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### Economic Management for Stability and Growth

# Quarterly Report

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**BEARINGPOINT**

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Chief of Party

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## 1. Chief of Party Report

The year 2008 ended on a high note with the 2009 budget successfully passed, the Airport Concession and KEK Privatization officially launched with the advertisement for respective Transaction Advisors and the Brain Fund initiative funded and approved by the Government.

Within the Ministry of Finance and Economy, the Ministry also skillfully managed the Ahtassari provisions and transition under the new Law on Local Government Finances. In Treasury, the curriculum for the financial skills training course, developed in cooperation with accounting body SKAAK is almost complete and ready for review by the subject experts and Ministry Directors. In PPP, line ministries began working with the Ministry of Finance and Economy's centralized PPP Unit to identify candidate projects for the PPP project pipeline, a critical component to implementation. Finally, a new project was commenced in Property Tax, together with SIDA, implementing a modern IT system; collections of the Property Tax ended the year on a high with 12.5 million or 80% of billed collected, providing a great springboard to the new project.

Within CBAK, attention is focused on the financial crisis and any impact on the local sector. CBAK and our advisor, engage in daily monitoring the individual banks and developing contingency planning, which has provided a great capacity building exercise for local staff.

Within legal, our training program continues to be implemented and substantial progress made in revising the Mining and Special Chamber Laws.

Within the Ministry of Mines and Energy, unfortunately little progress has been made on the largest economic decision the Kosovo Government could make, that being the New Kosovo (Kosovo C) energy project. However, the Minister of Mines and Energy and Finance and Economy both attended the annual Mines and Money Mining conference. A sponsorship breakfast seminar was organized and proved a great success with the attraction of at least 4 exploration companies that are new to Kosovo and determined to visit for initial scoping work.

Continued progress was made in the ERO, to ready the organization for the privatization of the utility with the creation of a model for use by the ERO, showing the effects on retail tariffs of interactions of various changes to collection rates, costs of the utility, reductions in theft etc. The model was presented to USAID as a tool to evaluate possible privatization strategies.

### **CROSS-CUTTING THEMES**

**Anti-Corruption** – Work is continuing of the week long, financial certification course (together with SKAAK), for launch in April 2009. The course will cover accounting, financial and some legal, anti-corruption training.

**Human Capacity Development** – SKAAK course is progressing above. The initial three legal courses were re-run during the quarter to a wider audience including lawyers, businesspersons and law students.

**Gender** – A mid project re-assessment is yet to be scheduled.

**Administrative** – Resident advisors Korab Sediju (legal, President's Office) and Kelvin Powers (Treasury) left the project. Chad Corson returned to Property Tax.

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## **2. Team Reports**

### **Objective 1: Strengthen the ability of three economic institutions, MFE, TAK, and CBAK**

#### ***Objective 1.1: Strengthen the Capacity of the Ministry of Finance***

##### **Economic**

###### Progress Against Work Plan/Successes

The Macroeconomics Policy Department (currently funded by the Project) continues to function very well and has now become a generic part of the Ministry. The major activities through this quarter have been concerned with providing the macroeconomic framework for 2009 Budget and which has involved a substantial updating of the Medium Term Expenditure Framework (MTEF).

On this occasion and for the first time, the Budget Book was developed, produced and presented to the Assembly together with the budget itself. This included all of the essential macroeconomic background, a statement of the Government's main policy priorities and their financing, the medium term projections as well as a general policy issues paper. Support was provided in the production of briefing material for both the Minister of Finance and the Prime Minister.

Work has started on a re-appraisal and possible overhaul of the small macroeconomic model that is being used in the Ministry for projection purposes. A number of representative simulations have been produced in order to inform on such issues: possible effects of the world economic crisis on the economy of Kosovo, including the impact of changes in inflows of remittances.

A substantial amount of effort has gone into developing the 'Brain Fund' (formerly the 'Super Grade') initiative, the intention of which is to attract and place well qualified Kosovars who have scarce skills in key policy related positions across Ministries. A Government decision has been secured to transfer the Macro Policy Department together with the recently established PPP Unit (see below) to the Ministry by the beginning of 2009. The relevant documentation has been prepared.

The Project's Macroeconomic Advisor has:

- Continued to provide economic advice to the Minister and Deputy Minister as appropriate. Further, to help raise the climate of general 'policy awareness' in the Ministry.
- Developed briefing material for the Ministry with respect to possible channels through which the financial crisis and world economic situation more generally might affect Kosovo. Given the absence of any instruments of monetary control in Kosovo, emphasis is placed on the need to monitor liquidity in the banking system, flows of recorded remittances and revenue collections from the borders.

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- Provided support in the development of the policy issues paper that accompanied the Budget for 2009 and which went to the major donors also.
  - Provided support to the Ministry in its deliberation with the IMF Mission Team particularly in relation to the analysis and presentation of Budget policy proposals, the progressing of Kosovo's application for IMF Membership and the development of an EU Fiscal Surveillance Mechanism.
  - Provided a 'backstop' quality control for policy-sensitive outputs from the Macroeconomic Policy Department.

#### Issues/Obstacles

The Budget structure departed from the policy priorities as set out in the MTEF. The most serious element was the decision to increase by 10 per cent, the wages and salaries for all public sector employees. Teachers had already received an increase of 27.0 per cent. The effect was to breach the fiscal rule agreed with the IMF that current public expenditure should not grow by more than 0.5 per cent, expressed in real terms. This, together with certain other elements led to a Letter from the fund to the effect that it could not endorse the Budget for 2009.

Quite apart from the strength of the opinion itself, the importance of this outcome is that other international donors do take the IMF assessment as a formal signal in deciding on the provision of budget support. Indeed, following hard on the heels of this letter, a number of reservations have come to the Ministry of Finance in the form of correspondence with the EU and ICO.

The general view across the international financial organization/donor community is that there is risk that this Budget is placing Kosovo on a path that in fiscal terms may prove to be unsustainable. In other words, very strong measures will be required further down the road.

#### **Budget/Intergovernmental - Municipality Budgets**

##### Progress Against Work Plan/Successes

The Kosovo Consolidated Budget for 2009-11 was approved by the Assembly of Kosovo by the end of the last quarter of 2008. In the context of this being the first budget of this coalition Government and the first without UNMIK oversight, the passing of the Budget before the end of the year is a significant achievement.

