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# PARTNERSHIPS FOR DEVELOPMENT

YEAR I ANNUAL REPORT  
FEBRUARY 2014 – JANUARY 2015

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# ACRONYMS

AGE	Agency for Gender Equality
AI	Administrative Instruction
AIS	Agency for Information Society
AKT	USAID Advancing Kosovo Together
BDMS	Budget System
BEEP	USAID Business Enabling Environment Program
BRDP	Brezovica Resort Development Project
CBD	MoF Central Budget Department
CBK	Central Bank of Kosovo
CDCS	USAID Kosovo Country Development Cooperation Strategy 2014 – 2018
CLE	USAID Contract Law Enforcement Project
COFOG	Classification of the Functions of Government
DB	Doing Business
DEMI	USAID Decentralized Effective Municipalities Initiative
DEMOS	Decentralization and Municipal Support
DO	Development Objective
EC	European Commission
EDVAP	Economic Development Vision and Action Plan
EPPD	Economic Public Policy Department
ESTAK	USAID Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
GDP	Gross Domestic Product
G2G	USAID Government-to-Government Program
GFS	Government Finance Statistics (as per the IMF Manual)
GFSI	USAID Growth and Fiscal Stability Initiative
GIS	Geographical Information System
GIZ	German Federal Enterprise for International Cooperation
GNI	Gross National Income
GoK	Government of Kosovo
ICT	Information Communication Technology
IFC	International Finance Corporation
IMF	International Monetary Fund
IR	Intermediate Result
IRuSP	EU Project on Implementation and Enforcement of Rural Spatial Planning
ISC	Inter-Ministerial Steering Committee for BRDP
IT	Information Technology
KBRA	MTI Kosovo Business Registration Agency
KCA	Kosovo Cadastral Agency
KSA	Kosovo Standardization Agency
LO	OPM Legal Office
MBC	Municipal Business Center
MBD	MoF Municipal Budget Department
MCI	Municipal Competitiveness Index
MCO	Municipal Cadastral Office
MESP	Minister of Environment and Spatial Planning

MoF	Ministry of Finance
MPA	Ministry of Public Administration
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
MTI	Ministry of Trade and Industry
MTPP	Medium-Term Policy Priority
NACE	Statistical classification of economic activities in the European Community
NCED	National Council for Economic Development
NDS	National Development Strategy
NGO	Non-Governmental Organizations
NOA	USAID New Opportunities for Agriculture
OAG	Office of Auditor General
OGDB	Official Gazette Legal Information Database
OOG	OPM Office of the Official Gazette
OPM	Office of the Prime Minister
OSCE	Organization for Security and Co-operation in Europe
PBMS	Performance Based Management System
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PIP	Public Investment Program (Budget system for Investment projects)
PIU	Project Implementation Unit
PMCG	Policy and Management Consulting Group
PPA	Public Procurement Agency
PPP	Public Private Partnerships
PPPC	Public Private Partnerships Committee
PPRC	Public Procurement Regulatory Commission
PTD	Property Tax Department
RFP	Request for Proposal
RTK	Radio Televizioni i Kosovës (Kosovo National Public TV)
SIDA	Swedish International Development Cooperation Agency
SIGTAS	Standard Integrated Government Tax Administration System
SPO	OPM Strategic Planning Office
STTA	Short Term Technical Assistance
SWOT	Strengths, Weaknesses. Opportunities, and Threats
TA	Technical Assistance
TAK	Tax Administration of Kosovo
TLP	USAID Transformational Leadership Program
UN	United Nations
UNDP	United Nations Development Program
USA	United States of America
USAID	United States Agency for International Development
USG	United States Government
WB	World Bank

## EXECUTIVE SUMMARY

USAID Partnerships for Development supports Government of Kosovo (GoK) institutions at the central and local level to create a business-friendly and competitive business environment that will attract foreign investments, while at the same time maintain macro-economic stability. The Project has the following objectives: (1) improve the business environment, (2) improve implementation of construction reforms, and (3) enhance the country's macro-economic stability and Public Financial Management (PFM) at the central and local level.

This report covers the period from February 2014 through January 2015. During this period, the Project successfully supported the completion of a number of initiatives and made progress in contract objectives. While specific successes were achieved, delays in forming a Government after general elections in June and the overall political uncertainty impacted the work of Government institutions, in particular due to challenges with GoK political leadership in providing high-level support for a unified political approach and often difficult reform decision making, as detailed in sections below.

In Component One, the Project carried out initiatives with the Legal Office of Office of the Prime Minister (LO), including efforts to improve the quality of legislation and its consistency with existing national policy, by strengthening the requirements for analyses to measure the anticipated effects of proposed legislation and the actual effects of law in force. The Project also supported improving the volume and quality of legal information made available to the public, working jointly with the LO and the Office of Official Gazette (OOG) to ensure that all sub-legal acts are uploaded and the process of directly uploading by government bodies is institutionalized to keep the Database current. The Project also engaged with the newly-formed Agency for an Information Society (AIS), responsible for GoK information systems coordination, to support future standardized requirements for the webpages of public institutions and facilitating access to information relevant to citizens and equally in Albanian, Serbian, and English.

To advance reforms in permitting and licensing, the Project coordinated closely with the International Finance Corporation (IFC), which is supporting the development of a National Registry of Permits and Licenses, and conducted extensive GoK outreach with licensing bodies to assist the LO of the Office of Prime Minister (OPM) to draft a Government Administrative Instruction (AI) on Licensing Boards to establish general framework principles for all professional licensing boards operating in Kosovo.

Throughout the year, the legal experts in Component One provided increasing support to the subject-matter experts in Components 2 and 3 to focus activities and prioritize inspections, information access, and permissive systems issues in a consolidated program for key counterparts. This dynamic is expected to continue and intensify in future years to deliver holistic reforms in key priority areas.

On October 29, 2014 the World Bank (WB) published the Doing Business (DB) report, *Doing Business 2015*, where Kosovo improved its ranking, moving up to 75<sup>th</sup> overall from its previous revised ranking of 81. In addition to the USAID support for reforms, these positive results reflect the Project's assistance to the GoK to draw the World Bank's attention to the current status of the environment in Kosovo, which helped prompt the World Bank to recognize accomplished reforms.

In Component Two, the Project quickly continued USAID support to the Ministry of Environment and Spatial Planning (MESP) to capitalize on the gains previously made by USAID in the areas of construction and spatial planning reform. After agreeing on a joint strategy, MESP instructed other technical projects to integrate their activities and this formed a platform of joint cooperation throughout the year. All efforts focused on implementation of the key pillars of construction reform – the Laws on Construction, Spatial Planning and Treatment of Unpermitted Construction.

In the area of construction, activities focused on establishing a Reform Scorecard program with five pilot municipalities, which will provide targeted assistance for full implementation of permitting reforms. Training was provided on the interconnectivity between the Law on Construction and Law for Treatment of Constructions without Permits, particularly on the point of handling unfinished buildings that are subject to legalization. Final edits were made to the Unified Construction Code, including working closely with the Standardization Agency, and the Code was submitted by MESP to the Government for adoption.

The Project worked with MESP and other technical projects to begin developing the regulatory framework to implement the new Law on Spatial Planning. The administrative instructions under this law must work in close harmony; therefore, focused attention was directed to fostering collaboration between ministerial working groups and supporting projects. To develop better understanding of new ideas, the Project also provided technical training on the concept of zoning, particularly as applied in municipal zoning maps. The Project provided proposed drafts of Administrative Instructions on Municipal Development Plans and Municipal Zoning Maps, and is working with MESP and other projects on the Administrative Instruction for Spatial Planning Technical Norms and the National Zoning Map.

Activities to help MESP and municipalities embark upon the process of treating constructions built without permits were fast-paced and, at times, all encompassing. The Project helped MESP design and leverage resources to develop a nationwide database program for registering unpermitted constructions and to provide a necessary instruction manual and hands-on training to municipalities. The Project also helped MESP conduct regional workshops on the law and its interplay with the Law on Construction. MESP, with Project encouragement, reached out to other government organizations, private associations and civil society groups to enlist their help in spreading the word about legalization. And the Project, MESP and municipalities worked together on a public campaign centered around “Legalization Day” and involving a public service announcement, billboards, banners, posters, and flyers. This activity contributed to a significant increase in citizens registering their unpermitted construction in the Registry. MESP also adopted an Administrative Instruction on Health and Safety Standards for unpermitted buildings and issued comprehensive Guidelines explaining each step of the process. As the Project year comes to a close, so too does the first stage of the legalization process, with over 81,000 unpermitted constructions now listed in the Registry as of January 2015.

In Component Three, the Project worked closely with the Ministry of Finance (MoF) to support budget preparation and finalization activities. This included promoting greater budget transparency by assisting in using functional classification for future budget planning. Further work in the area of improving transparency involved supporting the MoF Economic Public Policy Department to describe and standardize macroeconomic and revenue forecasts. A review of the Medium-Term Expenditure Framework (MTEF) process, highlighted and summarized in a report the key issues in medium term budget planning which MoF needs to address in the coming years.

The Project supported the LO OPM and MoF in drafting a revised AI on Costing of Normative Acts and Strategies and the accompanying manual. Once adopted the AI and manual will assist in improving the costing of legislation and policy documents within the GoK.

In order to ensure improved planning for addressing general PFM weaknesses the Project supported the MoF Secretariat on Public Expenditure and Financial Accountability (PEFA) to prepare a draft PEFA Action Plan to address PFM weaknesses identified in the 2013 PEFA assessment. This Action Plan has been submitted to the Minister of Finance and is now pending approval.

The Project also supported Tax Administration of Kosovo (TAK) to conduct a detailed review of data within the TAK taxpayer database SIGTAS. Following the findings of the review, the Project presented recommendations to TAK on how to improve the accuracy and reliability of their data and systems and some of the recommendations which relate to duplicated tax accounts and the types of businesses in SIGTAS have already been implemented. The Project also supported TAK to draft and approve an internal instruction establishing the process for opening and closing of tax accounts to reduce the risk of future duplicate tax accounts.

With the previous USAID support, TAK established the call center, which initially had been focused on making calls to taxpayers in order to address tax debts. Latter, with the support of the Project, the call center started receiving calls from taxpayers with general tax queries.

The Project also supported the MoF Property Tax Department throughout 2014, firstly to promote increased compliance of property tax and also to assist in activities related to the review of the current legislation on taxing immovable property. A Property Tax Forum was held by the Property Tax Department with municipalities, to discuss current year property tax compliance rates and sharing of experiences by municipalities to improve compliance. Following the Forum, the Property Tax Department published results by municipality on their website and all those activities contribute to record property tax collection performance in 2014, with the current year compliance rate moving up from 44.75% in 2013 to 51.04% in 2014. Total property tax collection (current year plus interest and penalties) increased by 26.12%.

On Brezovica Resort Development Project (BRDP), significant support was provided to the Inter-Ministerial Steering Committee (ISC) and contracting authority. The Project continued uninterrupted previous USAID support through Transaction Advisor Jill Jamieson, working under subcontract for Huron Consulting, and the Project Implementation Unit (PIU). After receiving the bid proposal on September 9, 2014, on November 17, the ISC, after extensive discussions, supported the recommendations of the Evaluation Committee to award the contract to the Bidder. On December 29, in compliance with award requirements, the winning Bidder registered its business in Kosovo and the work continued to negotiate the contract, which is expected to be signed in March 2015.

# KEY ACHIEVEMENTS OF YEAR ONE

The following are the key achievements of the Project for Year One:

- Award of the Brezovica Resort Development Project, a landmark investment of over 400 million Euro
- Kosovo's country ranking in World Bank's Doing Business 2015 improved 6 places, with Kosovo moving to an overall rank of 75, from 81 in 2014
  - World Bank recognition of substantial improvement in *Starting a Business* (+58) and *Dealing with Construction Permits* (+13)
  - Construction reforms highlighted by the World Bank as "Significant Reforms"
- Improved institutionalization of the Official Gazette Legal Information Database (OGDB), with 540 subnormative acts added to the OGDB and behavior changes implemented in ministries to directly upload acts to keep the system current, increasing access, transparency and reliability in the database and legal system overall
- Legalization program for unpermitted constructions initiated, with over 81,000 construction registered as of January 2014
- The MoF Property Tax Department (PTD) improved information provided to municipalities and citizens (and encourage compliance and municipal efforts) by publishing on-going property tax collection status, by municipality, on the department's website and in supported Kosovo best practice forums:
  - Record total property tax collections in 2014, with an increase of 26% versus 2013
  - Record current year property tax compliance rate over 51%
- Ministry of Trade and Industry (MTI) establishment of a dedicated webpage for publication of draft subnormative acts and its subsequent use to post drafts for public comment
- MESP Inspectorate, municipalities, pilot intensive focus on construction reform implementation and use of Reform Scorecard in five municipalities: Fushë Kosovë / Kosovo Polje, Graçanicë / Gračanica, Hani Elezit, Peja / Peć and Pristina
- Construction, spatial planning, and legalization legal infrastructure developed, including the adoption of:
  - Administrative Instruction on Issuing Terms of Construction and Construction Permits for Category III Constructions
  - Guidelines for spatial planning and issuing permits in national parks
  - Administrative Instruction on Public Participation in Spatial Planning
  - Administrative Instruction on Health and Safety Requirements for Legalization
  - Administrative Instruction for Documentation in Support of the Application for Legalization of Completed Construction of the Third Category

- Internal TAK procedures and operations in managing with the taxpayers' database improved, with removing the duplicated tax accounts, updating of the system to correctly record types of taxpayers as per legal requirements, and the adoption of an internal instruction on how to open and close tax accounts

# PROJECT INTRODUCTION

On January 31, 2014, the United States Agency for International Development awarded Partnerships for Development to Chemonics International Inc. and its subcontractors Crimson Capital Corp. (Crimson) and Policy and Management Consulting Group (PMCG).

Partnerships for Development is a 4 year and 8 month activity to (1) improve the business environment, (2) improve implementation of construction reforms, and (3) enhance macro-economic stability and Public Financial Management at the central and local levels of Kosovo Government.

The overall goal of the Project is to enhance the enabling environment for private sector growth and expanded employment opportunities in Kosovo, and, through the supporting implementation of anticipated Government-to-Government (G2G) development assistance funds, to enhance capacities of the Kosovo Government and subordinate government bodies to identify, plan, procure, implement, and monitor technical assistance directly funded by USAID using host country government systems, legislation, and procedures.

Year One activities seek to build on previous USAID work in Kosovo, including as supported under the USAID Business Enabling Environment Program (BEEP), USAID Growth and Fiscal Stability Initiative (GFSI), USAID Efficient and Sustainable Tax Administration of Kosovo (ESTAK), and USAID Decentralized Effective Municipalities Initiative (DEMI). Additionally, activities support both continued World Bank Doing Business improvement as well as achievement of key Government of Kosovo development priorities set out in their Economic Development Vision and Action Plan (EDVAP), particularly: (1) maintaining macroeconomic stability, (2) investments, investment environment, and private sector support, and (3) development of public infrastructure.

## **COMPONENT ONE: BUSINESS ENVIRONMENT IMPROVEMENT**

Component One includes both cross-cutting national activities as well as specific business environment reforms. The cross-cutting activities address improving policy coordination and dialogue at the national level and policy implementation across national governmental bodies.

Component One also includes activities aimed at specific business environment reforms such as improving Kosovo's ranking in the World Bank Doing Business Report; improving the regulatory framework governing private economic activity by supporting the implementation of the recently adopted Law on the Permissive System; implementation of risk-based inspections practices; and supporting the institutionalization of the Official Gazette Database and making accurate and complete legal information easily available to the public. Component One also provides legal support to Components Two and Three for their initiatives.

## **COMPONENT TWO: IMPROVED IMPLEMENTATION OF CONSTRUCTION REFORMS**

Component Two provides support and assistance to the Ministry of Environment and Spatial Planning and through MESP municipalities and other partners to continue reforms in construction permitting, spatial planning, and addressing unpermitted construction.

Building on prior USAID assistance, Component Two focuses on full implementation of the Law on Construction and the new Laws on Spatial Planning and for the Treatment of Unpermitted Constructions.

The Project supports partners to build capacities at the central and local levels to streamline the construction permitting process and help to ensure that inspections are properly carried out and that occupancy certificates are issued without delay. The Project will also work with partners to realize the first ever National Spatial Plan and Zoning Map and supporting spatial data infrastructure that will allow greater public access to spatial planning data. With partners, Component Two supports GoK priorities in legalizing previously unpermitted constructions to improve safety and increase property tax rolls.

## **COMPONENT THREE: ENHANCED MACRO-ECONOMIC STABILITY AND PUBLIC FINANCIAL MANAGEMENT (PFM) AT THE CENTRAL AND LOCAL LEVELS**

Component Three includes support to the Ministry of Finance, Tax Administration, and other partners involved in PFM activities and reforms. Support is provided in advancing and sustaining macro-economic stability via improving the implementation of macro-economic policy and wider budget related PFM reforms. The main areas of assistance include improving strategic policy led budget management, enhancing further the quality of fiscal projections, budget transparency, and supporting improved revenue generation.

As there is a need to link public expenditure more closely to the revenue side of the budget (especially domestic taxation and non-tax revenues, having in mind that in future years, border revenues are expected to drop), coordinated support is provided to the Government partners involved in designing and implementing taxation policies. Better resource mobilization can create a culture of government accountability to the citizen-taxpayer, diversify and make more effective

public finance, enable long-term financial commitments to citizens, and reduce dependence on aid flows.

In addition, Component One, where possible, assists GoK to identify and support opportunities for involving private sector investment in local and national public infrastructure, where through different types of Public-Private-Partnerships (PPP) modalities, citizens, investors and Government would benefit. This includes the Brezovica Resort Development Project where the Project supports the ISC and the contracting authority to procure, contract, and implement this very high priority project for Kosovo.

## **PARTNERSHIPS FOR DEVELOPMENT RESULTS FRAMEWORK**

The United States Agency for International Development | Country Development Cooperation Strategy (CDCS) for Kosovo for 2014-2018 formulates an ambitious agenda for Kosovo. The United States Government (USG) seeks a strong and effective partnership with the Government of Kosovo that builds on their close relationship in order to address regional and global challenges. USG support focuses on:

- Building the capacity of Kosovo governing institutions;
- Strengthening the Kosovo economy; and
- Improving the education and skills of Kosovo citizens.

The CDCS is based on the implementation of three development objectives (DOs):

- **Development Objective 1:** Improved Rule of Law and Governance that Meet Citizens' Needs
- **Development Objective 2:** Increased Investment and Private Sector Employment
- **Development Objective 3:** Enhanced Human Capital

Partnerships for Development contributes to DO2: *Increased Investment and Private Sector Employment*. Three indicators are provided to capture this DO:

1. Growth in Foreign Direct Investment
2. Private sector as a share of Gross Domestic Product (GDP)
3. Ratio of public-to-private sector employment

As these indicators are a function of many variables within the Kosovo economy as well as market forces, direct causal attribution of project activities to these numbers is not possible. However, the Project will indicate where project indicators and activities are reasonably expected to impact these indicators indirectly. Also, relevant pass-through data is included in the Performance Based Management System (PBMS) as *Supplemental Indicators* to provide the official information annually to USAID from Government of Kosovo sources.

