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BEARINGPOINT

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Chief of Party

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1. Chief of Party Report

At the conclusion of the quarter, the project achieved a significant milestone following the determination that project objectives in the Central Bank of Kosovo (CBK) have been met. Consequently, USAID assistance to the CBK concluded following ten years of support to create a respected and sustainable central banking institution.

In the Ministry of Finance and Economy (MFE), progress continued throughout the quarter. Following the recommendation from the Minister of Finance, the Prime Minister agreed to establish a Budget and Fiscal Committee of Government. The committee will report to the Cabinet and will make recommendations on MTEF, Budget and other major fiscal issues and legislation. Committee membership includes the Prime Minister and the Ministers of Finance and Economy, Transport, Education and Health. The committee will help to inform the Government and spread knowledge more generally of the fiscal challenges Kosovo is facing and to seek more consensus for fiscal decision making.

While work is continuing on the MTEF, the advertising of the senior leadership positions within the budget department has affected staff morale. The macroeconomic department had a busy quarter advising the Government on IMF and World Bank membership, the MTEF (which is due 30 April), and in developing a social welfare paper. The EU Fiscal Surveillance Mechanism meetings were successfully begun during the quarter, as required under the Ahtassari Status Settlement. The project provided advice to the MFE for these meetings.

Within Public Private Partnerships (PPP), the law has been agreed in committee and will be passed - materially unchanged - within the next month. The pipeline of possible projects continues to grow and with the imminent passing of the law, it is anticipated the workload with PPP will increase significantly. The important concession of the Pristina airport remains on track with the Transaction Advisor firmly in place. The property tax IT initiative continues its successful roll-out. Within Treasury, work continued on development of the financial skills (SKAAK) course and preliminary work on the decentralization project. A important achievement during the quarter was the finalization of the PEFA assessment and its submission to the PEFA Secretariat in Washington for review. Other donors involved (DFID and World Bank) agreed this was a great coordinated success.

In Tax Administration, progress continues with the amended Law on Tax Administration and Procedures coming into force on 11 February 2009 and the first phase to stabilize and upgrade the core TAK IT system, SIGTAS, commencing in February.

The legal side continued to progress with major laws on the Energy Regulator, Mining and Special Chamber being finalized along with the delivery to Judges of the new course on Bankruptcy.

Energy, as in the past, remains a concern. Considerable project resources are being devoted on a daily basis to focus on energy/KEK related issues. During the quarter, the tender for Transaction Advisor for the Distribution and Supply Network was re-tendered.

CROSS-CUTTING THEMES

Anti-Corruption – The development of the financial certification course has made progress. The course will cover accounting, financial and some legal, anti-corruption training, and will be launched during the next quarter.

Human Capacity Development – The SKAAK course continues to be developed and the MFE signed a contract with SKAAK for delivery over a three year period. The legal training course on Bankruptcy was delivered during the quarter.

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

Administrative – Resident advisors Noble Franson (BPK) and Will James (MEM Lawyer) departed the project during the quarter. Josh Ashlet joined the project as an advisor on IT to Tax Administration.

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 economic policy background in the Ministry of Finance has been dominated by awareness of the world economic situation and how this might impact upon the economy of Kosovo. It is almost certain that the relatively limited development of the financial sector has to an extent, reduced the exposure of the economy to the worst effects of the financial downturn.

Nevertheless, it is recognized widely that for a small open economy, characterized by a large external trade deficit and with fiscal policy as its only macroeconomic policy instrument, the more immediate channel through which any effects will be seen is via remittances inflows and other financial transfers. There is evidence in similar countries that such effects are beginning to feed through to the real sector. Thus for Kosovo at the present time, there is much uncertainty as to the timing of any consequences for the real activity.

The situation therefore, is being monitored closely in the Ministry. The Minister himself has been advised by the Project Adviser to meet regularly with the Managing Director of the CBK. Further, there are now proposals to establish a more formal Ministerial Committee to take responsibility for both monitoring and possible policy response.

Largely because of difficulties in getting Ministers to meet and decide on their major policy and spending priorities, the MTEF exercise and which is the precursor to the Budget for 2010, has got off to a late start. Indeed, by the end of this reporting period, the Macro team has only just been able to develop the material required for a first draft of the broad fiscal position which incorporates the baseline projection. The macroeconomic analysis was developed using the small macro model and incorporates the effects of an assumed fall in remittance transfers and which will affect GDP, consumption, and tax revenues.

To try and strengthen ownership of the whole process at senior level, the Project has recommended that a high level permanent Fiscal and Budget Committee be established to evaluate and co-ordinate policy proposals prior to their submission to Government. This Committee has been established. This type of model is known to work well in a number of countries.

