



**USAID**  
FROM THE AMERICAN PEOPLE

# KOSOVO GROWTH AND FISCAL STABILITY INITIATIVE

QUARTERLY REPORT

31 MARCH 2013

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

This publication was produced for review by the United States Agency for International Development. It was prepared by Bruce Reid, Chief of Party; Deloitte Consulting LLP.

# **KOSOVO | GROWTH AND FISCAL STABILITY INITIATIVE**

DRAFT QUARTERLY REPORT

31 MARCH 2013

CONTRACT NUMBER EEM-I-00-07-00005-00 TASK ORDER 09

DISCLAIMER:

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

# CONTENTS

<b>ACRONYMS .....</b>	<b>II</b>
<b>1 CHIEF OF PARTY REPORT .....</b>	<b>1</b>
<b>2 CROSS-CUTTING THEMES .....</b>	<b>4</b>
<b>3 ADMINISTRATION .....</b>	<b>4</b>
<b>4 REPORTS AGAINST RESULT AREAS .....</b>	<b>5</b>
4.1 OBJECTIVE 1 .....	5
4.2 OBJECTIVE 2 .....	7
4.3 OBJECTIVE 3 .....	14
4.4 Task Order Modification # 1 .....	16
<b>5 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS .....</b>	<b>18</b>
<b>7 MAJOR UPCOMING ACTIVITIES.....</b>	<b>20</b>
<b>8 FINANCIAL DATA.....</b>	<b>21</b>

## 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 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

The March 2013 quarter was highlighted by the successful re-launch of the Brezovica Resort Development Project and the preparation of an economic viability study for the construction of Highway R6. Both activities are expected to make a major contribution to increasing investment in important infrastructure, and contribute to private sector job creation and economic growth.

The GoK, together with GFSI advisors, participated in four roadshow events to promote the Brezovica Resort Development Project (BRDP) to international investors. The roadshows took place in Denver, Dubai, Vienna and Brussels. The meetings attracted interest from several firms that were previously unaware of/uninterested in the project, including mountain resort design firms, ski operators and at least two major construction firms.

Under the IMF Stand-By Arrangement the Government agreed that construction of Highway R6 to Macedonia will only commence when the Government secures adequate resources, and an economic viability study confirmed the viability of the project. With significant support from GFSI a Ministry of Finance (MoF)-led Inter-government Working Group submitted the study to the WB and IMF at the end of January 2013. The World Bank and IMF confirmed that the study was prepared in accordance with international practices, and after incorporating some more conservative assumptions, agreed that the project is economically viable with an Economic Internal Rate of Return of 9%. At the conclusion of the IMF and WB discussions it was agreed that the highway will be tendered as one project, with standard contract procurement for the northernmost 40 kilometers, and design-and-build contract procurement for the remaining section from Kaçanik to the border with Macedonia.

Other GFSI Highlights for the quarter included:

**Rules Based Fiscal Framework.** As part of the program with IMF, GFSI continued to support the GoK to adopt a legally binding rules-based fiscal framework as a guide to future fiscal and economic stability of the country. While key parameters of this fiscal rule were agreed with IMF during the last quarter of 2012, further discussions and negotiations were held during this reporting period with the IMF Technical Mission that visited Prishtina during February, as well as with the IMF SBA Mission during March, 2013. The final version of the fiscal rule, which is included in the Law on Public Financial Management and Accountability, was submitted and approved by Government. In summary, the approved rules-based fiscal framework limits the overall budget deficit ceiling to 2% of GDP with exemptions from the deficit ceiling allowed for over-performance of revenues, budget under-spending and privatization proceeds.

**Municipal PFM Reforms.** The GFSI Project continued to make important contributions to the USAID FORWARD initiative through assistance in strengthening local government Public Financial Management (PFM) capacities to will reduce the risks related to the use, monitoring, and reporting of direct grants to municipalities. The completion of Fushë Kosovë PEFA assessment during the reporting period concluded GFSI's PEFA-assisted self-assessment work in 12 Kosovo municipalities. The performance report for Fushë Kosovë will be published during the next reporting period and will serve as a platform for an action plan development to address further necessary improvements in the municipality's public financial management practices. In February, GFSI co-organized a conference together with the MBD to highlight the accomplishments by 11 municipalities in the implementation of their PFM action plans during first 6 months and to address future challenges and areas for improvement. GFSI also conducted a comprehensive assessment on the quality of the municipal Medium Term Expenditure Frameworks (M-MTEF).

**Ministry of Finance IT Systems.** GFSI facilitated the establishment of a MoF IT Steering Committee and a Technical Committee that resulted in a transformational organizational change in IT communication and collaboration at the leadership and technical levels across IT Departments within the MoF, Tax Administration and Customs. The establishment of these committees has opened the way for more effective data sharing among the various IT systems and preparation for more accurate and timely financial reports within the MoF. To support the activities of the two committees, GFSI provided assistance in drafting IT policies and procedures and inventories of IT systems, data and interfaces.