The Budget process contained some positive developments, including:

- Comprehensive Budget documentation, representing an update of the MTEF, was transmitted to the Government and Assembly together with the appropriation schedules;
- The budget ceilings and submissions were prepared on a multi-year basis;
- A major revision of the content of the annual Appropriations Law, including elements dealing with allowances, appropriations transfers and clarification of the rule for movement of allocation between capital projects;

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- Municipal Budget Department demonstrated leadership in professional communication with municipal administration during the whole budget process; and
  - Budget development instructions introduced by MFE through Budget Circulars were followed and applied by all Municipalities, including further enhancements with respect to multi-year budgeting and laying foundations for improvements in program performance approach towards budgetary allocations.
  - The finalization of municipal budget was conducted in accordance with decisions issued by the Grants Commission. The last meeting of the Grants Commission took place on October 23, when the final structure of municipal financing and expenditure ceilings were endorsed.

Advisors completed a review of the 2009-11 budget process, seeking to build on the strengths and address the weaknesses observed, including a specific Working Paper regarding the municipal budget process. A specific version of this paper was prepared and delivered to the Minister and will form the basis of pending discussions regarding planning for the 2010 Budget process.

In the area of Status Implementation, there was noticeable progress in the management of budget issues related to the establishment of new municipalities. Project Advisor assisted MFE, MLGA, and ICO in reaching consensus on budget process for these future entities. Joint position was reflected in the 2009 Appropriations Law; while series of field visits conducted in all parent municipalities supported resolution to technical issues in line with Project policy and technical advice.

In close cooperation with the Department's staff Project Advisor concluded work on the 2009 Business Plan for Municipal Budget Department including strategic objectives and performance targets, that would underpin its annual action plan. Through series of internal workshops for Department's staff, Advisor ensured staff ownership and engagement in the preparation of this strategic document. Business Plan was presented and discussed with MFE Permanent Secretary for its endorsement.

Project Advisor provided extensive advice to the Deputy Minister regarding the preparation of a Public Financial Management Action Plan, an important initiative to ensure future donor budget support, drive the agenda for the Government and assist in coordinating donors in providing future technical assistance on PFM. By the end of the Quarter the Government had appointed a Steering Committee and Secretariat to oversee and complete the action plan, sought the engagement of Budget Organizations through the appointment of a Working Group and a held meeting held with donors to present the project.

Project Advisor conducted training for the Steering Committee, Secretariat and Working Group on the PEFA PFM Assessment methodology, on the basis that the conduct of a PEFA self-assessment is the intended first step in preparing the PFM Action Plan.

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Project Advisor cooperated with other main stakeholders in the area of local governance: (i) provided input and comments to the EU-funded Support to Local Government Project on selected aspects of Municipal Public Finance Manual sponsored by the Project; (ii) provided consultation and advice to the OSCE-sponsored project on the development of appropriate performance measuring mechanism substituting former Fair Share Financing and ensuring that municipalities account for minority communities while implementing their competencies; (iii) assisted in preparing MFE input to the OSCE-sponsored conference for the representatives of minority communities in Kosovo – MFE presented and discussed legal framework and operational systems for municipal finances, with particular focus on provisions and arrangements for minorities and financial assistance from the Republic of Serbia; (iv) contributed to the development of training program in Public Finance Management; (v) continued regular cooperation with the PEMTAG project on designing Payment for Performance mechanism in primary health.

#### Issues/Obstacles

Despite the Budget Department conducting the Budget process in an orderly manner and advancing the reforms outlined above, finalizing the Budget posed some significant challenges. These challenges included a very large budget submission from KEK, much of which needed to be accommodated in order to enable future private sector participation in the sector and weaknesses in the fiscal policy setting capacity of the Government.

As a result, project advisors were required to undertake interventions in the process outside of the normal interaction with counterparts.

These weaknesses in fiscal policy setting by the Government were identified by the IMF, who issued a letter saying that they could not endorse the budget. The potential risk to the 2009-11 Budget from failure to proceed with private sector involvement in the energy sector is significant and this is one area where the Government needs to make clear decisions.

Determination of the 2009 municipal financing from government grants, in broad terms, complied with new arrangements established by the LLGF. However, final grants allocation criteria were altered at the latest stage of the budget process to accommodate implications of the Central Government policies rather than to respect objective and transparent distribution principles; information on final municipal financing was determined and communicated to Municipalities with significant delays, and MFE breached several statutorily required budget process deadlines.

In effect, the Municipal budget process, established by law in the legislative framework, was made subject to Central Government priorities and timetable. This can be viewed as one of the most important shortcomings of the 2009 municipal budget process, which undermined the credibility and reliability of municipal financing from the Central Government. A serious weakness of the 2009 Municipal Budget process was that the dissemination of budget instructions by MFE did not respect the budget development timetable; consequently Municipalities, including Municipal Assemblies, were not allowed sufficient time and authority to effectively conduct own internal budget development procedures.

Despite advice and solutions offered by Project Advisor to MFE during the past year, the Grants Commission Secretariat has not been organized and fully institutionalized

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yet, while the Grants Commission website has not been set. This represents a breach of the LLGF and demonstrates serious weaknesses in MFE management and operations.

## **Treasury**

### **Progress Against Work Plan/Successes**

Continued focus on the rationalization of Treasury Single Account (TSA) Revenue Sub Accounts and the associated revenue recording and Revenue reconciliations processes in the Main Bank account. This activity has now delivered sound results with a dramatic reduction in the number of revenue related reconciliation items being recorded in the Main Bank account. It has also been possible to reduce by approximately 20 the number of revenue sub accounts by rationalizing revenue classification activities. This will result in considerable costs savings on bank charges and also the effort required in reconciling bank accounts. It also contributes to more accurate revenue classification and timely recording in KFMIS.

The TSA project has uncovered a number of instances of noncompliance with the administrative Instruction for its universal and mandatory application. Consequently considerable effort has been expended to improve the take-up rate of UNIREF in a number of Budget Organizations. The most significant non compliance coming from Property Tax which continues to issue bills which do not fully comply with the UNIREF requirements. Most municipalities are now operating effectively with UNIREF and the problems with scanning the UNIREF invoices have been reduced to manageable levels.

Regular reports are now generated to monitor the performance of the banks in terms of the accuracy of UNIREF transactions. These reports are the subject of discussions with the commercial banks on a regular basis and designed to improve the accuracy levels of UNIREF transactions. The use of UNIREF by all Budget Organizations is mandatory and the commercial banks will be instructed to accept only appropriately bar coded invoices from 1 January, 2009.

Financial statements for the quarter ended 30 September have been prepared and the Minister briefed.