Following the work and advice developed by the Project team during the past year, the government finally agreed to both the establishment of a Brain Fund and to the transfer of the staff Macroeconomic Policy Department and the PPP Unit to the staff of the Ministry of Finance, But unfortunately, there have been a number of problems relating to the actual transfer itself.

For what can only be described as internal reasons, the matter continues to rest for action between the Prime Minister's Office and the Ministry of Finance. Inevitably this has created to some uncertainty among the staff. However, assurances have been given as to both the necessity for and the continuing viability of the resource. The intention remains to transfer the Department to the Ministry of Finance once the current difficulties are resolved.

The February IMF Mission to Kosovo was again characterized by good co-operation and resulted in a useful Aide-Memoire that sets out a number of desirable policy interventions that will serve to assist in securing fiscal sustainability. All of the proposals are within the capacity of the authorities to implement.

Kosovo has now formally applied for Membership of both the IMF and the World Bank. A country group has been proposed and in which Kosovo as a new Member would take its place. The IMF Membership Committee in Washington has now recommended both a Membership quota and a consequent subscription for Kosovo. These recommendations have been accepted by the Government. The next steps are for there to be a formal vote on Kosovo's Membership by all countries. This is likely to take place during April/early May with the expectation that full Membership will become a reality by end mid to end June. The Project Adviser has provided advice to the Minister of Finance at all stages of this process.

Work in the Macroeconomic Department has been concentrated on:

- Providing briefing for the Minister and taking the lead on technical and analytic policy discussions with the February IMF Mission.
- Re-working the macro-fiscal baseline in preparation for the new MTEF in line with the fiscal rule and delivering the formal presentation of this to the EU Mission at the first meeting of the Fiscal Surveillance Mechanism. [The latter is a formal requirement in the Ahtassari Status Settlement Package.] The revised baseline included estimates for Kosovo of the possible effects of the world economic situation.
- Members of the team also provided technical support to the Ministry of Labor and Social Welfare in the preparation of the recent first draft White Paper on Social Policy.

During the quarter, the Project's Macroeconomic Advisor also:

- Continued to provide economic advice to the Minister and Deputy Minister as appropriate .
- Developed briefing material for the Ministry with respect to the strategies and stances appropriate for securing Kosovo's Membership of the IMF and World Bank.
- Continued to keep the Minister and Deputy Minister informed on the world economic situation and on possible consequences for Kosovo.
- Providing support in development of the macroeconomic and fiscal framework in the new MTEF.
- Provided support to the Ministry in the development of the EU Fiscal Surveillance Mechanism as required under the Ahtassari Proposals on Status Settlement.
- Continues to liaise closely with the IMF on Macro/Fiscal issues.

Budget / Intergovernmental

Progress / Successes against the Work Plan

Project activities at the beginning of first quarter focused mainly on assisting Budget Departments in the management of issues related to the initiation of the 2009 Budget. These included the implementation of the following procedures as foreseen in the Budget Law:

- adjustments in capital expenditure plans to meet outstanding financial obligations associated with multi-year capital projects;
- reporting on existing Allowances;
- management of adjustments in the Wages and Salaries category to account for distribution of a 10% civil service pay increase reserve to individual Budget Organizations;
- in conjunction with the ICO, development of a reporting format and associated Administrative Instruction on reporting by "mother" municipalities on budget expenditures earmarked for future new municipalities

The Budget Department commenced preparation of the 2010-12 MTEF. Advisors assisted counterparts, including the Minister and Deputy Minister, in preparing a timetable for completing the MTEF by the 30 April deadline and in framing a process that will provide for the setting of robust aggregate fiscal policy, including sector policy priorities and the incorporation of requirements related to the decentralization process and municipal financing.

A potentially important development was the decision by the Government to establish a Fiscal and Budget Committee based on the recommendation of project advisors. The Committee will be responsible for driving fiscal policy and the MTEF decisions within the Cabinet. Advisors assisted with the preparation of relevant material for the Minister, to present to the Prime Minister and Government, regarding the proposal to establish the Committee.

Advisors have assisted the Ministry in preparing briefing material for the first meeting of the FBC that sets out the process for the MTEF, the baseline Macro-fiscal framework and an initial outline of a range of challenges to be faced in addressing the possibilities for financing the 2010 Budget.

Turning to the Municipalities, the reporting period witnessed changes in the Grants Commission Membership. In accordance with provisions in the Law on Local Government Finances (LLGF), four municipal Members were appointed on January 23 to serve as the Local Government representatives during 2009. Mayors representing Municipalities Ferizaj, Glogovc, Decan, and Zvecan were selected in a lottery held during an open and public meeting of the Grants Commission. Also, the Minister established the Grants Commission Secretariat and formally appointed four staff to provide technical and analytical support to the Commission. These two events marked major steps towards an enhanced institutionalization of the Grants Commission; moreover, something which has been advocated and supported by the Project over the last two years.

