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PARTNERSHIPS FOR DEVELOPMENT

YEAR 2 ANNUAL REPORT
FEBRUARY 2015 – JANUARY 2016



February 23, 2016

This report was produced for review by the United Agency for International Development. It was prepared by USAID Partnerships for Development implemented by Chemonics International, Prime Contractor, and Crimson Capital Corp. and Policy and Management Consulting Group, Subcontractors.

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Consortium Members: Crimson Capital Corp.
Policy and Management Consulting
Group

Award No.: AID-OAA-I-12-00035
Task Order No.: AID-I67-TO-14-00002

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ACRONYMS

AI	Administrative Instruction
AIS	Agency for Information Society
AKT	USAID Advancing Kosovo Together
BDMS	Budget System
BEEP	USAID Business Enabling Environment Program
BIA	Budget Impact Assessment
BRDP	Brezovica Resort Development Project
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
EDI	TAK E-filing Platform
EPPD	Economic Public Policy Department
ESTAK	USAID Efficient and Sustainable Tax Administration of Kosovo
EU	European Union
G2G	USAID Government-to-Government Program
GDP	Gross Domestic Product
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
GRB	Gender Responsive Budgeting
ICMM	Independent Commission on Mines and Minerals
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
JSC	Joint Stock Companies
KBRA	MTI Kosovo Business Registration Agency
KCA	Kosovo Cadastral Agency
KIESA	Kosovo Investments Enterprise Support Agency
KJI	Kosovo Judicial Institute
KSA	Kosovo Standardization Agency
LLC	Limited Liability Companies

LO	OPM Legal Office
LPFMA	Law on Public Financial Management and Accountability
MCI	Municipal Competitiveness Index
MDM	Municipal Development Plan
MESP	Minister of Environment and Spatial Planning
MOC	Monitoring and Oversight Committee
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
MZM	Municipal Zoning Map
NCED	National Council for Economic Development
OGDB	Official Gazette Legal Information Database
OOG	OPM Office of the Official Gazette
OPM	Office of the Prime Minister
OPOG	Office of Publication of the Official Gazette
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
PPRC	Public Procurement Regulatory Commission
PTD	Property Tax Department
RTC	Regional Technology Center
SBA	Stand-By Arrangement
SIDA	Swedish International Development Cooperation Agency
SPO	OPM Strategic Planning Office
STTA	Short Term Technical Assistance
TAK	Tax Administration of Kosovo
TBT	Technical Barriers to Trade
TOR	Terms of References
UN	United Nations
UNDP	United Nations Development Program
USA	United States of America
USAID	United States Agency for International Development
USG	United States Government
VAT	Value Added Tax
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 Project's activities implemented in Year Two during the period from February 2015 through January 2016. During this period, the Project successfully supported the completion of a number of initiatives and made further progress in achieving contract objectives, as elaborated further below. While specific successes were achieved across components of the Project, delays and then latter difficulties in implementing the USAID Partnerships for Developing Local Capacities Activity (G2G program), which is supposed to directly contribute to achieving the Project goal, purpose and objective, has had direct impact on many Project' activities. Thus, a realistic and urgent resolution of the G2G mechanism is needed, so that GoK beneficiaries are able to timely receive partner requested assistance, and additional future support, to implement significant reforms.

Overall the Project performed well in PBMS objectives to-date. The Project has successfully achieved life-of-project Doing Business targets for Starting a Business and Dealing with Construction Permits. Based on GoK demand, the Project is assisting with further improvement, but also with institutionalizing existing gains. For Paying Taxes, while the GoK has been reluctant to address reforms improving the indicator substantially, the Project is on-track to achieve life-of-project goals and anticipates more decisive improvement through the current Doing Business-related activities of the GoK, as supported by the Project. For two measures additional measures, the outcomes were below targets: (1) for municipal zoning map implementation, delays with G2G prevented the deployment of necessary international expertise to pilot zoning map implementation; (2) for legalization, the GoK decided to focus on building on lesson learned to-date from the legalization process and feedback from municipalities to focus on streamlining amendments to the Law. Following adoption of the revised Law later in Year Three, the GoK is expected to prioritize individual legalization processing and completion. In both cases, the forecast is suggested to be revised in line with GoK priorities and available resources.

In Component One, the Project worked with the Office for the Publication of the Official Gazette (OPOG) in the Office of the Prime Minister (OPM) to institutionalize the Official Gazette (OG) and increase the number and type of legal acts posted in the database. The Project supported OPOG and the Ministry of Local Government Administration (MLGA) to help municipalities in uploading their legal acts in the OG and institutionalize the process of directly uploading their sub-legal acts and keep the database current. The Project also worked with OPOG to determine the current level of usage of the Official Gazette website and the data revealed encouraging results, with the Official Gazette database receiving on average 3,000 page views per day. The Project also worked with the Agency for an Information Society (AIS), to finalize the legal framework needed for standardizing requirements for the webpages of public institutions.

To further advance the current policy development, and legislative drafting practices and procedures of the Government of Kosovo (GoK), the Project supported the Legal Office of the Office of the

Prime Minister (LO-OPM) and Budget Department at the Ministry of Finance (MoF) to complete and the GoK to adopt a new legal framework, and methodological guidance for assessing the fiscal impact (FIA) of new government initiatives. Latter, the Project supported partner ministries in implementing this new framework by assessing the fiscal impact of specific initiatives. Successful implementation of the new FIA methodology will enable government to more accurately determine the costs of its new policy initiatives and avoid the potential accumulation of hidden costs, which may arise from the adoption of new policies and legislation.

Following the publication of the 2016 Doing Business Report by the World Bank (WB), MTI initiated and NCED supported an overarching doing business reform initiative, which the Project is currently supporting to implement.

To advance reforms in permitting and licensing, the Project supported the LO-OPM to complete the Administrative Instruction (AI) on the Registry of Permits and Licenses, which was adopted in April 2015 and opened the way for the launching of the National Registry of Permits and Licenses later in the year.

To further improve the business environment and reduce costs for registering businesses in Kosovo, with Project support, MTI approved the AI on Fees for Services Charged by Kosovo Business Registration Agency (KBRA), which now makes it less costly to register as well as update the existing information in the business registry.

The Project supported the Ministry of Environment and Spatial Planning (MESP) to begin developing and adopting the legal framework needed for licensing of architects and engineers in the area of construction. The first step, which includes the registration of all architects and engineers in Kosovo has already begun with the adoption of the AI on Registration of Architects and Engineers adopted in January 2016.

In Component Two, the Project continued supporting MESP in construction and spatial planning reforms.

In the area of construction, significant progress was achieved with the implementation of Reform Scorecard Plans with five pilot municipalities. Through training, mentoring and on-the-job training, implementation of these reforms has made getting a construction permit easier and more transparent in these pilot municipalities, and has given them the tools for better management of municipal service delivery. As a result of Project support, now all the pilot municipalities have established and posted in their web-sites Permit Tracking Systems; are using standard forms for construction and construction permits; are regularly notifying the public about new applications; and are correctly charging construction permit fees. The Reform Scorecard Program also focused attention on phased technical inspections as an important element of monitoring the process of construction and being able to issue certificates of occupancy without delay.

The Project also supported the MESP Divisions of Spatial Planning and Construction and the Institute of Spatial Planning (ISP) in handling applications for Category III permits, both for constructions within national parks and constructions of high-risk and national interest. The Project helped MESP develop work flow processes to better understand the AI governing Category III permits, increasing certainty for how to deal with these important projects.

In the area of spatial planning, the project supported MESP on drafting and approving the AIs for Municipal Development Plans (MDP) and Municipal Zoning Maps (MZM). In addition to significant drafting and technical support, the Project helped the Division of Spatial Planning conduct internal

outreach to build consensus within the ministry with the Institute of Spatial Planning and helped MESP host a workshop for municipalities with practical exercises on the subject of zoning.

Significant progress has also been made towards finalizing the AI on the Spatial Plan of Kosovo and drafting of the Spatial Planning Technical Norms. The AI on the Kosovo Spatial Plan will support a strategic spatial development at the national level, as a coordinating and integrating document of the spatial data and strategic priorities, with policies for the development and use of land with concrete planned activities and monitoring process. The Spatial Planning Technical Norms will give drafters of spatial planning documents standardized technical norms that will improve both the quality of planning and will standardize how plans are presented.

On legalization of unpermitted construction, this year saw the end of a significant milestone in the process – the closing of the Registry of Unpermitted Constructions, with a total 352,836 constructions without permit registered in the registry by municipalities and MESP. To commemorate this milestone, MESP and USAID supported an event to recognize efforts made to-date and to encourage continued partnership in the next phase of the legalization process. Minister Agani officiated the event and thanked USAID for its continuous support.

With Project support, a new draft Law for Treatment of Construction without Permit was produced. This revised law includes changes suggested by municipalities and citizens. It is based on lessons learned in implementing the law to-date and is in response to the large volume of constructions to be treated.

The Project also assisted MESP in drafting and adopting the AI on Legalization Appeals. This AI contains an appeals procedure that is objective and transparent, with a key element being an appeals commission to review the last phase of appeals related to the Demolition List.

In Component Three, the Project supported the MoF and other GoK institutions to maintain economic and fiscal stability and to advance Public Financial Management (PFM) reforms. Hallmark achievements include, but are not limited to, successful negotiation and implementation of a Stand-By Arrangement (SBA) policy program with the International Monetary Fund (IMF), adoption of best international PFM practices, and streamlining of the tax refund process.

With Project support, MoF negotiated and is successfully implementing a Stand-By Arrangement program with the IMF. The negotiation of this Program required extensive evidence-based analysis which resulted with a set of realistic fiscal and structural reforms that GoK is now implementing as part of the program. Successful conclusion of the first program review confirmed that GoK made significant progress to restore fiscal discipline. Overall, good revenue performance and rationalization of public expenditure resulted with a lower than expected budget deficit. Furthermore, to ensure sustainability of public finances after the conclusion of the IMF program, the Project supported MoF to draft a legal rule – included as an amendment to the Law on Public Financial Management and Accountability (LPFMA) - which limits public wage growth to the level of the country's economic growth and safeguards against large public wage increases that hinder Kosovo's competitiveness.

The approval of 2016 Budget was accompanied with significant Project supported improvements. Revenue projections are more realistic, transparent, and correctly classified. Information on how the budget deficit is financed is simplified and entails transparent disclosure of the total required borrowing. The Project also supported MoF Treasury to improve transparency of budget execution

through better disclosure and clarity of revenue and expenditure data, as published in quarterly and annual financial reports.

The 2016 Budget includes, for the first time, a results oriented budget classification based on international best practice – the United Nations international functional classification - for informing citizens on what policy areas the government plans to spend. With Project support, the MoF institutionalized the use of this classification as part of the standard budgeting process. At the same time, in coordination with IMF, the Project supported GoK to adopt the IMF's Government Finance Statistics (GFS) Standard – an international best practice to report budget execution. With GFS reporting, GoK now provides citizens with more accurate, comprehensive, and internationally comparable information on revenues and on the size of GoK operations relative to the private sector.

With Project support, MoF enhanced its capacities for economic analysis and budget forecasting, by advancing the tools for evidence-based budget planning and for identifying risks to macro-fiscal stability. GoK also improved costing of new government initiatives. The Project supported the MoF to organize training sessions on the implementation of the new AI on BIA for new government initiatives, and provided on the job support to budget and finance officers of partner ministries for costing new policy initiatives.

Tax Administration of Kosovo (TAK) streamlined Value Added Tax (VAT) refund request process, halving refund request processing times. With a newly approved internal instruction, the refund process is now streamlined and risk based. Also, to further improve taxpayer services, the Project supported TAK to enable 100% online tax filing, thus eliminating the need for taxpayers to visit TAK offices to obtain services, ensuring better use of TAK human resources and saving taxpayers' time.

Based on Project recommendations, the Assembly incorporated additional, but significant, changes to the VAT, Corporate Income Tax and Personal Income Tax laws. These changes include: the removal of the requirement to obtain a separate VAT certificate for imports and exports; full recognition of employee training costs as allowable expenses - previously limited to 1,000 EUR in one year; and removal of the initial proposal to tax dividend income. These changes are expected to have a significant positive impact on the private sector

On Brezovica Resort Development Project (BRDP), the biggest achievement was the signing of the contract between the GoK and the Private Partner. After the signing of the contract, efforts were focused in supporting the BRDP Intern-Ministerial Steering Committee (ISC) and the Private Partner to fulfill their conditions precedent. Good progress was achieved; however securing financing for the investment remains still an issue.

KEY ACHIEVEMENTS OF YEAR TWO

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

- Government signed and successfully implemented the SBA with the IMF. The first program review was conclude successfully, confirming that during 2015 good progress was achieved towards restoring fiscal discipline;
- Official Registry of Unpermitted Constructions declared final with 352,836 constructions without permit registered by municipalities and MESP;

- Creation of new legal framework and practice for fiscal impact assessment of new policies and legislation, and successful implementation of this new framework;
- Adoption of a revised instruction by TAK, to introduce risk based assessment for processing VAT refund requests, streamlining the process and reducing the processing time from 60 days to 30 days;
- Reduction and/or elimination of the majority of fees for business registration related services lowering costs to register; deregister and updating of information;
- Signing of the BRDP contract between the GoK and the Private Partner, a landmark investment of over 400 million Euro;
- Establishment of legal framework requiring registration of all architects and engineers in the area of construction, as the first step towards the creation of a licensing regime managed by the profession itself;
- Construction Reform Scorecard in five pilot municipalities produces measurable improvements in construction permitting and publication of permit tracking systems;
- Improved institutionalization of the Official Gazette, with legal acts of municipalities uploaded and behavior changes implemented in municipalities to directly upload acts;
- Assembly approved changes to tax laws, accepting changes to recognize unlimited costs for training for an employee and other important changes for businesses;
- Introduction of a legal cap to any future wage bill increase. This is expected to gradually help improve the competitiveness of Kosovo economy;
- Creation of Doing Business Task Force at MTI, as the leading technical body to coordinate doing business reforms with various bodies with GoK and other stakeholders;
- Re-activation of NCED as an inclusive body leading the development of policies that promote economic growth and free market, including doing business reforms;
- Establishment of appropriate procedures and requirements for conducting inspections in the area of Spatial Planning;
- MESP approved Administrative Instruction on Municipal Development Plans and Administrative Instruction on Municipal Zoning Maps
- Administrative Instruction on Appeals Procedures for Decisions on Treatment of Constructions without Permit approved;
- Concept Document and revised Law for Treatment of Constructions without Permit drafted to address lessons learned during implementation;
- the approved 2016 Budget saw very good quality improvements, with much more realistic, transparent and correctly classified revenue projections; and
- expansion of the TAK e-filing platform to allow 100% of all tax declarations to be completed online.

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 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 Two activities seek to build on the work done during Year One and 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 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 (MESP) 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 also works 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 MoF, Tax Administration, and other partners involved in Public Financial Management 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 Three, 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

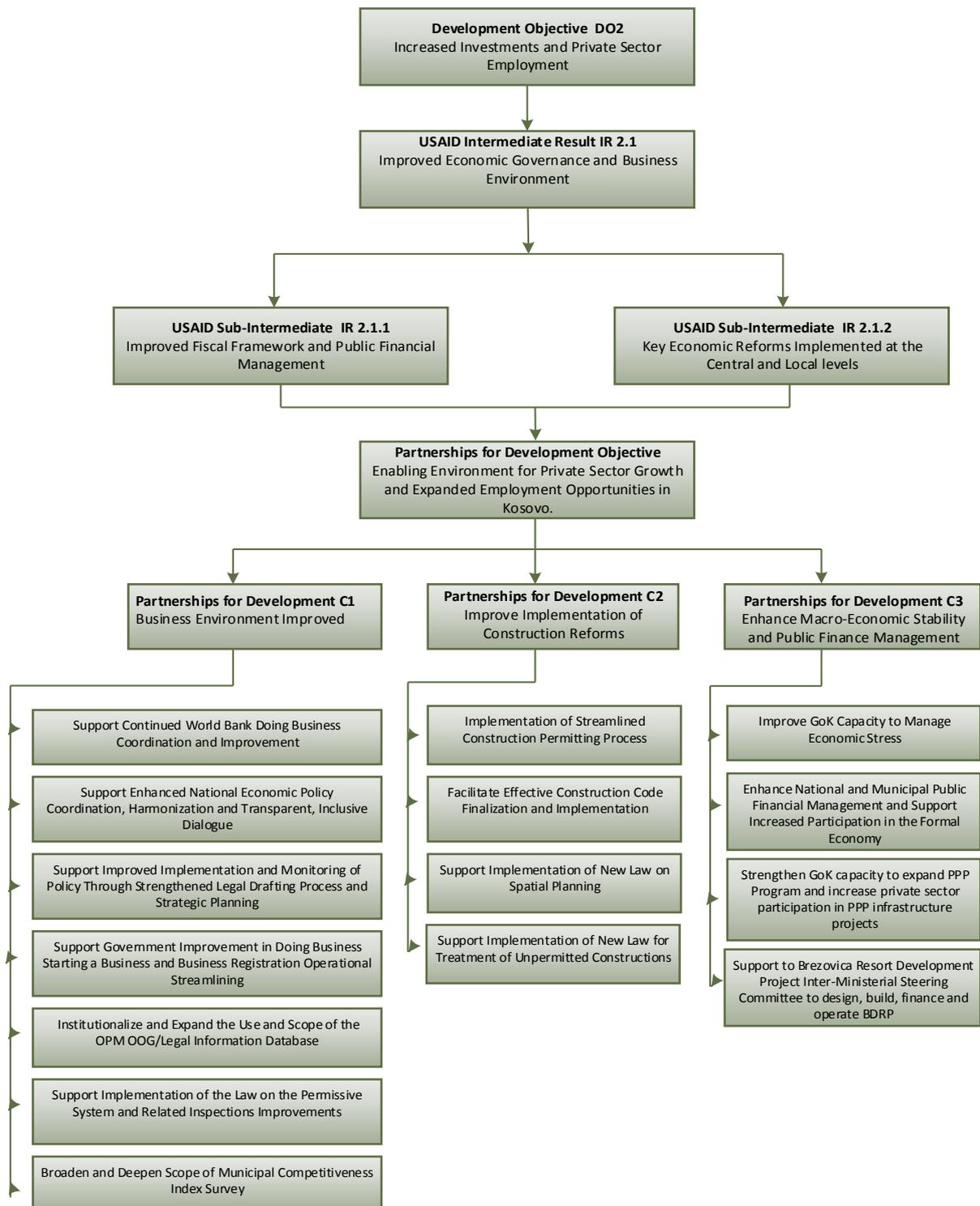
1. Government revenue (tax and non-tax), excluding foreign grants, as a % of GDP
2. Person-hours of training completed in fiscal policy and fiscal administration as a result of USG assistance

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



WORK PLAN PROGRESS REPORT

This section provides a detailed description and the progress made towards implementing specific activities as per the Project's Year Two Work Plan. In line with the approach of the Project and the guidance from USAID, the Project kept its flexible approach to adopt to GoK needs and priorities, by supporting their initiatives, which contribute towards achieving the goals and objectives of the USAID Partnerships for Development

Achieving the goals of the USAID Partnerships for Development, with the various project components working at different levels of government, required partner ownership and commitment, coordination, clear goals, and a detailed, realistic roadmap to empower host country experts, plan budgets, and confirm ownership from partners to both the goals and the steps needed to achieve those goals.