A paper outlining the scope, application and implications of the introduction of a government credit card has been prepared and is subject to internal review. It is proposed that initially the credit card would be deployed for use by high value and high frequency travelers on government business and the government staff in overseas legations. Discussions have commenced with commercial banks as a prelude to a procurement process for bank credit card facilities.

A number of embassies have been opened and Treasury is working with MFA to provide accounting and banking arrangements to support the operations of those embassies. Travel advances have been made as an interim measure, longer term arrangements will include imprest bank accounts and credit card facilities to cover local operating expenses and travel costs of embassy staff. It is anticipated that those arrangements can be part of the procurement process for the wiser government credit card provisioning.

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Treasury staff are working with SCAAK to develop a financial training course targeted at Budget Organization finance and accounting staff. The five day course is on track for completion early 2009. The course is being designed to improve Budget Organization staff's understanding of the public sector financial management arrangements and established Treasury manual, policies and procedures.

The development of a financial statements training course for Budget Organizations is under way. This training will be delivered to all Budget Organizations as a prelude to the preparation of their financial statements. It will be delivery in early January 2009.

The pilot stage of the decentralization of expenditure to Municipalities has concluded.

Treasury experienced a very large volume of expenditure transaction in December, reflecting the fact that there will be zero "carry-forward" of unexpended commitments from 2008 to 2009 and a general desire by the Government to improve the execution rate. This posed some challenges for Treasury regional offices in performing their role with no additional resources.

A number of administrative instructions have been prepared and released dealing with the end of year accounting processes, financial statement preparation and the opening of the 2009 accounting record. Treasury conducted a seminar with all Budget Organizations on the opening of the accounts for 2009.

#### Issues/Obstacles

The development of a new organization structure with four supporting deputy directors has been completed and agreed by both the Minister and his deputy and has been formally approved. Recruitment process for 3 of the 4 deputy director positions has taken place but is currently stalled awaiting comment from the Minister. There is some uncertainty about whether the appointments will proceed as recommended by the selection panel. The successful recruitment will signal the need to develop a succession plan, along with staff assessment processes and staff training and development plans.

The Director of Treasury continues to express dissatisfaction with continuing in his position and is actively seeking other positions

#### Upcoming events / milestones:

- Decentralization of payments and associated changes (on hold).
- Audit of the 2007 FS, still delayed by Audit strike.
- Introduction of a new organization for Treasury
- Recruitment for suitably qualified staff, super salary rollout.
- Credit card introduction scope, plan and procurement action.
- Banking and accounting arrangements for embassies.
- Financial statements for 2008
- SCAAK training for Budget Organizations
- Treasury financial statements training for Budget Organizations

#### **Property Tax**

During the fourth quarter, municipalities continued the trend of strong revenue growth that has defined 2008 as a watershed year in achieving a new standard in operational efficiency. Though the final revenue statistics have not been determined at the time of this writing, it is estimated that over €3.3 million will have been collected between October and December 2008.

Tables 1 and 2 show property tax revenue on a monthly basis during the fourth quarter and throughout 2008. The figures for December are estimated based on collection statistics available as of December 19.

**Table 1: Property Tax Revenue During 4Q2008**

	Oct	Nov	Dec (Proj)	TOTAL (Proj)
<b>Monthly Property Tax Revenue</b>	€ 987,862	€ 863,807	€ 1,500,000	€ 3,351,669
<b>% Increase from 2007</b>	+ 96%	+ 62%	+ 31%	+ 49%

**Table 2: Property Tax Revenue During 2008**

	1Q2008	2Q2008	3Q2008	4Q2008 (Proj)	TOTAL (Proj)
<b>Annual Property Tax Revenue</b>	€1,376,247	€3,750,689	€3,996,604	€3,351,669	€12,475,208
<b>% Increase from 2007</b>	- 16%	+ 86%	+ 64%	+54%	+ 51%

Once the final, reconciled figures are released, they will show that approximately 80% of the total property tax levy of €15,698,343 was collected during 2008. This is a substantial improvement over the total collection rate during 2007 of 56% and exceeds the municipalities' target of a 70% collection rate.

As discussed in the previous quarterly report, the significant increase in collections is the result of two major initiatives to improve the efficiency of property tax administration: the outsourcing of bill production and delivery to PTK and stringent enforcement by the municipalities to deny services to delinquent taxpayers. To build on these gains, a second round of bills were produced and delivered in November to the approximately 230,000 taxpayers who had not yet paid their property tax in full. With the second installment due on December 31, there should be an increase in collections that will carry through January 2009.

The Project's property tax advisor returned to Kosovo on November 26 to help manage the development and implementation of a new software solution for municipal property tax administration. The advisor is also responsible for planning a complete resurvey of all real estate in Kosovo using several survey firms registered with the Kosovo Cadastre Agency. A draft of the tender document will be circulated for review in January 2009. The advisor is providing substantive input on the design of the new IT system under development and has reviewed all system requirements and use cases to ensure the system properly calculates tax assessments, penalties and interest and registers payments and properties correctly. The first version will go-live on March 1, 2009, with subsequent versions to incorporate additional functionality and data exchange with other systems such as Treasury and Cadastre.

***Objective 1.2: Strengthen the Capacity of TAK***

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## Progress Against Work Plan/Successes

Advisory activity in the tax administration continued to increase capacities. One of the primary capacity building activities during the quarter was a one-week study tour to Belgium organized by Project Advisors. Unlike previous study tours, the tax administration was able to fund its staff members. One of the primary purposes of the study tour was to see how taxpayer registration works in a modern tax administration and the importance of that function in terms of subsequent monitoring of taxpayer compliance. In addition, the Belgian tax administration provided a program that included audit risk assessment, implementation of fiscal cash registers, and the use of the IT system to support the compliance activities. A particular emphasis during the program was VAT administration, demonstrating the timely input of VAT declarations, the immediate follow-up of non-filers and under-payers. Tax administration officials that participated in the tour stated that it was one of the best study tours they have ever had and one of the most meaningful as it addressed issues that are of immediate concern to the tax administration.

During the week of October 20, a vendor of software for cash registers, in conjunction with a hardware vendor, assisted TAK in beginning a pilot program for fiscal cash registers. Beginning on 1 November, ten businesses began transmitting cash register data to the tax administration. This pilot program is scheduled to last for approximately six months during which TAK will draft specifications and technical requirements for issuing a tender for the software that will allow implementation of a nation-wide fiscal cash register installation program. The current vendor has provided the software without charge or commitment. The data is transmitted using a GSM modem and the two mobile operators in Kosovo contributed the SIM chips necessary for transmission. A second software and hardware vendor has made a presentation to TAK and will probably be included in the pilot program in order to give TAK a basis for comparison of products and enhance the transparency of the ultimate tender process. Project Advisors have assisted TAK in setting up the pilot program and gathering information on other countries involved in implementing fiscal cash registers. Based on the study tour advisors have recommended to the Minister that he request the assistance of the Belgian delegate to the EU working group on fiscal registers in the review of the specifications and technical requirements that will be drafted to ensure they are in line with EU expectations and requirements. A letter for the Minister to that effect has been drafted and approved. Implementation of fiscal cash registers, along with other pending and in progress actions, will improve the ability of the tax administration to administer VAT and other taxes.