Partnerships for Development activities also contribute to IR2.1: *Improved Economic Governance and Business Environment*, Sub-IR2.1.1: *Improved Fiscal Framework and Public Financial Management* and Sub-IR2.1.2: *Key Economic Reforms Implemented at the Central and Local Levels*.

IR2.1: Improved Economic Governance

1. Progress on the World Bank Doing Business Index
2. Formal sector employment as a % of total employment
3. Number of business registered that submit tax declarations

Sub-IR2.1.1: Improved Fiscal Framework and Public Financial Management

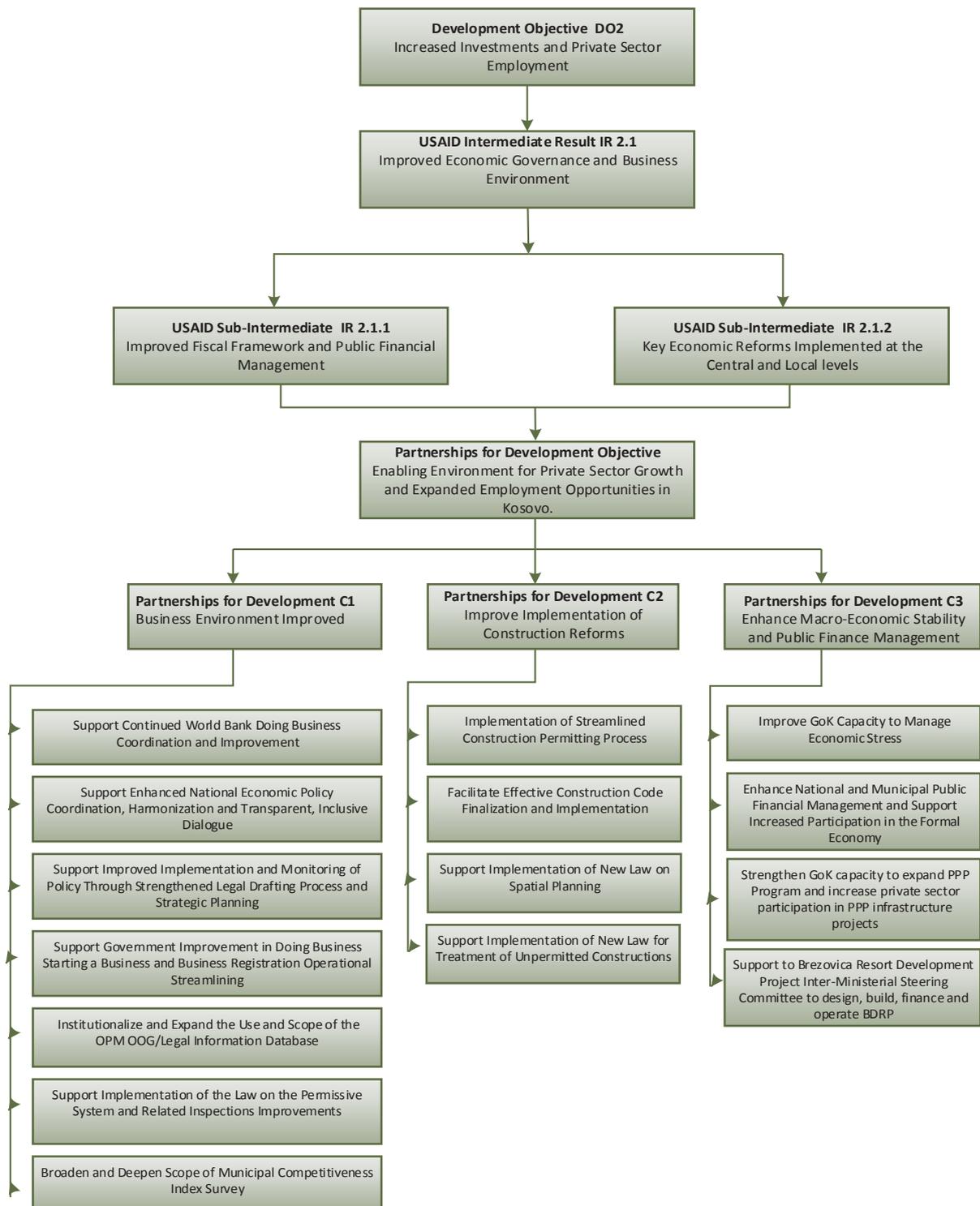
1. Government revenue (tax and non-tax), excluding foreign grants, as a % of GDP
2. Person-hours of training completed in fiscal policy and fiscal administration as a result of USG assistance

Sub-IR2.1.2: Key Economic Reforms Implemented at the Central and Local Levels

1. Number of municipal regulations and administrative procedures that have been simplified as a result of USG assistance
2. Key policy, legislation, and structural reforms implemented at the central level
3. Person-hours of training completed in business enabling environment supported by USG assistance

Each of the USAID Partnerships for Development three components encompasses these dynamic activities, which are reflected within the Results Frameworks.

## DEVELOPMENT OBJECTIVE 2: INCREASED INVESTMENT AND PRIVATE SECTOR EMPLOYMENT



## **IMPACT OF GOVERNMENT FORMATION DELAY FOLLOWING JUNE ELECTIONS**

On June 8, 2014, Kosovo organized its early general elections to elect the new Assembly and Government. However, due to constitutional ambiguities on how to constitute the Assembly, elect its speaker and the Government; the involvement of the Constitutional Court in issuing its obligatory opinion on the two issues, and protracted disagreement among the political parties on how to proceed, the new Government was not formed until December, 2014. While the existing Government continued officially, this delay impacted the daily work of Government institutions since political leadership and forward-looking vision are necessary to direct technical activities, ensure that those activities fit into a political agenda, and involve / unite / address various political factions. The Project witnessed the impact of a lack of political championship in some institutions and broadly across Government. Uncertainty within some partners and a general lack of forward-looking decision making or planning resulted from this situation.

In particular, the effect of the delay presented challenges in the OPM where unified political vision and leadership are important to pursue inclusive permissive system reform with ministries, agencies, and the private sector, since reforms often require eliminating existing powers or areas of intervention, and streamlining others.

There was no mid-year budget review by the MoF. While MoF reported both revenues and expenditures short of 2014 budget targets, revenues exceeded 2013 collections and this may suggest that forecasts were subjected to political influence. Whether collections were impacted by political uncertainty is unknown.

The private sector reported negative impacts from the uncertainty and the decrease in government spending. This highlights concerns about the level of overall reliance on governance spending in general but also the immediate direct and follow-on impacts on economic activity in the country.

While a new Government is now in place, as the Project is flexible pursuing support to GoK priorities, political events continue to impact policy visioning. Until the new government announce its vision and its commitment to direct administrative activities and behavioral change, the future overall policy of the government will remain unknown.

However, the Project continues to pursue opportunities with key partners to maximize impact and address areas of potential improvement where possible.

## **WORK PLAN PROGRESS REPORT**

This section provides a detailed description of Project activities and the progress towards the Work Plan. For each component, a detailed progress matrix versus the work plan is presented. In keeping with the flexible approach in responding to government needs and timelines, in some cases, due to government challenges highlighted above, items required political leadership and are marked as “pending new government priorities.” In these cases, typically foundational work has been

completed, but additional political buy-in and determination of future GoK priorities and approaches is needed for further action.

## COMPONENT ONE: BUSINESS ENVIRONMENT IMPROVEMENT

### CI-1: SUPPORT CONTINUED WORLD BANK DOING BUSINESS COORDINATION AND IMPROVEMENT

Kosovo continued to improve its ranking in the World Bank Doing Business surveys. The most recent report, *Doing Business 2015*, which was published on October 29, 2014, shows an improvement of 6 places, with Kosovo moving to an overall score of 75 from its previous rank of 81 (revised) in 2014. The Report records marked improvements in *Starting a Business* (+58) and *Dealing with Construction Permits* (+13).

In addition to the USAID support for reforms, these positive results reflect the Project's assistance to the GoK to draw the World Bank's attention to the current status of the environment in Kosovo, which helped prompt the World Bank to recognize previous accomplished reforms.

The Report published by the World Bank includes methodology changes as well as retroactive changes to historic data. The overall ranking methodology changed to capture relative distance-to-frontier, or international best practice, as determined for each indicator.

The retroactive change to *Paying Taxes* reflects increased calculation weight of administrative procedures and the retroactive change to *Resolving Insolvency* captures both practice and the addition of an implementation sub-variable.

For clarity, the data as published in *Doing Business 2014* as well as current data from *Doing Business 2015* are presented below.

#### Kosovo Rankings Doing Business 2015

Indicators	DB 2014 (as published in 2013)	DB 2014 (as published in 2014)	DB 2015	Official Change
<b>Country Overall</b>	<b>86</b>	<b>81</b>	<b>75</b>	<b>+6</b>
Starting a Business	100	100	42	+58
Dealing with Construction Permits	136	148	135	+13
Getting Electricity	121	105	112	-7
Registering Property	58	35	34	+1
Getting Credit	28	19	23	-4
Protecting Investors / Protecting Minority Investors	98	61	62	-1
Paying Taxes	43	58	63	-5
Trading Across Borders	121	117	118	-1
Enforcing Contracts	138	143	138	+5
Resolving Insolvency	83	166	164	+2

The World Bank noted 2 positive significant changes and 1 negative significant change. For *Dealing with Construction Permits*, the World Bank recognized the implementation of cost-recovery permit pricing and phased inspections during construction. For *Enforcing Contracts*, the introduction of the

system of private bailiffs was noted. According to the World Bank, *Registering Property* was made more difficult due to increased property registration fees.

While the rankings in a number of indicators changed significantly between DB 2014 as published and as revised, the underlying variables in many cases did not change. For example, for *Paying Taxes*, the time required for tax compliance decreased slightly, but due to increasing weight given to administrative burdens versus the tax rate, the overall ranking was changed. Similarly, for *Resolving Bankruptcy*, the historic variables for the process remained the same, but owing to the inclusion of a new index on strength of the framework and changes in the overall ranking methodology, the historic and current ranking was administratively modified.

## **CI-2: SUPPORT ENHANCED NATIONAL ECONOMIC POLICY COORDINATION, HARMONIZATION AND TRANSPARENT, INCLUSIVE DIALOGUE**

In Year One, the Project continued dialogue with the Government to encourage the continuation of National Council for Economic Development (NCED) and related coordination amongst Government bodies and the private sector. Owing to the political environment, the former Government held only one meeting of NCED. The new Government has expressed interest in continuing the forum and the Project will support this, in collaboration with the IFC, as the policy goals and lessons learned are incorporated into the new plans of the Government going forward.

In addition, the Project provided extensive information to the EU project, “Support to Kosovo’s Policy and Strategic Planning,” which is assisting in the development of a new National Development Strategy (NDS) for the GoK. The Project provided the EU project with its own proposals for initiatives on permissive system and inspections reform; institutionalizing the Official Gazette Database; and improving the public outreach of government bodies (all of which the Project also provided to its Government counterparts), along with other information, in the expectation that these initiatives will be reflected in the draft National Development Strategy. The Project also attended a conference sponsored by the EU project that was designed to present for discussion the framework under which the National Development Strategy is being developed.

The Project proposal on permissive and inspections reform outlined the principles, steps, timetable, organizational structures and keys for success for a comprehensive reform initiative. Recommendations for institutionalizing the OGDB stressed the importance of access to legal information for good governance and the rule of law and outlined the actions to be taken to further institutionalize the OGDB. In its proposals on improving public outreach, the Project described the range of problems it has identified related to the web pages of public institutions that impede public access to information from government bodies; these including the failure to provide complete and actionable information to enable the public to exercise their legal rights.

In this connection, the Project will encourage the Government to link strategy documents, such as the National Development Strategy, which is envisaged as a medium-to-long term planning document, with short-term planning documents, such as the Annual Work Plan/Program of the Government, Medium-Term Expenditure Framework, and annual budgets. Directly related to this is the Project’s support to the Government’s current initiative, described below in Section CI-3, to draft an administrative instruction and manual on the budgetary impact of new government initiatives. This AI is designed to make possible, and to require government bodies to have, an improved process for assessing the impact on the budget of each legal act or strategy that they propose. In this way the government can take more informed decisions on initiatives and policy priorities.

The Project also connected the USAID projects, NOA, CLE, TLP, and EMPOWER, with the EU Project for improved coordination.

In parallel with the efforts to improve policymaking, the Project continued to support a number of activities related to policy development by line ministries. In addition to improving budget impact assessment, these activities included requiring the systematic review of relevant existing legislation as a precondition to proposing new legislation; and improving the public notice, consultation and commenting process for draft legal acts. These activities are described in more detail in C1-3.

### **C1-3: SUPPORT IMPROVED IMPLEMENTATION AND MONITORING OF POLICY THROUGH STRENGTHENED LEGAL DRAFTING PROCESS AND STRATEGIC PLANNING**

In Year One, the Project carried out a number initiatives aimed at improving the quality of proposed legislation. Project efforts were aimed at increasing the posting of draft legislation for public notice and comment; improving the quality and volume of information that government bodies provide to the public; and by making more rigorous the legal requirements concerning the analyses to be used for preparing and evaluating draft legislation. The Project's principal partners for these initiatives were the MoF, the LO; MTI; and the AIS. These activities included the following:

**Budget Impact Assessment** - The Project provided legal drafting support to the working group formed to develop an administrative instruction on budget impact assessment for new government initiatives, with the LO and the MoF as the two principals in the working group. The Project developed and circulated drafts following working sessions. The Project also developed a draft Manual on how to apply the methodology required by the AI. The draft and Manual were brought to an all-but-final stage, pending the resolution of some outstanding points of disagreement between the LO and the MoF (additional details provided under C3-1 below).

**Law on Normative Acts** - The draft Law on Normative Acts was originally developed with prior USAID support and is designed to ensure, among other things, that all legal acts are published in the OGDB and that all draft legal acts are published for public notice and comment. (The draft law was submitted to the Parliament in late 2013, but Parliament dissolved for new elections before acting on it.) The Project provided comments to the LO on the draft in its current form and prepared a consolidated version of agreed changes. The revised Draft Law features provisions on (a) the mandatory publication of primary and secondary legislation in the Official Gazette Database; (b) the mandatory preparation of proposed amending legislation in a version that shows the resulting amended law in one complete, consolidated text; (c) the analysis to which proposed legislation is required to undergo prior to approval by the Government and the Assembly; and (d) the mandatory posting of all draft legislation for public notice and comment.

It is expected that the draft Law will be submitted for GoK approval and sent to the Parliament in the early months of 2015.

**Making information available to the public** - In support of the Agency for an Information Society, the Project conducted a review and identified serious systemic problems surrounding the policies and practices of government bodies in making information available to the public. The Project identified the following issues:

- Ministry websites vary widely in their front pages, internal structure, navigation, and content;
- Site addresses use different domain names and are not intuitive or standardized;

- Sites are often developed and maintained by out-sourcing, rather than by using existing government resources in the Ministry of Public Administration (MPA), which increases the overall cost of government;
- Site content is heavily focused on ministers and personalities and has a primary focus on marketing and promotion rather than on providing citizens with information on core activities;
- Information is often lacking in Serbian and English and the translations are poor; and
- Sites do not employ linkages that increase efficiencies, such as automatically incorporating and displaying acts as posted in the OGDB, thus creating additional costs and inconsistencies.

The Project discussed these problems with the AIS, and this Agency expressed full support for a coordinated initiative to address them. (The AIS is within the Ministry of Public Administration and is the main government body responsible in this area.) As a result, the Project prepared and submitted to the AIS a draft proposal for activities to be undertaken to address the above listed issues. In this connection, the AIS proposed to develop a joint work plan, which is still in draft form. The AIS also requested the Project to review its Draft AI on Websites of Public Institutions. The Project proposed a number of changes aimed at increasing the authority of the AIS to ensure that the webpages of public institutions meet a number of minimum requirements in terms of content and structure, including:

- Requiring the use of hyperlinks to the OGDB whenever a legal act is published in the webpages of public institutions (instead of the current practice of directly uploading the legal acts on the webpage). This will improve efficiency and reinforce the primary role of the OGDB as a source of legal information;
- Requiring that draft legal acts be posted in the webpages of public institutions, in accordance with the existing requirements of the Rules of Procedure of the Government on public consultation. This will ensure that all citizens have the opportunity to comment on legislation that public institutions are drafting;
- Requiring that all information published on a webpage be equally available in all languages, as per legal requirements;
- Requiring that public institutions publish all useful information on citizens' rights and obligations related to the functions exercised by the institution, including all relevant information on permitting, licensing and inspections;
- Requiring the use of standardized URL-s for all public institutions, as well as a general provision authorizing the AIS to issue guidelines and technical instructions on various issues relating to websites.

The Project also proposed that the AIS work with public institutions to develop a standard template to which all official webpages must comply.

The Project will continue to work with the AIS in Year Two to further the progress made during Year One.

**Better Regulation Strategy** - The Project provided comments to the LO on the draft Better Regulation Strategy, now adopted by the GoK, which requires all drafting bodies in the executive branch to conduct a more thorough impact analysis for all proposed legal acts and includes a plan of implementation for amending the Rules of Procedure of the Government.

**Guidelines Ex-Post Evaluation of Legislation in Kosovo** - At the request from the LO, the Project provided detailed recommendations on the draft “Guidelines on the Ex-Post Evaluation of Legislation in Kosovo.” As currently formulated, the Guidelines call for a review of legal acts in force to determine whether they are having in practice the effects and results for which they were developed. The Project recommended to the LO to expand the scope of the review to also include (1) a review for consistency with basic principles of a rule of law, a market economy, and government policy; (2) a review of the legal basis of the act and the issuance of all required subnormative acts; and (3) a review of whether the legal act has been translated into all official languages and published in the OGDB. The Project also recommended that an ex-post review of relevant existing law be a prerequisite to the development of any new draft legislation. The Project expressed its readiness to assist in expanding the guidelines in the manner described. The LO OPM requested the Project to continue to support this process until the Guidelines are finalized. The Project will seek to work with the LO to help it institute procedures for monitoring government bodies’ compliance with the Guidelines and other legislative drafting requirements when they have been adopted.

**EU Approximation of Kosovo Law** - In 2013 the GoK adopted heightened requirements concerning the review of proposed Kosovo legislation for approximation to EU Law. The new requirements are challenging, and ministries are having difficulty meeting them. At the request of the MTI Legal Department, the Project provided instruction and guidance to help MTI personnel carry out this review in connection with draft Amendments to the Law on Patents and MTI’s draft Law on Industrial Design. The Project conducted an intensive 3-day workshop and participated in the working group sessions.