This section begins with a description of Government-to-Government (G2G) activities supported by the Project and then with a detailed elaboration of specific activities, per each of the Project components.

CROSS-CUTTING SUPPORT TO IMPLEMENTATION OF USAID G2G PROGRAM

The G2G program, also known as the Partnerships for Developing Local Capacities Activity, is a mechanism through which USAID provides funding to GoK to identify, plan, procure, implement, and monitor technical assistance, using host country government systems, legislation, and procedures. The objective of this type of support is to strengthen host country government institutions' capacities to plan, identify, acquire, and manage development assistance in accordance with its needs and in support of overall USAID Partnerships for Development Project objectives.

Implementation of the G2G activities started early 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.

Following the confirmation of support and commitment to G2G of the Minister of Finance, Mr. Avdullah Hoti, the Project supported MoF to make all necessary preparations to facilitate the initiation of the G2G program. Two MoF officials were designated as G2G technical staff to support daily activities of the G2G scheme. Establishment of the Monitoring and Oversight Committee (MOC) composed of the representatives of USAID, MoF, and the USAID Partnerships for Development, was the initial activity under G2G program.

The Project provided intensive assistance to the MoF in implementing G2G program including, but not limited to, following activities:

- several risk mitigation measures, as per the Implementation Letter, were taken, including the confirmation of Procurement Officials, confirmation of certification of Code of Conduct declaration by Procurement Officials, development and adoption of IT Disaster and System Recovery Plan, and adoption of IT Physical Security Improvement Plan;

- developed all the necessary guidelines, procedures, manuals, templates as well as the support provided to beneficiary institutions during the preparation of the initial concept proposals for review and approval by MOC;
- supported beneficiary institutions to prepare the Terms of References (ToR), based on the initial concept papers approved by MOC, and approached this activity with the additional aim to further strengthen local capacities to identify and be able to fully develop technical initiatives, with clear reform objectives and a more results oriented focus;
- supported the MoF Procurement Office to identify the most appropriate procurement procedures for conducting procurement activities under the G2G Program between USAID, Public Procurement Regulatory Commission (PPRC) and MoF;
- intensively supported the Procurement Office at MoF to develop and complete tender documentations required for G2G activities, and
- provided templates and advised MoF on the drafting of all required reports (quarterly, semiannual, annual, financial, and year work plan).

Out of seventeen (17) G2G ToRs from Ministry of Environment and Spatial Planning (MESP), Ministry of Trade and Industry (MTI), Central Bank of Kosovo (CBK), Tax Administration of Kosovo (TAK) and MoF that were approved by MOC, and forwarded to MoF Procurement Office for inclusion in the standard tender documentation, eleven (11) Contract Notices were published by PPRC, six (6) Contracts were awarded, and five (5) Contracts were signed. Out of the five (5) signed, implementation has not begun on two (2) contracts, whereas the other three (3) contracts listed below are completed:

- building the capacities of Department of Public and Economic Policies (DEPP) at MoF in processing and managing economic data;
- reviewing the current system of businesses registration in order to create a unique business number for registration purposes, tax, customs, statistical and other purposes in Kosovo Business Registration Agency (KBRA) at MTI, and
- review of market surveillance function - focus on Market Inspectorate in MTI - and preparation of relevant recommendations based on good international practices.

Due to difficulties facing with the implementation of the scheme, the G2G program was suspended and the procurement process for the following activities has been indefinitely delayed:

- improving the current system for coordination, development, publication and implementation of technical regulations on safety of products (MTI);
- support with preparing Kosovo for applying for membership in the WTO (MTI);
- support for conducting the Municipal Competitiveness Index for 2016 (MTI);
- advancement of phased construction inspections (MESP);
- preparation and adoption of the construction code (MESP);
- support to municipalities in developing Municipal Zoning Maps and MESP in developing the National Zoning Map (MESP and municipalities);
- analyzing and documenting working processes in IT and ITIL implementation development plan at the Department for Management of IT Systems (DMITS) (MoF);

- development and advancing the PIP and BDMS Systems (MoF);
- assistance for Legal Department in implementing Legislative Programme 2015, and the process of merging the TAK and Customs (MoF);
- support to the MoF in negotiating International Agreement on Elimination of Double Taxation and Fiscal Evasion is missing (MoF);
- support on negotiating international agreements on Elimination of Double Taxation and Treatment of Non-Resident Persons (TAK);
- support to TAK on the treatment of Transfer Pricing (TAK);
- conducting a feasibility study for establishing an Interbank Transaction System with POS and ATM (CBK), and
- inclusion of tax information by TAK and Property Tax into Credit Report (CBK).

Those difficulties and delays with the implementation of G2G have impacted the implementation of the planned reforms by the beneficiary institutions. Therefore, a realistic and urgent resolution of the G2G mechanism is needed, so that GoK beneficiaries are able to timely receive partner requested assistance, and additional future support, to implement significant reforms. The implementation of these reforms is directly or indirectly connected with other important initiatives which the Project has planned or is planning to assist its counterparts to implement, and the inability to leverage resources to support those reforms will have significant impact on the Project's ability to achieve its goals.

COMPONENT ONE: BUSINESS ENVIRONMENT IMPROVEMENT

Partnerships for Development continued its close cooperation with MTI, OPM, MESP and MoF to further progress with the reforms addressing business environment; policy coordination; improving the regulatory framework governing private economic activity, by supporting the implementation of the Law on the Permissive System; implementation of risk-based inspections practices; and supporting the institutionalization of the Official Gazette Database.

CI-1: SUPPORT IMPROVED POLICYMAKING THROUGH IMPROVED TRANSPARENCY, PUBLIC PARTICIPATION, AND COORDINATION

Building on work accomplished in Year One to support the institutionalization of the **Official Gazette Database (OGDB)**, and promoting it as the single largest and most reliable source of legal information in Kosovo, the Project initially worked with the Legal Office of the Prime Minister (LO-OPM) to amend the draft **Law on Normative Acts** and proposed draft Law feature provisions on:

- the mandatory publication of primary and secondary legislation in the OGDB;
- the mandatory preparation of proposed amending legislation in a version that shows the resulting amended law in one complete text;
- the analysis to which proposed legislation is required to undergo prior to approval by the GoK and the Assembly; and,
- the mandatory posting of all draft legislation for public notice and comment.

While the Project's recommendations were accepted and incorporated, the draft law is yet to be approved by the GoK and forwarded to the Assembly for adoption. However, this law was included in the Legislative Program of the Government for 2016 (http://www.kryeministri-ks.net/repository/docs/PROGRAMI_LEGJISLATIV_PER_VITIN_2016_FIINAL-BMK.pdf) and is scheduled for approval by the Government in May 2016.

Despite the delays in the adoption of the draft Law on Normative Acts, the Project continued to support the institutionalization of the OGDB through actively encouraging and when necessary, facilitating, the continued posting of secondary legislation by institutions at the central level and municipalities. Since the initial round of mass uploading of 506 sub-legal acts of ministries during Year One of the Project (October/November 2014), most ministries have continued uploading sub-legal acts in the OGDB independently. This shows a continuing trend that marks a positive change in ministries' behavior and practice in this area that created the necessary impetus to further promote the OGDB as a unified legal information database with other public institutions, in particular with municipalities.

On local level institutions, in cooperation with the Ministry of Local Government Administration (MLGA) and the Office for the Publication of the Official Gazette in the Office of the Prime Minister (OPOG), the Project facilitated the development of a joint approach for the publication of legal acts of municipalities in the Official Gazette. The implementation of the new approach started in October 2015 with a round of visits to all municipalities for the purpose of identifying the officials to be invited in the working sessions, taking stock of all legal acts currently in force at the municipal level, mapping current practices for preparation, and adoption and publication of legal acts at the municipal level.



Promoting the use of Official Gazette with senior municipal representatives

A total of 36 municipalities were visited by the team composed of MLGA, OPOG and the Project, during which the team was received by senior municipal officials and the responsible officials from the municipalities. During these visits the team presented the work done with the OGDB so far on the publication of legal acts, and emphasized the importance of converting the OGDB into a Legal Information Database containing all legal acts adopted by public institutions throughout Kosovo, including municipalities. Senior representatives from municipalities almost unanimously expressed their readiness to fully support the publication of municipal acts in the OGDB and to immediately assign municipal officers that will take responsibility for publication.

Following the completion of the visits in mid-November, the Project, in cooperation with MLGA and OPOG began preparations for organizing three workshops with three groups of municipalities to upload the legal acts of municipalities in the OGDB. During the first workshop held in January 2016, a total of **18 municipal officials** from 9 municipalities (Ferizaj/Uroševac, Shtime/Štimlje, Mitrovica South, Fushë Kosovë/Kosovo Polje, Kaçanik/Kaçanik, Peja/Peć, Istog/Istok, Lipjan/Lipjane and Klinë/Klina) were trained on the use of the OGDB system and a



Municipal Information Officers Uploading Municipal Legal Acts in the Official Gazette

total **208 legal acts of municipalities** were uploaded to the OGDB. Two additional workshops are planned for February 2016, as part of the Project’s Year Three planned activities.

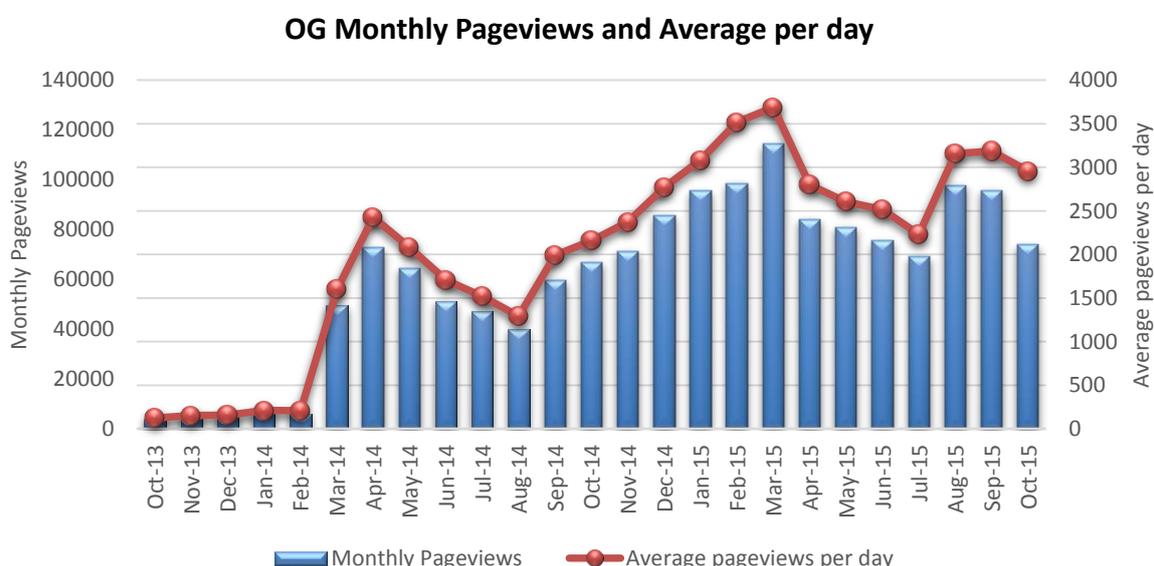
This activity institutionalizes the practices of uploading, to promote consistent future publication as well as reliable, complete and simple access to all legal acts by citizens, to remove information barriers to use of law, and improved policy making, to protect individual rights. Further, the consolidated uploading creates efficiencies for municipalities and provides increased access to models for similar regulations across municipalities, and regulatory harmony. Also municipalities’ burden of translating acts and making them available to multiple languages, are reduced as most acts are the same or similar across municipalities.

Access to legal information, and the use of that information by citizens, government officials, policy makers, investors, and judicial representatives, is a critical element of a rule of law culture.

The Project has also been actively cooperating with the OPOG to **monitor the level of usage of the Official Gazette website** to: (1) determine the daily, monthly and annual average visits, (2) country of user, and (3) device of access.

The usage of this database gives a general picture of institutionalization and value. The country of user shows the degree to which the system is being used internally, as well as by people outside the country for general information, investment research, or other purposes. The device of access provides insight into how people are using the system. For example, the increase in access through mobile devices, suggest that the system may have value for immediate information, such as during discussions, meetings, or other responsiveness to address immediate questions.

The data obtained paints a very positive picture on the level of use of the Official Gazette website. As noted below, usage has been steadily increasing. As recently as October 2015, the site was receiving approximately **3,000 page views per day**.



Source: OGD - Google Analytics, 25 October 2015

While many users are within Kosovo, access from outside Kosovo shows not only international interest in the legal framework of Kosovo, but the ability of the system to be responsive to those inquiries – creating a simple, user-friendly, valuable legal window to the world, that is consistent with Kosovo’s goal of international economic integration and maintaining the types of internationally accessible resources that countries are expected to have available. The table below shows the percentage of visits based on user location:

Top 10 visiting country sources		
Rank	Country	Percentage of visits
1	Kosovo	88.14%
2	Albania	4.06%
3	United States	1.38%
4	Germany	0.64%
5	Serbia	0.62%
6	Hungary	0.53%
7	Switzerland	0.46%
8	Macedonia	0.44%
9	Slovenia	0.40%
10	Other	0.36%

Source: OGK - Google Analytics, 25 October 2015

While many users are utilizing desktop computers to access the system, over 20% of visits are through mobile devices (smartphones and tablets). The immediate responsiveness of the site, and accessibility through these devices by users, implies an operational on-the-go usefulness of the system.

Rank	Operating System	Device Type	Percentage of visits
1	Windows	Desktop	78.13%
2	Android	Mobile	10.52%
3	iOS	Mobile	9.32%
4	Macintosh	Desktop	1.32%
5	Windows Phone	Mobile	0.28%
6	Others	Desktop & Mobile	0.43%

Source: OGK - Google Analytics, 25 October 2015

Following the drafting of the **Administrative Instruction on WebPages of Public Institutions** by the Agency for Information Society (AIS) within the Ministry of Public Administration (MPA) with Project support, the AI was signed by the MPA Minister on 28 May 2015 (<http://gzk.rks.gov.net/ActDetail.aspx?ActID=11007>). In addition to harmonizing the standard content of webpages of public institutions, the AI also imposes a number of requirements on public institutions to increase transparency and improve the public's access to information, including:

- requiring each public institution to publish its draft legislation for public notice and comments;
- requiring that each webpage contain hyperlinks to the OGDB;
- reaffirming and clarifying the responsibilities of public institutions' communications offices for updating the information on their webpages, and
- requiring that all relevant information on permits and licenses issued by the institution be posted and available on its official webpage.

After intensive consultations, the working group comprised of representatives from the Legal Office of the Prime Minister and the Budget Department at MoF, agreed on the final content of the draft AI requiring a **budget impact assessment (BIA)** for new government initiatives. The Project finalized the AI and accompanying Manual to reflect the agreement reached between the LO OPM and MoF and the GoK adopted this document in May 2015(<http://gzk.rks.gov.net/ActDetail.aspx?ActID=10867>)

Under the AI as adopted, all initiating bodies will conduct a BIA for their initiatives. The MoF will be required to issue an independent opinion in connection with the following:

- concept documents;
- draft laws;
- AIs approved by GoK, and
- action plans to implement strategies.

Going through a detailed BIA is essential for informed policy making and fiscal stability as this exercise highlights the fiscal costs and benefits of proposed Government initiatives, to facilitate realistic decision making, avoiding policies that cannot be funded and pressure on the budget, and also as a foundational analysis that can be used in the future for public discussion, by providing specific assumption and calculations to which external parties could respond.

The Administrative Instruction on Budget Impact Assessment requires policymakers to analyze the impact on the national budget of any new law or policy that they propose, which will ultimately result in more targeted and efficient public spending; improve budgetary planning and execution, which will ultimately enhance government's transparency and accountability to citizens.

The Project continued to support the practical implementation of the new budget impact assessment requirements and methodology by actively promoting and often providing hands on support to various ministries, including MTI and MESP during the development of new policies, such as the AI on Fees Charged by KBRA, the Concept Documents on Regulation of the Profession of Architects and Engineers and the Concept Document on the Treatment of Constructions without Permit.

As part of its efforts to implement the Better Regulation Strategy 2014-2020, the GoK approved **Guidelines on Ex-Post Evaluation of Legislation** http://www.kryeministri-ks.net/repository/docs/2_Guidelines_on_Ex-post_evaluation.pdf which were developed by the Legal Office of the Prime Minister, with support from OSCE, the Project, and other donors. These guidelines enable the public administration to monitor how a legal act has been implemented; if the legislation's anticipated goals were met; if the legislation is cost effective, the potential reasons for the resulting difficulties/unintended effects, etc. The Project's recommendations submitted to LO-OPM in 2014, most of which were considered and incorporated during the drafting of the guidelines, included:

- clarifying the relation between Ex-Post Evaluation of Legislation and the Retrospective Regulatory Impact Assessment, to be conducted by government bodies according to the Better Regulation Strategy;
- further clarifying the requirement for government bodies to ensure that all legal acts have a proper constitutional and legal basis and are in accordance with GoK's policy goals;

- providing more guidance on the methods and materials that government bodies should use when gathering empirical information to assess the practical effects of a legal act, and
- reiterating the importance of ensuring that all legal acts are included in the Official Gazette in order to facilitate the evaluation process.

