably impact BRDP;
- development of the Investor Profile and Targeting baseline for project marketing purposes;
- develop the legal framework for BRDP (99-year unsubordinated ground-lease);
- drafting and publication of marketing pre-announcements for publication in international journals to attract interest in BRDP;
- GIS mapping and cadastral investigations to define the BRDP footprint and ownership structure;
- meeting with PAK officers to discuss ways to coordinate actions between BRDP and PAK, as well as to update PAK on the BRDP implementation plan;
- working meetings with the Reviewing Committee of the Ministry of Environment and Spatial Planning, for the Spatial Plan of the National Park “Sharri” to define the proposed Brezovica Project areas as Zone 3 is within spatial plan of the national park;
- preparing the draft of the Information Memorandum containing the key elements and involvements of the Project such as the legal framework, infrastructure, financial and other analysis, the transaction structure, and the anticipated procurement timeline; and
- development of a virtual data room for registered investors to perform due diligence on BRDP; and
- ongoing meetings with officials from MTI and the Ministry of Economic Development in order to resolve issues impeding Brezovica Ski Center operations (i.e., lift repairs, electricity supply, etc.).

COORDINATION

There was no donor coordination to report for this quarter.

B - ROUTE 6 MOTORWAY

To support 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

The Government intends to start the construction of highway R6 to Macedonia in 2013, in the context of the long-standing policy priority to improve Kosovo's road network and integrate it into the regional network of highways in Southeastern Europe. Under the IMF Stand-By Arrangement the Government agreed that construction of highway R6 will only commence when the government secures adequate resources, and a feasibility study confirming viability of the project has been completed and sent to the IMF and the World Bank for review. Under the Government's agreement with the IMF, the World Bank would be requested to confirm in a timely manner that; (i) the feasibility study is in line with sound international practices; and (ii) the results show economic viability of R6.

In October 2012 USAID agreed with the Minister of Finance that a GFSI advisor would support a GoK Working Group (WG) to update previous economic studies on R6 based on new traffic flows and economic benefits. To initiate the new study and enable the WG to commence its activities the GFSI advisor prepared a comprehensive proposal containing the methodology and timelines, and submitted it to the WB for review. The WG held regular meetings and in December finalized the economic model with major support from the Ministry of Infrastructure (MoI) and their consultant (Egis). Early indications show that the study's results will confirm that the construction of highway R6 will be economically viable.

ISSUES/OBSTACLES

The Minister of Finance wrote to the Country Manager of the World Bank on November 13, 2012 to seek the WB's confirmation that the proposed Methodology is in line with sound international practices. The response is still pending. This has not affected the activities of the GFSI supported WG that met the IMF agreed reporting date of January 31, 2013.

COORDINATION

Through the activities of the GFSI supported WB Group the IMF, World Bank, MoI and the MOF are coordinating efforts to progress the Economic Feasibility Study for highway R6.

4 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS

Objective	Problem/Issue	Migration Plan	Status
Strengthen the ability and capacity of central and local institutions to identify, develop and implement Public-Private-Partnership (PPP) projects	The lack of data and information from the contracting authorities on a timely basis continues to be a problem and causes real delays to our planned program.	GFSI procedures discussed at the beginning of each potential transaction to ensure complete understanding of the process, the nature and coverage of GFSI support, and commitment needed by the counterpart entity.	Positive Progress on Pristina Bus Transport PPP.
Implementation of Local Government PFM Reform Action Plans.	The Mayor of Gjakova has not yet approved the PFM reform action plan nor provided any comments on areas of concern.	A joint meeting of USAID, GFSI and the Mayor to be held in January 2013 to agree on arrangements for future GFSI assistance.	This meeting was successful in obtaining the mayors' agreement to approve the PFM action plan.
Preparation of unqualified municipal financial statements.	It is expected that at least four municipalities will continue to receive Qualified Opinions due to a lack of allocated resources and systems and qualified personnel constraints.	Prepare Financial Statement Action Plans and assist the MoF with the preparation of guidance material and delivery of training.	Reached agreement with the Treasury Department on supporting municipalities to prepare the 2012 Financial Statements.
Increasing the performance on property tax revenues	After the approval of the amendments to the Property Law in May 2012, which provided for the increase in property tax rate from 0.05% to 0.15%, effective from January 2013, some municipalities responded by reducing the tax base (property values).	A review needs to be conducted to ensure that lower property values are based on legitimate valuation methods and not capricious changes to compensate taxpayers for the increase in the tax rate.	Preparations have commenced for planning the review.
Extension of property tax to include taxation of land	The start of the project to extend property tax to include taxation of land will be delayed, mainly due to the problem the Ministry of Finance is facing in obtaining data on land parcels from KCA.	In discussions with SIDA representatives, the MoF has agreed to amend the LPFMA to assure that KCA provides this data to MoF free of charge in a timely manner.	GFSI advisers will assist in drafting the necessary revisions to the LPFMA.