**Analysis and Recommendations on the Policy Making and Legislative Drafting Process** - The Project developed a process map of the procedures for developing policy and drafting legislation. At the request of the LO, the Project reviewed and provided comments on the “Guide to Policy Making and Legislative Drafting Process,” which was developed by the Kosovar Stability Initiative with funding by the British Embassy in Pristina. The Guide confirms the Project’s own independent findings, and the Project noted to the LO that the findings of both donors confirm the need to strengthen the existing requirements for public consultation and comment on both policy proposals and draft legislation.

**MTI Hotel Classification System** - At the request of the then Minister of MTI, Mr. Bernard Nikaj, the Project supported a review of MTI’s current voluntary hotel classification scheme for Kosovo hotels. The Project developed a scope of work and hired a local expert with international experience in the hotel industry, Mr. Ilir Ibrahim, to perform the following tasks: (1) review the existing Administrative Instruction 19/2013 on Hotel Classification; (2) review the current hotel classification guidelines; (3) develop classification questionnaires for 5-star, 4-star and 3-star hotels; and (4) provide recommendations for improving the existing procedures and practices. Mr. Ibrahim provided his final deliverables to the Project on schedule in January 2015, following the Project’s review of and comment on the first draft of his Report. Principal recommendations advanced by Mr. Ibrahim include establishing an independent professional organization to serve as the supervising

authority for the voluntary hotel classification program and establishing appropriate permitting and inspections requirements for hotels, independent of the voluntary program.

**Review of Concept Documents for MoF** - The Project conducted a review for the MoF Legal Office of concept documents pertaining to two legislative initiatives proposed by Customs: (1) a draft law on improving Customs' protection of intellectual property rights; and (2) a draft law increasing the collection of customs duties on cell phones by introducing extensive controls at both border points and within the country to uncover contraband cell phones. As agreed with MoF, the Project focused its review on the quality of the analysis demonstrated in the concept documents and provided guidance on how the MoF could apply more effectively the requirements GoK in force for evaluating proposed legislation.

#### **CI-4: SUPPORT GOVERNMENT IMPROVEMENT IN DOING BUSINESS STARTING A BUSINESS AND BUSINESS REGISTRATION OPERATIONAL STREAMLINING**

As noted in connection with Objective CI-I above, reforms supported by USAID through previous projects have resulted in significant improvement in business registration procedures in Kosovo, as measured by the World Bank *Doing Business* reports. For that reason, in Year One, and in close collaboration with Kosovo Business Registration Agency (KBRA), the Project directed its efforts to target aspects of business registration that go beyond the external factors measured by *Doing Business* and improve and make more efficient the internal operations of bodies registering businesses in Kosovo. The Project focused on improving their operations and practices, and did not proceed with developing Als to the Law on Business Organizations as originally planned, determining that those legal reforms were not needed.

At the request of the KBRA, and as a result of the Project's own research of the business registration system in Kosovo, the Project conceptualized and awarded grants through a competitive bidding process to two local organizations for the following activities: (1) providing training in customer service and related topics to personnel engaged in business registration in Kosovo; and (2) conducting a functional analysis of the operations and organization of the business registration system in Kosovo.

RTC, the grantee for customer service training, developed and carried out its training program on schedule. The training program provided two days of highly interactive training on topics related to customer service. A total of 53 staff members from 26 municipal business registration offices and the central office of the KBRA received the training. The KBRA and the Project collaborated on a presentation on the role of business registration in a market economy, which was given at each training session. DNC, the grantee conducting the functional analysis, will provide its final report with recommendations in February 2015. The Project will support MTI and the KBRA if and as they choose to implement DNC's recommendations.

In addition, at the request of the American Chamber of Commerce of Kosovo (AmCham), the Project provided written comments and recommendations on proposed changes to the Law on Business Organizations, which were made by the UNDP expert Prof. Rado Bohinc. The Project also aired these comments at a meeting of the working group established by MTI to review the proposal. The proposal focused on three primary areas: (1) Disclosure requirements for companies; (2) Business registration procedures; and (3) Corporate governance provisions. This working session focused primarily on changes needed to ensure compliance of the Kosovo Law on Business Organizations with the company disclosure provisions in EU legislation. AmCham and the Project re-

emphasized the importance of ensuring that any proposed changes take into account the GoK's market-oriented policies, noting that the proposals appear to increase registration requirements and increase the discretion of the KBRA over business registration, which run counter to the GoK's current policies to simplify business registration and encourage informal businesses to register and operate formally. The Project will continue to monitor this process closely with partners.

The Project also took part in the Working Group developing a new Law on Bankruptcy, an effort led by USAID CLE in close concert with the KBRA.

## **C1-5: INSTITUTIONALIZE AND EXPAND USE AND SCOPE OF THE OPM/OFFICIAL GAZETTE**

USAID worked closely with the OOG and LO through USAID BEEP to create the Legal Information Database (now referred to as the OGDB; <http://gzk.rks-gov.net>), a comprehensive, easily accessible and searchable electronic database containing all legal acts – laws, regulations and other normative acts – that are in force in Kosovo. The existence of such a database is essential for the rule of law, good governance, an open democratic society and a market economy.



*Working group uploading legal acts*

It came to the attention of the Project that following the creation and initial population of the OGDB in June 2013, GoK ministries had adopted approximately 500 subnormative acts that had not yet been uploaded into the OGDB and that, as a consequence, had not been made known to the public in an easily accessible manner.

Working closely with the LO, OOG and ministry legal departments, the Project undertook a number of measures to further institutionalize the OGDB and introduce better practices in ministries to support the OGDB and keep it current. First of all, as reported above, the Project supported the preparation for GoK approval of the Law on Normative Acts, which will make it legally mandatory for all government bodies to publish their subnormative acts in the OGDB (at present no such requirements exists). In the meantime, and owing to the uncertainty as to when a new parliament and government would be constituted, the Project proposed to the LO and OOG that mandatory guidelines be adopted by the OPM that would require all executive bodies to submit their acts to the OGDB. In addition, it became clear that ministries required further instruction on the OGDB.

With these issues in mind, the Project organized with the LO and OOG two workshops for ministry officials. The first workshop was held over four days with 40 officers from 20 GoK bodies. The officers received technical instruction on preparing legal acts and accompanying metadata for submission to the OGDB. During the working session over 506 subnormative legal acts were uploaded into the consolidated Official Gazette Database. All ministry legal offices also received their individual logins to upload acts to keep the system current. The Project is following up with LO and OOG to agree on measures, and evaluate performance, to monitor ministries' ongoing submission/uploading of new legal acts to the OGDB as new acts are adopted.

The second workshop had a threefold purpose: to review and discuss the proposed Guidelines being drafted by the LO requiring all executive branch bodies to upload their subnormative acts into the OGDB; to review and discuss the draft Law on Normative Acts; and to review for accuracy and

completeness the body of subnormative acts now contained in the OGDB. Twenty representatives of the LO, OOG, and legal offices of selected ministries attended the workshop.

In addition, as part of the instruction provided at the workshops, the OOG introduced standardized technical practices for reference numbering and titling of legal acts to be uploaded into the OGDB, making cross-referencing and searching more intuitive and effective and thereby improving access to legal information.

It is noteworthy that following these working sessions 10 of the 20 ministries (along with the Prime Minister's Office) uploaded an additional 34 AIs into the OGDB on their own initiative. This is a continuing trend that marks a positive change in ministries' behavior and practice in this area. The Project also proposed to representatives of the Helvetas project, Decentralization and Municipal Support (DEMOS) that they require that municipalities publish their legal acts in the OGDB and on their webpages, as a prerequisite for participating in DEMOS' grants program.

#### **CI-6: SUPPORT IMPLEMENTATION OF THE LAW ON THE PERMISSIVE SYSTEM AND RELATED INSPECTIONS IMPROVEMENTS**

In Year One the Project developed and presented to the LO a concept paper that describes the steps needed to implement fully the Law on Permits and Licenses System, which was adopted in December 2013 and developed with USAID assistance (<http://gzk.rks.gov.net/ActDetail.aspx?ActID=8967>). The concept paper envisions a comprehensive program of reform aimed at ensuring that all government bodies issuing permits and licenses adopt and apply risk management principles that reflect best industry practice, to ensure that government regulation effectively protects public health and safety and the environment while keeping the regulatory burden imposed on private economic activity to a necessary minimum. The concept paper emphasizes the importance of actively involving private sector stakeholders and the general public in the reforms and notes that political support for the program at the highest political level will be needed to ensure the program's success.

The Project also provided detailed written comments and took part in working sessions on the draft AIs under the Law on Permits and Licenses System that were developed by the LO OPM with the support of IFC, to create a national Registry of Permits and Licenses. It is expected that these AIs will be adopted in the coming months, now that a new Government was formed. The IFC is taking the lead role in developing the Registry and reviewing permits and licenses for it. The Project will make use of that information in connection with its work with specific inspectorates, as described below.

Furthermore, the Project worked with the LO to develop a draft Administrative Instruction on Licensing Boards, which is to be issued under the Law on Permits and Licenses System. The Project conducted extensive fact-finding on the practices of existing licensing boards to inform its work on the draft AI. In this connection the Project met and consulted with a number of licensing bodies, including the Board for Licensing Healthcare Professionals; the Kosovo Financial Reporting Council; the Board of Architects and Engineers, the Kosovo Association of Architects; Kosovo Construction Association and the Association of Certified Accountants and Auditors of Kosovo.

The Project drafted the AI to include alternative provisions that reflect policy decisions to be made by policymakers, along with extensive commentary and also proposed that a Code of Ethics for Licensing Board Members be developed and prepared the first draft. The Project supported the LO in convening a working session to solicit comments on the draft AI and Code of Ethics from existing

Licensing Boards. A total of 23 participants from existing Licensing Boards, ministries involved in professional licensing (including MoF and MESP amongst others) and professional associations, along with USAID CLE, attended the two-day working session. The session was very constructive. The Project then prepared new drafts with detailed comments for the LO; the drafts included changes on which there was a general consensus among the participants and, for the issues on which no clear consensus was reached, the drafts indicate the alternative approaches proposed. It was agreed that the LO will consider the remaining unresolved issues and incorporate changes as it sees fit, before sending the Draft AI and Code of Ethics for preliminary government and public consultation. The Project will continue to assist and support the LO in this work.

In addition, the Project also completed an initial inventory of government bodies that exercise inspections functions, with information on the legal basis for each inspectorate's authority, relevant secondary legislation, and the number of employees in each inspectorate. This work revealed to date a total of 39 national bodies that have inspections authority, in addition to the municipalities' multi-profile inspections departments. The Project will use this information in Year 2 when it commences working directly with selected inspections bodies (reform of the inspections regime is a necessary aspect of a program to reform the permissive system, since health and safety inspections should be restricted to activities that have been determined to pose a medium or high risk and that are therefore subject to permitting).

Furthermore, following a conference on Financial Performance and Service Delivery in Municipalities, where the Office of Auditor General (OAG) presented its draft Report, the Project discussed with the OAG and its international consultant some initial ideas and suggestions that would further advance the current draft by improving the types of indicators used in the areas of revenue (property tax and construction fees) and inspections. In the Project's view these improved indicators would provide a more useful and effective measure of municipalities' quality of governance as compared against the proper role of the government in a market economy. The Project then prepared and provided to the OAG written comments and recommendation for improving municipal metrics.

The Project also briefed the EU Project, "Support to Kosovo's Policy and Strategic Planning," on the Project's work to date to further inspections reforms, which information the EU Project requested for its work with the OPM Strategic Planning Office (SPO) on the National Development Strategy.

Owing to the protracted absence of an active government in Year One, the Project was not able to advance some permissive system and inspections reforms, particularly at the level of ministries and inspectorates. The Project will pursue such reforms in Year Two. Following the formation of the new government, the Project secured the agreement of the MTI Market Inspectorate for Project assistance in reforming its operations, which would be done in collaboration with the World Bank, and MESP agreed, following its request, with the Project to reform its licensing regime for architects and engineers and in supporting inspections reform. The Project will work with these partners in Year Two to help them introduce modern best practices in permitting, licensing and inspections in conjunction with Component 2 as related to MESP.

#### **CI-7: SUPPORT USAID FORWARD GRANTEE TO BROADEN AND DEEPEN SCOPE OF MUNICIPAL COMPETITIVENESS INDEX AND ITS USE BY 3RD PARTIES IN GOVERNANCE MONITORING AND DIALOGUE**

During this year UBO Consulting, as the awardee of a grant under USAID Forward, carried out the fourth Municipal Competitiveness Index Survey in Kosovo. As UBO was making preparations to carry out this year's Municipal Competitiveness Index (MCI) survey, the Project reviewed the draft survey questionnaire and proposed some additional questions to be included, to elicit information that would be useful for ongoing reform initiatives. The questions proposed by the Project primarily addressed issues related to property registration and construction permitting. UBO provided the Project separately with the results from those questions that UBO included in the survey.



*Municipal representatives sharing Kosovo best practice in workshop*

Following the publication in September 2014 of the results of this year's MCI survey, the Project worked closely with UBO to develop a plan for follow-on activities. These activities were designed to help municipalities use the results from the survey to implement needed reforms effectively. The agreed upon plan consisted of two phases: (1) having UBO work directly with individual municipalities to explain the meaning and importance of their MCI Survey results; and (2) holding a series of one-day regional workshops with municipal representatives where UBO would present current municipal best practices for consideration and discussion. With USAID approval, the Project provided funding for these activities under a Subcontract with UBO to supplement the funds it had remaining under its USAID grant.

UBO conducted the first phase of this work in September 2014, holding separate consultations with municipal officials in 38 municipalities, where the results of the municipality's performance in each of the Survey sub-indices were explained and compared with the overall results. UBO also used those consultations meetings to have the officials complete a questionnaire on various practices.

The second phase of the work was carried out in December 2014, through seven regional seminars (in Ferizaj / Uroševac, Prizren, Mitrovicë / Mitrovica, Peja / Peć, Pristina, Gračanica / Graçanicë and North Mitrovica) that brought officials together from different municipalities. Each of these one-day sessions featured a presentation on Kosovo's Doing Business reforms, which demonstrated the substantive connections and correlations between the Doing Business reforms and the scope and findings of the MCI Surveys; followed by a presentation and discussion of municipalities' current best practices in various areas of governance. "Kosovo has made progress in improvement of business environment and as a part of continues endeavor we will address challenges for a better business environment", said Ibrahim Rama, Director of Finance and Economic Development Directorate in Viti / Vitina municipality. The Project provided guidance to UBO to help it prepare its presentation on Doing Business and reviewed UBO's materials in advance.

In addition, the Project coordinated with UBO to discuss ways to improve and expand the MCI Survey initiative going forward (subject to USAID's future plans). The Project has recommended that UBO gather information from official sources that would complement the respondents' answers and provide a more complete picture of the state of reforms in the municipalities. Such information could include official data from each municipality on construction permitting and related issues (e.g., the number of applications received; the number of permits issued; the average time it took for the municipality to issue the permit after a complete application has been received; and whether the municipality adopted a municipal development plan and a municipal zoning map); municipal data on other inspections; business registration times for different forms of corporate organization; the types and numbers of business licenses issued by each municipality and the fees charged; property tax

collection and compliance, etc. The Project suggested UBO to gather this information along the lines of the work carried out by the municipal coordinators on the USAID Business Enabling Environment Program.

## **NEXT STEPS**

Going forward, the Project anticipates further focusing of legal expertise and pilot reforms with key partners in collaboration and in furtherance of Component 2 and Component 3 experts and goals.

The Project will continue to advance the numerous initiatives that are in progress. These include the National Council for Economic Development when and as the GoK undertakes those initiatives; and coordinating with the OAG and other stakeholders to encourage the adoption of meaningful metrics for measuring policy coordination and monitoring municipal governance.

The Project will support as needed the adoption of the Law on Normative Acts; and the incorporation into the OGDB of the legal acts of independent agencies and municipalities. The Project will also work closely with the AIS to develop heightened requirements for the webpages of public institutions, to ensure that they provide the public with all relevant and useful information in Albanian, Serbian and English.

To advance reforms in the operations and practices surrounding professional licensing, the Project will support the finalization and adoption of the AI on Licensing Boards and related Code of Ethics; assist MESP in reforming its licensing regime for architects and engineers; and assist MoF in reforming its licensing regimes for property appraisers and customs brokers.

In the area of inspections, the Project will support as needed the adoption of the Law on Inspections; work with the MTI market inspectorate to bring its practices into line with modern best practice in market surveillance; and work with the MESP Inspectorate and municipal construction inspections official to identify current best practices and conduct a needs assessment to inform requests for technical assistance through G2G;

The Project will also continue to support activities aimed at increasing transparency during the legal drafting process by supporting and encouraging ministries to improve their procedures and practice in the area of public notice and comment, including the timely posting of draft subnormative acts.

In addition, the Project will brief the new Government of Kosovo's Doing Business reforms to date and existing opportunities for further reforms.

## **CHALLENGES AND IMPLEMENTATION ISSUES**

The principal challenges are of a general nature that affect all donors' work. Information is poorly shared within and among government bodies, which leads to inefficiency and duplication. There is weak coordination in policymaking or in legislative drafting and inadequate checks and reviews to ensure that proposed laws and regulations are consistent with announced policy. For this reason many CI activities are aimed at improving coordination in formulating policy and drafting laws, encouraging the coordinated development of legal information, and promoting e-governance solutions wherever possible.

Another challenge often encountered is that government partners' organizations, budgets, and resource allocations do not match their actual needs or the work they are called upon to perform as

part of a reform process. Through support in Component 3, the Project will encourage effective costing of government operations to support appropriate and efficient resourcing.

## COORDINATION

The Project actively promotes coordination with other USAID projects; other donors; and government bodies, as noted elsewhere in this report. The principal government counterparts to date for Component I include a number of departments with the OPM (the LO, OOG, Government Coordination Secretariat, SPO, Agency for Gender Equality (AGE); the AIS; a number of bodies within MTI (the Legal Office; Department of EU Integration and Policy Coordination; and the KBRA); MESP and MoF.

As for donors, the Project has been coordinating very closely with the World Bank/IFC, the EU project, “Support to Kosovo’s Policy and Strategic Planning,” and the Helvetas Project, “DEMOS.” In addition, the Project coordinated with the USAID projects EMPOWER, Advancing Kosovo Together and Contract Law Enforcement.