The guidelines are expected to improve policy making, and enable the sponsor institutions and the GoK to decide whether legislation should be amended, repealed, or replaced, as well as to evaluate implementation versus policy goals.

The Project provided to MTI a number of recommendations on the reactivation of the **National Council for Economic Development (NCED)**. The recommendations included the need to allow expanded public presence, including women representatives, where the participants can discuss and raise issues related to Kosovo's economic development agenda, and where the GoK can report on its implementation of previously agreed tasks. Following the decision by GoK to reactivate NCED, MTI drafted the Rules of Procedure for NCED and the Project prepared and submitted to MTI its comments and a consolidated version of the Draft Rules of Procedure, which we primarily aimed at:



NCED – The GoK and the Project Discusses Results of Doing Business Report 2016

- clarifying the duties and functions of NCED, in accordance with the GoK Decision;
- emphasizing NCED's authority to invite to its meetings institutions not included as permanent members;
- requiring NCED to make regular reports to the GoK and to make regular presentations to the public on reforms achieved, and
- including the Government Coordination Secretariat among the GoK bodies with whom NCED will coordinate its activities.

These changes were necessary to ensure NCED had a clear mandate defined in the Rules of Procedure and after submitting its comments and consolidated draft to MTI, the Project explained to MTI officials in details the reasoning on the comments and proposed changes, which MTI accepted. The Minister of MTI signed the final Rules of Procedure and during this reporting period, NCED had its first reactivating meeting with all the members present. In a positive development, both the European Investors Council and the German Chamber of Commerce participated in the first meetings and consistent with Project recommendations to expand private sector participation, latter they were formally accepted as members of NCED.

The Project continued supporting MTI to develop capacities for **World Bank Doing Business (WB-DB) Reporting**. The Project supported senior officials at MTI, including advisers of the Minister, the Chief Executive of Kosovo Investment Enterprise Support Agency (KIESA) and the Chief Executive of the Kosovo Business Registration Agency (KBRA) to prepare GoK's updated information on recent reforms, for submission to the WB Doing Business Team. The support included a number of sessions with these officials to explain the process and methodology applicable for WB Doing Business Reporting, including the MTI's role in coordinating the collection of information from other public institutions. By supporting MTI to coordinate the information, the Project successfully transferred sustainable Doing Business process knowledge and ownership for information management to the GoK that will facilitate future effective discussions between the GoK

and the World Bank. The Project provided contact information and facilitated the communication between MTI and other relevant GoK bodies to ensure that all the reforms that occurred during the reporting period were accurately captured and reported, and assisted MTI with the preparation of the reporting forms which were submitted to the WB Doing Business Team.

From the information collected from the relevant institutions and the reform updates sent to the World Bank, no significant positive changes in Kosovo's Doing Business scores were expected in this cycle. This was partly due to the delays in the formation of the Government in the second part of 2014. The Project suggested that the GoK could offset this by incorporating specific positive reforms in the legislation being proposed, or address future Doing Business reforms comprehensively and decisively in a future initiative.

Following the extensive work carried out by the Project in the previous quarters to help the GoK provide complete and accurate information to the World Bank on the current status of Doing Business reforms in Kosovo, the World Bank published its **Doing Business Report for 2016**. According to the Report, Kosovo is currently ranked 66th out of a total of 189 countries included in the report. Following the publication, the Project worked with MTI to conduct a more detailed analysis of the results presented in tabular form below.

Indicators	DB 2015 (as published in 2014)	DB 2015 (as published in 2015)	DB 2016	Official Change
Country Overall	75	64	66	-2
Starting a Business	42	40	47	-7
Dealing with Construction Permits	135	137	137	0
Getting Electricity	112	118	124	-6
Registering Property	34	34	32	2
Getting Credit	23	24	28	-4
Protecting Investors / Protecting Minority Investors	62	54	57	-3
Paying Taxes	63	64	67	-3
Trading Across Borders	118	70	71	-1
Enforcing Contracts	138	46	48	-2
Resolving Insolvency	164	163	163	0

Based on the **Memorandum on Doing Business, Inspections Reform and Municipal Competitiveness Index (MCI)** prepared by the Project and submitted to MTI prior to the publication of the Doing Business Report, the Project coordinated with MTI in preparation of a NCED meeting held in November 2015, where NCED authorized the launching of a comprehensive Doing Business Reform Initiative and proposed that the GoK adopt a decision establishing a specialized **Doing Business Task Force within MTI**, and making individual ministries responsible for the WB-DB indicators. The GoK adopted this decision on 30 December 2015 (http://www.kryeministri-ks.net/repository/docs/Vendimet_nga_mbledhja_67_e_Qeverise.pdf).

The Project is actively supporting the DB Task Force at MTI to coordinate DB reform activities, including the development of indicator specific analytical summaries that will assist ministries to evaluate reform initiatives within each DB indicator.

The Project also helped MTI to prepare a consolidated version of the **Law on Business Organizations** which consolidates the existing law, Law No. 02/L-123 on Business Organizations adopted in 2008 with Law No. 04/L-006 Amending the Law on Business Organizations and the proposed amendments prepared by MTI in 2013 with IFC support. The consolidated version of the

law will assist the working group established by MTI to review this important law for the business environment. Following the development of the consolidated version, it was sent for consultation to a number of stakeholders, some of which, including the American Chamber of Commerce submitted comments which are currently being considered by the working group.

However, in light of the recent Doing Business reform initiative launched by the GoK under the leadership of NCED and MTI, a more comprehensive review of the Law on Business Organizations may be needed to ensure the new law fully takes into account the needed changes to address the Starting a Business and Protecting Minority Investors of the WB-DB Report. The Project will continue to support the working group to finalize the law.

Related to the Law on Business Organizations and reforms aimed at improving the system for registering businesses in Kosovo, the Project, supported MTI to draft a tripartite **Memorandum of Understanding** between MTI, MoF and MPA, which is aimed at establishing a joint working group and a joint approach for the creation of a Unified Business Registration Number that consolidates the current Business Registration Number currently issued by the KBRA with the Fiscal Number and possibly the VAT Number issued by the Tax Administration of Kosovo (TAK). The memorandum of understanding was signed by the Ministers of MTI, MoF and MPA in the beginning of 2016.

The Regional Technology Center (RTC), the Project's grantee for the **Customer Service Training** for business registration personnel, provided training to a total of 53 staff members from 26 municipal business registration offices and the central office of the Kosovo Business Registration Agency (KBRA). The training program also included a presentation developed jointly by the KBRA and the Project on the role of business registration in a market economy, which was presented by Mr. Gazmend Mejzini, the Head of the KBRA, and the participants themselves expressed great satisfaction with the training.



MTI and Project representatives discussing tourism policy with stakeholders in Peja

At the request of MTI Industry Department, the Project reviewed an initial draft of a concept document whose aim is to amend the existing **Law on Tourism**, currently in force to introduce a number of changes related to certification of tour guides, classification and categorization of tourism accommodation facilities, insuring tourism packages etc. After analyzing the proposals contained in the concept document, the Project engaged a short-term Tourism Policy and Development Expert to review the policy, legal and regulatory framework in the area of tourism.

The short-term expert conducted a full review of the Concept Document and overall policy of the GoK in the area of tourism, and is expected to submit the final report in mid-February 2016. The conclusions from the Report will feed into the process of reviewing the existing Law on Tourism which has been included in the GoK's Legislative Program and the Implementation Plan for the Stabilizations and Association Agreement.

To improve the level of approximation of Kosovo legislation with EU Legislation, the Project supported MTI to complete 2 chapters of the **National Plan for Approximation with the Acquis** which were assigned by the GoK to MTI, Chapter I on Free Movement of Goods and Chapter III on Services. On Chapter I the Project recommended that regulation of products should be made through secondary legislation, issued in accordance with Law No. 04/L-039 on Technical Requirements for Products and Conformity Assessment, instead of envisaging the adoption of separate laws for regulation of individual products that may create technical barriers to trade (TBTs,) by not being developed under the international best practice framework of the Law on

Technical Requirements. On Chapter III, the Project's comments were primarily aimed at addressing the following issues:

- the importance of clarifying in more details the scope of the Services Directive and of more concisely defining "services" using the definitions contained in the Treaty of Rome and the Directive on Services;
- the importance of further describing the reforms conducted until now, in the area of services by the GoK;
- the need to explain in more detail the next steps the GoK intends to take to ensure approximation of legislation with the Directive on Services;
- the need to harmonize the text of Chapter III with upcoming GoK initiatives, in particular regarding Regulated Professions, such as the Concept Document on Regulated Professions, proposed by the Ministry of Education Science and Technology (MEST) and approved by the GoK recently, and the Concept Document for the Law on Services, which is currently awaiting approval by the GoK, and
- the need to harmonize the text of Chapter III with MTI's current initiative to amend the Law on Tourism.

The Project prepared and submitted to MTI and USAID Contract Law Enforcement Project a set of recommendations for changes to the **Draft Law on Bankruptcy**. The recommended changes are primarily focused on the provisions relating to licensing of bankruptcy administrators, unlimited liability of sole proprietorships in bankruptcy proceedings as stipulated in the Law on Business Organizations and other issues addressed by the draft law. The Draft Law on Bankruptcy was approved by the GoK in 2015 and forwarded to the Assembly for review and adoption (<http://www.kuvendikosoves.org/common/docs/ligjet/05-L-83.pdf>).

CI-2: SUPPORT IMPLEMENTATION OF THE LAW ON THE PERMITS AND LICENSES SYSTEM WITH PILOT MINISTRIES

The GoK adopted the Administrative Instruction (AI) on **Registry of Licenses and Permits**, which reflects substantive input from the Project. The AI has been issued under the Law on Permits and Licenses System, and governs the creation and maintenance of the electronic registry where each type of permit or license must be listed in order to have legal validity. (<https://gzk.rks-gov.net/ActDetail.aspx?ActID=10870>)

Following the adoption of the AI, the Registry of Licenses and Permits was finalized and launched online (<https://lejlicenca.rks-gov.net/>).

At the request of the Economic Advisor of the Speaker of Parliament, The Project prepared two research memoranda for the Office of the President of the Assembly that propose an initial roadmap for **streamlining the process for the issuance of mining licenses**:

- the first memorandum analyzes the conflicts between the Law on Mining and Minerals, and the Law on Agricultural Land and Law on Forestry, with respect to the permissible periods of validity, and size of land area for the use of land for mining exploration and exploitation, and provides recommendations on how to resolve these conflicts through slight legal amendments harmonizing the Laws; and

- the second memorandum describes possible alternative ways to organize a single point of contact (“One-Stop Shop”) at the Independent Commission on Mines and Minerals (ICMM) as a way to simplify and streamline the process of obtaining a mining license.

The Project discussed these ideas in a joint sessions held at the Assembly of Kosovo with representatives from the Presidency of the Assembly, ICMM and the Ministry of Economic Development (MED). After internal discussions, the Project was informed that ICMM had reviewed the Project’s first memo on the conflicts between Law on Mining and Minerals and Law on Agricultural Land, and has decided to institutionalize the approach proposed in the memo, according to which the Law on Mining and Minerals takes precedence before any other law. The Project stands ready to support the second activity related to One-Stop-Shop, depending on the decision of the stakeholders to move forward with reforms.

The Minister of MTI adopted the **AI on Fees for Services Charged by KBRA** (<https://gzk.rks-gov.net/ActDetail.aspx?ActID=10981>), which amongst other things, reduces or eliminates fees for businesses to register, deregister, as well as to update their information in the registry. The reduction of the fees charged by KBRA is part of MTI’s continuous efforts to improve the business environment in Kosovo. The improvements also remove disincentives to notice filings that will increase the accuracy and reliability of information in the system for citizens and for use in policy development.

The Administrative Instruction on Fees Charged by KBRA reduces fees businesses have to pay during registration and related activities, and this will reduce administrative costs for businesses and improve the quality of business registration data.

The Project supported MTI in drafting the AI and recommended the adoption of a completely new AI instead of an amendment to the existing one, in order to eliminate any unnecessary confusion among businesses regarding the new fees. The Project also used the drafting process as an opportunity to promote the implementation of the AI on Budget Impact Assessment, previously adopted by GoK by encouraging MTI to conduct a Budget Impact Assessment to quantify the impact the reduced or eliminated fees will have on the ministry’s budget.

Among the main fees eliminated or reduced through this AI, are as follows:

- reducing from €20 to €10 the fee for filing changes to the Charter or Memorandum for Limited Liability Companies (LLC), Joint Stock Companies (JSC), Limited Partnerships, Foreign Business Organizations and Agricultural Cooperatives;
- eliminating the fee for registering changes to information on the Registered Office or Agent for all types of business;
- eliminating the fees for registering, reserving, renewing and transferring a trade name for LLC’s, JSC’s, Limited Partnerships, Foreign Business Organizations and Agricultural Cooperatives; and
- eliminating the fee for closing any type of business (this fee is currently €10 for LLC’s, JSC’s, Limited Partnerships, Foreign Business Organizations and Agricultural Cooperatives and €5 for Individual Businesses and General Partnerships).

The Project mobilized considerable resources to support MESP and two specific working groups established by MESP to create a new framework for licensing of architects and engineers in the area of construction. The first working group charged with developing a new **AI on Registration of Architects and Engineers**, completed its work by finalizing said Administrative Instruction, which is aimed at creating a registry for all professionals in the area of architecture and engineering, as a

first step towards the establishment of specialized professional chambers, that will be delegated the responsibility for licensing by law.

The AI on Registration of Architects and Engineers was drafted in the form of an amendment to the existing AI on the Professional Examination and Licensing of Architects and Engineers, in the Area of Construction, which will continue to remain in force until such time as the new law establishing the professional chambers will enter into force. With the support of the Project, MESP conducted the budget impact assessment for this AI and after its completion, was adopted by the MESP Minister on 19 January 2016.

The Administrative Instruction on Registration of Architects and Engineers is aimed at creating a registry for all professionals in the area of architecture and engineering, as a first step towards the establishment of specialized professional chambers that will be delegated the responsibility for licensing by law.

In addition to supporting the finalization of the AI on Registration of Architects and Engineers, the Project also supported the working group established by MESP to draft the **Concept Document on Licensing of Architects and Engineers**, whose purpose is to analyze the current legal and regulatory framework for licensing of architects and engineers, and lay the foundation for drafting the Law on Licensing of Architects and Engineers, through which MESP aims to establish the Chamber of Architects and Engineers, as the primary body responsible for licensing of architects and engineers in the area of construction.

The Concept Document contemplates a number of policy options for addressing the issue of licensing of architects and engineers, including:

- status Quo – not changing the current legal and regulatory framework, which has resulted in a non-functional professional licensing regime, and considerable confusion on the part of Government bodies and professionals alike;
- drafting and adopting a new Law on Licensing of Architects and Engineers – through which a specialized chamber of architects and engineers would be established to manage the licensing process, similarly to many other regional and EU countries;
- protection of title by law – through which only the title of architect or engineer would be protected by law, but without excluding other persons from performing services related to the area of architecture and engineering albeit without using said titles; and
- self-regulation by the market – not regulating the professions of architect and engineer at all and relying on professional associations to maintain standards and perform other related functions.

The Project will continue to support MESP to complete the concept document and start drafting the law on licensing of architects and engineers.

In relation to the work currently being done on licensing of architects and engineers, the Project also supported MESP in cooperating with the MEST regarding the **Draft Law on Regulated Professions**, which was adopted by the GoK in October. The Project supported MESP to propose a number of amendments to the Draft Law on Regulated Professions that allow MESP to proceed with drafting a special law on licensing of architects and engineers. According to the amendments, except for the state exam for architects and engineers which will be conducted by MEST, all other aspects for licensing of architects and engineers will be regulated under a special law on licensing of architects and engineers.

Following discussions at an AmCham event held on June 5, 2015 and subsequent meetings between the Project and Agency for Veterinary and Food (AVUK) to discuss the need for streamlining procedures for licenses and permits, and remove those requirements where possible, the **Import License for Meat Products Originating in EU countries** was removed by AVUK, following a reinterpretation of the legal requirement for such license. This is a positive step towards removing regulatory barriers for products originating in EU countries.

The Project supported **USAID AGRO** in analyzing international and European regulations and practices for the introduction of pasteurized milk. The project consulted regularly with USAID AGRO on its findings and facilitated discussions between USAID AGRO and MTI related to protecting the rights of a patent holder, for a particular variety of raspberries imported from Poland and currently cultivated in Kosovo.

CI-3: SUPPORT IMPLEMENTATION OF INSPECTIONS REFORMS WITH KEY PILOT PARTNERS

At the request of MTI, the Project supported the MTI Legal Department and the Market Inspectorate, to produce an **analysis on the practice of EU member states in connection with market surveillance structures**, to find that the overwhelming majority of EU member states conduct market surveillance through government bodies at the central level, rather than at the regional or local level. This analysis will help MTI to decide whether the municipal market inspectorates should be brought under the authority of the MTI Market Inspectorate, as required under current law, or be formally transferred to municipal authority

The Project recommended, among other things, that:

- the Market Inspectorate scope of authority be limited to market surveillance;
- the Market Inspectorate serve as the central coordinating body (Inquiry Point) for market surveillance; and
- the market surveillance be conducted at the central level only.

The Project will support in drafting amendments to the Law on the Market Inspectorate when MTI has determined what policies it wants to pursue in this area.

In addition, because the Swiss funded-project Decentralization and Municipal Support (DEMOS) is also engaged in this area, the Project presented its findings and recommendations on reforming the market surveillance in Kosovo to the DEMOS expert working on this issue.

The Project also discussed with DEMOS the desirability of having information on municipal inspections generally be included in the Content Management System, which DEMOS is supporting and which is currently serving as a means for municipalities to report on their handling of citizens' requests (e.g., for official documents, permits, etc.).

Following the reactivation of NCED and its working group on business environment, one of the main objectives of the working group was the initiation of reforms in the area of inspections. Following a general presentation on the approach for inspections reform before the working group by a World Bank and International Finance Corporation (IFC) advisers, the Project was requested by MTI to prepare a memo summarizing its views on inspections reform.

The Project summarized its findings in a **Memorandum on Doing Business, Inspections Reform and MCI**, which contained a number of proposals for inspections reform, including proposals for addressing the current Law on Inspections sitting before the GoK.

Based on the Project's findings and suggestions, jointly with IFC and the World Bank, MTI is currently coordinating with LO-OPM on the Law on Inspections which it intends to amend based on the Project's recommendations. The Project will continue to work with MTI to push for inspections reform based on the recommendations submitted so far.