<p>Agreement with IMF expected Mission on 2013 revenues and expenditure projections</p>	<p>Shortfall in revenues in 2012 will reflect in 2013</p>	<p>Present to IMF credible plan</p>	<p>Gathering data for 2012 and start with the necessary analysis</p>
<p>Brezovica Resort Development Project</p>	<p>Brezovica Ski Lifts not operating</p>	<p>Hold meetings with officials from MTI and the Ministry of Economic Development in order to resolve issues impeding Brezovica Ski Center operations (i.e., lift repairs, electricity supply, etc.).</p>	<p>Funding obtained for the repair of the Ski Lifts</p>

5 MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
Fiscal Stewardship	Conference: Key achievements on municipal PFM action plans and Way Forward	Municipal Budget Department of MoF, all municipalities	February 2013
Fiscal Stewardship	Central Government PEFA assessment	MoF, Customs and Tax Administration	February – April 2013
Municipal Financial Statements	Joint training to be delivered to municipalities	Treasury Department of the MoF and OAG	February 2013
Conversion of fiscal rule into legislation	Discussions and agreement with IMF	Ministry of Finance	January – March 2013
Preparing the Priority Statement of Government and start work on MTEF	Discussions with all stakeholder, including EPPD, SPO, Budget	OPM, MF	January – March 2013
Negotiating a new Lol	Negotiations with IMF Mission	MoF, IMF	February – March 2013
Support to the National Council for Economic Development	Regular monthly meetings	Deputy Prime Minister for Economic Development/Ministry of Trade; Ministry of Finance	Ongoing
PPP Training Program	Delivery of 'Introductory' PPP Training & development of 'Intermediate' module	PPP Department, line ministries, POEs, municipalities and where possible, based on space, private sector (investors, operators and transaction advisors)	February – March 2013
Gjilan Urban Transport	Draft tender documentation. PPP-C approval	PPP-C and Gjilan Municipality	February 2013
Solid Waste Management PPP Toolkit	Deliver completed toolkit at Municipal workshop	Municipalities, Donors & other stakeholders	March 2013
Support to the National Council for Economic Development	Regular monthly meetings	Deputy Prime Minister for Economic Development/Ministry of Trade; Ministry of Finance	Ongoing

6 FINANCIAL DATA

Budget Cost Elements	Budgeted Amounts	Disbursed Amount	Current Invoice 8001765936	Accrual Amount	Expended Amount (Disbursed + Current Inv + Accrual)	Remaining Budget to Complete
Fixed Daily Rate - Labor	\$3,262,592.00	\$2,019,073.13	\$35,573.13	\$272,699.00	\$2,327,345.26	\$935,246.74
TCN - Labor	\$3,409,097.00	\$2,431,089.57	\$94,374.50	\$304,872.00	\$2,830,336.07	\$578,760.93
CCN - Labor	\$2,564,071.00	\$2,030,778.12	\$115,578.51	\$394,493.00	\$2,540,849.63	\$23,221.37
Other Direct Costs	\$3,551,385.00	\$2,325,927.70	\$86,801.83	\$288,180.00	\$2,700,909.53	\$850,475.47
Retainage	\$0.00	-\$50,000.00	\$0.00	\$0.00	-\$50,000.00	\$50,000.00
G&A	\$709,119.00	\$488,983.50	\$17,733.61	\$58,875.00	\$565,592.11	\$143,526.89
Total	\$13,496,264.00	\$9,245,852.02	\$350,061.58	\$1,319,119.00	\$10,915,032.60	\$2,581,231.40
					**Accrual amounts include estimates for period from 09/23/12 through 12/31/12	

ANNEX A.