## WORK PLAN PROGRESS

CI-1: Support Continued World Bank Doing Business Coordination and Improvement												PBMS X-Ref	Status											
											F			M	A	M	J	J	A	S	O	N	D	J
<b>1. Determine GoK goals and priorities in Doing Business reforms</b>												PR I												
1.1	Assess current GoK goals for future Doing Business-related reforms and after new Government is formed		X										X											Completed
1.2	Identify the current and future Doing Business Coordination champion after new Government is formed		X											X										Completed
<b>2. Review prior Doing Business results and activities underway</b>												PR I												
2.1	Review prior results and advise GoK on opportunities to strengthen accuracy of information on reforms In Progress or implemented		X	X	X									X	X									Completed
<b>3. Support the GoK Doing Business coordination champion to facilitate indicator-specific reforms and in relationships with partners including the World Bank and IFC</b>												PR I												
3.1	As needed, provide support to the GoK champion to assist indicator-specific reform efforts			X	X	X	X	X	X	X	X	X	X	X	X	X								Completed
3.2	As needed, provide support to the GoK champion to facilitate full and effective communication with various World Bank and IFC partners			X	X	X	X	X	X	X	X	X	X	X	X	X								Completed
CI-2: Support Enhanced National Economic Policy Coordination, Harmonization and Transparent, Inclusive Dialogue												PBMS X-Ref	Status											
											F			M	A	M	J	J	A	S	O	N	D	J
<b>1. Determine champion and GoK goals and priorities in national economic policy coordination</b>												All												
1.1	Assess current GoK goals and plans for NCED, SPSP or alternative economic policy coordination and dialogue bodies		X	X																				Completed
1.2	Provide support as needed to partners to conduct dialogue meetings and participate effectively in discussions as well as supporting where needed broader participation and increased use of data and technical analysis in discussions, including the consideration of gender impact from contemplated reforms			X	X	X	X	X	X	X	X	X	X	X	X	X								Completed
<b>2. Evaluate opportunities for a harmonized and comprehensive approach to supporting formality and legalization</b>												All												



CI-4: Support Government Improvement in Doing Business Starting a Business and Business Registration Operational Streamlining											PBMS X-Ref	Status
	F	M	A	M	J	J	A	S	O	N		
<b>I. Determine GoK plans to improve Doing Business Starting a Business</b>											<b>PR I</b>	
1.1	Ascertain the plans of the GoK (MTI, KBRA, MoF, and TAK) to undertake reforms related to Starting a Business											Completed
1.2	Help partners, though champions to identify the steps needed to carry out proposed reforms											Completed
1.3	Support work to effect targeted reforms											Completed
1.4	Identify gaps in the information required by the WB to assess Starting a Business performance effectively											Completed
1.5	Help partners identify steps needed to generate information necessary for the WB's assessment of Starting a Business											Completed
1.6	Support work to produce information required											Completed
1.7	Review current draft amendments to the Law on Business Organizations and, if appropriate, provide comments to GoK											Completed
<b>2. Assist MTI/KBRA and MoF/TAK in streamlining registration procedures and processing times</b>											<b>PR I, 7</b>	
2.1	To the extent not carried out by the IFC, support the analysis of the number of days, number of steps and number of procedures required to register a business; and the KBRA's and TAK's internal procedures for tracking and processing documents.											Completed
2.2	To the extent not carried out by the IFC, support the development of recommendations for streamlining procedures, processing times and KBRA and TAK operations.											Completed
2.3	Support the development of Administrative Instructions under the Law on Business Organization that provide for streamlined processing times and procedures consistent with the findings and recommendations referred to in 2.1 and 2.2 above.											Not needed
2.4	Support efforts to harmonize registration data and support procedures for intra-governmental and public data sharing (e.g., on administratively deregistered businesses and numbers of employees).											Completed
2.5	Support the institutionalization of management operational metrics and the implementation of other related recommendations											Completed
2.6	Explore with the KBRA opportunities to support other reform activities based on the findings of the IFC Report on business registration in Kosovo of October 2013.											Completed
<b>3. Support Increased Efficiency of Municipal Business Centers and Improved Customer Service</b>											<b>PR I</b>	
3.1	Support feasibility study of (1) the optimal number of MBC's required to maximize government efficiency while providing citizens with easy access to MBC services; (2) the optimal array of services to be provided by MBC's; (3) how best to improve the KBRA's central reception area in order to improve services to citizens; and (4) other issues related to (1), (2) and (3) above.											Completed, report due February 2015
3.2	Develop with KBRA a plan of the actions to be taken to implement findings from the feasibility study and support implementation of actions											Pending new government priorities
3.3	Support the implementation of the agreed upon actions referred to in 3.2 above.											Pending new government priorities
3.4	Support program of customer service and management training for KBRA staff members											Completed
<b>CI-5: Institutionalize and Expand the Use and Scope of the OPM OOG/ Official Gazette</b>											PBMS X-Ref	Status
	F	M	A	M	J	J	A	S	O	N		

1. Assess completeness of OGDB and support elimination of gaps												PR 2												
1.1	Review current completeness of OGDB				X								Completed											
1.2	Support LO and OOG to fill any current gaps in acts included in OGDB since launch					X	X	X	X				Completed											
2. Include in the OGDB normative acts of independent agencies and municipalities												PR 2												
2.1	Identify agencies and government bodies that have failed to submit normative acts to the OGDB					X	X						Completed											
2.2	Facilitate their submission of normative acts for inclusion in the OGDB					X	X	X	X	X	X		Completed											
3. Support OPM institutionalization in ministries and agencies of OGDB usage												PR 2												
3.1	Assist OPM to assess current level of usage and institutionalization in daily activities of government staff in ministries and agencies					X	X	X					Completed											
3.2	Identify technical, legal, human resources and other issues that are preventing government ministries and agencies from submitting their normative acts to the OGDB					X	X	X					Completed											
3.3	With relevant partners, develop strategies and measures to address the issues identified in 3.2					X	X	X					Completed											
3.4	Work with relevant partners to implement the strategies and measures described in 3.3							X	X	X	X		Completed											
3.5	Identify any linking opportunities within GoK IT systems and web sites					X	X	X					Completed											
3.6	Assist OPM to increase OGDB usage through intra-governmental outreach							X	X	X	X		Completed											
CI-6: Support Implementation of the Law on the Permissive System and Related Inspections Improvements												PBMS X-Ref	Status											
											F	M	A	M	J	J	A	S	O	N	D	J		
I. Identify and inventory all permissive requirements currently in force												PR 3												
1.1	Assist the OPM/LO in developing administrative instructions under the Law on the Permissive System, to the extent not covered by the IFC					X	X	X					Completed											
1.2	Support OPM/LO to develop a checklist for reviewing normative acts on permitting, to the extent not covered by the IFC								X	X	X		Completed											
1.3	Assist the OPM/LO in conducting a legal review of normative acts related to permitting, to the extent not covered by the IFC											X	Completed											
2. Assist GoK to bring permissive requirements into compliance with the Law on the Permissive System												PR 3												
2.1	Advise the OPM/LO and pilot ministries and agencies on the development of general guidelines on assessing risk											X	X	Pending new government priorities										
2.2	Support work with pilot partners to revise permitting policies in light of industry practice and Government guidelines												X	Pending new government priorities										
3. Support reforms by pilot partners of their permitting and inspections activities												PR 3												
3.1	Inventory policies, practices and procedures on permitting and inspections							X	X	X	X	X	X	Pending new government priorities										
3.2	Develop recommendations to bring permitting practices and procedures into conformity with best international practice									X	X	X		Pending new government priorities										
3.3	Develop recommendations for changes to bring inspections procedures and requirements into conformity with industry practice									X	X	X		Pending new government priorities										
4. Support OPM/LO to identify and inventory all inspections requirements currently in force												PR 3												
4.1	Support OPM/LO to identify necessary steps to inventory normative acts related to inspections							X	X					Completed										
4.2	Assist OPM/LO as needed to develop checklist for reviewing normative acts on inspections								X	X	X			Pending new										



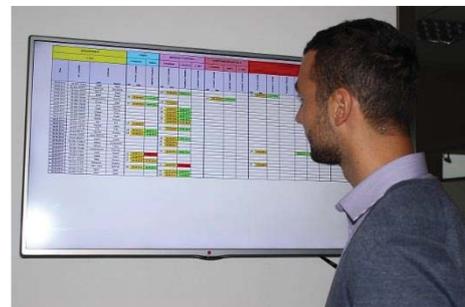
on Permit Fees, changing references to European law to “Kosovo law”, and suggestions on coordinating permitting bodies in stakeholder committee.

As the year progressed, the Project learned that MESP is having difficulty implementing this AI. The Project began working with the Department of Spatial Planning, Construction and Housing in January 2015 to identify problems and develop a plan for handling. This plan may include proposing organizational changes and designing a work flow diagram, as well as helping MESP to develop agreements with other permitting authorities to implement the “single window” approach for applicants.

The Project helped MESP analyze its competency to issue permits for constructions within National Parks. For example, MESP had not previously considered that it would be the competent body to issue permits for areas such as the BRDP. This caused confusion for municipalities, property owners and developers. As a result, MESP formed a working group which developed guidelines and diagrams showing responsibilities and processes for spatial planning and permits in national parks.

In July 2014, the Project built upon its relationship with the Inspectorate at MESP to secure an agreement to jointly pursue use of a “Scorecard” to monitor and encourage municipal compliance with the Law on Construction and Law on Spatial Planning. The Project and MESP Inspectors developed an initial list of potential pilot municipal partners and, in November and December, MESP Inspectorate and the Project visited Fushë Kosovë / Kosovo Polje, Hani Elezit, Ferizaj / Uroševac, Gračanica / Graçanicë, Peja / Peć , and Pristina to discuss and coordinate with Urbanism Directors and staff to assess the level of implementation of the Law on Construction and to recruit municipalities to be part of the Reform Scorecard program.

Overall findings for the above visited municipalities suggest that they have installed reasonable system in place for tracking construction permits, although this system could be improved to provide additional management data and to be accessible for the public. The findings also suggest that calculation of construction permit fees are done in compliance with the AI 22/2012, except for one municipality, where they are incorrectly charging density fees for commercial buildings; some are using application forms as specified in AI 10/2013, although the application process does not appear to be fully understood and additional training is needed; they still lack spatial plans that include specified terms of construction and are having to separately issue terms of construction; information about construction permit procedures is not posted on municipal web sites and some officials indicated frustration with a lack of functionality of the sites, etc.



*Permit tracking system helps citizens to see status of their permits*

An essential part of the Scorecard is the idea of a permit tracking system, which allows citizens to see the status of their permit and enables municipal and ministry officials to monitor compliance in permitting issuance and administration. With support from MESP, Pristina municipality started using the existing permit tracking system (as required by Administrative Instruction 10/2013) to manage the permitting and inspections process and to inform citizens about the status of their permits. Pristina posts this spreadsheet on big screen televisions in the municipal building and updates it weekly on its web site: <http://kk.rks-gov.net/prishtina/Municipality/Departments/Urbanizem,Ndertim-dhe-Mbr-Mjedisit/Sektor-i-Planifikimit-Hapesinor.aspx>. In the coming year, the Project will explore the options to expand the current system to include the full permit tracking system concept.

In the area of Information Communication Technology (ICT) and in conjunction with its work with the Agency for Information Society, the Project began consulting with the MESP communications office to identify improvements to the ministry web site to allow citizens better access to necessary documents required by the Law on Construction and Law for Treatment of Unpermitted Constructions. As a result, additional content was uploaded in both Albanian and Serbian.

Near the end of the quarter, the Project began cooperation with GIZ, which is interested in exploring the possibility of an e-permitting system.

The Law on Construction is closely tied with the Law for Treatment of Constructions without Permit and there was intensive focus on helping municipalities understand their responsibilities and overlapping legal requirements under each law. To carry out its responsibilities under the law, and at the request of municipalities, the MESP Construction Division and Inspectorate organized small group trainings in five regional workshops on the basic principles of both laws and how they work together. These five regional workshops, held in October and supported by the Project and OSCE, drew a total of 120 participants from the urbanism, inspectorate and cadastre directorates of 33 municipalities. In November, at the request of General Secretary Arben Çitaku, the Project also helped the MESP Legal Office to analyze questions regarding application of the Laws on Construction and for Treatment of Constructions without Permit. As these laws are being implemented, the interconnectivity of the legal reforms becomes apparent and presents opportunities for continued capacity building and mentoring to assist with analytical thinking and practical application.

USAID Contract Law Enforcement Project, together with the Project, held a joint event to introduce a standard form of contract for construction to contractors, architects, developers, and bankers. This standard form contract applies international contracting practices to the Kosovo context and integrates, in the contract and by explanation in the Guidance Notes, requirements imposed by the Law on Construction and Law on Obligational Relationships. The event introduced the standard contract and served as a platform to discuss new requirements under the Law on Construction and issues of contracts and their implementation.

## **C2-2: FACILITATE EFFECTIVE CONSTRUCTION CODE FINALIZATION AND IMPLEMENTATION**

In September 2014, after intensive support from the Project, MESP sent the draft Unified Construction Code to the Government for approval by decision. The Project provided support to the Construction Division at MESP to finalize the initial chapters of the Unified Construction Code, as well as the decision that the Government will issue to adopt the Code. This first version of the Code contains 7 Sections, 15 Chapters and 466 pages in 3 languages. After submitting by MESP, the Legal Office in the Office of the Prime Minister requested additional documents to support the Code submission, primarily dealing with standard requirements for AI submission and the MESP Legal Office is working to provide the LO of OPM with those documents. Once approved, this will be Kosovo's first unified set of construction standards that will pave the way for safer buildings and more uniform construction.

In June and July, the Project also assisted MESP to work with the Kosovo Standardization Agency to complete adoption of Code-referenced standards. The draft Construction Code contains numerous references to international standards. USAID previously assisted coordination between MESP and the Kosovo Standardization Agency (KSA) to ensure that standards cited in the Construction Code are adopted by KSA. With the aid of the Project, the construction department at MESP worked with

KSA to confirm the standards that have been adopted and identify those that are still needed. KSA reaffirmed its commitment to prioritize adoption of the remaining identified standards.

Adoption of the first version of the Code will be an important milestone, but additional technical assistance is still needed to form a standing technical working group that will continually update the Code, as well as to develop national design criteria and a glossary of technical terms. The Project helped MESP to begin identifying the steps necessary to form a standing technical working group to update the Code and the technical expertise that may be needed to support this group.

At the request of the Construction Division at MESP, the Project reviewed and commented upon a new draft law that transposes the EU Directive for Energy Performance in Buildings. Review was necessary to assess the impact on the current energy provisions in the draft Code. This draft law seeks to increase energy efficiency by requiring new, reconstructed and remodeled buildings to meet minimum requirements for energy performance. The draft law also requires buildings that are being sold or rented to have an energy certification performed by a certified energy expert. While energy efficiency is an important goal for the country, the Project expressed concerns with the timing of the law, which could cause substantial economic burdens to citizens at a time when resources are needed for legalization, as well as the need to comply with the Law on Permits and Licenses.

### **C2-3: SUPPORT IMPLEMENTATION OF NEW LAW ON SPATIAL PLANNING**

The Law on Spatial Planning requires 11 Administrative Instructions, some of which have already been completed, and some have advanced, including:

- Minister Gashi signed the Administrative Instruction on Public Participation on July 1, 2014.
- A MESP working group completed its work on the Administrative Instruction for the Municipal Development Plan and Municipal Zoning Map. However, upon technical review, the Project noted significant problems with the draft and worked with the EU-funded Implementation and Enforcement of Rural Spatial Planning (IRuSP) project to develop a new proposed draft. This draft specifically sets out all steps municipalities need to take draft and implement their zoning maps. The Project also retained a zoning expert to help policy makers more fully understand the concept of zoning and to suggest revisions related to municipal zoning maps.
- A MESP working group also completed its work on the Administrative Instruction for the Municipal Development Plan. Again, the draft required significant revision to fully comply with the new Law and the Project provided suggested changes. The proposed changes emphasize setting specific and measurable goals for each sector, rather than placing heavy emphasis on a profile analysis with little attention to actual planning. MESP is currently reviewing this AI and the proposed draft on the Municipal Zoning Map and both are expected to be finished in the first quarter of Year 2.
- Similarly, the Administrative Instruction on Technical Norms for Spatial Planning was completed by UN Habitat and is now under consideration by a working group. The Project, along with other working group participants, provided technical and legal comments on the contents of this AI and redrafting is underway. MESP also assigned a subcommittee for drafting land use categories to be included in the Spatial Planning Technical Norms. The Project, IRuSP staff, and UN Habitat presented and discussed two possible sets of land use categories to be used for drafting central and local level zoning maps. These land use

categories are integral to the Administrative Instructions on Municipal Zoning Maps and Spatial Planning Technical Norms and developing a solid base is important to the success of future zoning maps.

- The IRuSP project is developing the spatial planning database and, consequently, is drafting the Administrative Instruction on the Spatial Planning Database. The Project will provide input as necessary once a draft is presented.
- The technical working group to draft the Administrative Instruction on the National Zoning Map started work, with the IRuSP project to propose a first draft in early February.

The Project provided support to IRuSP, which is developing the centralized National Data Infrastructure for all spatial information in the Republic of Kosovo. IRuSP collected local level spatial planning data from the municipalities. However, because there were no spatial planning norms and standards, there is no uniformity in how the data was organized and presented graphically. The Project helped IRuSP develop broad categories so that this diverse data can be integrated into the database in a logical manner. These categories will also be used to organize data going forward.

In May 2014, the Institute of Spatial Planning in MESP sent requests to other government sectors to gather information needed to begin drafting the National Zoning Map. The Project worked with MESP to plan additional outreach to these organizations to encourage their involvement in the spatial planning process.

The Project coordinated with the EU-funded Implementation and Enforcement of Rural Spatial Planning (IRuSP) project in gathering spatial planning data from municipalities needed for the new spatial planning database. Development of the database was being delayed because no municipalities had responded to IRuSP requests for information. The Project helped integrate IRuSP's information requests with other MESP outreach activities to more effectively communicate the urgent need for information and IRuSP is now starting to receive the municipal data it needs.

Answering the need for capacity building at the central and local level, the Project presented the basics of zoning with the help of zoning expert, Dr. Tony Favro, zoning practitioner who teaches and wrote books on the subject of zoning.

- The Project provided training on the basics of zoning to almost 30 ministry officials from the Department of Spatial Planning, Construction and Housing and the Institute for Spatial Planning. Zoning maps and zoning regulations are a new concept introduced by the new Law on Spatial Planning and the presentation provided an overview of zoning, as well as a discussion of zoning practice in the USA and Europe. To inform his analysis, Project zoning expert, Tony Favro, conducted informational interviews of MESP officials in the spatial planning department and Institute of Spatial Planning, and accompanied MESP officials to interview urbanism officials in Gračanica / Graçanicë, Fushë Kosovë / Kosovo Polje, and Pristina.
- MESP, with support from the Project, held a roundtable with 75 participants from 19 municipalities on the new concept of zoning maps as a spatial planning tool. Suzana Goranci, Head of MESP Spatial and Planning Division, described how the Law on Spatial Planning introduces the concept of a municipal-wide zoning map which will cover every part of the municipality – both urban and rural. Dr. Tony Favro, the Project's expert, discussed the basics of zoning and also highlighted the importance of using zoning for sustainable economic development. He emphasized that zoning makes land use more predictable, streamlines

construction permitting, allows municipal planners to address the needs of all citizens, and more efficiently protects natural resources. Martin van Dijken from EU Implementation and Enforcement of Rural Spatial Planning Project, gave a presentation on how zoning can be used to protect and develop rural land. Municipalities will need additional training as they begin drafting their zoning maps, but this workshop piqued the interest of the municipalities and set the path for this important spatial planning reform.