Following information that MESP was working on a new draft **AI on the Form and Content of Records for Inspection Supervision**, Component One supported Component two to develop, and submit to MESP a set of comments on the new draft AI. The comments were reviewed and included in the final draft of the AI, which was signed by the Minister of MESP on 18 December 2015. In addition to a number of technical issues highlighted by the Project and addressed by MESP in the final draft, including on the legal basis for the AI and terminological consistency issues, the Project's main comments related to the authority of the MESP Inspectorate to inspect municipalities on the spatial planning were accepted and included in the final AI. (<https://gzk.rks.gov.net/ActsByCategoryInst.aspx?Index=1&InstID=41&CatID=22>)

NEXT STEPS

Going forward, the Project anticipates further focusing of legal expertise and implementing reforms with key partners in collaboration and in furtherance of Component Two and Component Three experts and goals.

The Project will continue to advance the numerous initiatives that are in progress. These include the finalization of the uploading of legal acts of municipalities in the Official Gazette and establishing an effective mechanism for monitoring continued uploading of municipalities after the conclusion of the initial phase of mass uploading. Furthermore, the Project will explore options for promoting the uploading of legal acts of independent agencies and upgrading the current Official Gazette system to a faster and more user-friendly system.

The Project will also support the Agency for Information Society at the Ministry of Public Administration to promote the standardization of the format of websites of public institutions.

The Project will support as needed the revision of the existing Law on Business Organizations as one of the key laws to be amended to address reform needs as part of the World Bank-Doing Business Indicators for Starting a Business and Protecting Minority Investors. Furthermore, the Project will support, as needed the preparation of amendments to the existing Law on Tourism, building on work done in Year Two during which the underlying policy issues in the area of tourism were analyzed by the Project in support of MTI.

To advance reforms in the operations and practices surrounding professional licensing for architects and engineers in the area of construction, the Project will support the finalization and adoption of the Concept Document and Draft Law on Chambers of Architects and Engineers in the Area of Construction.

In the area of inspections, the Project will support as needed the adoption of the Law on Inspections and any action by NCED and MTI, in support of comprehensive inspections reform.

The Project will also continue to support activities aimed at increasing the quality of policy development and legislative drafting by supporting and encouraging ministries to improve their procedures and practice for policy development, in the area of public notice and comment and budget impact assessment.

Finally, the Project will continue to support NCED, the Doing Business Task Force at MTI and counterparts throughout the GoK to actively implement doing business reforms. This will be

achieved by supporting counterparts to analyze each WB-DB Indicator and prepare concrete recommendations for improvements that will become part of a comprehensive action plan for Doing Business Reforms, as required in the GoK Decision on Coordination of Doing Business Reforms approved in December 2015.

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 Component One 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 Three, 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 One include a number of departments within the OPM (the LO, OPOG, Government Coordination Secretariat; the AIS; a number of bodies within MTI (the Legal Department; Department of EU Integration and Policy Coordination, Department of Industry and the KBRA); MESP (Legal Department, Department of Construction and Housing) 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", the UNDP Project "Aid for Trade".

In addition, the Project coordinated with the USAID projects EMPOWER, AGRO, Advancing Kosovo Together, Contract Law Enforcement, Property Rights Program and Justice System Strengthening Program.

COMPONENT TWO: IMPROVED IMPLEMENTATION OF CONSTRUCTION REFORMS

Partnerships for Development continued its close cooperation with MESP to advance USAID and Government of Kosovo priorities in the areas of construction and spatial planning reform. Embedded within MESP, the Project's staff supported MESP achieve its long-term work plan goals, as well as provided day-to-day mentoring as questions arose during implementation of reform policies.

C2-1: IMPLEMENTATION OF STREAMLINED CONSTRUCTION PERMITTING PROCESS

Near the end of Year One, the Project, MESP and five pilot municipalities agreed to structured reform implementation plans to fully implement the Laws on Construction and Spatial Planning. Year Two focused on mentoring the pilot municipalities to implement these **Reform Scorecard Plans**, and substantial progress was made to institutionalize construction reforms. Implementation of these reforms has made getting a construction permit easier and more transparent in these municipalities and has given the municipalities tools for better management of municipal service delivery. The five pilot municipalities are Fushë Kosovë/ Kosovo Polje, Gračanica/Gračanicë, Hani i Elezit, Peja/Peć, and Prishtinë/Pristina, and the following progress was achieved by those municipalities:



Project helps MESP Construction Division establish Permit Tracking System

Reform Scorecard	Fushë Kosovë/ Kosovo Polje	Gračanica/ Gračanicë	Hani i Elezit/ Hani Elezit	Peja/ Peć	Prishtinë/ Pristina
Permit Tracking System established and posted on web site	X	X	X	X	X
Using standard forms for terms of construction and -construction permits	X	X	X	X	X
Posted standard forms on web site	X				X
Notifying public about new applications for terms of construction	X	X	X	X	X
Assigning responsible officer to handle each permit application	X	X	X		X
Using checklists to check applications and technical documentation		X		X	X
Issuing inspection card	X			X	X
Correctly charging construction permit fees	X	X	X	X	X
Correctly applying density charges	X	X	X	X	63% of the time
Conducting phased technical inspections	X				

Instituting permit tracking systems was a top priority of the Reform Scorecard Program because these systems improve transparency by allowing applicants to see the status of their permit application, and also systematize a process that encourages municipal officials to follow established permitting procedures and a management tool to monitor service delivery.

To help all five pilot municipalities establish permit tracking systems, MESP, with Project support, held a workshop with the pilot municipalities to show how to implement the system *without cost* using Google Sheets. Pristina municipality, which already started to implement its Permit Tracking System, demonstrated for the other pilot municipalities how the system is functioning and explained that the Permit Tracking System is helping them with better management of the permit applications and promoting good governance and transparency. With mentoring, all five pilot municipalities established and posted permit tracking systems.

At the central level, the Project worked with MESP to operationalize a central level permit tracking system. Starting with the MESP Department of Spatial Planning, Construction and Housing, the

During a Reform Scorecard session, Agim Mustafa, a representative of the “Gorenje” company, visited Gracanica municipality and told the Project that his company applied for Terms of Construction for a 5000m2 warehouse. He was happy that procedures are simplified and said that “the process is not complicated and they haven’t had any issues”.

Project helped to clarify procedures and forms for issuing terms of construction and construction permits for Category III constructions (constructions of high risk and national interest). A work flow chart was developed to more easily visualize the process and to know who is responsible for doing what in which stage, which form to use, and the deadlines at each step. The Project then encouraged better cooperation between the Divisions of Spatial Planning and Construction – both of which have responsibilities for issuing permits. Once the work flow was understood, the Project assisted the Department to install the Permit Tracking System for Category III permits.

Ministry officials indicated that this mentoring was very useful to clarify and help them fully understand the procedures required by the AI. Because of this, they asked the Project to help them follow the entire procedure using one concrete case – a recent application for a wind farm that will produce sustainable energy in the Kamenicë/Kamenica region. MESP will use this application as a pilot case for better understanding and efficient application of all permitting procedures phases.



Fushë Kosovë inspectors conducting technical inspection

The Reform Scorecard Program also focused attention on **phased technical inspections**. Fushë Kosovë / Kosovo Polje municipality has been conducting phased inspections, using qualified engineers and the required inspection card. To observe these good practices, the Project accompanied municipal inspectors on two site visits. The municipality uses general inspectors (an architect and engineer) to inspect the site and conduct foundation/structural inspections and also has available mechanical, hydrological, and electrical engineers for the other required phases of inspection. The inspectors conduct inspections when the contractors call to say that the work is ready and are using the inspection checklists as required by the AI on Inspections. Contractors report that these processes are working smoothly and the inspectors show

up for inspections the same day or the next day, which is important to keeping a job site running smoothly.

To help other pilot municipalities learn from these best practices, the Project, conducted a **technical workshop for construction inspectors** with the goal of the workshop being to help inspectors gain the understanding and confidence to begin conducting phased technical inspections.

The workshop included field inspections of four different construction sites in varying levels of completion, checking the construction as well as comparing technical documentation with what was actually being built and reviewing test results to confirm appropriate construction materials and methods. During the site visits, the inspectors talked with developers who were very happy to see the inspectors receiving training to be able to do phased inspections. Besnik Murati from Prime Group said, “we are happy if the municipality conducts phased inspections



Municipal inspectors conducting practice technical inspection

because with these inspections, we will be sure at the end to be able to get an occupancy certificate that will enable us to register the building in the Cadastre. And this is what is important to the people who will be buying our apartments.”

MESP, with Project support, participated in the next series of workshops organized by GIZ to promote **e-permitting for construction permits** in the region. MESP and Project representatives travelled to Skopje and Belgrade to discuss the new e-permitting programs in the region. GIZ retained a consulting company to evaluate the legal framework and professional skills in Kosovo to determine what, if any, changes are needed to support an e-permitting system and the Project providing input into this analysis. The Project is currently coordinating with MESP on this initiative and possible future steps to be undertaken on e-permitting as an important objective within the overall construction reform program.

On the subject of **construction permit fees**, Pristina municipality lowered its permit fee from 6.70 euros/m² to 6.50 euros/m². It also lowered the increased density infrastructure charge on new residential properties. The reduced fee was mediated by the Project and agreed between MESP and the municipality, which originally had requested a significant increase of its permit fee (to over 10 euros/m²). Since the World Bank *Doing Business* Report considers only the permitting procedures and fees in the largest city in Kosovo, ensuring that Pristina maintains an inviting environment for construction investments is key to a positive *Doing Business* ranking.

The MESP Divisions of Spatial Planning and Construction, along with the Institute of Spatial Planning (ISP), with the Project support, examined legal requirements, internal resources and procedures for **handling permit applications for constructions within national parks**. Using two recent requests for constructing houses in the Prevala area of the Sharri National Park as examples, the MESP group went through the legal decision diagram and the AI for handling Category III Permits to understand when MESP has responsibility for these constructions and the documents that are to be referenced in order to set terms of construction. The group also identified a mechanism to integrate the ISP into initial review of permit requests to check the spatial location of permit requests.

The Project and USAID Contract Law Enforcement Project (CLE) conducted a full-day **training for the Kosovo Judicial Institute (KJI) on the Law on Construction and its implementing regulations, the Law on Spatial Planning, and the Law for Treatment of Constructions without Permit**. Eleven judges from the Kosovo Supreme Court, Appellate Court and Pristina Basic Court, along with a trainer from KJI, participated in the training. The judges were quite interested in the reforms and legalization process. Key areas of discussion included proper processes for processing and issuing decisions on permit applications and what to do if a municipality does not follow these procedures; connections between the Law on Construction and Law on Obligations; how to evaluate spatial planning decisions when the public interest and private property rights intersect; and what decisions constitute “takings” that require expropriation.

The Project helped General Secretary of MESP, Arben Çitaku, to develop presentation materials regarding Kosovo *Doing Business* Reforms for a conference in Tirana, Albania. The event organizers reported that the presentation was well-received by the attendees, who were from Albania, Hungary, Slovakia, Czech Republic, and Georgia. The fact that the World Bank *Doing Business* Distance-to-Frontier measurement showed Kosovo as the 3rd best improver in Dealing with Construction Permits 2011-2015, was of particular interest to participants. This progress, while positive for Kosovo, can also be an example for other countries, simultaneously reinforcing Kosovo’s commitment to further reforms.

C2-2: FACILITATE EFFECTIVE CONSTRUCTION CODE FINALIZATION AND IMPLEMENTATION

Building upon the work of the Kosovo Standardization Agency (KSA), the Project presented a memo to MESP with a **road map for a proposed Code adoption strategy**. This strategy leverages the KSA's strengthened partnership with the Albanian General Directorate of Standardization, which occurred after MESP started working on the development of the Unified Construction Code. The Albanian General Directorate of Standardization has recently translated many of the Eurocodes and associated standards. Kosovo now has a unique opportunity to obtain the needed Eurocodes, already translated in Albanian, through the sister Albanian agency. The gradual adoption of the Eurocodes and other European standards and norms, and development of the national annexes and technical regulations based on the EU directives, allows Kosovo to more closely align with EU standards, coordinate technical language and finally have all parts of a Unified Construction Code, with the technical requirements for the Kosovo context.

MESP held a three day technical working group to review Regulation No. 04/2014 on “**Minimum Technical Standards for Residential Buildings in Condominium and Spaces in Their Function**”. This regulation applies during design of the new housing buildings in condominium and also during the rehabilitation and reconstruction of existing ones. The working group agreed with the Project's suggestion that the regulation should be prepared in a format that is compatible with the future Construction Code document, and with reference to the standards already adopted by the Kosovo Standardization Agency. The Project also suggested the identification of new standards which need to be adopted by the Kosovo Standardization Agency in this area. Finalization of the revised regulation is planned for the first quarter of 2016.

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

The Law on Spatial Planning requires 11 different Administrative Instructions. These AIs must work in harmony, and capacities within MESP must be built to enable central level policy makers to understand the new reforms and draft appropriate sub-normative acts. The Project continued to work on this capacity building with MESP, as well as to build

agreement for the new ideas within the Ministry. Work throughout the year

focused on drafting and approving the AI for Municipal Development Plans (MDP) and Municipal Zoning Maps (MZM). In addition to significant drafting and technical support, the Project helped the Division of Spatial Planning conduct internal outreach to build consensus within the ministry with the Institute of Spatial Planning. The Project presented and helped facilitate discussions on both AIs, and held multiple working sessions with members of the Division to integrate comments received. Public posting of the Ais resulted in comments from the Ministry of Local Government Administration, Ministry of Agriculture, Forestry, and Rural Development, Institute of Spatial Planning and EU Project IRUSP.

Kosovo is currently transitioning to a spatial planning system that is based on zoning, which I believe will lead to overall improvement of the planning process. This draft AI increases the level of flexibility for municipalities in conducting spatial planning and allows municipalities, architects and spatial planners to keep up with the ever increasing dynamism of development and also allows architects and planners to create better and sustainable buildings”, stated Urbanism Director of Suharekë/Suva Reka municipality Mr. Kushtrim Kicaj.



Hands-on experience with new zoning concepts

Additionally, because MZMs are the heart of spatial planning reforms, MESP and the Project hosted a **three-day workshop for municipalities with practical exercises on the subject of zoning** and an opportunity for questions and comments on the draft Administrative Instruction for the MZM. The workshop included small group practical exercises over the course of two days and a final session to discuss the Draft AI itself. The workshop was attended by spatial planners and lawyers from twenty-two municipalities¹. The participants were actively engaged in the practical exercises and generally stated that the workshop was very helpful to their increased understanding of zoning in general and the draft AI in particular.

After this intensive mentoring, technical support and outreach, MESP Minister Mr. Ferid Agani adopted both AIs:

- Administrative Instruction No. 11/2015 on the Sections and Basic Requirements for Design, Implementation and Monitoring of Municipal Development Plans; and
- Administrative Instruction No. 24/2015 on Basic Element and Requirements for Design, Implementation and Monitoring of Municipal Zoning Maps.

After thorough research about national level spatial planning strategies and gathering feedback from the Institute of Spatial Planning, the Project helped MESP to prepare the first initial draft of **the Administrative Instruction on the Spatial Plan of Kosovo**. The overall framework of the Spatial Plan of Kosovo is to support a strategic spatial development at the national level, as a coordinating and integrating document of the spatial data and strategic priorities, with policies for the development and use of land with concrete planned activities and monitoring process. The draft AI will be reviewed by the MESP working group and it is expected to be finalized and approved during 2016.

The Project, through its STTA Spatial Planning Expert, supported improvements to the **draft of the Spatial Planning Technical Norms**, produced by MESP and United Nations (UN) Habitat. The draft has subsequently been revised again, and the Project will continue its review and provide input, with the goal of continuing to emphasize the need to differentiate between a technical norm and standard for all spatial planning levels.

The Project's grantee Cultural Heritage without Borders (CHwB) was engaged to help five pilot municipalities **involve the public in the development of different types of spatial planning documents**. Throughout the course of the grant, CHwB helped the pilot municipalities to engage 921 citizens in 30 public meetings, and conduct a door-to-door survey of 1,303 people.

- Pejë/Peć, for example, is preparing to draft its municipal zoning map. Seventy-five people attended the municipality's first general informational meeting, where the Director of Urbanism, Salih Lajci, explained that zoning will help municipalities and citizens as a tool for better living conditions, safe neighborhoods, environment protection, economic development, issuing construction permits and drafting mobility policies. Citizens from urban and rural areas, minorities and people with special needs participated in a series of subsequent meetings. Sabrije Zeqaj,



Standing room only to discuss municipal zoning map in Peja

¹ Klinë/Klina, Rahovec/Orahovac, Vushtrri/Vučitrn, Mitrovicë/Mitrovica, Mitrovica North, Istog/Istok, Skenderaj/Srbica, Suhareke/Suva Reka, Juniku/Junik, Dragash/Dragaš, Fushë Kosovë/Kosovo Polje, Obiliq/Obiliç, Pristina, Gračanica/Graçanicë, Ranilug/Ranillug Ferizaj/Uroševac, Gjilan/Gnjilane, Hani i Elezit, Kaçanik/Kaçanik, Peje/Peć, Podujevë/Podujevo, Kamenicë/Kamenica

representative of the community with special needs, said, “*It is very important for us to be part of this process since now it is in our hands to plan better access for our community*”. Pejë/Peć then held a series of community advisory meetings, to involve the public in this spatial plan.