The Law on Tax Administration and Procedures was approved by the Assembly in early December. As of the end of the quarter, the law had not yet been submitted to the President for promulgation, but submission and promulgation are expected in January 2009. This law is an important feature in the ability of the tax administration to expand the tax base and improve its compliance effectiveness. Among other items this law authorizes the tax administration to issue fiscal numbers. Project advisors have finalized a process chart and procedural document for issuance of fiscal numbers and VAT Certificates. A TACTA advisor has also participated in this drafting. This document will provide the basis for preparation of a sub-legal act, which is necessary for implementing the issuance of fiscal numbers. A timeline has been established for completion of necessary documents with a goal of issuing the sub-legal act to be effective on 1 March 2009. Project advisors have also begun

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drafting a sub-legal act for implementation of the new provisions related to enforced collection.

During the quarter the Government Decision for penalty relief, scheduled to end 31 December 2008, was fully implemented. Project Advisors assisted in clarifying procedures for regional offices. Through 11 December 1,150 taxpayers have entered into qualifying agreements and another 314 have made full payment of their tax debts. To date a total of €6.5 Million has been collected as a result of this decision and another €11.1 million is scheduled to be paid via the agreements currently in force. This initiative is considered to be a success, in addition to the fact that it has energized the enforced collection staff, which has engaged in an unprecedented number of enforced collection actions. Included in the penalty relief decision was an opportunity for budget organizations of Kosovo to clear their tax debts. This effort has taken longer than expected and advisors have drafted a Government Decision to extend the period for budget organizations to clear their debts until 31 January 2009. Relief granted to budget organizations will apply to both penalty and interest.

### ***Objective 1.3: Central Banking Authority of Kosovo (CBAK)***

#### Progress Against Work Plan/Successes

During most of the quarter, the CBAK's focus was on the global financial crisis and its effect on the local financial sector. The commercial banks and insurance companies were relatively isolated from the direct consequences of the initial financial sector problems; however, there are concerns that the financial sector will be negatively impacted as the crisis deepens in North America and Europe. The commercial banks and the CBAK are anticipating the banks' financial condition to weaken as Diaspora remittances decline as they have done in the region.

At the end of the third quarter of this year, the banking system was in a reasonably sound financial condition. With total banking assets at €1.7 billion, the banks reported an aggregate total capital to risk-weighted assets ratio of 17.0% (minimum regulatory capital requirement is 12%), liquid assets to total assets of 30.7% and a cumulative return on total assets of 2.6%. In other words, the banks are well capitalized, adequately liquid and have sufficient earnings.

While the financial indicators are satisfactory, annualized loan growth at the banks continued to be excessive at 35% to 40% and on-site examinations have indicated several banks do not have an adequate management infrastructure (such as proper policies, procedures and management reporting systems) in place to ensure their financial condition will continue to remain healthy during an economic downturn.

To minimize the impact of the global decline on the local banking system and overall economy, Project advisors have been encouraging the CBAK to increase their communications with the banks and to be more proactive in managing the situation. As a result, the CBAK has established a Crisis Committee to review and analyze events and ensure an organized and thoughtful response is prepared to any problem that may arise. The CBAK has conducted several meetings with banks to discuss various topics, including: exposures and foreign placements; liquidity contingency plans; establishing a crisis management committee; and excessive loan growth. In addition, the Bank Supervision Department will be conducting target examinations

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on numerous areas, including: cash counts and reconciliations; loan originations; and loan documentation standards. Finally, the CBAK is requiring additional regulatory reporting on deposits and other key financial data.

The CBAK has been encouraged to increase communication and establish formal supervisory agreements with home supervisory authorities of the international banks operating in Kosovo. The CBAK staff has recently attended supervisory “colleges” in Slovenia and Austria which provided roundtable discussions on regulating NLB and Raiffeisen Banks. The CBAK is also in negotiations to establish cross-border regulatory agreements with Austrian and German regulatory authorities. Agreements have been already been established with Slovenia, Albania and Turkey.

Progress continues with strengthening the on-site supervisory function. During the quarter, the on-site supervision team completed the examination of a large international bank operating in Kosovo. The overall financial condition of the bank is satisfactory; however, several potential weaknesses were noted in the bank’s risk management assessment. The project is working with the on-site supervision team to ensure the bank adequately addresses these concerns to avoid future potential deterioration in the bank’s condition.

The Project conducted training and provided background information on how to assess and analyze liquidity risk management and interest rate risk to the off-site supervision staff. The staff came to the Project requesting assistance and guidance on how to properly review these two areas during the monthly off-site analysis. The training material focused on risk management techniques and practices.

It is now estimated that the deposit insurance legislation will go before parliament for their review and approval no earlier than the end of the second quarter of 2009. KfW has indicated that their startup funds will still be available at that time (originally, the funds availability would have expired at year end 2008). KfW also estimates additional seed money will be needed for the Deposit Insurance Agency of Kosovo (DIAK). Initially, KfW determined that €7 million would be needed to establish the fund. Now, two years later and with the banking system experiencing 30% annual deposit growth, KfW is updating its financial model and is anticipating that additional funding will be needed. KfW will be looking for a partner donor agency to provide the additional money.

The project continues to assist with the final resolution of the problem bank that was closed over two years ago. There were discussions to use the PTK deposits at that bank to establish Post Bank or similar government owned bank, the CBAK Governor has stated that the CBAK would not support these efforts and is researching an alternate solution.

## **Objective 2: Stimulate Trade and Investment through Modern and Well-Implemented Commercial Laws**

### **Commercial Law**

#### Progress Against Work Plan/Successes

The legal team continued to implement its fundamental task of improving the capacity of Kosovo’s judicial and legal communities to implement the fundamental economic and commercial laws of Kosovo’s new legislative framework. During the

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past quarter, all Work Plan objectives in the area of commercial law training were met. The courses on the laws of Arbitration, Business Organizations and Trademarks (which were initially delivered to judges during the second quarter and then revised in the third quarter to take account of the judges comments) were redelivered to lawyers, businesspersons and law students at, respectively, the Chamber of Advocates, Kosovo Chamber of Commerce and University of Pristina.