The Project awarded a grant to promote Public Participation in Spatial Planning in five pilot municipalities. The selected organization presented a strong technical proposal, with a reasonable and appropriate budget, that will help build a sustainable program for participatory public involvement by connecting municipal officials with local NGOs and establishing citizen advisory boards. The selected organization will begin to work with five pilot municipalities (Gjakova / Đakovica, Malishevë / Mališevo, Peja / Peć, Pristina, and Vushtrri / Vuçitrn) to design public campaigns specific to each municipality's identified spatial planning needs.

#### **C2-4: SUPPORT IMPLEMENTATION OF NEW LAW FOR TREATMENT OF UNPERMITTED CONSTRUCTIONS**

The Project began providing immediate assistance to MESP for implementation of the Law for Treatment of Constructions without Permit. The first step to ensuring successful implementation was to help MESP effectively mobilize and allocate resources. The Project worked with MESP to create a work flow diagram to analyze resource needs.

With Project encouragement, MESP appointed an intra-ministerial working group for legalization and with the request from Blerim Çeku, Director of Spatial Planning, Construction and Housing Department at MESP, the Project prepared a detailed organizing chart to structure the legalization task force within the Ministry. This Organizational Chart lists all task areas necessary for MESP to successfully carry out its obligations under the law. The working group then assigned specific personnel to be responsible for each task, which promoted a more effective handling of the legalization project and helps to ensure that MESP can meet its responsibilities under the Law. In compiling the working group and making task assignments, MESP utilized personnel from multiple departments, including construction, housing, spatial planning, Institute of Spatial Planning, communications office, IT, procurement, and the Kosovo Cadastral Agency. The group coordinates regularly and members have been making interim reports of their progress to the head of the working group.

After extensive discussion with stakeholders, MESP finalized and Minister Gashi signed the Administrative Instruction on Health and Safety Requirements for Legalization. This AI applies to buildings that are complete or substantially complete and sets basic safety standards focusing primarily on structural stability, fire safety, and proper utility connections. This AI affects thousands of legalization applicants and, thus, it was a top priority that these health and safety requirements are adequate to protect the public but are not so onerous that they make legalization impossible due to impracticality or expense and are not open for subjective interpretation by inspectors that could lead to corruption. The Project worked with the Construction Department on a daily basis to develop these standards, as well as to create forms that accompany the AI for legalization applications and inspection checklists.

The Project helped MESP to prepare comprehensive, illustrated Guidelines in Albanian and Serbian explaining the process of treating constructions without permit and answering frequently asked

questions. The Guidelines were printed by MESP and provide a valuable technical and regulatory reference for municipalities, citizens, design professionals, and others involved in the legalization process. The Guidelines are posted on the web-page of the Ministry and were shared with the municipalities and the public during Legalization Day on January 2015.

The Minister of MESP also signed the Administrative Instruction for Documentation in Support of the Application for Legalization of Completed Construction of the Third Category. This AI provides a list of the documents needed to support an application for legalization of constructions of high risk or national interest. It also requires MESP to convene a committee to review Category III legalization applications. The committee will be led by MESP and also will consist of representatives from different institutions depending on the type of construction.

In July 2014, MESP held the first workshop for municipalities on the Law for Treatment of Constructions without Permit. Sixty-nine municipal participants from urbanism, construction, inspectorate, geodesy, cadastral, and legal departments from 21 municipalities participated in this workshop. MESP provided an overview of the law and the AI on health and safety requirements and introduced the registry software application that municipalities will use to compile the lists of unpermitted constructions. The Project provided support for the workshop and for all related activities.

With support from the Project and OSCE, MESP held five regional municipal training workshops on the legalization process that drew 120 participants from 33 municipalities. Participants were from municipal urbanism, inspectorate and cadastre directorates. Presentations included an overview of the Law for Treatment of Construction without Permit, explanation of the registry software, and a discussion of the intersection of the Law for Treatment of Construction without Permit and Law on Construction. There were also interactive exercises and lively discussions. All municipalities received CDs containing all legislation and administrative instructions regarding the construction reforms, leaflets on legalization and Legalization Guidelines.

Throughout the year, the Project provided intensive support to MESP in its effort to enable and encourage municipalities to begin registering unpermitted constructions:

- The Project worked with multiple departments within MESP to conceptualize a methodology for compiling the National Registry of Unpermitted Constructions that would allow municipalities to correlate and manage data from the cadastral maps, aerial photos, and registry lists of illegal buildings. Registration is the first stage of the legalization process and, due to the anticipated large number of illegal constructions, managing the data is an important part of the process.
- With significant design and organizational support from the Project, MESP co-funded a registry database program with the IRuSP project. The Registry software allows municipalities to view the orthophoto, mark unpermitted constructions and list these constructions in an on-line database.
- The Project and partners drafted a step-by-step instruction manual explaining how to use the software. These detailed instructions were accompanied by screen shots and other visuals to help even inexperienced GIS users install and use the Registry software.
- In August MESP sent a package to all municipalities with a letter from the Minister explaining the process and encouraging immediate action, the orthophoto for each municipality, the Registry software package and the instruction manual.

- The Project trained ministry staff on use of the Registry and this training enabled the responsible ministry officials to present and explain the Registry software and process to municipalities at each regional legalization workshop.
- The Project also trained ministry officials on their duties as administrators for the Registry and helped them communicate with municipalities, issue user names and passwords, and monitor Registry entries.
- The Project also helped to facilitate involvement of the Kosovo Cadastral Office in the legalization process. Working with the World Bank and Norwegian projects supporting the Cadastre, the Project helped MESP try to secure Kosovo Cadastral Agency (KCA) support for sharing information between Municipal Cadastral Offices (MCOs) and departments of urbanism. To further bolster MCO involvement, the Project conducted a workshop for advisors from the GIZ Land Management/Cadastre project that work directly with MCOs in fifteen municipalities. The workshop explained the law and the registry software so these advisors could provide direct support to MCO staff for compiling the Registry.
- The Project helped MESP provide one-on-one on-site support to municipalities that requested additional technical assistance with the Registry, including Gracanice / Gračanica, Klokot / Kllokot, and Vushtrri / Vuçitër.
- With support from the Project, MESP trained 62 technical staff from 27 municipalities in the computer lab at the AUK American Education in Kosovo. This was a hands-on training in which participants sat at computers and actually performed every step necessary to understand and use the Registry software. As a result of this workshop, municipalities successfully began to compile their registries of unpermitted construction by using the QGIS software and an on-line database. As of end January 2015, 27 municipalities had entered over 81,000 unpermitted constructions into the registry database.

To help MESP begin establishing connections that will allow legalized constructions to smoothly enter the property tax database and the cadastre, the Project began working with the Property Tax Department to develop a methodology to help municipal tax departments fairly and equitably calculate property taxes owed, which must be paid as a condition of legalization. The Project also solicited involvement from the Swiss DEMOS project, which provides direct support to municipalities and met with the World Bank project that is supporting the Kosovo Cadastral Agency to begin designing a process to move legalized constructions directly into the cadaster.

The Project helped MESP formulate and implement a public outreach campaign to spread the word about legalization.

- MESP, with the support of the Project prepared a Concept Paper for public outreach campaign on legalization, especially focusing on existing, low cost communication networks, such as social media and NGOs, to spread the legalization message. Based on this Concept Paper, the General Secretary tasked the MESP Communications Officer and the Legalization Working Group to develop a specific campaign using MESP's budgetary resources for the campaign.
- As part of this campaign, MESP and the Project drafted a message about the benefits of legalization and updated a flyer to describe details of the program and this material was sent

to around 80,000 government officials in central and local level positions throughout Kosovo.

- MESP posted the legalization flyer on its web site (Albanian: <http://mmph-rks.org/sq/Publikime/SI-TE-PAJISEM-ME-LEJE-TE-LEGALIZIMIT-971>; Serbian: <http://mmph-rks.org/sr/Publikime/KAKO-PRIBAVITI-DOZVOLU-ZA-LEGALIZACIJU--971>); aired on National TV RTK a public service announcement on benefits of legalization, which is also posted on YouTube: <https://www.youtube.com/watch?v=GrHN48g-Mt0&feature=youtu.be> and with the support of the Project developed a Facebook page for the legalization campaign.
- The Project and MESP worked together to produce campaign items, including: 500 copies of guidelines, 10,000 leaflets, 8 banners, 10,000 pencils, 28 Billboards, 480 T-shirts and 300 posters.
- With the support of the Project, MESP communicated with all municipalities to organize “the Legalization Day”, providing a schedule of suggested activities and offering campaign materials. As a result, municipalities filed into MESP to collect their campaign materials for the January 12th Legalization Day.
- “Legalization Day” was held on January 12, 2015 to catalyze attention for legalization. MESP coordinated with Pristina municipality for activities at 4 different points within the capital city and had a joint opening event with Minister Ferid Agani and Mayor Shpend Ahmeti. MESP and municipalities, with the support of the Project, distributed information, answered questions, and generated a flurry of media activity.
- Legalization Day activities were also held in at least Drenas / Glogovac, Gjakova / Đakovica, Gjilan / Gnjilane, Hani Elazit, Kaçaniku/ Kačanik , Pristina, Peja / Peć, Rahovec / Orahovac and Štrpce / Shtërpce . Many used the help of volunteers to deliver flyers. The activity had the support of mayors such as Ragip Begaj of Malishevë / Mališevo who said “We must learn to follow the laws. Even Kosovo is like other countries and we must learn to work and to respect the law, in this case the construction law, after all construction must comply with the new regulations, planning and urban conditions.”
- Following Legalization Day, municipalities reported that citizens were streaming in to register their unpermitted constructions and the number of construction listed in the Registry increased significantly.

All the media closely followed those developments and reported positively on the “Legalization Day” as well as the significant increase in registrations, following the “Legalization Day”. Koha.net posted an article as well as a lengthy video about the influx of registrations and the process in general at: <http://koha.net/?id=8&l=41072>. Xhemajl Selman Lala was one of the first citizens who filled out a registry form on “Legalization Day”, stating, “*I am very happy to see our Government commitment on supporting us in this process*”.

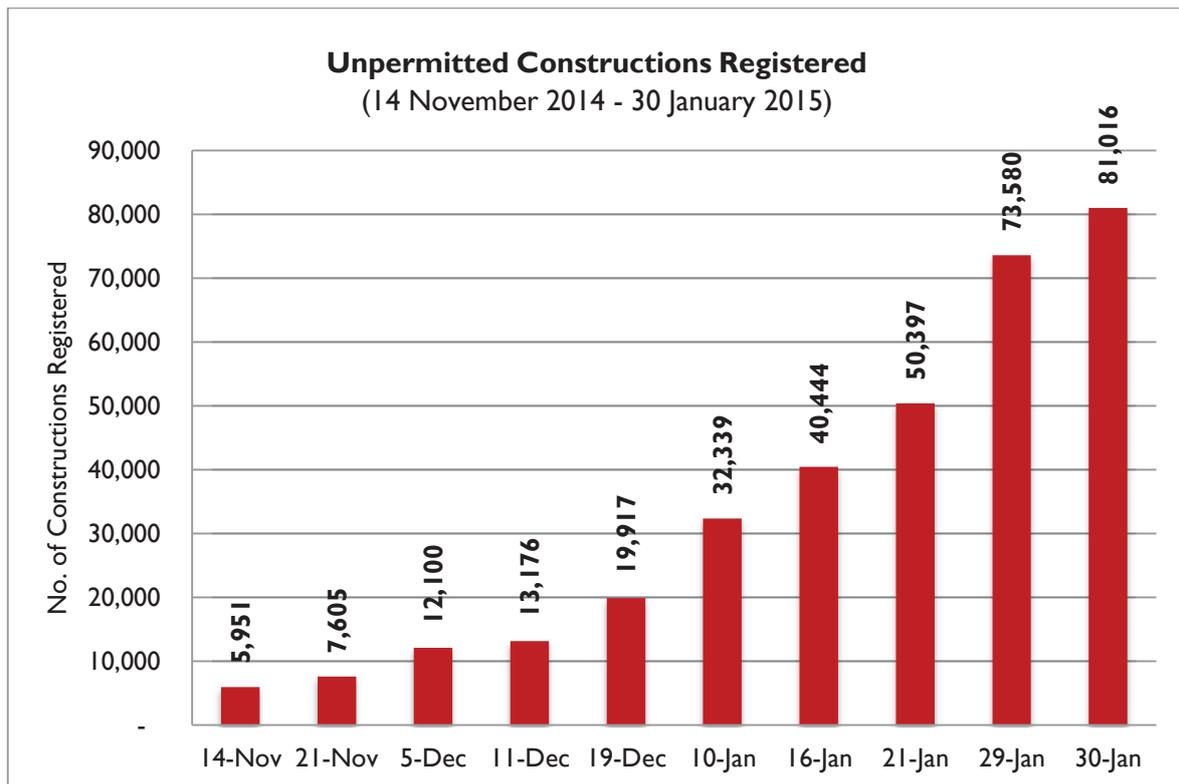


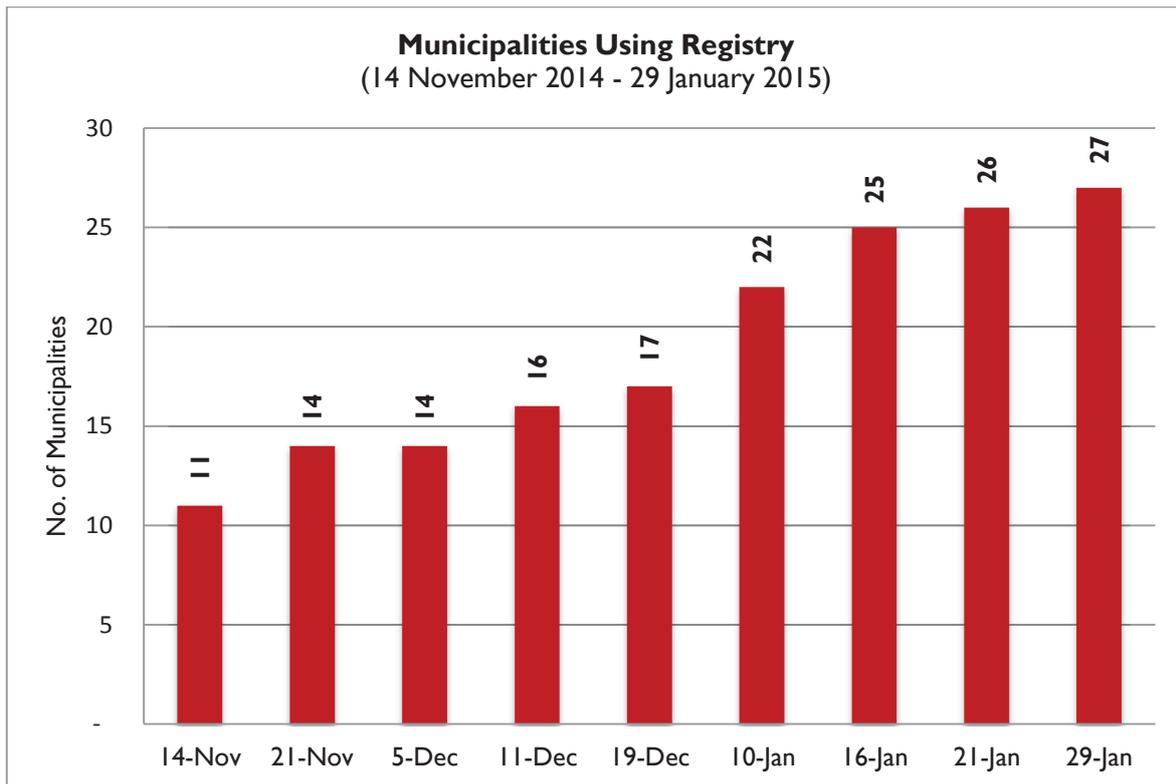
*Xhemajl Selman Lala was one of the first citizens to fill out the registry form*

Additionally, the Project worked closely with MESP to reach out to other governmental organizations, industry groups, NGOs and other projects to solicit their support for and

involvement in the legalization public campaign. This included presenting an overview of the Law on Legalization at the 3<sup>rd</sup> Kosovo Property Forum organized by GIZ Kosovo, and similar presentations were given to the Gender and Property Rights Conference, Bankers Association and to the annual conference organized by the Kosovo Women’s Network in Durrës. Other activities included reaching to different institutions, such as the Ministry of Diaspora and Agency on Gender Equality and through them, to a much broader audience.

The chart below shows a constant increase in the number of construction entering the Registry. In particular, the number increased significantly after the Legalization Day.





Components One and Two of the Project worked together to prepare a draft of the Administrative Instruction establishing procedures for appealing decisions related to legalization. The AI proposes that complaints related to inclusion in/exclusion from the Registry and to decisions made on legalization applications be handled by the Legal Office at MESP, but that final decisions related to the Demolition List be decided by a committee established by the Minister. The draft AI contains a number of forms for each part of the appeals process and establishes clear procedures to ensure fairness and promote confidence in the legitimacy of the process. The Project will work with the MESP working group to finalize the AI so it can be posted for public comment.

Based on increased public interest in legalization registration, Minister Ferid Agani and General Secretary Arben Çitaku decided, after reviewing options under the Law with the help of the Project, MESP will instruct municipalities to continue to accept registration forms through the 90 day comment period, which runs until June 11, 2015. Registrants will be informed that their registration is being accepted. The application will be treated the same and substantively reviewed as if received within the original period, but legally considered as an "appeal" under the provisions of Article 4, paragraph 4 of the Law. The Project is assisting MESP to draft materials and a timeline explaining the revised deadline, which the General Secretary will send to municipalities the week of Feb 2.

## NEXT STEPS

A key priority at the start of Year Two will be to help MESP improve its organizational system and develop processes with other permitting bodies that will enable it to implement the Administrative Instruction on Category III construction permits, creating a "single window" approach for permits of national interest or high risk.

As the Registration phase of the legalization process slows down following the February 5, 2015 deadline, staff from pilot municipalities will have time to resume coordination with MESP and the

Project to conduct needs assessments and develop implementation plans to address any gaps in full implementation of the Law on Construction (such as permitting procedures, cost-recovery-based permit fees, observance of construction code technical norms, compliance with inspection procedures, and timely and proper issuance of certificates of occupancy).

The Project (C1 and C2) will provide assistance on the professional licensing handled by MESP and to pilot inspection reform within MESP.

On the Unified Construction Code, the Project will continue to assist MESP in meeting all procedural requirements for adoption of the Code. The Project will also support MESP to procure resources to develop country-specific design criteria crucial for the Code to function as a local design tool. Emphasis will also be on helping MESP procure resources to ensure technical terms within the Code are fully understandable with the help of a technical glossary in both Albanian and Serbian. And the Project will help MESP procure technical assistance to make recommendations on updating the Code and institutionalizing updating through the formation of a standing working group of professionals.