**PPP Institutional Capacity.** GFSI developed, together with the PPP Department, a draft PPP Strategy identifying key issues to PPP development in Kosovo and setting out five strategic objectives in response to those issues. This Strategy will provide a road map over the next three years for PPP Department activities in improving its institutional capacity and support for development of PPPs in Kosovo. GFSI is now working with the PPP Department to finalize the Strategy and an action plan for the first year of the strategy period. Following on from the development of the PPP training curriculum and the successful 'Train the Trainer' program reported in the last two quarterly reports, the PPP Department and Kosovo Institute for Public Administration (KIPA), have continued delivering the PPP training module to public sector officials. To date the PPP Department has received 144 applications for training from 42 central and local government departments and institutions.

**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. Highlights included the following:

- The Suhareka Municipality awarded the Waste Collection and Sorting Project in November 2012. Final contract negotiations are still in progress, and contract signature is expected in April.
- The Ministry of Infrastructure (MoI) Roads Directorate the complete package of tender documents for the Route 7 MSA concession will be submitted to the PPP Committee for approval during the first half of April.
- The feasibility study for the urban bus concession in Gjilan is in its final stages of development, and the tender documentation preparation is well advanced.
- The PPP team made significant progress in the preparation of an urban bus transport plan for the Municipality of Pristina that involves and improved and more efficient network, including connection Pristina to Obiliq, Fushë Kosovë and Graçanicë, and the specification of a fleet of new, high standard vehicles, which will be the core input for the PPP tender.
- Support was also provided to the municipality of Pristina in drafting the contract for the Pristina car park concession to be part of the tender dossier.

**Central Government PEFA.** With the support of GFSI, the Kosovo Government commenced a new PEFA assessment during the reporting period, updating the last PEFA assessment conducted in 2009. A decision by the Kosovo government in March 2013 established the Steering Committee chaired by the Minister of Finance and a technical assessment team (PEFA Secretariat) led by the deputy director of Treasury. The objective of the current PEFA assessment is to: review the impact of PFM reforms implemented after the 2009 PEFA assessment; identify PFM areas requiring further improvements; update the government's PFM reform action plan; and identify areas of further external donor assistance needed.

**Land Taxation.** GFSI supported development of a draft amendment to the LPFMA to allow access to Kosovo Cadastral Agency (KCA) data by the MoF without charge. The draft amendment to the LPFMA received support from the IMF and SIDA, and was recently approved

by the Budget and Finance Committee, as part of a package of amendments, to proceed to the first reading in the Assembly. The LPFMA amendments are expected to be passed by the Assembly in June. This would then enable the project to introduce land taxation within the property tax system to commence in late June 2013 or early July 2013.

**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, and Swiss LOGOS for International Cooperation on municipal related public financial management (PFM) reforms and property tax activities and United States Treasury, ESTAK, World Bank, EU and IMF on Central level activities covering issues related to PFM reforms and debt management. The preparation of the PPP strategy involved extensive consultations with the EU, IFI's and government ministries. In the Economic Policy area the GFSI team played an important role in preparing the Minister and the MoF for the discussions and negotiations conducted during the March Mission.

## 2 CROSS-CUTTING THEMES

**Gender.** Over the past several years the budget process in Kosovo has advanced significantly. However, one area of budgeting that has not yet received the needed attention is the gender equity policy issues. In order to support the development of policies and budgets that take account of gender equality issues, GFSI has commenced preparations to hold an event in June to promote the benefits of introducing gender sensitive budgeting. Participants would be invited from both levels of government, as well as key contributors to the budgeting process, including the Assembly, NGO's and other international donors. The event would aim to allow participants to share knowledge, and identify the problems and challenges for the introduction of gender-sensitive budgets.

The table below contains the gender training statistics for the March 2013. During this period the percentage of females trained was 29% which compares to 53.4% for the December 2012 quarter.

DEPARTMENT	1ST QUARTERLY REPORT 2013		
	MALE	FEMALE	TOTAL
PEFA	77	19	96
BUDGET	38	22	60
TREASURY	56	50	106
PROPERTY TAX	15	8	23
PPP Municipal and Central	156	41	197
Total per year			482

## 3 ADMINISTRATION

Since the inception of the GFSI Project in 2010, support has been provided by project personnel to the Treasury to assist with the functional activities associated with the operation of Treasury's IT system. With this support Treasury has achieved a high level of operational performance with the Kosovo Financial Management Information System (KFMS) and associated treasury systems - Debt Software, Digital Archive, Cash Plan System, Help Desk System, CS-DRMS and Grants System. With the GFSI Project ending on July 15, 2013 discussions have commenced with the Treasury Department to ensure an effective handover of the IT and training functions performed by GFSI.

## 4 REPORTS AGAINST RESULT AREAS

### 4.1 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 two quarterly reports, the PPP Department and Kosovo Institute for Public Administration (KIPA), have continued delivering the ‘Basic PPP’ training module to public sector officials. To date the PPP Department has received 144 applications for training from 42 central and local government departments and institutions. During the March quarter 85 officials from 28 central and local government institutions attended two-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 provided PPP input for a three day training course for the DEMI Service Delivery Workshops for Municipalities in February. The presentation by the GFSI PPP team focused on explaining what PPP’s are, the experience with PPP’s to date and the legal and institutional framework for PPP’s in Kosovo. A total of 22 municipalities participated in the three workshops, with 95 attendees, of which 75 were male and 20 female. The sessions were well received by the participating municipalities, and it is expected that GFSI will contribute to future DEMI workshops.