Preparation of the next four courses and reference guidebooks (on Bankruptcy, Foreign Direct Investment, Copyrights, and Secured Transactions) continued during the fourth quarter. These four courses will be delivered at the KJI from March through June, 2009, and then redelivered in the second half of 2009 at the Chamber of Advocates, the Kosovo Chamber of Commerce and the University of Pristina during the fourth quarter of 2008.

By the middle of 2010, the commercial law training program will have covered a total of 11 core commercial law topics. The program has been designed in accordance with the USAID task order to ensure that judges and lawyers have an in depth understanding of these new pieces of economic/commercial legislation and the policies underpinning each.

The legal team continued to work with the Kosovo Judicial Institute ("KJI") in its efforts to institutionalize the referenced training courses and the training methodology developed by the project for their delivery. The team continued to assist the KJI with the development of its train-the-trainers program. This program teaches local law trainers to utilize the training methodology to prepare and deliver training courses and materials not only on the referenced legislation, but on other legal subject matter as well.

The Project legal advisors continued to assist with the development of a modern legislative framework governing commercial, economic and public administration matters. In particular, the advisors continued to provide key assistance in the preparation of a new draft of the Law on Mines and Minerals, a new draft Law on the Special Chamber, and a new draft Law on the Reorganization of SOE's, and a new draft Law on Expropriation. The resolution of fundamental policy issues has delayed the progress of these laws. Both the ICO and EULEX have taken a serious interest in reviewing and providing comments to all but the draft Law on Mines and Minerals, which itself has been the subject of fundamental policy disagreements between MEM and outside advisors. It is now expected that the first three pieces of legislation, which will replace three current UNMIK regulations, will be approved by the Government and submitted to the Assembly in the first quarter of 2009. The draft Law on Expropriation is an Assembly initiative and is currently being worked on by the Assembly Trade and Industry Committee with substantial assistance from the project.

In addition to the above, during the fourth quarter the legal team continued to provide legislative/legal assistance, as and when needed, in a number of other areas to other project advisors, the Government and the Assembly. In particular, the legal team assisted MFE with issues arising in connection with the implementation of the POE law, the proposed privatization of KEK's distribution and supply division, the lawful manner in which the Government can cause PTK to declare a dividend of its excess retained earnings. The legal team also assisted the Assembly with technical drafting advice on a number of pieces of legislation and regularly provided USAID and the Embassy with legislative monitoring information.

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## **Objective 3: Privatize or Commercialize POEs**

### **Mining**

#### Progress Against Work Plan/Successes

The Project advisor is working towards ensuring that the Government moves forward with a sustainable strategy in a difficult economic period for the industry. Over this period several major pitfalls have been narrowly averted, including a potentially catastrophic increase in royalties, one that would have frightened away exploration companies and would almost certainly have led to the closure of Ferronikeli with the loss of 1000 direct jobs, along with exports of circa 120 million Euros. Other potential areas for industry damage are still in the pipeline including the new draft of Law on Mines and Minerals, which – if it is made to incorporate certain current policy positions of MEM - will create a law that is less than ideal.

The specific goals in support of the mining sector, and the achievements with respect to each in the fourth quarter, are:

1. The establishment of functional and sustainable institutions, and a supportive environment for development of mining sector. The Minister now accepts and works closely with the ICMM, an achievement that is key to ensuring the regulation of the industry is effective and subject to good checks and balances. Testament to this has been the creation of the zones of special interest in conjunction with ICMM, which effectively ensures that those areas where Kosovo has undertaken significant work in the past, would be subject to tender to ensure that Kosovo maximizes its return on these past investments. These areas became the major subject of the presentation to the Mines and Money conference in London.
2. Attract investment to the mining sector. Probably the key advance in this area was the persuasion of the Minister that taking part in the Mines and Money conference as a gold sponsor would be important and beneficial to Kosovo, and so it proved to be. The advisor convinced the conference organizers to provide a Breakfast seminar as a platform for Kosovo to present its approach post independence, as well as special meeting rooms, a well positioned booth, 10 seats at the conference presentational dinner, high profile advertising and brand placements. The advisor assisted in the preparations including the writing of the Ministers speech (which she delivered in English), the creation and writing of the key presentational materials, and assisted in the answering of audience questions in the more complex areas. The Advisor ensured that all potentially interested parties turned up to the breakfast presentations. The conference, from Kosovos viewpoint was a great success with a full venue for the presentations which were well received. Despite the parlous state of the mining economy, at least 4 exploration companies, new to Kosovos potential, determined to visit Kosovo for initial scoping work.
3. Progress in the area of the Trepca assets preparation for reorganization has been limited. Currently, the first of the four step plan has been developed and has garnered broad support from all of the stakeholders including the Prime Ministers office. This part of the plan envisages significant legislative

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changes to the mining law, the special chamber law, and the reorganization law, and all these changes have been drafted. However, secondary agendas are slowing the finalization of the new draft Law on Mines and Minerals, and the intervention by EULEX and the ICO in the drafting of the other two laws have delayed their finalization.

4. Kosovo's mining industry will be financially sustainable and will contribute to the overall development of the country, in compliance with all environmental norms and being accountable to future generations, based on the principles of sustainable development. We have been deeply involved with the working group reviewing a new Administrative Direction detailing the royalties' processes and a new schedule of royalties. However, probably the major disaster so far averted is the closure of the Ferronikeli smelting operations with the loss of 1000 jobs (and an estimated 2000 indirect jobs). While it cannot be guaranteed that this situation is sustainable in the mid to longer term, the closure of such a plant is a complex and expensive task. Reopening is equally complex, and anything that Kosovo can do to ensure that the mining industry can continue to operate in these difficult economic times is important.

#### Issues/Obstacles

The proposed changes that have been inserted into the Project's draft of the new Law on Mines and Minerals by local experts at MEM are a serious cause for concern. While most of the changes are of a minor nature, the key problem occurs where the ministry is envisaging the splitting of the mines inspectorate from the ICMM. This envisaged split is certainly counterproductive since the ICMM needs to ensure compliance with licensing and needs an inspectorate in order to fulfill its obligations. This seems to be yet another attempt to effectively bring the ICMM into the MEM, and could be an effective politicization of the independence of the licensing and oversight body. While it is notable that in many parts of the world, the regulatory body is part of the ministry of mining, it should be noted that there are no examples of the inspectorate being separated from the regulatory body. Clearly, in a less politically charged environment, bringing the inspectorate and the ministry together might be acceptable, however, the checks and balances inherent in maintaining an independent regulator and its anti corruption effect are considered highly desirable at present.