Year Two will see continued activity to develop the legal regulatory framework required by the Law on Spatial Planning and to help foster implementation at the local level. The Administrative Instructions on Municipal Development Plans and Municipal Zoning Maps are expected by March 2015, followed shortly by Technical Norms and the Administrative Instructions on the National Zoning Map and Spatial Database. The Project will assist MESP to conduct training for municipalities on Municipal Zoning Maps and Municipal Development Plans, and will provide guidance and recommendations to pilot municipalities to begin developing their zoning maps.

The Project will also shepherd the grant for Public Participation in Spatial Planning as the grantee works with the pilot municipalities and develops a best practices manual.

In Year Two, the Project will provide support for MESP as the Registry of Constructions without Permits is finished and the application process begins. Focus will also be on ensuring that the complaint and appeals process is efficient and fair. Additionally, the Project will support MESP in holding a multi-stakeholder working group to assess the need for amendments to the Law for Treatment of Constructions without Permits.

## **CHALLENGES AND IMPLEMENTATION ISSUES**

Simultaneously implementing the Law on Construction, Law on Spatial Planning and Law for Treatment of Constructions without Permit is a challenge that provided and will continue to provide the Ministry with an opportunity to improve allocation of resources, build bridges between departments and agencies, and endeavor to more closely coordinate technical project support. It is also a challenge for the Project that will continue to require precise targeting and use of Project resources and coordination with, and leveraging of, other technical projects. The Project had to modulate certain activities to be mindful of workload allocation for central and local partners, most of whom were involved in the simultaneous implementation of all three laws. This was especially true in the area of “streamlining permitting processes” in work plan task C2-1, 3 and expanding capacity for the use of development agreements in work plan task C2-1, 5. MESP and the municipal resources were consumed with legalization and they were not willing or able during this year to turn their attention to creating a single window for permits at the local level or to intensifying focus on development agreements.

MESP works with multiple technical projects and generally all technical projects work well together, but at times have different technical approaches that need to be worked through and presented to the ministry for decision. This produces a constructive dialog but also takes time, causing some tasks to take longer than expected.

Additionally, shortly after the Project started, the Department of Spatial Planning was merged with the Department of Housing and Construction. The waves caused by this reorganization have now calmed and the department is fully functioning, although some effects on the timing of tasks anticipated by the work plan remain.

## COORDINATION

Throughout the Year, the Project acted in a coordinating role for other resources provided by donor projects. This included working with UN Habitat and the EU-funded IRuSP Project on spatial planning, helping and providing input to the EU project for energy efficiency, teaming with the OSCE and the World Bank Cadastre support project on legalization, briefing the EU strategic planning project on construction and spatial planning reforms, staying informed of activities of the GIZ projects for the cadastre and civil code, and beginning to coordinate a new GIZ initiative related to e-permitting. The Project also worked jointly with other USAID projects, especially USAID Property Rights Project, USAID Advancing Kosovo Together, and USAID Contract Law Enforcement.

## WORK PLAN PROGRESS

C2-1: Implementation of Streamlined Construction Permitting Process												PBMS X-Ref	Status		
		F	M	A	M	J	J	A	S	O	N			D	J
<b>1. Strengthen capacity to support full implementation of Law on Construction</b>												PR 1, 3, 4, 6	Completed		
1.1	With Ministry, assess and coordinate technical resources provided by donor projects		X	X											
1.2	Assist in developing system at central level (Inspectorate) to gather data from municipalities to monitor extent of implementation of the new permitting and inspection procedures, including use of a "Scorecard"			X	X	X	X								
1.3	Assist to identify subjects and structures for training and support at central level as needed, including with gender focal points					X	X	X	X	X	X			X	X
1.4	Assist Ministry (Construction Department, Legal) as needed in finalizing Administrative Instruction on Category III permits and revise Administrative Instruction 10/2013 as necessary		X	X											
1.5	Consult with Ministry regarding allocating resources to effectively implement the law		X	X	X	X	X								
1.6	Assess need for additional technical assistance to issue and monitor Category III construction permits, including permits necessary for BRDP, and assist MESP to find and coordinate this technical assistance							X	X	X	X			X	X
<b>2. Support outreach on reforms to the public</b>												PR 1, 3, 4, 6	Completed		
2.1	Consult with Ministry (Communications Office, IT) regarding continuing public outreach to communicate construction reforms and to help develop and implement its communication plan				X	X	X								
2.2	Consult with Ministry (Communications Office, IT) regarding possible changes to web site to improve public access to permitting resources and develop plan to implement changes, if any				X	X	X								









affect the final projections, resulting in optimistic forecasts of revenue potential. This highlights the risks of additional influences, beyond objective economic models, in the budget process. This in turn drives higher spending levels and leads to deficit situation.

In connection with the expected 2014 fiscal performance, and the deficit in particular, upon the request of the Finance Minister, Mr. Avduallah Hoti, the Project, in consultation with all relevant departments (EPPD, the two Budget Departments and Treasury) prepared and submitted to the Minister's cabinet a briefing note outlining: a) the context of the fiscal rule, b) the legal framework underlying the fiscal rule, including the main elements of it, and c) a discussion of policy options going forward in the event the fiscal rule is breached. The note concludes that a deviation below 0.5% of the GDP does not foresee strict adjustment measures, while any deviation above this level is considered as an "excessive" deficit level and requires a three year adjustment which needs to be presented to the Assembly for approval.

The IMF Mission Chief, Mr. Jacques Miniane, visited Kosovo from January 13<sup>th</sup> to January 15<sup>th</sup>, 2015. The Project participated in the MoF meetings and briefed the Minister of the past working relations with IMF, including the Stand-By Arrangement which was concluded successfully late 2013. This was an introductory visit, and the focus was on the preparations for the upcoming Article IV consultations with the IMF (regular discussions with IMF members on the state of the economy), as well as the possibility of initiating program negotiations during 2015. The Project will continue to assist the MoF in maintaining productive cooperation with the IMF.

During Year One the Project worked together with the Central Budget Department and the Municipal Budget Department of the Ministry of Finance to make the necessary preparations for inclusion of functional classification in budget planning. The Project, in coordination with the EU project Support to PIP and BDMS, assisted in the technical development of tables within PIP and BDMS to report on planned budget by functional classification for both central and municipal budget organizations. There now exists the technical capability within the MoF to automatically prepare such functional tables, assigning of functional codes within budget organizations. Functional tables can now be automatically generated for capital budget at both the central and local level and for recurrent budget at the central level.

With the request of the Minister of Finance, a MoF inter-departmental working group compiled and submitted to the Minister a comparison table for 2014 and 2015 budget spending on government functions. However, the group recommended that such tables are presented in the Budget document only after the COFOG system is more accurately embedded within the budget preparation process at the budget organization level. The Project assisted this inter-departmental exercise, and will continue to support the MoF in its efforts to enhance budget transparency by improving the accuracy of functional codes use. This will require a review of the current assigning of functional codes at the budget organization level. Based on the findings, a guidance material for budget organizations on how to better assign COFOG functional codes to their budgeted activities will be developed.

As reported above under Component I, a short-term expert was engaged during Year One to draft an Administrative Instruction and Manual on costing of normative acts and strategies. The short term expert reviewed the existing AI and Manual in force and held numerous discussions with key stakeholders, to inform his work. A working group, of all stakeholders, was created and led by the OPM legal Office, with participants from different departments, including the Ministry of Finance. The Project presented the findings of the review to the working group who agreed on the key

components of the AI. The draft AI and Manual have been presented to the working group and will be finalized soon. The approval of the AI and Manual is expected to improve the quality of assessing the budget impact of any new government initiatives and enable government to take well-informed decisions.

In conjunction with EU project representatives who are supporting the MoF, the Project highlighted the need to increase the transparency of the macro forecasting methodology and limit the opportunity for unrealistic forecasts during the preparation of the budget. Representatives from both Projects started working together to document a methodology making the regular macro modelling process as clear and transparent as possible. This will help highlight the inclusion of one-off budget revenues and additional revenues which are not part of the regular macro modelling. The Project assisted the MoF to map the macro modelling methodology in a set of equations that describe how budget forecasts are made. The Economic Public Policy Department will use this map of equations to document the changes to its methodology in the future; particularly as part of the preparations for drafting the National Economic Reform Plan (previously known as Economic and Fiscal Program) that will be submitted to the European Commission (EC) each January. This work also represents a first step towards preparing a methodology paper which the MoF plans to publish by the end of 2015 to further increase the transparency of the budget preparation process.

The Project performed a review of the MTEF document and process and following completion of the review, the key findings were summarized in a draft report and discussed with key stakeholders. The draft review suggests that the current MTEF has become a document to initiate the annual budget preparation process rather than a medium term planning process. Extending the time for preparing the MTEF and the preparation of more aggregated sector ceilings at the beginning of the budget planning process were some of the options discussed to enhance the linkages between policy and budget outcomes. The need to establish a high level Commission for Budgetary and Fiscal issues was addressed as part of this review. The Project recommended that the Government Fiscal and Budgetary Issues Committee should be modified and activated to provide enhanced political commitment to strategic planning. Initial consultations with key Government counterparts in the Ministry of Finance Budget Department and the Economic and Public Policy Department resulted in general acceptance of the recommendations. The Project and the Central Budget Department Director, Mr. Agim Krasniqi agreed that a modification to the current planning cycle and further development of functional classification are two key areas which need improvement, and where the Director of Budget sees the Project's assistance as beneficial. Both parties agreed to discuss details for specific assistance activities once the opinion of the new Minister has been sought.

An initial assessment of the level of performance based budgeting determined that elements of performance based budgeting exist at the central level in a small number of ministries which have received donor support e.g. the Ministry of Health, and the Ministry of Education. However despite the use of some performance indicators and attempts to plan budgets more aligned with achievements of strategic objectives and targets, the approach is at a very early stage in its implementation, and still requires significant development. Based on the findings of this review, the Project incorporated recommendations into the report on the MTEF to create a phased plan to introduce program and performance based budgeting. The Project identified two budget organizations that have made particular advancement in introducing performance elements into their budget the ministries of Health and Education. The Project would provide support to these two ministries how to further improve their key performance Indicators to the extent this is consistent with new GoK priorities.

At the request of the Director of the Municipal Budget Department, 4 municipal MTBFs were reviewed. The findings were summarized and recommendations were made on how to improve these MTBFs. This report was provided to the Municipal Budget Department. Support will be provided to these municipalities during year 2 to address the specific weaknesses identified in their MTBF documents. Common areas of weakness identified in the MTBFs reviewed were as follows:

- MTBFs do not contain an introduction to the current situation within the municipality
- Not all MTBFs contain a succinct narrative explaining the high level mission and strategic priorities of the municipality
- There is a general weakness in the presentation of the municipal fiscal policy, with little focus on the policy for increasing own source revenue generation
- There is no justification for the capital investment plan of the municipality and no clear link to how this plan works towards the strategic priorities and objectives of the municipality
- Performance measurement has not yet become an integral part of the MTBF process.

An IMF team from the Department of Statistics, visited Kosovo for a three-day diagnostic mission, 8, 9, 10 December. This mission focused on the quality of the Government financial data classification. With the request of MoF Treasury, the Project attended the meetings and provided input to the discussions. During this visit, the IMF representative conducted an assessment on the quality of data classification and took stock of the public institutions involved in government finance statistics. They discussed with the MoF and other stakeholders, including CBK, institutional unit coverage and classification of existing data. Based on the findings of this visit, an improvement plan was drafted and the IMF will provide assistance for improvements through follow-up missions in 2015. The final draft of the plan will be attached to the IMF mission Technical Assistance (TA) report, and will provide a roadmap the Treasury will follow to adhere to best international reporting standards, and to increase budget transparency. The issue of data classification has been a topic of discussion between the Project and the Treasury Department and it was decided in October that the Project would assist the MoF to improve classification and transparency of revenue data and this is in line with the objective of the IMF mission on Government Finances.

### **C3-2: ENHANCE NATIONAL AND MUNICIPAL PUBLIC FINANCIAL MANAGEMENT AND SUPPORT INCREASED PARTICIPATION IN THE FORMAL ECONOMY**

The MoF PEFA Secretariat, supported by the Project, arranged the formation of 7 working groups to address the weaknesses identified as a result of the self-assessment PEFA in 2013. The working groups covered the following areas:

- Budget,
- MoF Treasury, including Ministry of Public Administration,
- MoF Central Harmonization Unit and Office of Audit General,
- Economic Policy Department,
- Revenue Agencies (TAK & Customs),

- Procurement (PPRC and PPA),
- Assembly

Under the guidance of the PEFA Secretariat and with the support of the Project, each working group completed a template to identify actions related to maintaining and improving PEFA scores in their specific area. By mid-October the Project had supported the PEFA Secretariat to consolidate into a matrix the resulting working groups' proposed actions in over 90% of the PEFA sub-indicators. In late October the Project facilitated a two day working session for the PEFA Secretariat, to create the first draft of a narrative PEFA Action Plan. In January the PEFA Secretariat, with Project support, updated the draft Action Plan and this involved readjustments for actions which were previously foreseen to take place in 2014. Despite the fact that confirmation of draft actions by the Assembly and the Ministry of Public Administration are still pending, the PEFA Secretariat submitted this revised draft to the Minister of Finance cabinet, for review and further action. The Action Plan is expected to be approved by Government, after a final review by the Minister of Finance and other stakeholders.

As part of the PEFA activities the Project worked with the Ministry of Finance to identify possible ways to address the non-recording of payment arrears. A number of actions are included in the PEFA Action Plan to identify the size of this problem, deal with such existing non-recorded arrears and to put in place controls to reduce the occurrence of such arrears in the future. The Project discussed with the Treasury Department ways in which reporting on payment arrears can be improved. The Project started consultations with the Treasury Department on the review of current procedures and controls in place over appropriations and release of funds, with the aim to further strengthen analytical capacities of the Treasury Department to enhance expenditure monitoring and prevent the accumulation of payment arrears. The Project reviewed current laws and financial rules in place, and annual audit reports of the Office of Audit General. The Project concluded that there are issues at a number of levels, recording and reporting of arrears within budget organizations, management of arrears at MoF Treasury Department and reporting of arrears within the Annual Financial Statements. The Project concludes that improving the guidance being provided to budget organizations by the Treasury Department MoF is a good area to focus any future support.

The Project performed a review of the data within the TAK database – SIGTAS and following the findings of the review, the Project presented recommendations to the Director General of TAK on how to improve the accuracy and reliability of the registered taxpayers' data, including the recommendation to:

- Introduce compliance ratio reports (of declaration filing) at all levels of TAK to incentivize appropriate conduct throughout the organization;
- Remove duplicated "tax accounts" identified by the Project;
- Correct any errors in categorization of tax payers noted as part of the review;
- Ensure that tax account types no longer in use are not included in the parameters for reporting of missing;
- Develop clear Internal Instructions on opening and closing of different tax accounts;
- Create a TAK Glossary of tax terms consistent with Kosovo tax legislation (in three languages) and ensure these terms are used in any reports from SIGTAS;

- Review SIGTAS system controls to reduce the risk of duplications of tax accounts and to flag any fiscal number where there is repeated opening of new tax accounts and develop a procedure to review situations flagged by SIGTAS when a large number of tax accounts are being opened within a single fiscal number;
- Review reports on its website of passive taxpayers and simplify those reports;
- Create a step by step plan to determine true compliance and non-compliance in TAK declarations, this will allow an actionable plan to be prepared with the assistance of the Project.

TAK Management accepted the findings and recommendations and requested that the Project work with the Executive Office of TAK to develop an Action Plan to implement the recommendations. The Executive Office developed and circulated, to the Directors of IT and Taxpayer Education, a high level Action Plan containing assigned responsibilities and deadlines for implementation of activities to address the recommendations. A working group was formed to review the activities in greater detail and to begin implementing the Action Plan in November.

Following the action plan, TAK began with the implementation of recommendations. The first issue TAK addressed was making arrangements to remove duplicated tax accounts. Over 3,400 duplicate tax accounts were identified and by mid-January over 81% of these duplicate cases had been resolved. Efforts continue within TAK regional offices to resolve the remaining. The Project also supported TAK in the drafting and adoption of an internal instruction on opening and closing tax accounts. The internal instruction was piloted during training in all regional offices on how to open and close tax accounts. Based on feedback from the training the instruction was finalized, disseminated by e-mail and placed on TAK intranet in January.

Further TAK also updated the list of business types being used in SIGTAS to remove errors in categorization, to be consistent with types of legal forms for economic activity as per the Law on Business Organizations, to improve taxpayer registration operations and data consistency. Since November TAK has been using this revised list for all newly registered taxpayers, whereas for existing taxpayers, TAK revised all business types with the exception of a category that had previously been recorded as 'other'.

TAK and Kosovo Business Registration Agency initiated an online exchange of information relating to businesses which are de-activated by TAK (TAK can remove from its active register any taxpayer proven to have no economic activity during the last fiscal year, as per Law on Tax Administration and Procedures, and records this taxpayer as "passive" in SIGTAS). Each time that TAK updates SIGTAS details for the "Non-Active Business" lists (publically available at <http://www.atk-ks.org/non-active-taxpayers/?lang=en> ?) an automatic update of the KBRA database occurs. The Project recommended to TAK that they improve the format and understanding of the "Passive Business" reports that they are currently presenting on their website. TAK have accepted this recommendation and will address this issue as part of the agreed Action Plan and working group in Year Two.

The Project also presented to TAK a report summarizing areas identified by the Project where streamlining of tax administration activities would improve the efficiency of the tax administration, increase the level of tax compliance, and have a positive effect on the current ranking in the World Bank Doing Business report. These areas had been formulated based on a review of existing TAK activities and in consultation with a selection of Kosovo taxpayers, businesses and business

associations including the American Chamber of Commerce. Some of the proposals to further streamline the tax administration activities include:

- Incorporate the 3 outstanding tax declaration types, WR – monthly statement Interest, royalty, rent, lottery winnings, non-residents, IR – Tax on rent and intangible property statement (quarterly) and DO – Annual declaration of Partnership income, into EDI e-filing system as soon as possible.
- Expand EDI to allow taxpayers to have access to details relating to their tax account i.e. tax declarations paid, tax paid, and tax due etc.
- Revise the downloadable forms on the TAK website. Those taxes which are now mandatory for e-filing should be removed from this page. A number of the forms currently available for download must be delivered by hand to a TAK office. These should be made available for online completion and removed from the downloadable list.
- Create online updating of taxpayer contact details via TAK website.
- Expand the online service for Tax Verification (currently available on TAK website) to include businesses.
- Remove the requirement for certain taxpayers to record and file an annual report of all purchases of goods and services that exceed 500€.
- Remove the requirement for small Importers/Exporters to obtain a VAT small import/export certificate.
- Reduce the frequency of VAT filing from 12 monthly to quarterly, at least for business with turnover below 250,000€.
- Expand the functions of the TAK Call Center to include fielding queries through incoming calls. (Currently the center only makes outbound calls in relation to late filing, tax debts etc.).
- Make it possible for taxpayers to apply to become non-active online via TAK website.
- Reminder letters for late (debt) payments to be available online for taxpayers to print
- Review the process for selecting the compliance visits that has to be completed to taxpayers

TAK accepted most of the proposals (with the exception reducing frequency of VAT filing which will be considered latter and reducing the number of compliance visits) and requested that the Project support TAK to develop activities in relation to these issues. TAK, with the support of the Project firstly addressed the recommendation relating to the call center. A working group was established to make taxpayers aware of the TAK call center and the kind of support it can offer. As it evolves the call center will play an important role in reducing the need for physical contact between taxpayers and TAK staff. TAK finalized a publicity leaflet and made the call center operational for inbound calls during January. In Year Two the Project will monitor the call center operations and support TAK to develop management metrics for the call center based on process efficiency, effectiveness and customer satisfaction. The Project will support TAK to address the remaining accepted recommendations in Year Two.