**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** - The PPP Department and the GFSI team coordinated a final workshop with the MoI Roads Directorate, and MOI procurement staff to explain and finalize the tender dossier and feasibility study for the MSA concession. According to the MoI, the complete package of documents will be submitted for approval to the PPP Committee during the first half of April.
- **Suhareka Waste Collection and Sorting Project** – The Municipality made an award in November 2012 and final contract negotiations are 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 held an investors’ conference on 5 February 2013. The event was well attended and the response to the presentations and Q&A sessions demonstrated private sector interest in the project. Submission of the project to the PPP Committee for approval is planned for May 2013.
- **Pristina Urban Transport Project** – GFSI’s municipal bus expert worked in country for most of the reporting period, and the PPP team made significant progress on this project. GFSI prepared a Memorandum of Implementation, which was accepted in principle by the Municipality of Pristina. This memorandum describes the plan for urban transport in Pristina,

and connecting it to Obiliq, Fushë Kosovë and Graçanicë. This includes an improved and more efficient network and a fleet of new, high standard vehicles, which will be the core input for the tender. Numerous surveys and studies to confirm routes and passenger data have been conducted, but information provided by operators as well as data entry by the municipality has so far been of poor quality. All stakeholders have been involved, and the GFSI team has supported Municipality of Pristina to reach out and establish contact with 171 companies, local and international, from 33 countries to whom the Municipality has sent a letter invitation to participate in a market consultation. The GFSI PPP team met with Investment Promotion Agency of Kosovo in February 2013 to support the market consultation process with promotional material.

- **Pristina car park** – The GFSI team supported the municipality of Pristina in drafting the contract for the Pristina car park concession to be part of the tender dossier.
- **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.

**PPP Strategy.** During the reporting period, GFSI supported the PPP Department in developing a multi-year Strategy. The Strategy development process consisted of planned consultation meetings with key stakeholders and review of the legislative and sectoral framework, identification of core issues, and analysis of feasible strategic responses. The Strategy will identify key development issues raised by key stakeholders during this consultation and review process and set out strategic objectives to address those issues over a three-year period. Strategic objective identified by the Strategy process are the need to:

- 1) Link PPP planning with Kosovo's developing budget and policy priorities planning framework;
- 2) Build sustainable project development and implementation capacity in Kosovo by planning and establishing a Project Development Facility;
- 3) Develop PFI capacity by expanding awareness of PFI's as a PPP Option;
- 4) Increase private sector outreach by developing and publishing a Pipeline of planned PPP transactions; and
- 5) Strengthen PPP contract management by creating a risk-based system of oversight.

At the close of the reporting period GFSI and the PPP Department were working on finalizing a draft of the Strategy. Early in the following quarter, GFSI will work with the PPP Department to complete a final version of the Strategy and Action Plan for the first year of Strategy implementation.

## 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 GFSI's planned program. For example, the Gjilan bus concession process has been slow due to lack of information on the infrastructure requirements, and the information and support provided for the Pristina Urban Bus project was slow and of limited quality.

Another obstacle for the Pristina bus project is the uncertain political environment affecting the project in light of upcoming municipal elections. The Municipality also insisted on a late stage change in scope to incorporate rural routes into the concession, which makes the transaction significantly more difficult and raises risk, as no data is available on these routes.

To mitigate risks, GFSI discusses its procedures with counterparts at the beginning of each potential transaction to achieve common understanding of the process, expected nature and extent of GFSI support and the level of commitment required by the counterpart entity. For the Pristina Bus concession project GFSI had sought and obtained a formal approval by the Municipality of the Memorandum of Implementation who are taking lead in the drafting of the tender documents.

As reported in previous reporting periods, the reluctance to accept a move to service delivery by the private sector where there is an existing publicly owned enterprise (POE) continues to negatively affect the take up rates of PPP projects.

## COORDINATION

GFSI coordinated activities with the Investment Promotion Agency of Kosovo, GIZ and JICA 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.

### 4.2 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 in Local Public Expenditure and Financial Accountability (PEFA) Self-Assessments, PFM Reform Action Plans, and Municipal Medium Term Expenditure Frameworks (MTEF) during the quarter.

**Local Municipal PEFA Self-Assessments.** Fushë Kosovë successfully concluded a PEFA self-assessment during the reporting period. The draft assessment was shared with and addresses comments by PEFA's Secretariat in Washington D.C. This assessment concludes GFSI's PEFA-assisted self-assessment work in twelve (12) Kosovo municipalities. The performance report for Fushë Kosovë will be published during the next reporting period and will serve as a platform for an action plan development for further improvements.

The self-assessment work at the municipality of Fushë Kosovë was also part of GFSI's sustainability and capacity building assistance to the MoF Municipal Budget Department (MBD) Two of four appointed staff members from MBD participated in the self-assessment process and received formal PEFA assessment training during the reporting period.

**Local Government PFM Reform Action Plans.** In February, GFSI co-organized a conference with MBD to report on progress in implementing the municipal PFM action plans. The event hosted 90 guests from central government level institutions related to PFM, relevant donor projects, mayors/deputy mayors and chief financial officers. The event acknowledged accomplishments from municipalities in implementing their PFM action plans during first six months and identified challenges and areas for improvement. All participants received a progress report presenting accomplishments in all 11 municipalities. The conference included participation by a number of relevant organizations working on PFM area related to municipalities such as: Office of Auditor General; Central Harmonization Unit for Internal Audit; DEMI; BEEP; EU Twinning Project at MLGA; etc.