- Malishevë/Mališevo municipality focused its public outreach on engaging youth and will now take this feedback into consideration when drafting the Municipal Development Plan. Around 30 young people articulated desired priorities for the municipality, including more open spaces for youth, especially in the rural areas; facilities for cultural, sport and youth centers; affordable public transportation; and investments in better public lighting to improve safety.
- Vushtrri/Vučitrn municipality conduct a series of community advisory board meetings focused on its municipal development plan. Notable input gained from citizens will help it plan for better healthcare services in village areas. The director of the Vushtrri Medical Centre said that he was “*very glad to attend one of the meetings for the first time and it was very important to express the need for new locations in order to improve medical service delivery.*” The Department of Urbanism willingly accepted the request and with the Medical Centre began analyzing possible locations for centers serving the villages.
- Gjakovë/Đakovica municipality drafted a strategy for revitalizing the historic downtown area of Çarshia e Madhe in close cooperation between the municipality, professionals, and the community. The group agreed to follow an established regional practice for heritage management, such as what is used in Dubrovnik, Croatia, by establishing a Çarshia e Madhe Revitalization Framework Management Unit with 7 volunteer members – three from the municipality, three from the community, and one from the Regional of Cultural Heritage Institute. The management body will act as an independent secretariat with decision making power on different matters related to Çarshia e Madhe Strategy Plan.
- Pristina municipality engaged residents in key neighborhoods to examine issues with neighborhood regulatory plans, as a prelude for drafting the municipal zoning map. CHwB also helped Pristina conduct a door-to-door campaign in five neighborhoods to gather resident input. Following these community events, the Pristina Community Advisory Board presented the results to the mayor with the recommendation that the municipality develop and implement monitoring mechanisms to track and increase qualitative citizen involvement. Deli Avdiu, the leader of Qendra e Re neighborhood in Pristina, noted that the inclusion of citizens and their opinions and concerns in government planning, and action is a major principle of democracy, and he is excited that he is witnessing democracy in action through this process.



Citizens provide input for neighborhood plans

Following these grant activities, CHwB finalized **guidelines for participatory planning in Kosovo**. These Guidelines are in three languages and provide concrete advice and steps for municipalities to follow to involve the public in all types of spatial planning. The Guidelines explain specific participatory techniques and outline the process of organizing spatial planning activities and budgeting. The Guidelines include best practices and lessons learned from the above-mentioned grant activities.

MESP, with support from the Project, commemorated **World Urbanism Day** on Sunday, November 8 by involving young people in spatial planning. Several hundred school children from 21 primary schools from Pristina, Fushë Kosovë/Kosovo Polje and Obiliq/Obilić participated in the “My Home - My City” drawing contest, and exhibit to present their visions of how they see their future neighborhoods. The event encouraged children to express their visions for a better, safer, and more beautiful environment. Of the drawings submitted, 42 were selected for an exhibition in the main hall of the Rilindja building where the Minister hosted students, parents, professionals, and Ministry representatives for a ceremony to award the top winners. The exhibition continued to be shown for the next week at the hall.



Students share their visions for their cities



Private sector discusses zoning with Minister Agani

MESP and the Project continued World Urbanism Day on November 9 with a roundtable for professionals to discuss the process of zoning and central and local level responsibilities. Some 50 municipal officers, urban planners, representatives from the Ministry and Institute for Spatial Planning engaged in the discussion. The Minister himself presided over the event and promised that professional and municipal participation in drafting administrative instructions and other documents will continue.

The Project provided support and capacity building to the Institute of Spatial Planning (ISP) for drafting language related to **nonconformities and exceptions for the spatial plan for Bjeshkët e Nemuna National Park**. Many existing constructions are located in this national park, which was recently declared in 2012. As the ISP defines zones for the park (strict protection, active management, sustainable use), it was confronted with the question of what to do with existing uses and structures that don't comply with the newly set zones and how to build in flexibility for good implementation in the future. The Project assisted the ISP on the concepts of nonconformities and exceptions, and provided draft language to start the process of defining language for use in the spatial plan. The ability to use and apply these concepts will be valuable in the future when drafting the National Zoning Map and for assisting municipalities to draft local zoning maps.

To promote central level planning, the Institute of Spatial Planning (ISP), with support from the Project, organized a **round table** to bring together central level institutions that will be instrumental in contributing the data necessary **for drafting the National Zoning Map**. Representatives of 15 different institutes and departments gathered to be informed about the National Zoning Map and to begin understanding their roles and responsibilities. This was the first direct contact the ISP had with these necessary sectors and the round table set the stage for a more productive working relationship and established further steps of coordination and cooperation, including detailed follow-up meetings with the different sectors.

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

This year saw the end of a **significant milestone in the legalization process – the closing of the Registry of Unpermitted Constructions**. The Registry was set to close on February 5, 2015 but due to a legal analysis assisted by the Project, MESP was able to allow continued registration through June 11, 2015. This decision enabled 250,000 more constructions to be added to the Registry, **bringing the total to 352,836 constructions without permit registered by municipalities and MESP**.



Minister Agani offers congratulations for a successful partnership in compiling the Registry of Unpermitted Constructions

To commemorate this milestone, and the central/local level partnership that enabled its success, MESP and USAID supported an **event to recognize efforts made to-date and to encourage continued partnership in the next phase of the legalization process**. Minister Agani officiated the event and thanked USAID for its continuous support, and also offered a special thanks to the Project for providing support on a daily basis to MESP throughout the process.

James Hope, USAID Mission Director for Kosovo, recognized that over the past 3 years, USAID has had a very productive relationship with the Government of Kosovo and MESP, and pointed out that this is the first step of many, in ensuring safe housing for all citizens, but the teamwork and cooperation shown between government entities, international donors, and the members of the community over the past year in completing this monumental task, makes USAID honored to continue supporting Kosovo in this endeavor.

Alina Romanowski, USG Assistance Coordinator for Europe and Eurasia, also had the opportunity to express her praise of the partnership that achieved this success and emphasized the importance of the legalization process to a stable and prosperous Kosovo.

Minister Agani later remarked that *“The legalization process, and the final compilation of the national registry of constructions without permit, is regarded as a national project and the main achievement of the Ministry of Environment and Spatial in 2015”* <http://www.mmph-rks.org/sq/Lajmet/MMPH-Procesi-i-legalizimit-e-arritura-kryesore-1332>.

With Project support, **a new draft Law for Treatment of Construction without Permit was produced**. This revised law includes changes suggested by municipalities and citizens. It is based on lessons learned in implementing the law to-date and is in response to the large volume of constructions to be treated. The changes also flow from a Project-sponsored workshop between central and local stakeholders. Some notable revisions include:

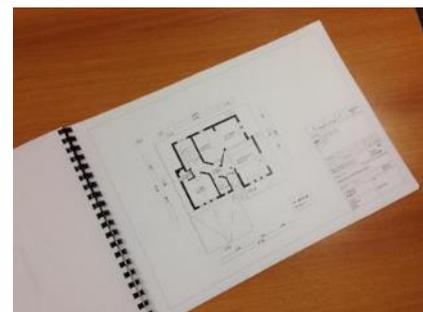
- addressing gaps created by the fact that the “official orthophoto” was actually taken over an 18 month period, leaving some constructions that were built by the August 30, 2013 deadline to not be visible in the orthophoto;
- encouraging more cooperation by other government entities to assist MESP in implementing the law, including by establishing a GoK Committee to oversee the process;
- reducing the number of constructions to be treated by removing constructions already registered in the Cadastre from the definition of “unpermitted construction”;
- redefining and clarifying treatment for constructions that are completed, substantially completed, and unfinished;

- allowing late requests to be entered into the Registry and treated, so as to make the process as complete as possible;
- simplifying document requirements for legalization applications; and
- providing additional options for constructions built on public land, in national parks, and in special zones.

In addition to the draft law, Components One and Two of the Project drafted a Concept Document to support the revised Law on Treatment of Constructions without Permit. The Government Coordination Secretariat at OPM reviewed the Concept Document and Component Three provided assistance to the MESP Finance Department to complete the Budget Impact Assessment. The Concept Document was posted for public consultation in December, 2015 and the Project will help MESP review and consider for inclusion in the final version of the Concept Document any comments received. After the submission of the BIA Assessment for confirmation by the MoF, the Concept Document will be formally approved by the MESP Minister and submitted for approval by the Government. Then the next step is to amend the Law accordingly.

At the request of MESP Minister Ferid Agani, the Project provided a **legal analysis of MESP's authority to deal with unpermitted constructions in national parks**. MESP is using this analysis to ensure that it fully complies with the law, especially related to demolitions. The Minister thanked the Project for this analysis.

The Project awarded a grant to architectural and engineering design firm Esentia to **create design templates for construction permits and legalization technical documentation**. These templates will assist architects and engineers to more quickly, easily and standardly prepare technical documentation. The templates will be compiled into a desk reference for professionals and students and will be based on international drawing standards and best practices. The Project and Grantee presented a simplified design template package for the legalization of Category I buildings to architects, engineers, experts, MESP and municipal representatives. The technical documents package will help municipal authorities check applications for legalization faster and easier. Architects and engineers will also know how to prepare technical documentation that is acceptable for municipalities. In addition, the unified technical language will clarify for citizens what documents are required for legalization.



Design templates to simplify legalization and construction applications

The Project assisted MESP in **drafting the AI on Legalization Appeals** and the AI was adopted on April 29, 2015 (<http://gzk.rks-gov.net/ActDetail.aspx?ActID=10834>). This AI contains an appeals procedure that is objective and transparent, with a key element being an appeals commission to review the last phase of appeals related to the Demolition List. General Secretary Arben Çitaku approved this commission, which will be made up of specially selected representatives from the Construction, Spatial Planning, and Legal Departments.

Components One and Two of the Project provided **training and mentoring to the MESP Legal Department on handling legalization appeals**. MESP received 34 appeals objecting to the content of the Registry. The Project helped the Legal Department understand and categorize the different types of cases by legal issue, provided guidance on how to use the approved forms, and helped the legal officers develop a standardized approach to the various categories of cases.

To further support a fair and equitable appeals process, the Project issued a grant Kosovo Legal Services Company (KLSC) to help MESP develop standard procedures for conducting hearings on legalization appeals, informing the public about their right to appeal, and providing extra human resources for handling appeals. KLSC interviewed MESP and municipalities and is updating the legalization guidelines to include information needed by the municipalities when deciding on legalization applications and by MESP when deciding on legalization appeals.

NEXT STEPS

Year Three will focus on helping MESP to further improve processes for handling Category III permits, as these projects have the potential to provide positive benefits for Kosovo citizens and significant impact on the economy. Established processes generally are being followed, but additional streamlining is possible and regulatory changes are needed for certain Category III constructions – such as those within national parks. Reforms are also needed in the area of customer service organizational structure to accommodate both applications and appeals that are submitted to MESP.

The Project will continue to support MESP in the Reform Scorecard Program and plans to conclude existing pilot programs as much as possible (given the limitations discussed below) and to disseminate best practices from the Scorecard program to other municipalities. Pilot municipalities have also provided helpful suggestions to further improve existing administrative instructions, such as translations issues, requests for additional templates, etc. The Project will work with MESP to make these changes as necessary.

On the Unified Construction Code, depending on the resources available, the Project will help MESP to evaluate the recommendations made for adoption of EuroCode standards and determine whether necessary resources exist to pursue these recommendations.

The Project will help MESP to develop the legal regulatory framework required by the Law on Spatial Planning and to help foster implementation at the local level. Spatial Planning Technical Norms have become quite a large project and will require continued attention. At the same time, the Project will push for adoption of other required AIs like those for the National Spatial Plan, National Zoning Map, Special Zones and Detailed Regulatory Plans. The Project will assist MESP to provide guidance and assistance to pilot municipalities to begin developing their zoning maps.

Year Three will also see the end of the applications period for legalization. The Project will provide support for MESP and municipalities for the remaining stage, including through the on-going KLSC grant to improve legalization decision making and to provide design templates to simplify technical documentation. The Project will help MESP seek approval for the Concept Document to revise the law on legalization and to finish drafting the new law to accommodate lessons learned to-date during implementation.

The Project will also continue to help USAID Property Rights Project provide input to the Ministry of Justice for the National Property Rights Strategy in areas related to construction, spatial planning, and legalization. It will be important to ensure that the legal property rights framework sufficiently supports these on-going reforms.

CHALLENGES AND IMPLEMENTATION ISSUES

MESP and municipal inspectors continue to be resistant to conducting phased technical inspections. This likely is due to a lack of technical capacity, low willingness to take on this work, and misunderstandings about legal liability. The Project conducted mentoring and practical hands-on

training, as well as sharing best practices from Fushe Kosove, which is successfully implementing this reform. Nevertheless, inspectors are simply refusing to attempt the new procedures. The Project will work with MESP to further clarify responsibilities and will make recommendations on what is needed to move forward in this area.

In the area of spatial planning, extensive resources were devoted to building capacity, understanding and consensus on the concept of zoning. This took more time than anticipated and resulted in a long drafting process for the Administrative Instruction on Municipal Zoning Maps. In the end, however, the ministry and municipalities had ample opportunity to communicate about the subject and there was general acceptance of the AI. Other administrative instructions likely will not require extensive change management processes and the drafting process will be shorter.

Momentum for identifying unpermitted constructions built into a crescendo in the middle of the year, but necessarily slowed during the time for conducting quality assurance and handling appeals. The period for accepting applications opened in September, but little public outreach was done and there were several comments in the media about the possibility that the existing law would be amended. Additionally, the software upgrade developed by the EU IRuSP Project that was designed to allow the Registry of Unpermitted Constructions to accept legalization applications was not functioning. After assessing the best avenue to overcome these problems, the Project chose to support MESP in drafting revisions to the law along with a supporting Concept Document. The Project also is helping to mediate issues surrounding the Registry and expects that municipalities will have this tool early in Year Three.

COORDINATION

Throughout the year, the Project continued its coordinating role with other resources provided by other USAID projects as well as other donor projects. This included working with USAID CLE, USAID PRP, UN Habitat, the EU-IRuSP project, and OSCE. The Project continued to help MESP coordinate the regional GIZ initiative related to e-permitting.

The Project provided input to the Ministry of Justice, USAID Property Rights Project (PRP) and the GIZ Civil Code project in developing the National Property Rights Strategy. In particular, the Project participated in working groups and provided USAID Property Rights Project with comments on the draft Concept Document for Pillar Two of the National Property Rights Strategy for “Putting Land to Use: Promotion of a Vibrant Land Market to Fuel Economic Growth.” Comments centered primarily on ensuring recognition of policy reforms already made and/or underway in the area of spatial planning as well as correctly identifying the causes of and current actions taken to combat unpermitted construction. The Project also suggested that additions are needed to the existing legal framework to address legal issues related to the balancing of public interest and private property rights in the context of zoning. USAID Property Rights Project welcomed the comments and will review for integration into the next working document.

Additionally, the Project worked with USAID AKT to help resolve a construction issue with a project in Parteš/Partesh municipality and to begin discussions in Zubin Potok about the municipal zoning map. The Project also encouraged MESP officials to participate in the USAID Transformational Leadership Program for the Certificate of Public Policy Program at AUK.

To promote better coordination and cooperation between central and local governments in the area of environment and spatial planning, MESP formed a Working Group consisting of representatives from the Ministry and the Association of Kosovo Municipalities. This working group has been a forum for better communication between the central and local levels regarding problems

faced by municipal authorities, with particular emphasis on implementation of regulatory plans, joint ownership and public spaces, the process of legalization, etc. Minister Ferid Agani himself has been attending the meetings. In addition to establishing the Working Group, MESP increased dialogue with municipalities in other ways, promoting more trust and better cooperation. These are MESP-led action that is a natural consequence of assistance and encouragement provided by the Project to build opportunities for and encourage communication between the Ministry and municipalities.

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

Following the formation of a coalition Government in late 2014, the Project supported the implementation of policy measures to restore macro-fiscal stability through the revision of the 2015 budget, negotiation and commitment to a Stand-by Arrangement Program (SBA) with the International Monetary Fund (IMF), and institutionalization of legal rules that confine public wage growth only to the country's economic and fiscal capacity.

At the same time, the Project supported the implementation of a series of significant Public Financial Management (PFM) reforms that improve budget credibility, enhance transparency, and increase public spending effectiveness through evidence-based budgeting. Support was also provided to the Tax Administration of Kosovo to further improve the quality of taxpayer' services.

C3-1: IMPROVE GOVERNMENT OF KOSOVO (GOK) CAPACITY TO MANAGE ECONOMIC STRESS

The inclusion of unrealistic revenue assumptions as part of the original 2015 budget, created the possibility of heightened economic stress and potentially significant budget risks. Specifically, maintenance of low deficit and debt levels was at risk, as was the availability of sufficient revenues to finance government spending. Responding to these circumstances, the Project recommended GoK to take immediate corrective action, and then based on these recommendations, supported MoF to achieve the following:

- enter into a 22-month policy reform program with the IMF and successfully maintain compliance with the program's fiscal targets, and reform conditions by end-2015, including the institutionalization of a new legal rule that confines public wage growth to Kosovo's economic growth;
- revise the 2015 Budget to bring revenue projections in line with economic reality and to limit expenditure growth; and
- finalize the 2016 Budget in line with the legally binding deficit rule and the IMF program conditions.

The program with the IMF entrenched GoK fiscal policy on a sustainable path. The Project supported the MoF to analyze and consider alternative policy choices to negotiate a **Stand-By Arrangement program** with the IMF. Underpinning this program are a set of fiscal, financial and structural policies and reforms that GoK needs to implement during the program duration. In summary, these conditions require GoK to maintain low deficit, restrain spending on public wages and subsidies, and preserve the level of spending on public investments. Backing program conditions is a "Stand-By" IMF financing worth of 185 million EUR, which GoK can use to boost its cash reserves and improve its financial position. However, as a precondition for achieving the agreement

on a program, GoK had to revise the original 2015 budget. With Project support, GoK revised the 2015 budget, introducing four major improvements to the original budget:

- projections of domestically collected revenues were revised downward by 52.6 million EUR while border tax revenue projection were revised downwards by 16.2 million EUR;
- a clear distinction between regular, and one-off tax revenues was presented;
- spending allocations were reduced by 49.2 million EUR, all in current spending; and
- planned end-year cash reserves increased from 101 million to 210 million EUR.

Following the revision of the budget, the Project supported MoF to prepare a **legal rule which limits public wage growth** to the level of overall economic growth in the country. The Project also supported MoF to draft an **amendment to the existing deficit rule** in order to allow utilization of financing from International Financial Institutions (IFI), to expand investments on strategic capital projects. Both of these measures were defined as IMF program conditions, and were successfully institutionalized with the amendment of the Law on Public Financial Management and Accountability (LPFMA) in December 2015. Their inclusion in Kosovo's PFM framework now mandates that fiscal policy is clearly directed towards the enhancement of the country's competitiveness.

Compliance with the IMF program remains on track. The Project continuously provided coordination support for monitoring the implementation of all the agreed actions, targets and reforms. In October, the Project supported the GoK in discussions with the IMF Mission to reach a successful conclusion of the first review of the Program. The IMF Mission completed its review acknowledging that all end-August 2015 program targets were met, including a contained level of the budget deficit and a recovery of budget reserves, except for the realization of one-off revenues.