The Trepca reorganization plan is still in the early days of acceptance by the Government. The retirement of the head of Trepca South due to age has created an opportunity for an appointment of a highly politicized nature and this has come to pass with the appointment of an individual with very limited mining experience. Currently we know little about the new head of Trepca South and whether we will be able to work effectively with this new individual.

#### **Public Private Partnerships / Airport Concession**

##### Progress Against Work Plan/Successes

The multi-sector Public-Private-Partnerships (PPP) program continued to demonstrate significant progress in the fourth quarter of 2008. As the enabling

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framework continues towards full consolidation, there is a growing emphasis on transaction implementation.

Building upon the Government's declaration of Public-Private-Partnerships as a national "policy priority" (Government Decision 11/25), line ministries began to work with the Ministry of Finance and Economy's centralized PPP Unit to identify candidate projects for the PPP project pipeline. The project pipeline is a critical component of Kosovo's PPP program and should allow for better coordination of PPP initiatives across multiple sectors. The PPP Pipeline document is also being used to find funding sources for individual projects that require external assistance (e.g., transaction advisors, feasibility studies, etc.). At present, the PPP project pipeline identifies 15 projects which are likely candidates for implementation via some form of Public-Private-Partnership.

The Pristina International Airport PPP also made significant headway. After the international publication of a tender announcement, the procurement process to select a duly qualified transaction advisor for the Pristina International Airport PPP was completed. Seven internationally renowned companies and/or consortia of companies participated in the procedure, evidencing a growing interest in doing business in Kosovo. The selection process was completed by the Evaluation Committee in early December and at the close of 2008, the Inter-ministerial Project Steering Committee was analyzing the Evaluation Committee's recommendations to determine how to proceed. It is expected that the contract with the selected bidder will be signed in January 2009, at which point the airport PPP feasibility study will begin.

Activities relating to the Pristina International Airport PPP, including project implementation structures and the procurement to hire a transaction advisor, have also been converted into "standardized best practices" and utilized in other projects, such as the KEK Distribution Company privatization, the PTK privatization, and the Zhur Hydro power plant feasibility study. The use of these standardized documents is facilitating progress across multiple sectors.

The draft PPP law suffered some delays as a result of a backlog in the Budget Committee of the Assembly. This framework piece of legislation, which is of critical importance to the PPP initiative, was approved in principle on first reading in the third quarter of 2008; however, it still remained in committee at the end of 2008. It is expected that the law will be approved during the first quarter of 2009.

Institutionally, the PPP Unit in the Ministry of Finance continued making strides towards its full consolidation with the staffing of the majority of the key positions. Although there is still a need to identify and recruit some key personnel, the Unit is now operating as a fully functioning entity. The fourth quarter of 2008 saw significant emphasis on the training of PPP Unit personnel, including specialized training in financial modeling, PPP best practices, risk mitigation, and project finance.

Capacity-building also continued during the fourth quarter of 2008, with training being imparted to government personnel on many topics, including PPP, project management, recruiting for project implementation units, etc. Training was also provided to US military personnel, in an effort to better inform them about project finance options for community needs.

Other Activities Not Included in Work Plan

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Building on its reputation for competence and effectiveness, the PPP Unit has increasingly been pulled into supporting other government priority projects. Examples include cross-ministerial training in project management, as well as the PPP Unit's leadership role in the Civil Aviation Transition Team (established to ensure the timely transition of functions from UNMIK to the Kosovo Civil Aviation Authority, as foreseen in Kosovo's new Civil Aviation Law). The PPP Unit has also been requested to advise, support, and (at times) manage a variety of government priority projects which may or may not include Public-Private-Partnerships. Examples include assistance to the Ministry of Transport in reviewing the Route 7 implementation structure, support to the Privatization Committee for the KEK distribution company privatization, creation of an implementation strategy for the possible privatization of all or part of PTK, etc.

Likewise, the PPP unit has been lending continued support to the Ministry of Finance with regard to the drafting and revision of loan agreements to KEK.

#### Issues/Obstacles

Questions regarding the funding of PPP Unit salaries after January 1, 2009 continue to be a major concern. Given the need to staff the Unit with highly qualified professionals, the uncertainty over future funding of salaries is creating some tension. This issue is expected to be resolved with the approval of Super-Grade Salaries for PPP personnel.

Taking advantage of delays in the approval of the PPP law, a number of line ministries appear to be taking actions aimed exclusively at circumventing the controls set forth in the draft PPP law. These efforts could be devastating to the economy and place the entire PPP program at risk. The seriousness of this situation should not be underestimated.

There is likewise continued concern about PPP Unit is being pulled in too many directions. With the passage of the PPP law and the establishment of the PPP-ISC, it is hoped that a more coherent PPP program will be developed which will allow the PPP Unit better prioritize these requests.

Finally, in order to ensure that the PPP program is sustainable and achieves its economic and social objectives, it is imperative that all components of PPP transactions be implemented with absolute transparency. There is significant concern about alleged efforts to unduly influence procurement processes relating to PPP (including the selection of key advisors for transactions).

### **Objective 4: Assist Kosovo's Energy Sector to Become More Efficient, Transparent, and Modern**

#### **Ministry of Mines and Energy**

##### Progress Against the Work Plan

During this quarter Project advisors continued their support to the Ministry of Energy and Mining (MEM), the Privatization Committee (PC) for KEK Distribution and Supply,

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the POE Unit of the MFE, and the LPTAP (New Kosovo) Project Steering Committee (PSC) and Project Office (PO). The Advisors comprehensively reviewed and analyzed the draft Working Framework Document (WFD) for New Kosovo and related presentations and documents and provided feedback and recommendations for optimizing the transaction, with a priority on meeting Kosovo's electricity needs. The development of legislation together with the review and critique of legislation being drafted in other quarters for, or potentially impacting, the energy sector continued to be a significant focus.

The Project's advisors continued their active coordination with KEK's USAID-sponsored advisors during this period, emphasizing the need for KEK unbundling, specifically with respect to: the urgent need to complete the accounting unbundling by December 2008 and the legal unbundling of distribution and supply from the rest of KEK by March 2009, and the need for the 2009 tariff filing to be submitted strictly according to ERO requirements as soon as possible.