During this period, the following PFM action plan implementation achievements were identified:

- Improvement of budget credibility, where deviation of budgeted expenditures with actual has been reduced;

- More realistic planning of Municipal own-source revenues (OSR);
- A considerable increase of the debt collection level from property tax, particularly in Serbian majority municipalities;
- As highlighted by the OAG further improvements were made in the quality of 2011 Annual Financial Statements;
- External scrutiny over municipal finances commenced with audited financial statements being tabled and discussed by local assemblies; and
- Increased review and preparation on management response to OAG recommendations.

**Municipal Medium Term Expenditure Frameworks (M-MTEFs).** GFSI advisors completed an M-MTEF assessment covering:

- The current status of local governments of their performance on the inclusion of relevant information within MTBF documents, and following the structure and instructions as required by the Ministry of Finance through Budget Circulars.
- A comparative analysis of local government performance on the inclusion of relevant information within MTBF documents for two different budget cycles 2013-2015 vs. 2012-2014;
- MTBF qualitative assessment including i) the process and organizational framework; ii) policy, planning, the MTBF and budgeting; iii) the MTBF, expenditure planning and execution; iv) the MTBF, revenue planning and expenditure; and v) quality of information; including conclusions and recommendations.

The assessment work will serve as an input for further improvements in the current budget cycle. GFSI and the MBD have agreed to hold an event where the assessment work will be shared with all municipalities and central level sectorial ministries, the Grants Commission and the Association of Kosovo Municipalities, with emphasis on budget planning. The event is planned for the next reporting period, prior to the Ministry of Finance's release of municipal budget circulars for 2014-2016.

## ISSUES/OBSTACLES

None

## COORDINATION

GFSI has coordinated work with the EU Twinning project within the Ministry for Local Administration during the assessment work for M-MTEF. A number of meetings were held in order for both projects to avoid potential overlap on M-MTEF assessment work.

GFSI invited contributions to the conference on the progress accomplished towards the implementation of municipal PFM action plans, other USAID projects such as DEMI and BEEP, and coordinated their speaking role for the conference.

**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

In January 2013 GFSI conducted joint training with Treasury staff for municipality staff on requirements for the preparation of financial statements. GFSI conducted training for municipality staff on financial statements presentation covering fiscal years 2012 and 2013. All forty two (42) municipalities were invited and twenty eight (28) of them participated in the training. Some of the topics covered included: simplified methods of generating reports from the KFMIS system, and filing; creating reports as a backup for reported expenditures, revenues,

assets and budgets; clarifications on the treatment of assets, including capital assets, non-capital assets and receivables, unpaid invoices and contingent liabilities; and discussion of the audit process.

The financial statements' forms with instructions and print screens from the KFMIS were used as a guide during the training and handed out to the participants to support their financial statement preparation. This document was updated from the 2012 version and included few improvements based on the feedback from the training.

GFSI staff were available for assistance and advice to individual municipalities during the month of January as the municipalities were preparing and submitting their financial statements. Advice was provided specifically to the Municipality of Fushë Kosovë, since the officer assigned for preparing financial statements was on personal leave.

The audit process began very early in 2013, almost immediately upon submission of the financial statements by the municipalities in January 2013. This suggests that financial statement opinion reports may be available earlier to enable a review of the opinions and the main issues identified during the audit process.

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

#### **PROGRESS AGAINST THE WORK PLAN**

In January, 2013 the Minister of Finance signed the Decision Memo that established the IT Steering Committee and the Technical Committee. The membership of both committees was also established. This Memo will serve as an essential step forward that will support IT communication and collaboration at the leadership level as well as the technical level.

Upon the establishment of the IT Steering Committees, the GFSI IT Advisors met with the Department Directors and IT Directors, members of the committees, to brief them on the Decision Memo, the committee formation, expected outcomes, and the likely schedule of activities. Meetings were also held with the Acting Minister and the General Secretary with the aim of preparing and briefing them on their roles as chair and co-chair of the IT steering committee.

The GFSI IT advisors facilitated the first two steering committee meetings. On the first meeting the Technical Committee membership was decided and action items were passed on to the Technical Committee. The GFSI IT Advisors also facilitated a number of IT Technical Committees to this date and assisted the members with the action requests from the Steering Committee. Assistance was provided in establishing a framework to improve communication and coordination, drafting key IT Policies and Procedures, and inventories of IT Systems, Data and interfaces.

A comprehensive ICT Plan was developed and has been distributed. The plan was developed incrementally, with briefs on important aspects, and feedback requested on the overall approach through numerous client meetings. The result is a plan that has been accepted and understood by the client before the actual plan was released. It aligns well with the high level issues and risks that the Technical Committee has developed and presented to the business leaders.

The new MoF server room is in its final implementation phase. A technical group has been formed with the members from each IT unit from the Ministry, and its agencies are focused on developing a strategy from the migration of the IT Systems into the new location.

## ISSUES/OBSTACLES

**IT Director's Leadership of Technical Committee.** A significant investment of time and effort is required from the IT Director to manage the activities of the Technical Committee and to support the implementation of the decisions taken by the Steering Committee. A history of three previous phases suggests that there is a risk in assuming that the time and effort required from the IT Director to support IT transformation will necessarily be available.