Following the approval of the 2016 Budget, in line with program criteria in December 2015, the appointment of the PAK board by the Assembly, and PAK disbursement of 60 million Euro to the GoK accounts, the **IMF Board approved the first review of the program** in early January 2016 and acknowledged that all program criteria have been met, including:

- a significant improvement in fiscal reserves of the country;
- a very good revenue performance of both revenue agencies;
- a much lower than initially expected budget deficit; and
- a good performance of the financial sector.

Provisional 2015 financial results show significant improvements from the starting position at the beginning of the year: the deficit level is below the legal limit, government cash reserves have significantly increased, and accuracy of tax revenue projections now stands at above 98%.

The Project will continue to support the MoF in monitoring compliance with the IMF program during Year Three.

The Project supported MoF departments to **improve the 2016 Budget documentation**. The 2016 Budget, which was approved by Government by the end of October 2015 and approved by the Assembly in December 2015, includes significant improvements – all in line with the findings and recommendations of the Project's MTEF Process Review, conducted at the beginning of 2015. Those improvements include:

- Revenue projections in the 2016 Budget are constructed and disclosed, for the first time, by type of revenue. Previous budget documents, including the 2015 budget, presented revenue projections based on the institutions that were expected to collect them, i.e. Customs, TAK, municipalities, and not by type of taxes.

This construction of revenue projections posed three major problems:

- first, it created room for the interpretation of revenue forecasts as collection targets for revenue agencies – placing all focus on the amount of tax these agencies collect. This approach hindered the institutionalization of performance-based metrics for the revenue agencies;
- second, this method of presentation and approach encouraged overestimation of revenue projections, especially one-off revenues; and
- third, showing only aggregate revenue projections, without showing and disclosing detailed projections per type of tax, establishes no link between economic variables and expected tax revenues, thus allowing for political influence on projections without due transparent disclosure.

As a remedy to the above stated problems, the improved 2016 Budget presents projected revenues for each type of tax administered in Kosovo, including the correct disclosure of property tax revenue projections as a tax revenue item, and provides a clear categorization between tax and non-tax revenue. The approved Budget also transparently separates one-off revenue projections from regular tax revenues:

- The 2016 Budget presents a simplified Statement of Transactions to finance the budget deficit, including a transparent disclosure of the total required borrowing and other financing. Previous budgets disclosed only the net increase in borrowing, required to finance the budget deficit, and fell short of clearly presenting of the usage of one-off privatization proceeds to finance the deficit; and
- The 2016 Budget presents a simplified inflow-outflow statement for each type of financing transactions that finance the deficit, and which can be easily understood, not only by technical practitioners, but also by a wider audience. In contrast to the practice thus far, the new budget tables present the total planned borrowing – both net new borrowing as well as borrowing required to refinance the existing stock of debt. This presentation also gives a more transparent information on the size of Government in the economy.

With Project support, MoF **enhanced its capacities for economic analysis and budget forecasting**. Specifically, with technical advice from the Project, the MoF Economic and Public Policy Department (EPPD) achieved the following:

- advanced the tools for evidence-based budget planning, by documenting and standardizing the baseline methodology of budget forecasts to improve traceability of identified weaknesses and to improve credibility of the budget;
- improved linkage between economic forecasts, such as GDP growth, and revenue forecasts;
- identified risks to macro-fiscal stability and developed alternative scenarios for 2016-2018 in response to identified risks; and

- updated the assessment of the budget impact of the implementation of the Stabilization and Association Agreement articles on free trade, by utilizing advanced statistical methods.

The Project provided on the job support to implement improvements in economic analysis and budget forecasting. This activity will be completed during Year Three of the Project where further support will be offered to the EPPD to complete the documentation of the forecasting methodology used by the MoF.

The Project carried out additional activities supporting the MoF to further enhance budget accountability and transparency. Three key achievements implemented with Project support are listed below:

- I. The 2016 Budget utilizes, for the first time, **a results oriented budget classification based on international best practice** for informing citizens on what policy areas the government plans to spend. Based on the recommendations of the Project's MTEF Process Review during Year I, the MoF, with Project support, institutionalized functional classification as part of the standard budgeting process. This type of classification creates a means to elevate the budget process towards budgeting, based on desired outputs – in this case internationally standardized (COFOG) Government Functions – rather than by inputs only. It also provides a better picture of government's actual and planned spending for main functions of government, contributing to increased budget transparency, and enable more accurate international comparison of Kosovo's budget composition per government functions.

The approved 2016 Budget now includes:

- functional codes for each of the GoK budget sub-programs in the standard budget tables, for both – central level and municipal budget organization; and
- a summary of expenditure for each Government Function – i.e. Health, Education, Public Order and Safety – as an addendum to the key summary budget table, prepared by the MoF Economic and Public Policy Department.

The completion of this activity marks a successful example of the partnership between MoF and the Project, as well as the Project's engagement as a catalyst of reform within MoF.

As part of the activities for introducing functional classification, the MoF with Project support completed the following:

- finalized a **guide that provides Budget Organizations (BOs) (central and local) with instructions on the classification of capital projects**, based on the projects' planned activity (e.g. education, defense, etc.). The Guide was uploaded into the Public Investment Program (PIP) System, in three languages, providing access to all BOs. The guide explains the benefits of using international classification and highlights the importance of improved accuracy in allocating capital projects to the appropriate GoK activity;
- the third draft of the Municipal Budget Circular included a section that required municipal authorities to plan capital investment projects accurately through budget programs. This means that a Mayor's Office should not budget for education projects instead of the Education Department. Such an improvement of the usage of program classification will automatically enable more accurate implementation of functional classification;

- the Project made a presentation at the Municipal Forums held in August. The forums occur each year following the issuance of the budget circulars to inform municipalities of any changes in the budget preparation process, and also to allow municipal representatives to present their queries and concerns on budget issues to the MoF and other central ministry representatives. The Budget Department IT staff, under Project guidance, finalized inclusion of functional codes onto the electronic budget planning systems;
 - six half-day training sessions were held with six groups of municipal representatives, with 130 municipal finance officers trained on the usage of the MoF electronic budget planning systems, for the implementation of functional classification; and
 - the Project assisted the Central Budget Department to review the functional classifications, used by central budget organizations for the public investment projects proposed for the 2016 budget.
2. GoK Adopted the IMF's Government Finance Statistics Standard – an international best practice to report budget execution. As of November 24th, with support from the Project and the International Monetary Fund (IMF), MoF officially started to report data on the Government's financial operations in line with the IMF's Government Finance Statistics (GFS) reporting standard – a standard which reflects best international practice for public sector reporting.

With the adoption of this standard, the Government of Kosovo has taken a significant step to improve accountability and transparency, by providing citizens with more accurate and comprehensive information: on taxes, fees, and other revenue it collects; on the way it spends public funds, and on the effect its operations have on the size of the public sector relative to the private sector.

As a precondition for the adoption of the GFS standard, the MoF, together with the Kosovo Central Bank and the Kosovo Statistical Agency, have for the first time published a comprehensive list of all institutions that make up the public sector that shall be jointly updated on a regular basis.

The adoption of GFS standard enabled the Government to submit, for the first time, comprehensive fiscal data to the IMF's Government Finance Statistics Database and Yearbook. This database includes publically available fiscal data on 144 out of 188 IMF members, and Kosovo joins as the 145th member, when the Yearbook is published in March 2016.

The Project provided on-the-job training and supported the organization of three separate working sessions on the usage of the GFS Manual for the MoF Treasury Reporting Unit, which championed the adoption of the GFS standard at MoF. The Project also supported the MoF champion to analyze existing fiscal data in order to allow for accurate classification as per the IMF standard. On the other hand, the IMF provided expertise through two technical assistance missions, which were held and organized with Project support. Both the list of institutions and the data are now published on the MoF web-site, under a new section: <https://mf.rks-gov.net/en-us/Reports/Reports-and-Publications/GFS-Reporting>

3. MoF Treasury Improved **Transparency of Budget Execution Reports** - the Project supported the MoF Treasury to improve budget transparency, through better disclosure and clarity of revenue and expenditure data. With Project support and mentoring, the MoF

Treasury made the following improvements in their quarterly budget execution reports, as well as to the internal monthly financial reports:

- property tax was reported as a tax revenue, and all other own-source revenues were clearly reported as non-tax revenues;
- gross collection of property tax revenues by municipality, were included for the first time;
- a narrative explanation of the performance of revenues and expenditure was included;
- a list of all court decisions resulting in a financial obligation by government institution, were also included for the first time;
- a list of all debts executed directly from MoF treasury as a result of article 39.2 of the Law on Public Financial Management and Accountability (LPFMA), were included for the first time. (These are arrears where the debtor can apply for payment directly to the MoF when the budget organization disputes the debt);
- detailed reporting of interest and collateral on debt payments;
- line item narratives were simplified and will be used consistently in all MoF budget and financial reports; and
- report tables were modified to enable better comparison with the annual budget.

As a result of these improvements, it will be easier for citizens to compare data between the annual budget document and the monthly financial statements. The inclusion of greater details on revenue, expenditure, borrowing and arrears provide increased transparency on government financial activities.

Each month following the approval of the financial report by the MoF, the modified quarterly report is presented to the government and published on the MoF web site. The revised reports, can be found on the following link; <https://mf.rks-gov.net/en-us/Reports/Reports-and-Publications/Reports-and-Financial-Statements>.

The Project carried out additional activities to improve the user-friendliness and transparency of budget data, such as supporting the Treasury to rename fund source descriptions included in KFMIS, thus enabling the MoF to automatically produce accurate KFMIS reports in all three languages.

With Project support, MoF prepared **a guiding model of municipal MTBF**, by using what were considered best developed parts of existing MTBFs to provide a best practices benchmark for municipalities that drafted MTBFs in 2015. The Director of Finance and Budget at Rahovec/Orahovac municipality, confirmed to the Project that the document was a very useful model-guide for his municipality and helped them for:

- making the MTBF a more strategic document;
- improving transparency during the budget preparation process;
- explaining to the Directors of Rahovec/Orahovac the need for better medium term budget planning;
- introducing Gender Responsive Budgeting by including some statistics and information on gender in the MTBF of Rahovec/Orahovac; and

- preparing information for public budget hearings, including hearings for women, youth and local businesses which the municipality held in August.

Further, at a workshop organized by USAID AKT in Zvečan/Zveqan, the Project assisted MoF Municipal Budget representatives to introduce municipal officials from the North of Kosovo to the model MTBF, with specific reference to the needs of Zvečan/Zveqan and Zubin Potok municipalities. This activity contributes to the overall Project goal of improving the role of the MoF as a steward of improvement of PFM practices at the municipal level.

With Project support, GoK advanced planning for government initiatives through improving costing practices. In May, the Project supported the MoF to organize **training sessions on the implementation of the new AI on Budget Impact**

Assessment for new government initiatives and related Manual on Methodology, which was approved by Government. This training was organized in groups and was held over four days. It covered all the central budget organizations of Government, including representatives from independent agencies.



Participants attending a training session on the implementation of the new AI on budget impact assessment of new initiatives

More than 80 participants were introduced to the new legal requirements, as well as to a new standardized costing module, which budget organizations will have to use in the future. Proper implementation of the new AI will improve overall public financial management by:

- preventing the accumulation of “hidden” costs that arise from government approval of new initiatives – i.e. establishment of new bodies, approval of strategies or secondary legislation - without due consideration of their financial burden;
- giving all policy-makers more accurate information of the financial impact of Government policies on the budget, and thus enable them to decide on competing policy choices; and
- giving citizens a more credible budget that informs them on the use of their taxes.

In addition to the training organized by the MoF, the Project provided on the job support to budget and finance officers of MESP for conducting the budget impact assessment of two new concept documents as part of the construction reforms:

- the concept document on the Law on the Chambers of Architects and Engineers; and
- the concept document on the New Law on the Treatment of Illegal Construction

A detailed budget impact assessment allows GoK to adequately plan for the financial resources needed to implement the construction reform.

Throughout 2015, the Project continued to support MoF in monitoring the implementation of the new AI and improved methodology that accompanies it. At end December 2015, Mr. Milaim Aliu, Senior Budget Expert at MoF, informed the Project that the MoF considers the level of application of the new AI as very satisfactory, with all new legislation initiatives being processed in line with the new AI on costing.

Also following Project recommendations, MoF **integrated its system onto the standardized government e-mail accounts, rks-gov.net**. In the first transition months, the old MoF email

(@mf-rks.org) was used with the new emails. Following this, MoF will gradually switch completely to the Government “rks-gov.net” standardized email accounts. The use of the standard government email accounts will enable MoF users access to a number of government services:

- publishing of vacancies through a government-wide platform,
- usage of e-procurement, and
- electronic registration of assets.

The Project has supported this activity and encouraged coordination between the MoF and the Agency of Information Society at the Ministry of Public Administration.

C3-2: ENHANCE NATIONAL AND MUNICIPAL PUBLIC FINANCIAL MANAGEMENT

The Project completed a review of the previous **PEFA exercise (Public Expenditure and Financial Accountability) at the local government level** to examine the feasibility of rolling out PEFA to further municipalities, by assessing the impacts of the previous PEFA exercise and its institutionalization in central and local level institutions. 12 municipal PEFA assessments² had been supported by the prior USAID GFSI project in 2011, 2012 and 2013 and were used to develop public financial management (PFM) action plans, to improve PFM practices and systems in those municipalities.

To conduct this exercise, the Project engaged a short-term PFM expert who reviewed the previous PEFA documents and PFM action plans, and discussed this with key stakeholders from within the MoF budget departments, treasury department, the Central Harmonization Unit and the Deputy Minister. Other stakeholders consulted were the Office of the Auditor General, the Ministry of Local Government Administration (MLGA), senior finance officials in five sample municipalities (Pejë/Peć Gjakovë/Đakovica, Podujevë/Podujevo, Fushë Kosovë/Kosovo Polje, and Strpce/Shtërpce), the Association of Kosovo Municipalities, and the relevant donor projects.

The conclusion of the review was that while municipal experience conducting PEFA assessments has been positive, the exercise has not been institutionalized and is largely perceived as a donor owned activity. An alternative approach recommended by the Project, was the adoption of selected PEFA indicators in municipal annual financial statements, which are prone to external audit. Such an approach would require the amendment of Treasury financial rules on reporting. Both central and local level stakeholders, consulted during the review supported the idea of institutionalizing some selected PEFA indicators through the regular financial reporting mechanism.

The Project presented the findings to the Deputy Minister of Finance Mr. Agim Krasniqi and it was agreed that as a first step to implementing such recommendation, would be to pilot the inclusion of such selected PEFA indicators in municipal annual financial statements, in a small number of municipalities. This piloting will potentially be done during the Year Three of the Project, after consulting with the new management of the recently restructured Budget Department within the MoF, reconfirmation from Treasury, and consultations with the Office of Auditor General to ensure that they agree to such piloting.

Another National PEFA Assessment was conducted, with EU support. The assessment was completed and a draft report circulated with stakeholders. In January 2016, the Project reviewed the

² Vushtri, Mamusha, Gjakova, NovoBrdo, Istog, Strpce, Peja, Pristina, Gjilan, Ferizaj, Podujeva and Fushe Kosova
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results of the draft report and compared this to previous PEFA's in 2013 and 2009. In summary, compared with 2013 PEFA assessment which contains 31 indicators, the review of the 2015 assessment report revealed that:

- sixteen (16) indicators have remained the same as 2013, receiving the same scores;
- seven (7) indicators have received better scores than in 2013;
- seven (7) indicators have received lower scores than in 2013; and
- one indicator scored in 2013 (Predictability of Direct Budget Support) was not scored in 2015 because Kosovo has not received budget support since 2012.

Below is a table summarizing the distribution of scores:

Scores	2009	2013	2015
No. A	5	11	10
No. B & B+	12	10	11
No. C & C+	5	5	6
No. D & D+	7	5	3
No. NA/no score	2	0	1
Total	31	31	31

Chapters 32 and 33 of the Stabilization and Association Agreement Implementation Plan (SAAIP) require the GoK to finalize a PFM Strategy and action plan, based on the weaknesses identified in this most recent PEFA assessment carried out with the EU support. The PFM action plan which MoF developed in 2014 with Project support, included actions to address such weaknesses. This action plan is now being incorporated into this EU supported PFM strategy and updated PFM action plan which is being prepared by MoF, as part of the SAAIP requirements.

In Year Three, the Project will support MoF to address key weaknesses identified in the 2015 PEFA Assessment, particularly in two areas: comprehensiveness of budget documentation and transparency of changes to budget forecasts.

C3-3: SUPPORT FOR AN IMPROVED TAX COMPLIANCE AND TAX ADMINISTRATION

In December 2015 TAK approved a new **Internal Instruction on Value Added Tax (VAT) Refunds**. This internal instruction, which now applies to all requests for VAT refunds submitted after January 1, 2016 clearly defines managerial procedures for processing VAT refund requests which are much simpler than those before, and significantly streamline the process.

As part of the efforts to improve the refund process, in mid-2014, a Project organized focus group study of private companies found that TAK utilized VAT refund procedures as an enforcement mechanism rather than as an administrative procedure. Also a GIZ funded survey of taxpayer satisfaction, identified VAT refund procedures as the most significant burden associated with paying taxes.

In response to those findings, the Project conducted a thorough review of the VAT refund process, and provided to TAK a report summarizing the findings and recommendations for streamlining and

improving the process. The report proposed that in line with best international practices, and without increasing revenue risk, TAK could amend/change the old internal instruction to improve and streamline the VAT refund process and modify the processing procedures which allow for a more efficient use of resources within TAK. Ultimately, improved tax refund procedures improve private sector liquidity and access to investment capital.

Following the presentation of the Project's report with its findings and recommendations, with Project support TAK developed a new instruction which embeds a risk-based approach for processing VAT refund requests, and significantly reduces request processing times. The main changes introduced with the new instruction include:

- a reduction of the maximum request processing time by 50%, respectively to 30 days. For compliant taxpayers processing time is reduced to 7 days;
- a risk-based approach will be used for processing VAT refund requests:
 - processing procedures will be clearly categorized based on the taxpayers' risk profile;
 - for compliant taxpayers, processing of refund requests will be streamlined to include a standard administrative check only; and
 - if, based on the taxpayer's risk profile, TAK concludes that an audit is required to address a request, then this audit is limited only to the time period for which a refund request was submitted,
- processing refund requests will be completed at the regional level, thus eliminating the need for the requests to be reviewed at the TAK headquarters.