The privatization of KEK distribution and supply was significantly advanced, including passage of the required government decisions, establishment of the Privatization Committee, launching of the tender for the Transaction Advisor (TA), preparation of the complete tender dossier for the TA, establishment of the TA Evaluation Committee, and preparation of a comprehensive presentation package for the Privatization Committee for the Kosovo Assembly. A major success here was the Assembly's adoption, in December, of a resolution approving the Government's decision to privatize KEK's distribution and supply division. The Project's advisors also supported and participated in the USAID/USEA Privatization Workshop.

The team also worked with the Director of the Legal Office of MEM to build capacity on EC Directives and Kosovo's obligations in respect of those Directives and the Energy Community pursuing those goals. The Advisors submitted extensive suggestions to MEM on the new draft Energy Strategy, focusing on New Kosovo and KEK Distribution and Supply privatization and related issues. Furthermore, the Advisors prepared input for the MTEF and 2009 Budget Book and the Energy Paper for the IMF and EU.

The Advisors worked closely with USAID and the KEK advisors on the development of the required critical activities for the energy sector, opening the lignite mines, KEK distribution privatization, and New Kosovo. This included extensive meetings with USAID, the KEK advisors, the US Embassy, the Office of the Prime Minister, MFE, MEM, and others.

Specific activities during the quarter included:

- Provided comprehensive review, analysis and concrete recommendations of the New Kosovo draft Working Framework Document, including goals, terms, conditions, etc;
- Worked with KEK, including the Djakove District office, and with KEK's Technical Assistance Advisors to ascertain the magnitude of any legal and record documentation gaps in establishing ownership of easements and rights-of-way for the passage of transmission and distribution lines over property of others and for the maintenance of existing lines and establishing of new rights of way for expansion of the system;

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- Working with MEM's Legal Department, the Project's legal team drafted a new set of amendments to the Law on the Energy Regulator that would split the "Authorization" and "Tendering" functions for new energy infrastructure, with the former continuing to reside with the Energy Regulatory Office and the latter function being assigned to an inter-ministerial tendering committee under the chairmanship of the Minister of Energy and Mining. The draft amendments require the tendering process to be conducted in conformity with the process established by the new Public-Private Partnership Law;
  - Developed, in response to a request from MEM, a legal analysis of the ownership and responsibilities for the disposal of fly-ash from the KEK generation facilities. MEM had been approached by various private entities exploring the possibilities of acquiring such fly-ash and using it for the manufacture of building construction materials. The analysis was delivered to MEM in the form of a memo identifying the distinctions in the respective roles of MEM and KEK toward dealing with such material and the responsibilities of KEK to maximize the potential value of such fly-ash in any transactions to dispose of this resource;
  - Continued to follow MEM's development of a revised Strategy for the Energy Sector for Kosovo, including assisting the Legal Department and in providing extensive suggestions to the Minister in areas relating to KEK distribution and supply privatization and New Kosovo;
  - Began a review of the legal authority of the Ministry of Energy and Mining to adopt certain rules and regulations relating to biofuels with a goal toward meeting EU guidelines of substituting a targeted percentage of biofuels use for traditional motor fuels;
  - Worked with the Energy Efficiency Group of MEM to assist them in preparing a submission to the Energy Efficiency Task Force of the Energy Community (Athens Process) for reporting upon the progress of Kosovo in meeting the EU Directives on energy efficiency through the development and adoption of laws and implementing rules and regulations. This is a nascent process for Kosovo and much legislative drafting will ultimately be required to properly bring Kosovo's effort to achieve the targeted EU end use savings; and

#### Issues/Obstacles

The MEM Legal Department has consisted over the past 12 months of the Director and two junior assistants. During this Quarter the Director moved to a new position providing in-house legal assistance for the Project Office of LPTAP/New Kosovo. Although in the short run, this has left the Legal Department of MEM in the hands of the two junior lawyers, a new Director has been hired and will come on board in the early part of next year. Nonetheless, the new Director does not have much experience in the Energy Sector and will likely be in for a lengthy process of becoming familiar with the issues and laws of the Sector. A considerable amount of legislation and regulation has to be drafted or amended, and then shepherded through the Assembly for the New Kosovo project, KEK operations and privatization, the ERO, and the energy sector in general in response to Kosovo's obligations under the Energy Community and its track toward EU Membership.

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The Working Framework Document (WFD) for the New Kosovo project that went to the four short-listed consortia was not sufficiently concrete, specific or detailed as to either represent the needs and goals of Kosovo in the transaction or to give the bidding consortia something to concretely review, analyze and provide feedback on. The PSC was not provided with a risk/options analysis for the transaction in order to be in a position to make informed decisions. Considerable delay has resulted. In its current state, the WFD does not adequately represent or specify the priority goals of Kosovo, including the provision of electricity during the long interim period until the new generation units come on line. The WFD will need considerable revision and fleshing out in order to serve as the template/term sheet for advancing the transaction to the RFP stage.

For KEK Distribution and Supply Privatization, it's imperative that the financial and legal unbundling be completed and that the 2009 Tariff Application be filed as soon as possible and according to ERO requirements (including on unbundled financial accounts).

### **Energy Regulatory Office**

#### **Progress Against Work Plan/Success**

The role of the ERO in the two principal energy sector tenders has become more prominent in the last quarter, that of New Kosovo Power Plant (NK PP) and KEK Distribution and Supply, and is expected to remain that way through the completion of both processes. As to the NK PP, a critical event in the period was the discussion of a draft "Working Framework Document", specifying terms of the tender. The ERO consulted closely with the advisor, receiving detailed written and oral comments and discussion, following which the ERO expressed (also both orally at meetings of the PSC, and in writing to the PSC Project Office) strong views to assure the process remained transparent, and to seek to assure that bid criteria reflect interests of Kosovo (such as to secure a greatest amount of reliable electrical energy at least reasonable cost to Kosovo).

As to Privatization of KEK D&S, the ERO has sought advice from the advisor on several matters. First, as there is increased interest by potential Donors in offering support to ERO for various actions the ERO must take in the privatization process, the ERO consulted with the advisor to assess the status of preparations and if any critical matters are uncovered by previous preparations or existing contracted advisors. As a result, the advisor provided to USAID a detailed assessment of that status, with supporting references, noting that most of the key documents that often need to be revised, or created initially, for a privatization, have already been completed by ERO, or, especially as relate to clarifications of tariff methods, are in the terms of reference of advisors to the ERO with which the EC has signed a contract in November. Using that assessment, the advisor also assisted ERO to prepare for and present an overview of that status to the USEA Workshop on KEK Privatization on November 10, 2008.