**ICT Plan Implementation.** There is a need to develop specialists in key Plan areas to implement the Plan and recognize associated benefits. The Technical Committee has expressed their concern about the level of current staffing and expertise being insufficient to manage required changes.

**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

**Central Government PEFA.** The Kosovo Government embarked on PEFA assessment during this reporting period. The last PEFA assessment for the Kosovo Government was completed in 2009. A decision by the Kosovo government in early March started this process by giving MoF the leading role in the process. This was followed by the establishment of a Steering Committee and a technical assessment team-PEFA Secretariat led by the Deputy Director of Treasury. The objectives of the current PEFA assessment include the following: a review of the impact of PFM reforms implemented after the 2009 PEFA assessment; an identification of PFM areas requiring further improvements; an update the government's PFM reform action plan; and an identification of the areas requiring further external donor assistance.

The Secretariat is receiving technical support from two PEFA team members within GFSI. They delivered a one day PEFA training session for the Secretariat to refresh the main technical aspects of the assessment. Most of the team members were part of PEFA assessment in 2009 and therefore are familiar with the application of PEFA tools. GFSI advisors supported the Secretariat in their data collection and scoring work developed during this reporting period. The PEFA Performance report will be published during the next reporting period.

**Strategic Expenditure Review's (SER) Recommendations.** During the quarter, GFSI supported the completion of the following SER initiatives:

- Finalization of the Medium Term Policy Priority (MTPP) Statement containing a consolidated set of priority new policy initiatives;
- Circulation of the Administrative Instruction setting out the requirements to for budget institutions in costing new policy initiatives. The instruction requires the specification of the objectives, activities, outputs, and performance indicators for each New Policy Initiatives (NPIs) and Savings Option. GFSI is developing a TOT training program for the next quarter; and
- Preparation of a new Budget Calendar to improve the linkages between budget policy formulation, budget planning, execution, reporting, and monitoring and evaluation.

**Defining the process of Debt financing projects.** GFSI has provided assistance to the MoF to prepare a draft instruction to define the process for debt financing capital projects. Currently, there is no such process in place and the intention is to provide clear procedures for such borrowing, starting from the application, negotiations, approval and disbursement. In addition, with this Instruction, the Ministry aims at linking the debt financing with the budget process.

**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 6 training courses were delivered involving 106 participants (56 males and 50 females) from a wide cross section of central and local government institutions. Training covered the following KFMIS modules - commitments, income, Internal control of public finance and public accounting, expenditure, certifying and approving of payments and accepting of goods.

## ISSUES/OBSTACLES

The Treasury Department has been slow in finalizing the draft instruction on the process for the debt financing capital projects. GFSI will work with the US Treasury Adviser to expedite the finalizing of the instruction so that the new process is applied during the preparation of the 2014 Budget.

## 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

**Review of 2011 inspection reports.** GFSI continued support to the PTD in reforming the inspection process. Review of the inspection reports was conducted for thirty four (34) municipalities across seven inspection areas, including: 1) administrative capacity; 2) management of tax information; 3) real estate assessment; 4) collection and compulsory collection; 5) administrative appeals; 6) distribution of bills; and 7) taxpayer education and public relations (information). Results of the review were presented in two documents, a matrix in Excel, and Report findings and recommendations. Both documents have been submitted to the property tax department and can be used for evaluating the performance of municipalities, the quality of reports, as well as for recommendations for improvements in municipalities and in the PTD during the inspection process.

An overall assessment of municipal performance shows modest improvement in inspection capacity, with few municipalities achieving strong positive assessments in all areas of inspection. Only eight municipalities have fulfilled staffing levels required by the administrative guidelines, while the biggest challenge for municipalities remains assessment of properties, and collection and enforced collection. Transparency and information of taxpayers remains almost non-existent, and much remains to be done by municipalities in this regard. However, results of the review indicate that the property tax department in general has followed the new inspection process in three pilot municipalities (Pristina, Shërpce, and Shtime). This process was reformed in 2011 by GFSI in cooperation with PTD. Inspection in municipalities was conducted by using the inspection questionnaire.

Based on the inspection reports, GFSI concludes that:

- Reform of the inspection process in municipalities and in the PTD should continue;
- PTD should work with municipalities in implementing the recommendations from the inspection reports within 90 days from report submission (currently no action is taken in municipalities upon submission of inspection report); and

- Capacities of the PTD staff for inspection and quality reporting, and adequate logistical support need to be enhanced.

**Land taxation.** GFSI advisors supported MoF-PTD in contacts with SIDA on issues related to project ProTax 2 -land taxation (parcels). During January and February 2013 Swedish cadastre and tax administration officials conducted a visit to assess tax issues such as classification and assessment of parcels, mapping and creation of assessment areas.

**Implementation of the recommendations of the inspection reports of 2011.** During the quarter GFSI supported the PTD to implement the recommendations of municipal inspection reports. Training for municipalities was held by PTD staff with the support from GFSI advisers. Initial training was held for three pilot municipalities (Prishtina, Shtërpce and Shtime), and with a follow up training for two additional municipalities (Gracanica and Partesh). Interpretation of findings and training for implementation of recommendations from inspection reports is held for 7 areas including business part (implementation of the law, administrative guidelines and instructions) and PTD software for the property tax. PTD is recommended to continue training on 1) implementation of payment certificates, registration / payment adjustments; 2) Implementation the recommendations of the inspection report relating to the program; 3) implementation of instruction for division of debts to former SOEs and young taxpayers. The training was attended by 23 users of the program (15 males and 8 females).