During Year Three, the Project will start to monitor the implementation of this instruction in order to measure its effectiveness, and will continue to promote a tax administration approach that fosters voluntary compliance and enables private sector development.

An updated version of TAK's online filing platform EDI went live on March 23, 2015. As a result, **taxpayers can now submit 100% of their tax declarations online.** Early in 2015 a TAK

working group was established to address Project recommendations made in Year One relating to expansion of e-filing and increased use of e-documents. This demonstrated TAK commitment to:

- further streamline the filing;
- reduce documentary requirements, and
- facilitate taxpayers' compliance.

This working group oversaw IT development to update the electronic filing platform EDI, to incorporate all tax declarations into e-filing. TAK, with Project support, finalized the design of technical updates that enabled the usage of the e-declaration platform for the three types of taxes that were not being filed through electronic declaration. Those types of taxes are:

- tax on rent and intangible property;

The expansion of the TAK e-filing platform (EDI) to allow 100% of all tax declarations to be completed online, will reduce the time and cost for citizens registered with TAK in meeting tax requirements to file tax declarations. Taxpayers will no longer need to visit a tax office in person to submit a tax declaration but can comply using any computer connected to the internet.

- withholding tax on interest, royalties, and lottery winnings, and non-residents, and
- annual declaration of partnership income.

TAK officials finalized and tested all upgrades to the IT system, which now enables electronic declaration for all taxes. In April TAK reviewed the use of the updated EDI platform and found that 90% of all declarations were being filed using EDI. This is a promising result, especially as it is widely documented in international tax literature that close to 100% use is required for e-filing to result in maximum efficiency in a tax administration.

TAK adopted a new internal instruction for treating non-filers in January 2016. The internal instruction, which was prepared with Project's support, contains guidance for treating taxpayers who are not filing on time, or who stop filing. The IMF tax administration diagnostic report (known as TADAT) conducted in June 2015, ranked TAK's performance on tracking taxpayers who do not file on time or who stop filing for taxes as poor (TAK achieved grade C, on a scale where A is the highest grade and D is lowest).

This new internal instruction now allows TAK to easier:

- flag non-filers;
- differentiate between occasional and consistent non-filers;
- use risk based selection of non-filers for follow up; and
- automatically follow-up on non-filing cases via e-mail and direct calls.

By reducing the number of random compliance visits and improving the accuracy of TAK data, the institutionalization of a non-filer treatment system will enable TAK to use its human resources more efficiently and to focus on a risk based approach to tax administration primarily driven by voluntary compliance.

In preparing the instruction, the Project provided ongoing support and guidance to TAK for reviewing current procedures and existing instructions and policies, identifying gaps in the process, and developing the necessary consultations with TAK regional offices and external stakeholders. This work helped the Project and TAK better understand the process and prepare the new instruction accordingly.

With Project recommendations, the Assembly incorporated some additional, but significant changes to the **VAT, Corporate Income Tax and Personal Income Tax laws**, which are expected to positively impact businesses. Those changes include:

- the removal of the requirement to obtain a separate VAT certificate for import and export;
- costs for training for an employee shall be fully allowable for the employer - this was previously limited to 1,000 EUR in one year; and
- the initial proposal to introduce tax on dividend was removed.

The removal of the limitation on deductibility of training costs, is particularly beneficial to eliminate barriers to businesses developing needed market-relevant - demand-driven skills in the labor force, and having appropriate costs expensed. Also, for foreign investors, this is particularly important as training costs are often higher. While there was initial resistance based on concerns about the potential abuse, the Project, in coordination with the European Investment Council noted that TAK has the ability through its risk mechanisms to monitor tax compliance, and use appropriate and fair application of audit processes to address any abuse.

As a continuation of efforts to further **digitalize taxpayers' services**, TAK, with Project support, identified additional TAK services to be made available online for taxpayers. During a five-day workshop, business process changes, and IT process activities, required to enable this digitalization were defined and designed. The following specific activities were completed:

- identification of the users of those services, and the level of access required for different users within TAK and taxpayers;
- design of a new window to access online the newly digitized services;
- design of the IT process needed to incorporate new services into TAK's Electronic Declaration of Tax application (EDI);
- preparation of a technical manual with detailed steps required to facilitate development; and
- identification of any limitations in the current business process for each service, re-designing the business process and the relevant forms to be digitalized.

Further digitalization of TAK services will reduce the time and cost for citizens registered with TAK in dealing with routine tax requirements. Once operational this will reduce the need for taxpayers to visit a tax office in person to submit requests for these services. Instead, using any computer connected to the internet, taxpayers can online deregister from VAT, notify TAK of business changes or deactivation of a business, amongst other things.

The services which currently require manual work and visit of taxpayers to TAK, but planned to be digitalized and available to taxpayers online in the future are:

- the tax payment certificate for businesses (a certificate that confirms businesses have no outstanding tax arrears);
- the request for VAT registration;
- the request for VAT deregistration;
- the request for debit-credit reconciliation;
- notification for business transfer;
- annual statement for withholding tax;
- application to register a small-corporation for the real base tax scheme;
- application to register a small individual business for the real base tax scheme;
- deactivation of a taxpayer;
- pension refund request for self-employed; and
- pension refund request for employer.

Due to the work overload for the IT staff, TAK did not have the resources to progress with the online implementation of the above listed services. TAK did however develop an online service for taxpayers which is the "Tax Payment Certificate for Businesses" which states their tax status and shows if businesses have outstanding tax obligations. This certificate is a requirement for application in both private and public sector tendering procedures, and also serves the purpose of applying for public tenders, visas (<https://evertetimi.atk-ks.org/>). Previously this service was only available online for individual taxpayers, while businesses had to obtain the certificate physically at the TAK offices. During Year Three, the Project will support TAK to provide the above mentioned services through the online platform to all taxpayers.

The Project supported TAK Call Center to finalize a **review of the TAK call center systems**, to map its functions, data flows and document issues relating to the system, which affect the day to day operations of the call center. TAK call center utilizes a phone system called Poltys CC View 2012, and a number of TAK in-house developed software. This review found that these IT systems have a number of issues that are hindering the efficient operation of the TAK call center, and recommended the following:

- reinstallation and configuration of Poltys Call Center View 2012;
- upgrade of Debt Case System for customized case limits and types (VAT non-filers, etc.);
- development of Incoming call module with integrated display of Taxpayer information;
- enhance reporting of FAQ Module with more advanced features; and
- publish online FAQ Handbook to allow taxpayer a more user friendly way to this information.

As a result of the IT resources issues outlined in the previous paragraph on digitalization of TAK services, TAK has not yet started with implementing the above recommendations, but plans to do so in the future.

Early in Year Two, based on the recommendations of the Project's TAK Data Review in 2014, TAK officials finalized the preparation of a new report with correct information and consistent language on non-active taxpayers and published this information in 3 languages on the TAK website. The report can be found using the following link <http://apps.atk-ks.org/BizPasiveApp/BizDeReg>.

As part of the review to simplify and strengthen the tax system, which the Project performed in Year One, the Project recommended and TAK agreed to **remove the requirement for small businesses to obtain the VAT export / import certificate**. This certificate was required from taxpayers who carry out import or export activities, but who are below the threshold to register for VAT. The Project made the recommendation based on an absence of evidence of positive impact of the certificate on tax compliance, and the fact that its removal reduces the administrative burden on taxpayers. The Project brought this recommendation to the attention of the working group dealing with the amendment of the VAT Law and they accepted it by removing this requirement from the law.

To improve transparency of reporting and facilitate reporting of tax revenues in line with international best practices, the Project raised with TAK the need to **improve the recording of interest and penalties as separate categories** in the Kosovo Financial Management Information System. TAK worked with the Project to identify ways to improve such recording and a solution has been identified to enable correct classification. However, this solution requires further investigation on the potential cost impact on taxpayers, as currently a taxpayer pays a one-off bank fee for a single transaction to pay tax, interest and penalties. Separating these elements at the point of payment, which may be required to facilitate capture of this data, may result in additional bank charges. The Project plans to present this issue to the new Director General in TAK early in 2016.

The Project' **monitoring of the impact of the internal instruction on opening and closing of tax accounts shows improvement**. During Year One, the Project had supported TAK to develop the internal instruction and to provide training to regional offices for implementation. In order to assess the impact of this internal instruction, and the associated training, the Project reviewed the list of new tax accounts opened during January - August 2015 and noted that improvements have been made where the number of duplication of accounts had dropped

significantly (with only 0.7% of all new accounts opened during the period Jan-Aug 2015 identified as duplication);

The Project shared the findings with TAK who produced a list by regional office of all the errors made in the period reviewed. These reports were provided to the regional office for review and follow-up. It is hoped that the awareness of this oversight from the HQ level will encourage staff to be more diligent when opening and closing tax accounts, and reduce further the small number of careless mistakes.

In January 2016, **the Project reviewed the Draft Law on Immovable Property Tax** and shared its initial recommendations with USAID Advancing Kosovo Together (AKT) and Property Rights Project (PRP) for joint comments to the MoF. From this initial review, the following recommendations have been proposed:

- increase the transparency of property tax data, by publishing detailed statistic on the performance of each municipality;
- increase efficiency, reduce municipal legislative and language burdens, and reduce uncertainty by avoiding annually mandatory updating of the municipal tax rates;
- wider coordination should be performed at the GoK policy level, including with MoJ working groups, before finalizing the law;
- avoid legal requirements which may be viewed as violating human rights;
- property classifications should match accepted spatial planning classifications to make administration effective and efficient; and
- existing substantive definitions available in current legislation should be used, where possible.

These comments will be further developed and will be sent to the MoF and Swedish SIDA for their consideration when finalizing the Law.

Current Year Property Tax Compliance Continued to Improve. In 2015, current year tax compliance (the rate of payment of the total property tax invoiced for the year) improved further, reaching 51.35%, up from 51% in 2014. On the other hand, payment of property tax arrears, penalties, and interest was 837,088 Euros, or 9.65%, lower than in 2014.

The continued improvement of current year compliance is a particularly encouraging result, as it indicates the commitment of taxpayers to comply with their tax obligations, despite major uncertainties arising from a delayed and irregular adoption of the Debt Forgiveness Law. In early 2015, GoK announced its intention to forgive all debt accumulated before February 2008, but the Debt Forgiveness Law entered into force only in September 2015. Implementation did not begin until November 2015. In anticipation of this law, many property taxpayers hesitated paying arrears and delayed property tax payments in general. However, as it is the current year compliance that provides the most sustainable flow of revenue to municipalities for forecasts and operations, as well as being less susceptible to variance as the GoK resolves back debts issues, it is the key metric on which the Government and municipals should focus to fiscal stability.

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

Following the November 17, 2014 decision of the ISC to award the contract to the Bidder, **the GoK signed the Brezovica Resort Development Project BRDP contract with the French consortium** (Private Partner) on April 14, 2015. The contract signing is a significant progress in the process and the contract will enter into effect after following the completion of all the conditions precedent by both parties. These conditions precedent include the Private Partner demonstrating financial information and drafting of baseline documentation, such as the definitive master plan, environmental management plan, emergency response plan, etc. During this period the GoK is required to support in completing various assessments and issuing permits as well as complete the expropriation of the BRDP footprint.

Following the signing of the BRDP PPP contract, the support shifted on the implementation phase of conditions precedent. The BRDP Strategic Advisor, Ms. Jill Jamieson, with the support of the short-term expert Mr. Michael Yates and Project Implementation Unit (PIU) drafted a detailed transition management plan, which lists all the activities/conditions precedent to be met by both – GoK/ISC and Private Partner. In addition to identifying all the specific activities, a detailed schedule of completion for all those activities was produced. Having such transition management plan helped all the relevant stakeholders involved in the transaction to understand better their duties and responsibilities, and monitor the progress towards fulfilling those conditions, before the contract enters into force.

The municipality of Štrpce/Shtërpçë, with the support of the Project, successfully organized consultations on the BRDP with municipal members of the Assembly and Štrpce/Shtërpçë local community. In both sessions, the selected Bidder presented the draft Master Plan of the BRDP and the Strategic Advisor presented the concept of the ski resort project and the process. The U.S. and French Ambassadors were present at the session with municipal Assembly members and expressed their support for the BRDP project. From the discussions, Assembly members seemed supportive of the draft Master Plan presented by the investor. A large number of people attended the session with the local community and participated in the question and answer session.

After the decision of ISC to modify the BRDP footprint, the Project subcontracted Geo&Land to prepare the necessary updates in the expropriation elaborate. Geo&Land prepared the elaborate, which then helped MESP and MoF Property Tax Department (PTD) to process further and successfully complete the expropriation of property within the footprint, which was followed with a Government final Decision for Expropriation of the BRDP footprint. In the process of valuation, the Project engaged an international expert to review the methodology of valuation applied by the PTD and his conclusion was that the methodologies applied by the MoF PTD are the best practicable under the circumstances, and consistent with the law of Kosovo.

After the GoK issued its Final Expropriation Decision, on October 13, 2015, Serbian companies "Ski center Brezovica d.o.o.", Belgrade's Fund Inex Interexport sent a letter notifying the GoK of its intent to initiate arbitration against the expropriation of Brezovica properties. These same Serbian companies also requested that the Supreme Court in Pristina annul in its entirety the final decision of the Pristina government on expropriation of its immovable property in Brezovica.

While the GoK on its part has fulfilled conditions precedent, the Private Partner requested an extension of the deadline for the entry into force of the contract, mainly to allow for more time to finalize the financing agreements of the project. Based on the request of the Private Partner, the ISC in its meeting held on December 17, 2015, approved a decision extending the conditions precedent period for six months from December 24, 2015 to May 31, 2016. As a precondition to the extension of the conditions precedent period by six months, the ISC decision also requires confirmation from the Private Partner on the increased amount of tender security to be posted, confirmation of the

shareholder structure for Brezovica Resorts, LLC in accordance with the PPP Agreement and confirmation of the requirement for the Private Partner to report to the ISC on a monthly basis on the fulfillment of the conditions precedent. All the conditions stipulated in the ISC decision for deadline extension were met, thus allowing for decision for deadline extension to enter into force.

To date, there has been no evidence of finalizing the financing agreements and this remain the main condition precedent to be met by the Private Partner, before the contract enters into force.

NEXT STEPS

Building on the achievements during the first two years, during Year Three the Project will continue its partnership with the GoK to further improve and strengthen PFM practices for sustaining macro-economic stability, by supporting improvements in the design and implementation of macro-economic policy, budget related reforms and tax compliance.

Support will be offered to the MoF in monitoring and maintaining compliance with the IMF program targets and structural reform conditions, by providing coordination assistance and advice on improving policy assessment. The Project will also support MoF to develop 2017 budget guidelines that ensure compliance with the IMF program, and which are based on prudent revenue projections, and avoid excessive accumulation of public debt.

Identifying weaknesses and future improvements for increasing the comprehensiveness of future MoF budget forecasts will be another important activity the Project will support. This will involve drafting of an internal methodological manual to make projections more evidence based, realistic and increases the overall credibility of the budget. In addition, the Project will support MoF to have consultations on its analysis with domestic institutional stakeholders, such as the Central Bank of Kosovo, the Statistical Agency, as well as with donors.

Assistance will be provided to MoF to institutionalize transparent disclosure of the risk analysis results in the Medium-Term Expenditure Framework (MTEF) 2017-2019, by including off-budget risks, such as risks related to Publically Owned Enterprises and local government arrears.

The PFM action plan which MoF developed in 2014 with Project support is now being incorporated into the PFM strategy, and an updated PFM action plan being prepared by MoF as part of the SAAIP requirements. In Year Three, the Project will support MoF to address key weaknesses identified in the 2015 PEFA Assessment, in two particular areas: comprehensiveness of budget documentation and transparency of changes to budget forecasts.

Building on the adoption of the GFS Standard for financial reporting in Year Two, the Project will support MoF to improve budget classification in the CoA, including the introduction of changes to this classification in line with GFS principles.

Furthermore, the Project will support MoF to completely integrate and automate annual GFS reporting and functional budget table preparation during Year Three. Both activities are semi-automated and need to be drawn from a number of MoF IT systems.

Project support will be provided to municipalities, possibly via a grant to improve their revenue planning and MTBF development. The Project will also provide assistance through a grant to the beneficiary line ministries, MESP and the MTI, to meet the new requirements for Gender Responsive Budgeting (GRB), arising from the Law on Gender Equality, which was approved in 2015.

In conjunction with Component One and Component Two, beneficiary ministries will be supported to appropriately use the AI on BIA, when considering any new initiatives e.g. concept documents, legislations etc.

The Project will support TAK to monitor the implementation of the new instruction for processing VAT refund requests, and to implement the new guidelines on the treatment of non-filers. This will require assisting with training of regional staff, and monitoring of the results of the implementation.

The Project will also continue supporting TAK to promote a culture shift away from direct contact with taxpayers, and continue to implement solutions to reduce the tax compliance burden. The Project will support TAK to implement previously made recommendations to digitalize (i.e. make available online) additional TAK forms and services that currently require physical visits to a TAK office.

Support will be offered to the BRDP ISC in the process of finalizing the conditions precedent period after which the contract is expected to enter into force.

CHALLENGES AND IMPLEMENTATION ISSUES

In April 2015, the MoF Deputy Minister, Mr. Agim Krasniqi, recommended that the definition of sectors between MoF and Strategic Planning Office (SPO) at the Prime Minister's Office should be postponed until the approval of the National Development Strategy. As a result, the Project was not able to assist the MoF, and SPO, to define GoK 'sectors'.

The envisaged support for piloting the advancement of Key Performance Indicators (KPI) in the MTBF document for 2 to 3 Ministries was also postponed for objective reasons. The MoF decided to remove the presentation of KPIs from the MTEF, with the intention of including them at a later date. However, delayed appointment of the MoF Central Budget Department Director led MoF to postpone the development of KPIs. MoF has not decided yet on the inclusion of KPIs in the budget for the year 2017.

The improvement of municipal revenue budget classification was postponed in agreement with the MoF Treasury and MoF Municipal Budget Department. The Project will be carrying out this activity as part of an expanded activity in Year Three, namely through the support in improving all budget classification as part of the update of the GoK Chart of Accounts.

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; Property Tax; 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 MoF, World Bank PFM Support, and GIZ Public Finance Advisor. The Project also worked with USAID AKT; PRP and EMPOWER and was involved in coordinating activities with the IMF Missions.