Second, ERO is aware that despite the good status of preparations, many specific issues may still arise. Thus, the advisor has begun assessing status from that view, and has provided to ERO several notes, identifying matters that may need deeper review. To assist in such assessments, the advisor has created a version of "unbundled" KEK accounts, starting from the formats and data used by ERO in the actual tariff computations. To identify issues, these were compared to the version of

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unbundled accounts created by KEK. The advisor has also created a model to estimate the impact on tariffs of combined effects of increased collections, changes in costs for D&S and separately, changes in costs of generation and purchased power. These devices will be used regularly to continue to identify issues, to call to attention of ERO. ERO in turn is using those notes to identify specific tasks for itself, specific tasks for their EC supported advisor, and conceptually new issues that need to be discussed. Also, the resident advisor is drafting a detailed mark-up of the ERO retail tariff methodology document, identifying issues that may arise in the privatization process, and expects to deliver that to ERO early in the first quarter of 2009.

A prominent example of that last is the concept of adjustable pricing for the cost of generation and purchased power, from the remainder of the D&S tariffs to retail consumers. The combination of separation of KEK D&S from Generation and Mining, together with recognition that creation of the NK PP will likely have a supply contract to KEK D&S, plus realization of the recent high instability in energy prices, has led ERO to begin to consider "energy cost adjustment clauses" for the energy portion of retail rates; such devices can more closely track changes in energy costs, and reduce the risk on the operating D&S utility. Thus the ERO has sought (and received) information from the advisor on such devices.

As part of preparing ERO for privatization of KEK, the resident advisor created a Excel model showing the effects on retail tariffs of interactions of: increase collection rates; changes in KEK costs; changes in generation costs/kwh; new investments in KEK rate base; rate of return and tax rates on earnings; growth rates in demand; conversions of theft to paid sales; and possible tariff increases. The model was presented to USAID as a tool to evaluate possible privatization strategies. The model was also presented to, and delivered to, ERO. The model was well received in both bodies. The ERO is now actively using that model to assess possible privatization pricing strategies. The resident advisor has also completed a first draft of a similar model for assessing many factors affecting average total cost of generation, and expects to present that to USAID, and deliver the working model to ERO, early in the first quarter of 2009.

As the SEE market has continued to develop, the ERO has had to evaluate a number of complex documents and issues related to market monitoring of the SEE market, design and implementation of the Coordinated Auction Office (for transmission capacity), interactions of those with exiting ERO rules (such as, the ERO market rules), and so on. ERO as a matter of course passes to the advisor all materials received by ERO from ECRB and other "Athens Treaty" organizations and meetings, often seeking specific (written) comments on or analysis of such documents; which the advisor provides.

ERO has continued development of "feed-in" tariffs for renewable energy. They have continued to consult the advisor for information and analytical concepts on these issues.

In the recent quarter the ERO began a "partnership" arrangement with the Illinois Commerce Commission (ICC), sponsored via the NARUC. This resulted in a week-long meeting between the two bodies in Pristina. Preparations for that required that the ERO staff create a number of detailed presentations on aspects of the work of ERO, and also, that the ERO in advance have a better grasp of the purposes of the ICC. Thus, in the early part of the quarter, much of the time of the advisor was

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taken in such preparations, working with diverse members of the ERO staff, and assisting in developing sides and presentation topics.

#### Issues/Obstacles

Within the NK PP process, the Project Office does not properly consult the members of the PSC in advance of meetings. Thus, while the ERO does consult the advisor on those matters, the sometimes difficult conduct of the Project Office also means the task of supporting ERO is made more difficult. In the summer, the Government took initial steps to assure appointment of the full five member Board of ERO, by nominating two names of potential Board members to the Assembly for appointment; however, those names have not yet been approved by the Assembly. Thus ERO remains with only three of the five Board members. As Board also act as staff, this makes the work of remaining Board and staff more difficult. Upon completion of the current budget process, in fact, ERO hopes to expand its staff from about 25 (including all Board members), to about 33. Continuing uncertainty about salaries and risk of political actions against ERO independence, complicates the ability of ERO to attract and retain competent staff.

### 3. Problems Encountered, Status and Proposed Solutions

Objective	Problem/Issue	Mitigation Plan	Status
1.1 Economic Policy	Transfer of Macro and PPP Units to budget of Ministry of Finance by 1 January 2009	Government Cabinet decision to implement Brain Fund 1 January.	Transfer in January 2009
1.1 Economic Policy	Achieve Membership of IMF and World Bank for Kosovo	Maintain presence in OPM Working Group and provide necessary support	In progress
1.1 Staffing Skills	Attract and retain skilled Kosovo nationals to work in MFE	Extensive advertising and approaches to universities and local accounting body to 'sell" MFE as a career opportunity.	Ongoing
1.1 Budget	Need a more coherent approach with clear leadership in addressing fiscal policy	Recommend a establishment of Budget Sub-committee of Government to focus on fiscal issues.	Some discussion between Minister, PM and Deputy PMs late in the Budget process.
1.1 Budget	Central and Local Budget Departments not unified under single General Director.	New organizational structure developed in cooperation with Perm. Sec and with input from stakeholders.	To be implemented in first quarter 2009
1.2 Tax Admin	TAK IT system needs significant maintenance and updating	Implement contract signed with SOGEMA to upgrade SIGTAS which will serve TAK until EU-funded replacement IT system is developed and implemented.	1. Contract signed and work is beginning. The assignment of an EMSG IT expert will greatly facilitate the effectiveness of the upgrade work
4.0 Energy	Delay in Kosovo C (New Kosovo) project RFP development and release.	Work with LPTAP PO and PSC members on WFD and capacity building for structuring transaction.	In progress
4.0 Energy	Full ERO Board Not Yet Appointed	Project Advisors working with ERO to assist to train new Board members when they are appointed	Pending Appointment by Assembly

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#### 4. Success Stories

The Brain Fund has been approved by the Government and funded in the 2009 Budget. Managed correctly, the fund will provide for the Government to attract and retain scarce skills into the public sector in key policy areas.

#### 5. Major Upcoming Activities

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
1.1 Economic	Implement new Treasury organization	Treasury	January 2009
1.1 Economic	Preparation of Financial Statements for 2008	Treasury	March 2009
1.1 Economic	Launch Financial Certification Course	Minister of Finance and Economy	April 2009
3.1 POE	PSC to approve Transaction Advisor for Airport	Project Steering Committee (Chair, MFE)	January 20, 2009
4.0 Energy	Training of Evaluation Committee for TA for KEK privatization	MEM, MFE, MESP, MLSW, MTI	January 2009
4.0 Energy	New Kosovo PSC Meeting	LPTAP PO, PSC	January/February 2009