**Development tools in Excel as information technology solutions.** GFSI assisted in developing two tools—one for simulation / planning and tax assessment with the old model and the new model of tax assessment, and one for production of summary reports, textures and graphics. These two tools were developed for support and management and for better property tax planning for PTD and municipalities.

## ISSUES/OBSTACLES

**Barriers to obtaining data from Kosovo Cadastral Agency (KCA).** A significant obstacle causing delays in starting the SIDA land taxation project exists because parcels from KCA have not been received. As long as the property tax department does not have access to the records of CAK there will be problems and hesitation from SIDA to start a new project. In the previous reporting period GFSI and SIDA learned from the KCA that data can only be provided based payment, as stipulated in Law on Public Financial Management and Accountability (LPFMA). To resolve this, GFSI supported the development of a draft amendment to the LPFMA to enable access of data by MoF without charge. The draft amendment has been approved by the Government and is expected to pass in the Assembly in the following months.

**Problems with delivery of bills.** There are significant problems with tax bills delivery by the Postal Service. In Kosovo, over 450,000 property tax bills are printed out for distribution every year. However, several municipalities report that many bills are not distributed by the Postal Service, or that bills are dumped in mass at schools, shops or apartment entrances. Taxpayers commonly report that they have not received property tax bills for years and never knew their property tax obligations. Some municipalities have also reported that the Postal Service does not provide an accurate and transparent reporting, while also does not reliably deliver bills. This impairs municipalities' collections and precludes taxpayers' right to appeal, while allowing penalties and interest to accrue for several years.

**Quality of resurvey data and the new survey model.** Quality of resurvey data that were collected by two private companies was poor and incomplete. The purpose of the property resurvey and collection of additional data was to begin assessment and taxation of real property by quality (new model of assessment), but this was only implemented in three municipalities (Gjakova, Shtime and Fushe Kosova). For the new model of assessment to be implemented in thirty one (31) municipalities, a strategy and an action plan should be developed in advance, in order to improve quality; gather information on properties that are not resurveyed, and train

municipalities on planning for collection with the new model evaluation. To manage all these objectives GFSI has prepared an action plan that we have presented to the PTD and are waiting for approval from the director.

### **COORDINATION**

Close collaboration with SIDA in the documentation and finalization of the project plan for the new project ProTax 2- land taxation (parcel).

### 4.3 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

**Approval of the legislation on rule based fiscal framework:** During February 2013 the IMF Technical Assistance Mission visited Kosovo to further assist the MoF in drafting the fiscal rule legislation, based on the earlier agreed principals. As part of this mission and the March 2013 SBA Mission in particular, GFSI supported the MoF in negotiating specific policy requirements of the rules based fiscal framework. GFSI also supports the drafting of the legislative amendments to the Law on Public Financial Management and Accountability required for introducing the fiscal rule from 2014. The amendments were approved by Kosovo government and lodged with the Assembly on 29 March, 2013 in accordance with an IMF structural benchmark.

In summary, the following are the main provisions of the approved rule based fiscal framework:

- Overall deficit limited to 2% of GDP;
- Each municipality's share of the deficit ceiling shall be proportionate to its share of expenditures;
- Under-execution of budget expenditure and over-performance of revenues will be added to the following year's budget expenditures, on top of the 2% deficit;
- Proceeds from privatization may be used as additional funding outside of the 2% deficit limit for capital investments only, provided the level of usable government bank balance amounts to at least 4.5% of GDP;
- Deficit ceiling of 2% may temporarily increase if the following events occur:
  - a short-fall in revenues (for any period of six months, tax revenue collection is equal or below tax revenues collected during the same period in the previous fiscal year);
  - a State of Emergency, including a natural disaster;
  - a banking system crisis; or
  - a State Guarantee required to be paid for by the Government and its impact on total expenditures is larger than 1.5 percent of forecasted GDP.
- Every five years, the Assembly shall review and if needed adjust the Deficit Ceiling. The Deficit Ceiling may be adjusted earlier if such adjustment shall aim to stabilize the forecasted total debt level significantly below the Debt Ceiling.

It is important to note that the GoK and the IMF consider the adoption of the legally binding fiscal rule as a significant step toward anchoring future fiscal policy of the country.

**Implementation of the Stand-by arrangement with the IMF:** The IMF Mission team visited Kosovo during March to review progress towards achieving benchmark performance criteria and to complete the third review of the arrangement. During the last days of the mission, the IMF Alternate Executive Director of the Kosovo constituency joined the negotiations. GFSI assisted the Minister and MoF officials to prepare for this mission and in negotiating outcomes on key issues. The outcomes from the mission were as follows:

- It was concluded that the implementation of the economic program has remained broadly consistent with the commitments under the Stand-By Arrangement, with most quantitative performance criteria for the end-December 2012 met.
- The GoK meet the structural benchmark on submitting the R6 economic viability study by the end January 2013.

- It was agreed that if border tax revenues continue to underperform, as compared with the plan, the Government will take revenues and/or expenditure measures during the Mid-year Budget Review to keep the deficit at the initial projected level.