At the request of TAK, the Project provided support at a two day training course on customer service for 18 new TAK staff. The module is part of a larger induction training program for TAK staff. The customer service training contains four topics: 1) Introduction to customer service concepts and definitions; 2) Understanding the customer's needs and the key components of good customer service; 3) Six steps for dealing with your customer, and 4) Dealing with difficult customers with confidence.

An IMF technical mission provided assistance to TAK to prepare a Strategy for the period 2015-2020. At the request of TAK, the Project participated in the initial planning sessions, organized in December 2014. These initial sessions involved working groups on updating the vision, mission and values of TAK. In addition, a SWOT analysis was performed and the main directions for TAK for the next five years were discussed. All managerial level staff (27), all directors and deputy directors are participating in the preparation of this strategy. The Project will continue to support TAK and coordinate with the IMF representative during the finalizing of the Strategy in April 2015.

Towards the end of Year One, the Project developed a set of performance measures for TAK. One of the most common performance measures for any tax administration is revenue targets – it is easy to measure and necessary to meet the government budget objectives. However too much focus directed towards meeting revenue collection targets can result in lower attention and resources being devoted to the other objectives of the tax administration. The Project developed a small number of high level KPIs which can help provide a snapshot of the overall performance of TAK, not only revenue collection. They cut across a number of themes: financial performance, improved compliance; cost effectiveness; and customer centered focus. As previously mentioned TAK is currently working (with the support of IMF) to finalize their Strategic Plan (2015-2020). They plan to complete this in April 2015. This plan will include high level strategic indicators and will also inform the lower level operational plans and targets of TAK. Once the Strategic Plan is completed the performance indicators being proposed by the Project will be reviewed to ensure complete alignment with TAK's Strategic Plan. Following this the key indicators should be discussed and a final set agreed.

The Project and SIDA ProTax2 supported the Property Tax Department to develop a report of all municipal registered properties for individual municipalities, from the property tax database. Municipalities can access such information from the property tax database, but in a read-only manner. This new Excel report was developed to assist municipalities as a cross reference in creating their list of illegal constructions as part of the legalization process. The report includes a list of all properties registered in the property tax database for the specific municipality and would include, at a minimum, the following data:

- Property number
- Property coordinates
- Registered property taxpayer

The Project supported the MoF Property Tax Department to hold a Property Tax Forum for municipalities to discuss current year property tax compliance rates. The Forum brought together



*Shkëlzen Morina, MoF Property Tax Department Director, presenting record-breaking property tax data*

86 representatives from Kosovo municipalities, the Ministry of Finance, and SIDA ProTax 2, to review mid-year progress and share the best practices of municipalities to improve property tax collection and compliance rates. The Project supported PTD conduct an analysis of January-August 2014 data on property tax collection and this analysis showed municipalities were making very good progress. This exercise was presented at the Municipal Property Tax Forum.

Based on the discussions at the workshop the Project supported the Property Tax Department and through this Department, encouraged municipalities to increase their performance in property tax collection and compliance, by ensuring that property tax data collection becomes more transparent, with better sharing of results and experiences among municipalities continue in the future. As a follow on activity the MoF Property Tax Department Director, published on its website a summary of property tax revenue with details of tax collection data by municipality for the period January - October 2014 (<http://tatimineprone->



*Municipal property tax officials share practices to increase collections.*

[rks.org/images/uploads/files/property\\_tax\\_payments\\_until\\_october\\_2014.xlsx](http://rks.org/images/uploads/files/property_tax_payments_until_october_2014.xlsx))

The Project will work with the MoF PTD to encourage such data be published regularly going forward. The Project will also encourage a summary of the data or a link to such data to be more prominently displayed on the home page of the MoF, PTD website. Such reporting will contribute to increased transparency, public information, higher competitiveness among municipalities, and better use of metrics to evaluate performance.

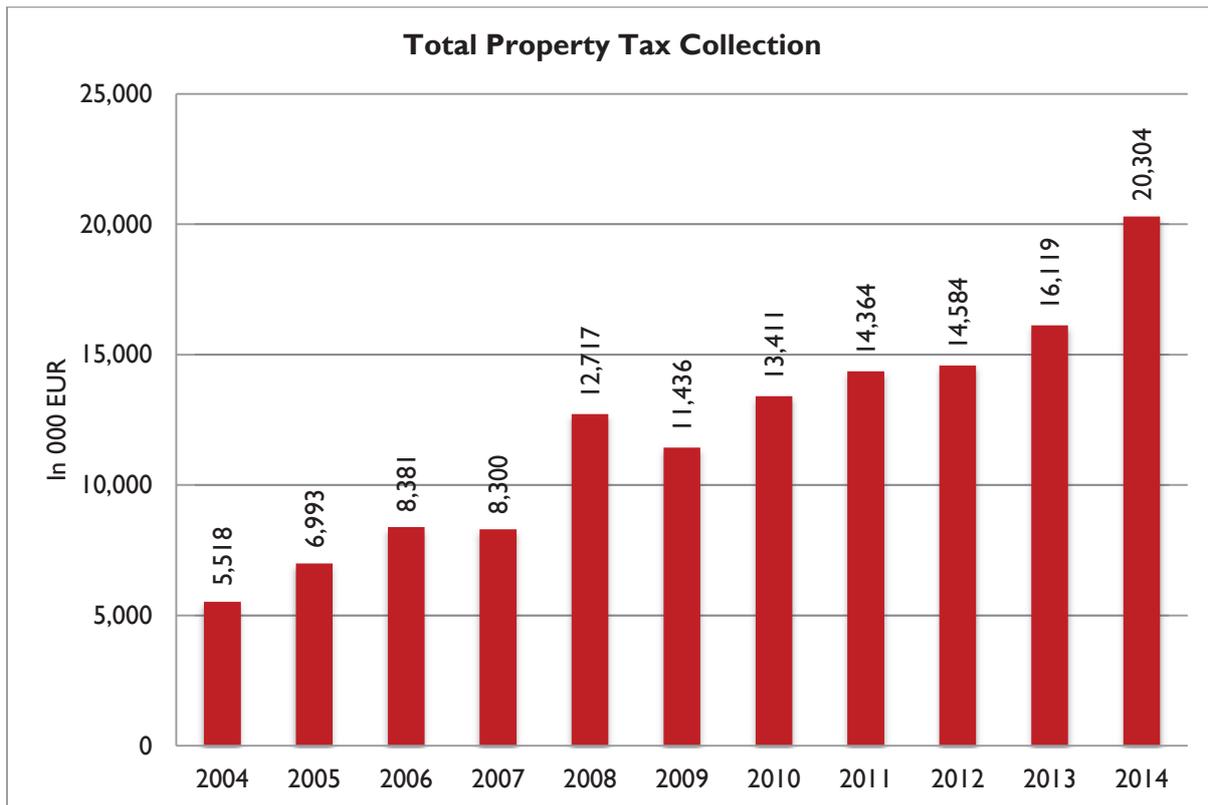
The Project also analyzed property tax collection results for the full year 2014. Based on provisional property tax data available in late January 2015 the following positive results were reported:

- 2014 - Current year property tax collections increased 17.30% (compared to 2013)
- Total collected (current + arrears + penalties) increased by 26.12% (on 2013)
- The current year compliance rate for 2014 was 51.04% - this is almost 5% above the previous best compliance rates (2011 – 46.52%) and the first time the rate exceeded 50%. It is also the first time total collections have exceeded 20 million (actual 20.3m) and current year collections exceed 10m (actual: 11.6m, on assessments of 22.8m).
- Other key results are:
  - Number of properties increase: 1.62%
  - Current year collections: Euro 11.6 m (+1.7 m, the first time over 10m)
  - Total collections: Euro 20.3 m (+4 m, the first time over 20m)
  - Largest % increase in number of properties: Fushë Kosovë / Kosovo Polje (+8.74%)
  - Largest % increase in tax valuation base: Skënderaj / Srbica (+9.61%)
  - Largest % increase in current year tax collected: Štrpce / Shtërpce (+50.18%)
  - Largest % increase in total collected: Štrpce / Shtërpce (+73.21%)

- Highest current compliance rate: Obiliq / Obilić (74.3%)
- Largest Increase in current compliance rate: Lipjan / Lipljan (+13.5% to 57.8%)

The below two charts present the current year compliance rate as well as the total property tax collection over the years.





The Project will continue to work with the Property Tax Department to review the best performing municipalities to identify successful strategies adopted and continue sharing experiences across municipalities.

With the request of PTD, the Project supported the municipal level consultation process relating to the amendments being proposed to the current legislation on tax on immovable property. With the involvement of USAID AKT and SIDA ProTax 2, the Project supported the Property Tax Department host three workshops, with representatives from 33 municipalities, to discuss opinions and receive comments on the proposed amendments to the Law on Taxes on Immovable Property. The proposed amendments were presented by PTD staff and SIDA Pro-Tax 2 project representatives; who had assisted the PTD in developing the proposals. The main implication of the proposed changes is the inclusion of land into the property tax base. The PTD will use the input of municipal representatives obtained at the workshops to further develop the proposed amendments. The Project, together with USAID AKT, provided logistical support for the organization of the workshops. Continued coordination between these three projects and the Property Tax Department will ensure the most effective use of donor resources in making further consultation as inclusive and transparent as possible.

### **C3-3: STRENGTHEN GOK CAPACITY TO EXPAND PPP PROGRAM AND INCREASE PRIVATE SECTORE PARTICIPATION IN PPP INFRASTRUCTURE PROJECTS**

After MESP asked for assistance, an investigation of a potential PPP opportunity in Gjakova / Đakovica was supported by the Project. The “Sustainable Green Infrastructure Project in Gjakova / Đakovica” includes the development of wastewater treatment facilities, renewable energy, recreational centers, pedestrian and cycling paths, and ecological gardens to improve the

environment and create recreational and tourism activities that can also create employment. The targeted first phase includes a recreational center and park on the Erenik River near the Gjakova / Đakovica city center (hotel, beach, playground, park, shops, and sports fields). The Project consulted with the MoF PPP Unit and the relevant legislation in force (PPP Law and the Law on the Use and Exchange of Municipal Property) and drafted a memo on how Gjakova / Đakovica could do it with their municipal land according to the law and regulations and submitted it to MESP for them to follow up with the Mayor of Gjakova / Đakovica.

The Mayor of Peja / Peć municipality expressed interest in a number of PPP initiatives. Specifically, he raised the issue of waste-water treatment and a potential ski facility. While follow-up discussions, the Project encouraged the municipality to contact the PPP Department within the Ministry of Finance to seek for their advice and assistance on PPP ideas and initiatives, as this Department is responsible for supporting / coordinating PPPs and this would also help consolidate ideas that often have cross-municipality implications for development or sustainability.

Following a request from the Directors of the Department of Industry and the Legal Department of MTI, the Project attended a joint working session of these two departments that was aimed at identifying the concrete steps and legal requirements for launching a PPP project for two building facilities. These facilities, which were originally built by MTI on a location assigned by the municipality of Pristina, are for the Construction Products Laboratory and the Metrology Department and are located in the area of Bernica, near Pristina. MTI concluded that these buildings cannot serve their initial purposes owing to the significant lack of qualified staff and other factors and would like to launch a PPP project to give a private company the right of use over these facilities. MTI has already received a number of expressions of interest from IT companies who are interested to use these facilities. The Project advised MTI on the PPP procedures as described in the Law on PPP as well as the practical steps MTI can take to ensure the PPP project proceeds smoothly. Also the Project advised that MTI gets in touch with MoF PPP Department for their assistance. In addition, the Project advised them to review and clarify any property and ownership issues before proceeding with the Project.

#### **C3-4: SUPPORT BREZOVICA RESORT DEVELOPMENT PROJECT (BRDP) INTER-MINISTERIAL STEERING COMMITTEE (ISC) TO ATTRACT WORLD CLASS INVESTORS AND OPERATORS TO DESIGN, BUILD, FINANCE, AND OPERATE THE BRDP**

The development of the Brezovica Resort has been declared a national priority project for the Republic of Kosovo. It is a highly important project for the economic development of Shtërpce / Štrpce municipality and the economy of Kosovo as a whole. The objective of BRDP is to attract an experienced and qualified private operator/developer to design, construct, finance, and operate the development footprint (located in the Brezovica Sharr Mountain) into a world class year-round tourism and recreational facility for local and international visitors.

With continuous USAID support, BRDP has made considerable progress. In January 2013, the ISC initiated an international public tender to attract experienced operators and developers to BRDP. The opportunity yielded significant investor interest, with seven globally diverse consortiums/companies expressing interest in the opportunity to design, build, finance and operate the resort under a 99-year lease agreement, of which four consortiums/companies were pre-qualified.

Following adoption by the Assembly of Kosovo of the Spatial Plan for “Sharri Mountain” National Park, which legally designated the Brezovica Resort Development Project Footprint as a “Zone 3” area thereby allowing construction to take place within the footprint, in February, 2014 the ISC issued the Request for Proposal to the qualified bidders, with the deadline for submitting bids being May 28, 2014.

Partnerships for Development continued uninterrupted previous USAID support through Transaction Advisor Jill Jamieson, working under subcontract for Huron Consulting and PIU.

Following the issuance of the Request for Proposal, the Project supported the process of voluntary public consultations between the pre-qualified bidders and the local community in Štrpce / Shtërpce. These consultations aimed to inform the local community on the investors’ plans to develop the project and also receive feedback on their proposed development concepts prior to formal submission of bids. Those consultations were held on May 7, 2014 in Štrpce / Shtërpce where only one bidder decided to participate with a presentation to local community. The community was involved with questions and discussions with the bidder’s representatives and overall, this activity was well-organized with good attendance by local community and fulfilled ISC and local community expectations.

As part of the BRDP process, on April 11, 2014, the GoK initiated the expropriation process, by approving the “Decision Accepting Expropriation for Further Processing”, which then requires that the Property Tax Department within the Ministry of Finance conduct financial appraisals of parcels within the footprint. In May 2014, MESP organized Public Hearings for expropriation with the owners of the property within the BRDP footprint, with participation of MoF Property Tax Department. The MoF PTD visited and inspected the whole BRDP footprint and now they are in the process of finalizing their financial appraisal of the property within the footprint.

With the request of the pre-qualified bidders, the ISC extended the deadline for submission of bids initially to July 7, 2014 and then to September 9, 2014. During this period, the Project’s Strategic Advisor and PIU provided support to ISC and MTI to respond to a large number of questions to the bidders regarding the Request for Proposals.

After receiving the bid proposal on September 9, 2014, the Evaluation Committee, supported by the Project’s Strategic Advisor Jill Jamieson and two experts, Chris Cushing and Kent Sharp, conducted the review of the proposal, to enable this Committee to form its view on the proposal. In addition to looking at the bid submitted by the Investor, the Evaluation Committee asked for a presentation from the Consortium, which was held on September 18, 2014.

On November 17, the ISC, after extensive discussions, supported the recommendations of the Evaluation Committee to award the contract to the Bidder. On December 29, in compliance with award requirements, the successful Bidder incorporated its Special Purpose Entity in Kosovo which will be responsible for implementing the BRDP Contract and the work continued to negotiate the contract, which is expected to be signed in March 2015

Following the creation of new institutions, a meeting of the BRDP ISC was held to present the Brezovica project to the new members of ISC. In this meeting, the successful bidder presented its BRDP development concept and informed the members that they are working to finalize all the necessary requirements for the contract to be signed, such as the draft Master Plan of the project. All new members of ISC expressed their support for the project.

In all the above points, the Project continuously provided support to the ISC, MTI and other stakeholders to coordinate all activities.

Going into Year Two, the Project will continue to provide technical assistance to the GoK to implement this priority project. Work will include supporting the ISC during the upcoming phases of the project, including the help for the GoK to get prepared to assume its responsibilities deriving from the contract, engage experts to support on commenting the master plan and lawyers to negotiate the contract.

## **NEXT STEPS**

During Year Two, the Project will work with the Ministry of Finance to build on progress made in Year One. The Project with the MoF Central Budget Department (CBD) and EPPD will agree actions based on the review of MTEF. To improve municipal level multi-year budgeting, support will be provided to the Municipal Budget Department in offering guidance to selected municipalities to improve their MTBF. Also support will be provided to improve budget transparency during planning and implementation, by improving, documenting and adopting a sound, robust and transparent macro-economic methodology. As part of efforts to further transparency the Project will also provide guidance to MoF Treasury on improving reporting of government financial data in line with international reporting standards (GFS 2001).

The Project will support the introduction of some of the basic elements of a simple program classification, and a performance management framework, by defining GoK sectors, and agreeing a program structure. This will require piloting and a step by step approach before rolling out across GoK, beyond Year Two of the Project. For this reason the Project will support the MoF to develop a phased plan to introduce program performance budgeting.

The Project will support the MoF CBD and Municipal Budget Department (MBD) to prepare training materials on improving functional coding for use at the BO level. Support will also be provided to MoF to improve the use and coding of municipal own source revenues.

Assistance will also be provided to MoF Budget Department and OPM LO to approve and implement the new requirements for budgetary impact assessment of new government initiatives and finalize the accompanying manual for use. Preparation of all the necessary forms will be completed and training for the users will be organized.

During Year Two, the Project will make recommendations to the MoF PEFA Secretariat on how to create and initiate a monitoring process for the implementation of the PFM Action Plan based on PEFA 2013. The review of the local level PEFA's will take place early in 2015 and based on the findings the way forward for local level PEFA will be agreed with the MoF Municipal Budget Department.

The Project will support TAK to improve procedures and operations by taking measures to implement the recommendations made by the Project and agreed by TAK in Year One. The Project will also monitor the operationalization of the TAK call center and help TAK identify and resolve any ongoing barriers to its success.

Further support will be provided to MoF Property Tax Department to improve the visibility and frequency of property tax reporting. Further, guidance will be offered for continuous monitoring and analysis of current compliance rates and to ensure focus on current year property tax base and

finding incentives and mechanisms for improving the compliance rate. The MoF Property Tax Department will be encouraged to identify the reasons for improved compliance in the better performing municipalities and to disseminate the lessons learned.