AUDIT OPINION COMPARATIVE TABLES FOR MUNICIPALITIES AND ANALYSIS OF THE 2012 FINANCIAL STATEMENTS.

2008 MUNICIPALITY ANNUAL FINANCIAL STATEMENTS

Auditor	Unqualified	Unqualified (Emphasis of Matter)	Qualified	Qualified (Emphasis of Matter)	Disclaimer of Opinion
Auditor-General	1				1
KPMG					20
Deloitte					11
Grant Taylor					
Total	1				31

2009 MUNICIPALITY ANNUAL FINANCIAL STATEMENTS

Auditor	Unqualified	Unqualified (Emphasis of Matter)	Qualified	Qualified (Emphasis of Matter)	Disclaimer of Opinion
Auditor-General		2	1		2
KPMG			1		9
Deloitte					9
Grant Taylor					9
Total		2	1		30

2010 MUNICIPALITY ANNUAL FINANCIAL STATEMENTS

Auditor	Unqualified	Unqualified (Emphasis of Matter)	Qualified	Qualified (Emphasis of Matter)	Disclaimer of Opinion
Auditor-General		11	2		1
KPMG		1	5		2
Deloitte			5		2
Grant Taylor			4		4
Total		12	16		9

2011 MUNICIPALITY ANNUAL FINANCIAL STATEMENTS

Auditor	Unqualified	Unqualified (Emphasis of Matter)	Qualified	Qualified (Emphasis of Matter)	Disclaimer of Opinion
Auditor-General	2	11	3		3
KPMG		3	3	3	
Deloitte					
Grant Taylor			9		
Total	2	14	15	3	3

Not only has the number of Unqualified Opinions increased from only 1 in 2008 to 16 for the 2011 AFS but also the number of Disclaimer of Opinion has decreased from 31 in 2008 to 3 for 2011. These 3 resulted as the Municipalities in the North of Kosovo did not submit their AFS. Although the number of Qualified Opinions increased to 18 this is still considered an improvement on 2010 where there were 16 Qualified and 9 Disclaimer of Opinions.

Auditor-General's Reports on 2011 Annual Financial Statements of Municipalities

A review of all the Auditor-General's Opinions of the Municipality Annual Financial Statements 2011 revealed an improvement and there were far less findings than in previous years. At Annex 'A' is a breakdown by Municipality of their respective findings for 2011.

Following a review of the findings, the following common categories were established.

These were:

- AFS incomplete or inaccurate (32 Municipalities);
- Asset registers incomplete or inaccurate (29);
- OAG recommendations not fully implemented (28);
- Procurement problems (23);
- Revenue management (including own source revenues) 18;
- Subsidies – lack of regulation or policy (13);
- Contract management shortcomings (12);
- Recording of Contingent Liabilities (10);
- Lack of Audit committee/IAU or not functioning (9); and
- Poor personnel practices (4).

AFS Incomplete or Inaccurate

There were a number of issues under this heading but mainly related to assets and own source revenues where the amounts in the statements did not correctly reflect what was included in the local registers and therefore the statements did not reconcile with the Notes to the statements.

Asset Registers Incomplete or Inaccurate

The findings focused on the incomplete asset registers including registers of Plant, Property and Equipment. All assets in excess of €1000 are required by law to be included in Freebalance, however some Municipalities are running parallel systems on E-pasuaría or internal systems. Municipalities were reminded that if they continue to run parallel systems and they do not reconcile the two then they can expect to receive an adverse finding. It was also indicated to Municipalities that all assets over €1000 must be recorded in Freebalance – this is a legal requirement. Another issue related to the valuation of assets by an internal Commission. The private sector auditors questioned the technical knowledge of such a commission and suggested that they use only certified appraisers to value assets. The Auditor-General's Office refer to Administrative Instruction 21/2009 – On Management of Government Property. It is explicit in stating that to value assets an internal Commission should be established of three people (one who should not be the assets officer) to value and register the assets of a Municipality. The Auditor-General accept the valuations by internal commissions. This is contrary to what the private sector auditing firms are recommending to Municipalities.

During the course of visits to Municipalities we suggested to those Municipalities who do not have an adequate register to at least register all their assets in Freebalance without values and when they do value them then place the values in Freebalance.

Another finding related to annual stocktakes – not all Municipalities undertook annual stocktakes or if they did they did not adjust their asset registers with the outcomes of the annual stocktake. This is contrary to the Administrative Instruction.