On April 24, the IMF Executive Board completed the Third Review under the Stand-By Arrangement and approved €4.9 Million Disbursement. However, in line with the intention of the authorities to treat the SBA as precautionary in 2013, they intent not to purchase the amount made available by the completion of this review,

In addition to support provided during the IMF SBA missions, GFSI has continued to play an important role in assisting the MoF in coordination of regular monthly SBA monitoring committee meetings, where all Government institutions, relevant to the SBA, report on the progress in specific areas.

**Other support:** Assisted the Economic Public Policy Department (EPPD) to produce draft macro-fiscal projections for the period 2014-16. These projections were used by the Strategic Planning Office to produce the Medium Term Policy Priority (MTPP) document and the same will be used for the Medium Term Expenditure Framework (MTEF).

Two meetings of the National Council for Economic Development (NCED) were held during this quarter, with the participation of Prime Minister, all relevant Ministries as well as the Kosovo business associations. GFSI, through the Ministry of Finance, provided focused assistance.

## COORDINATION

Close coordination was undertaken with ESTAK project, International Monetary Fund, the World Bank and the US Treasury Adviser.

#### 4.4 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**

On January 25, the Inter-Ministerial Steering Committee (comprised of six Ministers of State and the Mayor of Strpce) formally approved moving forward with the revised Brezovica Resort Development Project (BRDP) implementation plan proposed by GFSI. The ISC likewise approved the suggested BRDP Development Footprint, as well as a moratorium on new construction within the Development Footprint.

GFSI supported the GoK by preparing tender dossiers, marketing materials, and other required documentation and on January 31, 2013, public procurement number MTI-204-13-008-612 was formally launched via tender notifications published in the Financial Times and the Economist, as well as in Kosovar daily newspapers. The first stage of the procurement involves an assessment of market interest and the pre-qualification of potential bidders.

To promote this critical investment opportunity and assess market interest, the GoK, together with GFSI advisors, participated in four roadshow events to promote the BRDP to international investors. The roadshows took place in Denver (March 07), Dubai (March 11), Vienna (March 14), and Brussels (March 15). The agenda included opening remarks from both the Deputy Prime Minister and the Mayor of Strpce, as well as a detailed presentation delivered by the GFSI strategic advisor. The organization and presentation were well received, and Government representatives were extremely pleased with GFSI performance and BRDP progress. The roadshow confirmed market interest in the BRDP, but likewise highlighted investor concerns about the investment climate in Kosovo. Despite this, at the close of the quarter, the GoK remained optimistic that the first stage of the procurement would be successful and that qualified companies and consortia of companies would submit expressions of interest.

In addition to providing daily support to the ISC on all activities related to public procurement for the development, financing, and operation of the BRDP, GFSI likewise supported the GoK in making significant advances related to asset preparation, including defining area zoning requirements, and developing a transfer strategy for existing assets within the BRDP development footprint. GFSI likewise supported the GoK in delivering strategic messaging and managing stakeholder/public opinion relating to this priority project.

##### **Issues/Obstacles**

Although the Mayor and other key stakeholders in Strpce continue to support BRDP, there are some concerns that negotiations relating to the “normalization of relations between Kosovo and Serbia” may impact politics in the municipality, which could influence local support for the project. This is being monitored very closely.

The GoK also needs to quickly pass the Spatial Planning and Regulatory Plan for Sharr National Park, in which the development footprint is to be declared zone 3 (allowing for construction). Without this approval, it is unlikely that bidders will be willing to undertake the costs associated with preparing their proposal. Likewise, it is critically important that the GoK make the necessary budgetary provisions to ensure that there is adequate funding available to expropriate third party properties within the Development Footprint. Finally, in Q2 of 2013, the Privatization Agency of Kosovo will need to review and approve arrangements for the transfer of INEX properties within the BRDP Development Footprint to the GoK. Arrangements are underway to ensure that this happens in a timely manner.

**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**

**R6 Economic Viability Assessment:** Under the December 2012 Letter of Intent, the Government agreed that the construction of the highway R6 will only commence when the government secures adequate resources, and an economic study confirming viability of the project has been completed and sent to the IMF and the World Bank for review. With significant technical support from GFSI the MoF completed and submitted to IMF and WB the economic viability study by the end of January, 2013. After including suggested changes to the financial model and assumptions that were received from these institutions, the World Bank confirmed that the expected rate of return was above minimum acceptable viability thresholds. However, both IMF and World Bank further insisted that before Government starts with construction of this project, other design options, which may reduce the cost to Government for the most expensive part of the Highway, the southern section, should be considered. In the end it was agreed that the highway will be tendered as one project, with standard contract procurement for the northernmost 40 kilometers and design-and-build contract procurement for the remaining section from Kaçanik to the border with Macedonia. In addition to assisting the Inter-ministerial committee draft the economic viability study, GFSI was also actively involved in assisting the Minister and the Ministry of Finance negotiate a solution with both IMF and the World Bank.

### **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 never came. This has not affected the activities of the GFSI supported WG that met the IMF agreed reporting date of January 31, 2013.

During discussions on the Route 6 project, reaching agreement with IMF and World Bank on how the project will be tendered was the most difficult issue. An eventual disagreement on this issue would have risked the completion of the third review of the SBA arrangement

### **COORDINATION**

The GFSI supported Working Group coordinated with the IMF, World Bank, MoI and the MOF to approve the Economic Viability Study for highway R6.