The Project will continue to provide technical assistance to the GoK to implement the Brezovica Resort Development project. Work will include supporting the Inter-Ministerial Steering Committee at all phases, including the help for the GoK to get prepared to assume its responsibilities deriving from the contract, engage experts to support on commenting the master plan, and lawyers to negotiate the contract.

During the next year, the Project will provide assistance to the GoK to implement the G2G program. G2G will be initiated in 2015 based on the Implementation Letter (Agreement) for the Partnerships for Developing Local Capacities Activity signed by the Minister of Finance, acting on behalf of the Republic of Kosovo in September 2014 and USAID. Support from the Project will involve assisting the MoF to prepare a manual of procedures and templates to support implementation of G2G, Work Plan and PBMS preparation, and any reporting to USAID. Support will also be provided to the MoF and other beneficiaries of the program to identify G2G opportunities in line with the objectives of the program.

## **CHALLENGES AND IMPLEMENTATION ISSUES**

Due to difficulties in forming new institutions, as reported in the section above on Impact of Political Uncertainty, some activities were challenged. There was no mid-year budget review and this caused problems at both levels of government, but in particular for municipalities which have been looking to amend their original budgets, which were prepared prior to last year's local elections. The 2015 budget was approved by Government, sent to the Assembly on time (October 31), and approved by the Assembly in December 2014. However the 2014 deficit result and over optimistic projections of revenue for 2015 have resulted in serious challenges for the Government and newly appointed ministers.

The MoF now faces the real possibility of downward alteration of revenue projections during the mid-year review which will require stringent expenditure cuts for the second half of 2015. This will be essential to ensure fiscal discipline is restored and the long-term fiscal sustainability of the country is not further threatened.

The Project will work with the MoF and other relevant institutions to improve ongoing monitoring of implementation of the 2015 budget, prudent mid-year review and planning of a sustainable medium-term fiscal framework.

## **COORDINATION**

The Project coordinated with a number of institutions and donor projects, relevant for national and local PFM. Activities were coordinated and agreed with Government stakeholders such as the MoF Budget Department; Municipal Budget; IT; Treasury; Tax Administration; Economic Public Policy Department; Legal Office of Prime Minister; and others. The Project also coordinated with other donor projects, such as SIDA Property Tax project, the EU Support to the Ministry of Finance, the EU Support to the SPO, GIZ Public Finance Advisor, the Swedish National Audit Office and the PFM Adviser on the World Bank supported project to improve PFM capacities in certain budget organizations in Kosovo. The Project also coordinated with USAID AKT and met with a number of

IMF Missions reviewing progress in TAK, assisting TAK with planning for a new IT system and supporting TAK's revision to their Strategic Plan. The Project also coordinated with IMF representatives reviewing Government reporting standards at MoF and the IMF Mission Chief Jacques Miniane during his visit in January 2015.

## WORK PLAN PROGRESS

C3-1: Improve GoK Capacity to Manage Economic Stress													PBMS X-Ref	Status		
		F	M	A	M	J	J	A	S	O	N	D			J	
<b>1. Assist GoK to improve and sustain fiscal discipline</b>													<b>PR 1, 6, 8</b>			
1.1	Assess the need to establish a high level Commission for Budgetary and Fiscal issues											X				Pending new government priorities
1.2	Assess current practice on costing and prioritization of new policy spending initiatives and suggested changes if needed, to ensure that all initiatives are properly analyzed and costed (linked with cross-cutting objective C3, activity 4 under component I)									X						Completed
1.3	Review the 2015-17 Medium-Term Policy Priority Statement and MTEF and provide recommendations to MoF and OPM Office of Strategic Planning to improve the quality and process of preparing these two documents in future years (linked with cross-cutting objective C2, under component I)						X									Completed
1.4	Assist the MoF and Government implement the legally binding rules-based fiscal framework to keep the level of budget deficit under control										X					Completed
1.5	Assist the MoF prepare for discussions with IMF on budget and PFM related issues, in light of expected negotiations on a new program			X												Completed
<b>2. Enhance the MoF forecasting model</b>													<b>PR 6, 8</b>			
2.1	In coordination with the EC project (as lead), assist the Economic and Public Policy Department in modifying the existing model for making macro-economic and fiscal projections, to include private sector financing													X		Completed
<b>3. Strengthen capacity in multi-year budgeting</b>													<b>PR 6, 8</b>			
3.1	Review the possibility of further strengthening the budget process and introducing greater transparency by introducing functional classification. This activity will contribute to having a more effective, accountable and transparent Government and ensure more effective implementation of the anticipated G2G development assistance and involve AGE to ensure that gender perspective is taken into account								X							Completed
3.2	Provide assistance to MoF relevant departments to ensure a harmonized and single approach of all Government institutions to borrowing and its integration into the budget planning process											X				Completed
3.3	Assess the current use of performance budgeting at both national and local level and if needed and committed, provide support to the Budget Department to developing more performance-based budgets											X				Completed
3.4	Initiate piloting in 2-3 ministries of performance budgeting, as per 3.3 above													X		Pending new government priorities
3.5	Review MTBF use at municipal level and provide initial support as required							X								Completed
<b>4. Improve expenditure monitoring and cash management at the national and local level</b>													<b>PR 8</b>			





# ANNEX I: PERFORMANCE BASED MANAGEMENT SYSTEM RESULTS

Project Result 1 (PR 1): Doing Business Improvement: Percentage improvement in underlying variables of Doing Business Indicators (Starting a Business, Dealing with Construction Permits, Paying Taxes)

*Doing Business* indicators are a demand-driven, country-specific sub-set of the processes covered in the annual World Bank *Doing Business* report. The project will support a minimum 20 percent average total improvement in the underlying variables of Indicators in Starting a Business and Dealing with Construction Permits and 10 percent average total improvement in Paying Taxes based on project activities and published in the annual World Bank *Doing Business* report.

- **Starting a Business** (number of procedures, number of days, cost as a percentage of GNI per capita, and minimum capital requirement as a percentage of GNI per capita)
- **Dealing with Construction Permits** (number of procedures, number of days, cost as a percentage of GNI per capita)
- **Paying Taxes** (number of payments, number of hours, total tax rate (% profit))

	Year 2014	Year 2015	Percent change	Target	
				Year 1 (2015)	Life of project (2018)
<b>Starting a business</b>				<b>10%</b>	<b>20%</b>
Rank	100	42			
Procedures (number)	6	5	16.7%		
Time (days)	30	11	63.3%		
Cost (%GNI)	22.1	1.2	94.6%		
Min Capital (%GNI)	0	0	0.0%		
<b>Average change</b>			<b>43.65%</b>		
<b>Dealing with Construction Permits</b>				<b>5%</b>	<b>20%</b>
Rank	148	135			
Procedures (Number)	14	15	-7.1%		
Time (days)	151	152	-0.7%		
Cost (% warehouse value) (Changed from % PCGNI)	10.3	6.7	35.0%		
<b>Average change</b>			<b>9.6%</b>		
<b>Paying Taxes</b>				<b>0%</b>	<b>10%</b>
Rank	58	63			
Payments (Number)	33	33	0.0%		
Time (Hours)	161.5	155	4.0%		
Total Tax Rate (% profit)	15.4	15.3	0.6%		
<b>Average change</b>			<b>1.53%</b>		

Project Result 2 (PR 2): Improved Analysis and Transparency in Legal Drafting: Improvements in policies, legal acts, administrative procedures and operations for the drafting and publication of legal acts

The Project is supporting the GoK to improve the drafting process, including through by supporting initiating bodies to provide justifications for proposed laws and regulations that refer to broader policy goals; strengthening the analysis of draft and EU approximately practices, and encouraging that draft laws and regulations be subject to public notice and comment and are shared with other government bodies when appropriate.

Success in this area is measured by the number of relevant policies, legal acts, administrative procedures and operations that are reformed.

Project Result PR 2	Target 2015	Actual
Improvements in policies, legal acts, administrative procedures and operations for the drafting and publication of legal acts	5	6

1. Improved EU review and approximation process institutionalized with the Ministry of Trade and Industry, including implementing pilot reviews methodology in the Law for Draft Amendments to Law on Patents and draft Law on Industrial Design.
2. Establishment of a dedicated webpage for publication of draft subnormative acts by the Ministry of Trade and Industry and its subsequent use by the Ministry to post drafts for public comment.
3. Improved legal act publication institutionalized in GoK ministries to upload subnormative acts into the Official Gazette Legal Database immediately after adoption through supporting direct submission login access, pilot uploading clinic, and subsequent unilateral consistent usage by ministries.
4. Introduction of standardization of technical practices for reference numbering and titling of legal acts as uploaded into the OGDB, making cross-referencing and searching more intuitive and effective thereby improving maintaining and access to legal information.
5. The Better Regulation Strategy adopted by the Government whereby drafting bodies are required to conduct more thorough impact analysis of proposed acts and including a plan of implementation for amending the Rules of Procedure of the Government.
6. Improved analysis of proposed policies and concept documents with the Ministry of Finance Legal Office in pilots and using a standardized approach for future reviews.

**Project Result 3 (PR 3): Implementation of Permissive System Authorization and Compliance (Inspections) Reforms: Improvements in policies, legal acts, administrative procedures and operations for regulation of economic activity**

The project works at two levels in supporting the implementation of the Law on the Permits and Licenses; with the OPM LO to support the adoption of the Law on Inspections in a form consistent with modern best practice; and with governmental bodies (e.g., MTI, MESP, etc) to help those bodies improve their procedures, processes and operations consistent with best international practice.

The progress is measured by the number of policies, legal acts, administrative procedures and operations related to permitting and licensing or inspections that have been reformed or improved

Project Result PR 3	Target 2015	Actual	Life of project (2018)
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Improvements in policies, legal acts, administrative procedures and operations for regulation by government bodies of private economic activity through permitting and licensing or inspections	5	7	35
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1. To improve registration operations, customer service training supported for business registration personnel to enable them to perform their duties more effectively and productively.
2. Improving collection of registration information, TAK and KBRA institutionalized the use of NACE 2 Codes in their databases. Consistent with international best practice, improved economic statistics proved better data for the market, policy, and for managing regulatory activities, such as rationalizing scheduled inspections and monitoring permitting and licenses based on type of business activity.
3. Fushë Kosovë / Kosovo Polje Municipal Administration implemented phased inspections of construction sites, in accordance with the Administrative Instruction MESP No 18 /2013 on Minimum Standards and Procedures for Inspection Supervision and Issuance of Certificate of Occupancy.
4. To oversee implementation of construction permits and inspections, Fushë Kosovë / Kosovo Polje, Hani Elezit, Peja / Peć and Ferizaj / Uroševac, municipal administrations initiated intranet tracking systems with MPA support. Additionally, in Fushë Kosovë / Kosovo Polje, Peja / Peć, Hani Elezit, and Ferizaj / Uroševac, the system creates a red flag if permit applications have gone over the deadlines set in the Law on Construction.
5. To support inspections of building, MESP adopted Administrative Instruction MESP No. 18/2014 on Basic Health and Safety Requirements for Treatment of Constructions with Permit. Additional supplemental guidelines were also developed and published to facilitate understanding and implementation.
6. Using an option under the Law on Construction and AI 18/2013, Pristina Municipality implemented phased construction inspections by permit holders' inspectors.
7. Increasing public access to the permitting system and application status, Pristina Municipality implemented a permit tracking system that allows administrators to monitor the work of the municipality and communicates with citizens about the status of their permit applications.

**Project Result 4 (PR 4): Implementation of Law on Construction and Law on Spatial Planning: Percentage Improvement of Pilot Municipalities on Compliance Scorecard**

The project is assisting MESP to support municipalities in implementing construction and spatial planning reforms, amongst which are: timely issuance of construction permits; proper use of cost-based permit fee; approved Municipal Development Plan; and approved Municipal Zoning Map.

Project Result PR 4	Target 2015	Actual	Life of project (2018)
a) Percentage of permits in pilot partners with correctly calculated construction permit fees	25%	70%	95%
b) Percentage of permits in pilot partners issued within deadlines for permit issuance	25%	70%	95%
c) Percentage of municipalities with MDPs	74%	76%	90%
d) Percentage of municipalities with MZMs	0%	0%	80%

## Total Permits Issued in MESP Pilot Municipalities

	2013	2014
Fushë Kosovë / Kosovo Polje	26	35
Gračanica / Graçanicë	421	36
Hani Elezit	9	8
Peja / Peć	156	121
Pristina	97	84

Data is based on reports by MESP pilot municipalities: Fushë Kosovë / Kosovo Polje, Gračanica / Graçanicë, Hani Elezit Peja / Peć, and Pristina. Following municipal reporting, together with MESP partners, the Project conducted sample application file spot checking to verify data, including checking the actual permit fee invoices and decisions in the official records by Project experts. Pristina Municipality is incorrectly applying density charges to commercial properties, even though this charge applies only to residential properties. At this time it is not possible to confirm the exact number of erroneous changes with certainty. Therefore, because of a systemic fee calculation and application error, to be conservative in outcomes, it is assumed that all 84 permits involved an incorrect calculation of fees and charges.

To gather information on timeliness, pilot municipalities were asked whether permits are being issued on time. The Project was able to verify this data by reviewing information from an intranet and tracking system used by municipalities to “flag” permits that are overdue and otherwise track the process of applications. However, despite the report, the Project observed in Pristina Municipality that the procedures for issuing permits are being combined with other land use/planning issues, confusing the process and delaying the permitting time in some cases. Therefore, because of a systemic confusion about the process, to be conservative in outcomes, it is assumed that all 84 permits were not issued on time.

Pristina municipality received significant media attention during the year due to reported delays in issuing permits. However, from the records research and discussions between MESP and the municipality, it appears that delays were the result of applicants needing to complete application files rather than the time of processing by the municipality once the application was complete. Since the stories, reports are that the improved system is working more effectively.

As pilot municipal records show significant compliance with deadlines, in future years, the Project will encourage MESP to address areas of non-compliance, but also expand the pilot pool and management variables monitored to strengthen evaluation of the system.

### Project Result 5 (PR 5): Increased Legalization of Property: Number of unpermitted constructions that complete the legalization process under Law on Treatment of Unpermitted Constructions

Partnerships for Development supports MESP to assist municipalities in meeting their responsibilities under the new law. The first year of its implementation, the law focuses on compiling the Registry of Unpermitted Constructions, which is a list of buildings subject to legalization into an official national registry database by February 5, 2015. Therefore, in Year 1 of the project, the registry is being developed and for this reason there are no targets. Year 2 also will have no targets because of the comment period and appeals process and opening of the application process. By Year 3, applications will be submitted and handled and by Feb 2017, 60% will be processed, either through issuance of a

legalization certificate or inclusion on the demolition list. By Year 4, 85% are expected to be processed, while both years 4 and 5 may see an extension of the law to allow for handling of all remaining legalization applications.

As a preliminary step toward this target, Project activities have supported the central and local levels to register over 50,000 unpermitted constructions in the Registry.

Project Result PR 5	Target 2015	Actual	Life of project (2018)
Number of unpermitted constructions that complete the process under Law on Treatment of Unpermitted Constructions	0	0	85%

**Project Result 6 (PR 6): Increased Property Tax Annual Compliance: Increased percentage of total annually collected versus assessed current year property tax**

Property tax is the only tax municipalities are legally allowed to collect. Property tax stability is important for local government finance and citizen commitment to and trust in state institutions. It provides for predictable budgeting and fair, transparency application of tax policy to citizens. The Project is assisting the Government of Kosovo through support to the Ministry of Finance, municipal partners, the Ministry of Environment and Spatial Planning, and other partners to increase participation in and compliance with property tax requirements.

Project Result PR 6	Target 2015	Actual	Life of project (2018)
Increased Property Tax Annual Compliance: Increased percentage of total annually collected versus assessed current year property tax	45%	51.04%	55%

Current Collections Summary (Euros)

	2010	2011	2012	2013	2014
Current Year Assessed	14,354,870	15,297,234	16,505,545	22,152,626	22,779,948
Current Year Collected	6,239,385	7,101,521	7,648,452	9,913,090	11,627,782
Current Year Compliance Rate	43.47%	46.42%	46.34%	44.75%	51.04%

Total Collections Summary (Euros)

	2010	2011	2012	2013	2014
Current Year Collected	6,239,385	7,101,521	7,648,452	9,913,090	11,627,782
Arrears, Penalties and Interest Collected	6,991,365	6,981,832	6,857,372	6,186,139	8,675,891
Total Collected	13,230,750	14,083,353	14,505,824	16,099,229	20,303,673

**Project Result 7 (PR 7): Improved Accuracy of TAK Registration Records and Tax Compliance: Improvements in procedures, legal acts, instructions and operations of TAK to improve data quality, metrics and compliance**

Partnerships for Development is assisting TAK and KBRA to improve quality of data in the TAK information system regarding the taxpayer's status and compliance with filing requirements. Success

in this area will be measured by the number of relevant procedures, legal acts, administrative procedures, instructions and operations reformed.

The Project works with TAK to improve data quality, metrics and compliance. Progress is measured by the number of procedures, legal acts, instructions and operations within TAK which have been reformed or improved.

Project Result PR 7	Target 2015	Actual	Life of project (2018)
Improved Accuracy of TAK Registration Records and Tax Compliance: Improvements in procedures, legal acts, instructions and operations of TAK to improve data quality, metrics and compliance	2	3	14

1. Duplicate taxpayer accounts have been removed in order to improve the accuracy of the tax database to improve focus of compliance monitoring and tax account management activities. Out of 3,489 duplicated tax accounts which were identified, 2,837 (81%) have been resolved.
2. With Project support, an internal TAK Instruction was developed and adopted establishing the process for opening and closing of tax accounts to reduce the risk of future duplicate tax accounts (an issue identified during the review of SIGTAS).
3. The types of taxpayers recorded in SIGTAS were updated to be consistent with types of legal forms for economic activity in Law No 02/L-123 On Business Organizations, , to improve taxpayer registration operations and data consistency. As a result the same terminology (and legal basis) is now used in both KBRA and TAK. The new taxpayer types are being used for all new registrations. Existing registrations, in SIGTAS, have been revised to match the updated taxpayer types, excluding the “other” category.

**Project Result 8 (PR 8): PFM Practices Improved: Percentage overall Government PEFA improvement**

The 2013 PEFA assessment report for the central Government confirmed that the Government has improved its public financial management. Despite the progress shown with 2013 assessment report, there are very important areas that have received very low scores, such as multiyear perspective in fiscal planning; effectiveness in collection of tax payments; effectiveness of payroll controls, etc., and these indicators need to be improved. The Project will assist the central Government PEFA Secretariat to finalize the PFM Action Plan, which aims at improving areas scored with lower grades with the PEFA assessment report. The Project will also provide support to the Ministry of Finance to implement and monitor progress of the Action Plan. The Project will use the numerical scale to track both increases and decreases in individual PEFA indicators, and forecasts a net 10% improvement for the GoK in the next PEFA assessment anticipated for 2016 or 2017.

Project Result PR 8	Target 2015	Actual	Life of project (2018)
PFM Practices Improved: Percentage overall Government PEFA improvement	0	0	10%

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