Not all Municipalities kept an asset register of those assets less than €1000.

OAG Recommendations

Every year this same finding appears and it is of major concern to the Auditor-General that more attention is not taken to implement these recommendations. By law Municipalities are required to produce action plans for the implementation by Municipalities. This failing is due to Mayors and the Municipal Assemblies not adequately reviewing the Auditor-General's reports and becoming accountable for their recommendations. Further Audit Committees also should take responsibility for the implementation of the recommendations.

Procurement

By contrast to previous years with the 2011 Annual Financial Statements there were no major breaches of the Procurement Law. The findings all related to minor technical breaches or to inadequate performance by contractors.

Revenue Management including Own Source Revenues

The major finding related to Own Source Revenues concerns lack of registers for these revenues. The auditors said that without proper registers it was difficult for the Municipalities to accurately record these revenues in their statements.

Another finding that mainly come from the private sector auditing firms was for Municipalities to have their own automated billing system similar to that use for property taxes. It is noted that this finding does not appear in the audit reports of the Auditor-General.

Another finding related to Municipalities not having an accounts receivable register

Finally a number of Municipalities received findings relating to reconciliation of Own Source Revenues with The Finance Department and the own source revenues officers records and Freebalance. The Municipalities have not been carrying out these basic reconciliations.

Lack of Regulations or Policies for the Payment of Subsidies

While there very few payments identified the private sector auditors considered that there should be a regulation or a policy for such payments.

Contract Management

There were a number of findings in relation to poor contract management. In most instances the problem related to contractors who exceeded the implementation deadlines or did not meet the specific requirements of the contract. Further the Municipalities had the legal authority to impose penalties on the contractor but failed to do so.

Contingent Liabilities

In regard to contingent liabilities the Municipalities did not always keep a register of contingent liabilities or in some instances the liabilities were not included in the Annual Financial Statements.

Lack of an Audit Committee or an Internal Audit Unit

A small number of Municipalities had not appointed an Audit Committee, but these were mainly the newer Municipalities. The other issue related to Audit Committees being established but were meeting infrequently and therefore were not functioning as required. A number of the smaller Municipalities had not established an Internal Audit Unit. In most instances it was the newer Municipalities and as they had limited financial resources internal audit was not seen as a high priority. In one case a small Municipality had signed a Memorandum of Understanding with a nearby larger Municipality for the provision of internal audit sources. This seems a very appropriate model for other small Municipalities to adopt.

Poor Personnel Practices

There were a few cases where personnel files were incomplete with documents missing, payrolls not signed by all employees or files missing. These are considered to be minor findings.

Likely Outcome of 2012 Municipality Annual Financial Statements

2012 MUNICIPALITY ANNUAL FINANCIAL STATEMENTS PREDICTED AUDITOR-GENERAL OPINIONS

Unqualified	Unqualified (E of M)	Qualified	Disclaimer of Opinion
Prizren	Prishtina	Decan*	Leposaviq`
Ranilug	Ferizaj	Hani I Elezit*	Zubin Potok`
	Gjilan	Junik*	Zvecan`
	Gjakova	Malisheva	
	Vushtrria	Vitia	
	Skenderaj	Kamenica	
	Drenas	Obiliq	
	Mitrovica	Dragash	
	Podujeva	Mamusha~	
	Gracanica	Partesh~	
	Klina	Kllokot~	
	Kacanik		
	Shterpce		
	Novobrdó		
	Suhareka		
	Rahovec		
	Istog		
	Shtime		
	Possibilities		
	Peja^		
	Fushe Kosova*		
	Lipjan*		
2	21	11	3

- ^ Peja received an "Unqualified – Emphasis of Matter" Opinion with their 2010 AFS and with their 2011 AFS received a "Qualified" Opinion. It is debatable as to whether Peja has made the necessary changes to improve the quality of their 2012 AFS.
- * based on 2011 AFS these Municipalities received Qualified Opinions and if audited by Auditor-General's Office may have received an "Unqualified – Emphasis of Matter" Opinion.
- ~ These Municipalities will possibly receive "Qualified" opinions for the next three years as they do not have in place the necessary systems and procedures to accurately complete their AFS.
- ` These Municipalities will continue to receive "Disclaimer of Opinions" while they continue to not submit AFS.