## 5 PROBLEMS, ISSUES AND PROPOSED ACTIONS/SOLUTIONS

Objective	Problem/Issue	Migration Plan	Status
Promote Private Sector Investment through PPPs	Line Ministries and Municipalities reluctant to introduce private sector participation where current services are provided by POEs.	Increased promotion of the benefits of PPPs as a service delivery solution and value for money comparisons with POE delivery.	The issue of the PPP guidelines combined with the training program should increase awareness of PPPs. The solid waste management toolkit should assist in highlighting the current inefficiencies in the POE system.
Promote Private Sector Investment through PPPs	Lack of data and information from contracting authorities on a timely basis.	Discuss procedures with counterparts at the beginning of each transaction to ensure complete understanding of the process, nature and coverage of GFSI support and the commitment required by the counterpart entity.	For the Pristina Bus Concession Project prepared and obtained approval from the municipality on a Memorandum of Implementation that covered the roles and responsibilities of GFSI and the municipality.
Promote Private Sector Investment through PPPs	Uncertain political environment affecting the project in light of upcoming municipal elections.	Set clear transaction timeframes and be prepared to withdraw support should there be a lack of political commitment from the Mayor.	Support for transaction ongoing.
Increased data sharing within MoF	The IT Director not fully engaged in the process.	Empower the Deputy Director to take a leadership role.	Technical Committee fully functional and achieving its objectives.
Additional municipal owned sourced revenues through introduction of land taxation	Lack of access to property records from the Cadastral Agency.	Draft amendment to the LPFMA to enable the MoF to access data free of charge.	Amendment with the Assembly.
Access to Debt Financing for Capital Projects	The Treasury Department has been slow in finalizing the draft instruction for accessing debt financing.	Work with the UST Adviser to expedite the finalization of the instruction.	Drafting still in progress.
Brezovica Resort	Negotiations relating to	Monitor situation very	Municipality currently

Development Project	“normalization of relations between Kosovo and Serbia” may impact politics in the municipality could influence local support for the project	closely and develop migration strategy if required	strongly supports transaction
Brezovica Resort Development Project	Revision to Spatial Plan for Sharr Mountain National Park may restrict certain desirable areas from inclusion in the transaction	Discussion with Minister of Environment and Spatial Planning	Minister of Environment and Spatial Planning has undertaken to adjust zoning under the Spatial Plan to correspond with project area needs once these needs are concretely established
Brezovica Resort Development Project	Lack of adequate funding available to expropriate third party properties within the Development Footprint	GoK to make the necessary budgetary provisions to ensure adequate funding.	Initial discussion held with the Director of the Budget Department within the Ministry of Finance

## 7 MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity		Planned Dates
Municipal Med-Term Budget Framework 2013-2015 drafting and recommendations for the future	Conference on MTEF application practices as an improved approach to budget development	Municipalities and MF Municipal Department staff	25 April 2013
Gjilan Urban Bus Transport	Bus feasibility and tender documents workshop	Gjilan Municipality	30 April 2013
	Environmental Impact Assessment workshops	Line Ministries	7-8 May 2013 13-14 May 2013
PEFA Program	Concluding PEFA Technical Workshop	PEFA Secretariat within MF	15-27 May 2013
New Administrative on Costing of New Policy Initiatives	Training on Implementation of Costing Instructions(AI 01/2013/MF)	Line Ministries and agencies	20-24 May 2013
Property Tax planning for 2014 and the Impact of the New Assessment model	Stimulation planning revenues for Property Tax 2014 Training	34 Municipalities	27-31 May 2013

## 8 FINANCIAL DATA

Kosovo GFSI						
Quarterly Accrual Report as of 3/31/13						
Budget Cost Elements	Budgeted Amounts	Disbursed Amount	Current Billed Inv#8001880885 2/10/13 - 3/09/13	Accrual Amount 3/10/13 - 3/31/13	Expended Amount	Remaining Budget to Complete
Fixed Daily Rate - Labor	\$3,262,592.00	\$2,391,328.81	\$53,580.75	\$90,290.63	\$2,535,200.19	\$727,391.82
TCN - Labor	\$3,409,097.00	\$2,938,847.83	\$58,875.63	\$67,885.88	\$3,065,609.34	\$343,487.66
CCN - Labor	\$2,564,071.00	\$2,602,270.24	\$102,047.46	\$78,895.55	\$2,783,213.25	-\$219,142.25
Other Direct Costs	\$3,551,385.00	\$2,935,294.40	\$88,840.90	\$53,957.13	\$3,078,092.43	\$473,292.57
Retainage	\$0.00	-\$50,000.00	\$0.00	\$0.00	-\$50,000.00	\$50,000.00
G&A	\$709,119.00	\$613,477.12	\$18,150.20	\$11,023.44	\$642,650.76	\$66,468.24
<b>Total</b>	<b>\$13,496,264.00</b>	<b>\$11,431,218.40</b>	<b>\$321,494.93</b>	<b>\$302,052.63</b>	<b>\$12,054,765.97</b>	<b>\$1,441,498.03</b>
				**Accrual amount is for period 3/10/13 through 3/31/2013		