ANNEX I: PERFORMANCE BASED MANAGEMENT SYSTEM RESULTS

Overall the Project performed well in PBMS objectives to-date. The Project has successfully achieved life-of-project Doing Business targets for Starting a Business and Dealing with Construction Permits. Based on GoK demand, the Project is assisting with further improvement, but also with institutionalizing existing gains. For Paying Taxes, while the GoK has been reluctant to address reforms improving the indicator substantially, the Project is on-track to achieve life-of-project goals and anticipates more decisive improvement through the current Doing Business-related activities of the GoK, as supported by the Project. For two measures additional measures, the outcomes were below targets: (1) for municipal zoning map implementation, delays with G2G prevented the deployment of necessary international expertise to pilot zoning map implementation; (2) for legalization, the GoK decided to focus on building on lesson learned to-date from the legalization process and feedback from municipalities to focus on streamlining amendments to the Law. Following adoption of the revised Law later in Year Three, the GoK is expected to prioritize individual legalization processing and completion. In both cases, the forecast is suggested to be revised in line with GoK priorities and available resources.

Project Result I (PR I): 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))

Indicator	Kosovo								
	DB 2014	DB 2015	Y1	Target	DB 2016	Y2	Target	Cumulative (Y1 and Y2)	LOP Target
Starting a Business									
Rank	100	42			47				
Procedures (Number)	6	5	16.7%		5	0		16.7%	
Time (days)	30	11	63.3%		11	0		63.3%	
Cost (% GNI)	22.1	1.2	94.6%		1.1	8.3%		95.0%	
Min Capital (% GNI)	0	0	0.0%		0	0		0.0%	

Percent Change			43.6%	10.0%		2.1%	10.0%	43.8%	20.0%
Dealing with Construction Permits									
Rank	136	135			136				
Procedures (Number)	15	15	0.0%		15	0.0%		0.0%	
Time (days)	151	152	-0.7%		152	0.0%		-0.7%	
Cost (% GNI)	514.7	6.7	98.7%	5.0%	6.4	4.5%		98.8%	
Percent Change			32.7%			1.5%	5.0%	32.7%	20.0%
Paying Taxes									
Rank	43	63			67				
Payments (Number)	33	33	0.0%		32	3.0%		3.0%	
Time (Hours)	162	155	4.3%		155	0.0%		4.3%	
Total Tax Rate (% profit)	15.4	15.3	0.6%		15.2	0.7%		1.3%	
Percent Change			1.7%	0.0%		1.2%	5.0%	2.9%	10.0%

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 2015	Target 2016	Actual 2016	Life of Project (2018)
Improvements in policies, legal acts, administrative procedures and operations for the drafting and publication of legal acts	5	6	8	8	37

Year I (2015)

- I. 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.

Year 2 (2016)

1. Improved legal framework on format and content of official websites of public institutions through the adoption by the Ministry of Public Administration of the Administrative Instruction No. 01/2015 on Content of Websites of Public Institutions' (<https://gzk.rks-gov.net/ActDetail.aspx?ActID=11007>)
2. Improved and streamlined procedures for assessing the impact of new policies, legislation, Government Decision and Action Plans for Strategies, through the adoption by the Government of Kosovo of the Administrative Instruction No. 03/2015 on Budget Impact Assessment (<https://gzk.rks-gov.net/ActDetail.aspx?ActID=10867>)
3. Improved methodological and practical guidance for Budget and Finance Officers in Ministries through the development and adoption of the Manual on Budget Impact Assessment [http://www.kryeministri-ks.net/repository/docs/Doracaku_per_Vleresimin_e_Ndikimit_Buxhetor_te_Nismave_te_Reja_Qeveritar..._\(1\).pdf](http://www.kryeministri-ks.net/repository/docs/Doracaku_per_Vleresimin_e_Ndikimit_Buxhetor_te_Nismave_te_Reja_Qeveritar..._(1).pdf)
4. Adoption of improved guidance for Legal Departments of Ministries for evaluating the actual impact and implementation of legislation after adoption, through the Guidelines on Ex-Post Evaluation of Legislation Adopted by the Government (http://www.kryeministri-ks.net/repository/docs/2_Guidelines_on_Ex-post_evaluation.pdf)
5. Improvements to the MESP website to make sub-legal acts more easily accessible to the public. <http://mmph-rks.org/sq/Aktet-nenligjore>
6. Adoption of Regulation No. 01/2015 on Rules of Procedure for National Council for Economic Development. This will bolster coordination of policy initiative, public comment and discussion of legislative initiatives (<https://gzk.rks-gov.net/ActsByCategoryInst.aspx?Index=1&InstID=36&CatID=23>)
7. Improved coordination of Doing Business Reforms (reforms related to World Bank Doing Business Report) through high level political leadership from the Government of Kosovo and the National Council for Economic Development and establishment of specialized technical Task Force at the Ministry of Trade and Industry responsible for coordinating reform efforts. (GoK Decision No. 12/67). http://www.kryeministri-ks.net/repository/docs/Vendimet nga mbledhja_67_e_Qeverise.pdf
8. Improved practices for policy development and analysis at MESP through working with Department of Construction and Housing to jointly develop concept document on the regulation of the professions and engineers in accordance with GoK guidelines on policy

development as well as improving public consultation during policy development and improved budget impact assessment practices.

9. Improvements in MESP website, publishing all activities and documents related to Legalization process, including publication of the National Registry of Unpermitted Construction (February 5, 2015) and Final National Registry of unpermitted construction

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 2015	Target 2016	Actual 2016	Life of project (2018)
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	10	13	35

Year 1 (2015)

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.

Year 2 (2016)

1. Improved procedures for inventorying, updating and making publicly available information on types of permits and licenses required by Government bodies at the central and local level through the establishment of Central Registry of Permits and Licenses (<https://lejelicenca.rks-gov.net/sq/licence?id=800&showAll=true>). Project supported drafting of Administrative Instruction No. 06/2015 on Registry of Permits and Licenses adopted by GoK (<https://gzk.rks-gov.net/ActDetail.aspx?ActID=10870>).
2. Reduction of fees payable by citizens for services from KBRA/MTI related to business registration, through new MTI Administrative Instruction No. 03/2015 on Determination of Fees for Services provided by the Business Registration Agency (<https://gzk.rks-gov.net/ActsByCategoryInst.aspx?Index=1&InstID=36&CatID=22>).
3. Establishment of legal framework for Registry of Architects and Engineers in the Area of Construction, which will include all graduates of architecture and engineering in Kosovo as a pre-preparation for the establishment of the Chambers of Architects and Engineers in the Area of Construction, through MESP Administrative Instruction No. 01/2016 Amending Administrative Instruction 06/2011 on Professional Exam and Licensing of Architects and Engineers in the Area of Construction.
4. Streamlining procedures for field inspections conducted by MESP General Inspectorate, particularly in relation to competencies for inspecting municipalities in the area of spatial planning, through Administrative Instruction No. 24/2015 on Form and Content of Record for Inspection Supervision (<https://gzk.rks-gov.net/ActsByCategoryInst.aspx?Index=1&InstID=41&CatID=22>).
5. Administrative Instruction on Legalization Appeals No 04-2015 approved (<http://gzk.rks-gov.net/ActDetail.aspx?ActID=10834>)
6. Administrative Instruction No. 11/2015 on the Sections and Basic Requirements for Design, Implementation and Monitoring of Municipal Development Plans and Municipal Zoning Maps approved; <http://gzk.rks-gov.net/ActDetail.aspx?ActID=11671>; <http://gzk.rks-gov.net/ActDetail.aspx?ActID=11684>
7. Reform Scorecards in place for 5 municipalities Fushë Kosovë / Kosovo Polje, Gračanica/ Graçanicë, Hani i Elezit/Hani Elezit, Peja/Peć, and Pristina.
8. Pilot municipalities (Pristina; Fushë Kosovë/Kosovo; Gračanica/Graçanicë; Hani i Elezit and Peja/ Peć) begin using permit tracking system for construction permits
9. MESP Department of Spatial Planning, Construction and Housing properly issuing terms of construction and issuing construction permits for Category III constructions. Five Category III permits handled using standard forms and procedures. Increased applications submitted for Category III projects, reflecting positive response from public to improved procedures.
10. MESP begins using permit tracking system for construction permits for internal management
11. Public participation in spatial planning improved for 5 pilot municipalities
12. Pilot municipality Pristina creates on-line application for information about development conditions set by spatial plans (<http://ediku.biz/prishtine/>)
13. Pilot municipality Pristina reduces construction permit fees

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.

As reported above, for municipal zoning map implementation (PR 4, d below), delays with G2G prevented the deployment of necessary international expertise to pilot zoning map implementation.

Project Result PR 4	Target 2015	Actual 2015	Target 2016	Actual 2016	Life of project (2018)
a) Percentage of permits in pilot partners with correctly calculated construction permit fees	25%	70%	50%	86%	95%
b) Percentage of permits in pilot partners issued within deadlines for permit issuance	25%	70%	50%	70%	95%
c) Percentage of municipalities with MDPs	74%	76%	80%	82%	90%
d) Percentage of municipalities with MZMs	0%	0%	20	0	80%

Total Permits Issued in MESP Pilot Municipalities

	2013	2014	2015
Fushë Kosovë / Kosovo Polje	26	35	48
Gračanica / Graçanicë	421	36	62
Hani Elezit	9	8	8
Peja / Peć	156	121	148
Pristina	97	84	153
Total	709	284	419

Additional Details Supporting Calculations

	% of correctly calculated permit fees	% of correctly calculated density fees	% of permits issued on time
Fushë Kosovë / Kosovo Polje	100%	100%	89.5%
Gračanica / Graçanicë	100%	100%	85%
Hani I Elezit / Hani Elezit	100%	100%	100%
Peja / Peć	100%	100%	82%
Prishtinë / Pristina	100%	62%	46%

Data is based on permit tracking systems published by pilot municipalities Fushë Kosovë/Kosovo Polje, Hani i Elezit/Hani Elezit, Peja/Peć and Prishtinë/Pristina, and historical data provided by Gračanica / Graçanicë. Pilot municipalities were also asked to provide answers to questionnaires and random samples of permit fee invoices. Using this data, the Project conducted sample spot checking to verify reported information. Because the permit tracking systems in all municipalities except Pristina do not contain dates that applications were submitted, a point that will be the subject of future mentoring, time for issuing permits was extrapolated based on the samples provided. Of the

153 permits issued in Pristina, only 138 permits had sufficient data available to calculate the time taken to issue the permit decision.

Fees & Charges

The Project reviewed whether pilot municipalities are correctly applying established fees for construction permits and also whether they are appropriately assessing charges for increased density, which are allowed when a new construction increases the amount of *residential* space.

It appears that all municipalities are correctly applying established fees for construction permits. However, Pristina Municipality was found to still be incorrectly applying density charges to certain constructions. This charge applies only to residential properties and residential portions of properties. For mixed use buildings (residential and commercial), Pristina has been applying the density fee to the entire building, not just the residential part. The municipality indicated that it is revising this practice and will correctly apply density fees in 2016.

Pristina Municipality Density Charge Calculation			
		Number of permits	Correctly Calculated
Category I	residential	80	100%
Category II	Public buildings (no fee charged)	6	100%
	Usage change remodel	1	100%
	Agricultural	2	100%
	Individual houses (>450 m ²)	6	100%
	Mixed Use	58	0%
		153	62%

Time to Issue Permits

As for the time for issuing decisions on permit applications in Pristina, calculations were made based on applications submitted during 2015 in order to measure the effect of new reforms. However, it should be noted that Pristina does have some applications that have been pending for quite some time and these were not considered. If these older permit applications are taken into account, the percentage of compliance with this indicator would decrease. Given that the indicator is attempting to measure the effect of the implementation of new practices, including the use of standard forms, document checklists, and established procedures, analyzing only current 2015 permit applications is most reflective of change. Older applications made using pre-reform processes are, not surprisingly, taking longer to process and may have other issues that are not reflective of the factors attempting to be measured.

Additionally, under the Law on Construction, permitting bodies may request additional documents from applicants. Applicants have 8 to 15 days to respond to these requests and, during this response time, the municipality's deadline for issuing the permit decision is suspended. The current permit tracking systems do not have the ability to capture data about the amount of time deadlines are suspended. Therefore, it is likely that compliance rates across pilot municipalities are higher than reported here, as it is not uncommon for municipalities to request additional documentation during permit review. But, without specific evidence of any suspended deadlines, it was assumed that the time kept running from the date the application was submitted. Per AI 22/2012, "days" are working days, not calendar days and this adjustment was taken into consideration in the calculation.

Even though the law contains a “Silence is Consent” provision that automatically grants a permit if deadlines are not met by the municipality, there were no reported cases of applicants exercising this option.

Municipal Development Plans

31 of 38 municipalities have MDPs. Of these, Podujeve municipality’s MDP has been approved by MESP but not yet approved by the municipal assembly. Given that the MESP approval was recent and the municipal assembly decision is judged to be imminent, this municipality was included in the calculation.

The municipalities in the north (Zvecan, Zubin Potok, and Leposavic) have general urban plans that the municipalities are using similarly to an MDP. However, because these general urban plans lack certain elements important in an MDP, MESP does not consider these plans to be complying MDPs. In contrast, Mitrovica North has an MDP from the time when that municipality was combined with Mitrovica. MESP considers this MDP, which covers both north and south, to be a complying MDP.

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 One of the Project, the registry was developed and for this reason there are no targets. During Year Two the process of legalization continued with the registration of unpermitted construction in the Registry. As explained in the introduction, the MESP decided to focus on building on lesson learned to-date from the legalization process and feedback from municipalities to focus on streamlining amendments to the Law. Following adoption of the revised Law later in Year Three, the MESP is expected to prioritize individual legalization processing and completion. In this case, the forecast is suggested to be revised in line with GoK priorities and available resources.

Project Result PR 5	Target 2015	Actual 2015	Target 2016	Actual 2016	Life of project (2018)
Number of unpermitted constructions that complete the process under Law on Treatment of Unpermitted Constructions	0	0	60%	.00013%	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 MoF, municipal partners, the MESP, and other partners to increase participation in and compliance with property tax requirements.

During Year Two of the Project the Government of Kosovo introduced and began implementing a new Law on Public Debt Forgiveness. The Law came into force in September 2015, but

implementation did not begin until November 2015. The Law caused uncertainty amongst property taxpayers who hesitated to pay arrears until the provisions of the Law were fully publicized in the final months of 2015. As a result, compared to 2014, payments of arrears, penalties and interest were actually lower than in 2014 by 837,088 Euro (9.65%). However, despite this uncertainty annual compliance increased also in 2015, reaching 51.35%.

Project Result PR 6	Target 2015	Actual 2015	Target 2015	Actual 2016	Life of project (2018)
Increased Property Tax Annual Compliance: Increased percentage of total annually collected versus assessed current year property tax	45%	51.04%	47%	51.35%	55%

Current Collections Summary (Euros)

	2010	2011	2012	2013	2014	2015
Current Year Assessed	14,354,870	15,297,234	16,505,545	22,152,626	22,779,948	23,287,402
Current Year Collected	6,239,385	7,101,521	7,648,452	9,913,090	11,627,782	11,957,062
Current Year Compliance Rate	43.47%	46.42%	46.34%	44.75%	51.04%	51.35%

Total Collections Summary (Euros)

	2010	2011	2012	2013	2014	2015
Current Year Collected	6,239,385	7,101,521	7,648,452	9,913,090	11,627,782	11,957,062
Arrears, Penalties and Interest Collected	6,991,365	6,981,832	6,857,372	6,186,139	8,675,891	7,838,803
Total Collected	13,230,750	14,083,353	14,505,824	16,099,229	20,303,673	19,795,865

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 2015	Target 2016	Actual 2016	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	3	4	14

Year 1 (2015)

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.

Year 2 (2016)

1. A revised internal instruction that defines managerial procedures for processing VAT refund requests was approved by TAK. Previous VAT refund procedures represented a significant burden to the private sector in Kosovo and inhibited its development. In mid-2014, a Project organized focus group study of private companies found that TAK utilized VAT refund procedures as an enforcement mechanism rather than as an administrative procedure. In the first half of 2015 a GIZ funded survey of taxpayer satisfaction identified VAT refund procedures as the most significant burden associated with paying taxes. In response to these findings, the Project conducted a thorough review of the VAT refund process, and assisted TAK to develop and document new procedures for streamlining and improving the process.
2. An updated version of TAK’s online filing platform EDI went live on March 23, 2015. As a result, taxpayers can now submit 100% of their tax declarations online. Early in 2015 a TAK working group was established to address Project recommendations made in Year One relating to expansion of e-filing and increased use of e-documents. The working group oversaw IT development to update the electronic filing platform EDI, to incorporate all tax declarations into e-filing. TAK, with Project support, finalized the design of technical updates that enables the usage of the e-declaration platform for the three types of taxes that were not previously being filed through electronic declaration:
 - a. Tax on rent and intangible property;
 - b. Withholding tax on interest, royalties, and lottery winnings, and non-residents; and,
 - c. Annual declaration of partnership income.

<https://edeklarimi.atk-ks.org/Home/UserManual>
3. TAK developed and finalized internal guidelines on the treatment of non-filing taxpayers. The instruction will assist TAK improve their performance in tracking taxpayers who do not file on time or who stop filing for taxes.
4. Based on a Project recommendation relating to reducing burdens on taxpayers and streamlining tax services, TAK removed the need for a certificate for VAT export/import for small businesses from the updated Law on VAT.
 Old Law – Article 5 (export/import certificate removed) eliminated <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=2661>
 New Law <https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=11015>

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 2015	Target 2016	Actual 2016	Life of project (2018)
PFM Practices Improved: Percentage overall Government PEFA improvement	0	0	0	0	10%

In 2015 in preparation for EU Budget Support, the EU Office in Kosovo supported a PEFA assessment, which was to be used to develop a new PFM Strategy for Kosovo. As a result of this EU PEFA performed in 2015, it is unlikely that there will be another full PEFA before the end of the life of the Project. As a result, the Project's PBMS will have to account for the new PEFA assessment as a baseline. Also, knowing that there will be no new PEFA assessment before the end of the Project, there may be a need to modify this indicator to focus on a limited number of PEFA indicators, which the Project supports directly, and which will be then assessed with Project resources only to measure the life-of-Project results.

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