Advisors provided support to the Grants Commission Secretariat in prioritizing its activities, in line with both the MTEF and the Budget processes, and in organizing information seminars for newly appointed Commission Members. The Grants Commission Secretariat, assisted by Advisors provided a series of internal workshops and also started work aimed at developing recommendations on municipal financing from government transfers through the MTEF period.

The beginning of a new municipal budget cycle created an opportunity to plan for further enhancements in the municipal budget process. Further improvements are recommended by the Kosovo development partners in order to advance public finance management practices in Municipalities themselves. Also, some additional changes are necessary for the Kosovo Government to implement fiscal decentralization and/or commitments undertaken in the Comprehensive Proposal for Status Settlement. Given the complexity of these multi-dimensional requirements and in order to assist the Municipal Budget Department in the management of future reforms, Advisors developed a comprehensive Framework for the 2010 – 2012 Municipal Budget Development. The proposed Strategy was presented to the Department management and endorsed for implementation.

Project Advisors provided support to the Ministry in preparing the Public Expenditure Financial Accountability (“PEFA”) assessment. Essentially, this is a self-assessment exercise and hence provides a good opportunity to both create and assess capacity in the Ministry. Advisors participated in a 3-day workshop to address the analytical issues relevant to the Secretariat in finalizing the report. A commendable first draft of the report has now been sent to both the PEFA Secretariat (Washington) and stakeholders, such as donors, for their input.

During the quarter, advisors also:

- provided advice to the Government PFM Steering Committee on the next stages of the development of a PFM Action plan which will build on the PEFA assessment exercise.

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- supported the POE Policy and Monitoring Unit in preparing advice for the Minister on the issue of extracting a PTK dividend. Given the current relative lack of fiscal flexibility in Kosovo, this would: provide an additional financing instrument; ease the restrictive nature of the MTEF fiscal policy stance and contribute to deliberations in both the FBC and the inter-ministerial committee on POE ownership.
 - assisted the MFE in making an assessment of the needs and cash-flow implications of KEK's capital expenditure program as well as the policy/fiscal implications of future private sector involvement in the sector.

Issues / Obstacles

The capacity and operation of the Budget Department is being affected adversely by the advertisement of its three senior posts, two of which are occupied already with the holder being faced with the prospect of applying for his own job. Unfortunately, this has occurred during the MTEF process. Further, there has been a loss of core staff, and a number of vacancies have yet to be advertised. All of this affects morale and effectiveness and it is hoped that the situation will be resolved very soon.

Treasury

Progress / Successes against the Work Plan

Considerable progress was made with planning for the decentralization initiative with the development of a working plan to guide the process and a more detailed training needs analysis. Work also started on a series of manuals and procedures covering key system issues. These manuals and procedures will be used as a system guide for training officers from budget organizations and internally for Treasury staff.

The certification training program in public finance management has also moved forward in the quarter. The Ministry signed a contract with the accounting body, SKAAK for development and delivery of the course during 2009 and, if successful, the following two years. The objective of this initiative is to establish a training program for finance officers in public finance management, which will provide a firm foundation for skills' enhancement and official certification. In the first instance finance officers in ministries and municipalities will be required to attend this program and successfully pass the certification. The certification program is expected to result in noticeable improvements in the quality of public sector financial reporting to a level that would enable an unqualified opinion of external audit.

The training program is planned to be a five day event delivered jointly by SKAAK and MFE, with the initial assistance from Project. The training program covers main concepts and principles as well as their practical application in the context of Kosovo Treasury Single Account arrangements and Free Balance system. Upon completion of the training financial officers should be capable to:

- Understand basic accounting principles and requirements underlying the preparation of financial statements in public sector and the information that is contained in them
- Understand the Treasury system and apply rules and administrative instructions on financial reporting

- Understand Budget process and recognize and apply laws and administrative instructions pertaining to budget development and execution
- Be familiar with the significance of auditing and unqualified auditor opinions

During the reporting period, Project provided assistance to MFE and SKAAK in agreeing and developing training program outline, designing and preparing course materials, and creating Participants Guide-manual to be used by participants in the classroom. Project provided advice to SCAAK on the design and preparation examination/certification program during Examination Writing Workshop conducted at the end of March. Completion of course materials is scheduled for the next quarter.

With the view on a longer term sustainability and institutionalization of the certification program, MFE and SCAAK entered into a formal Memorandum of Understanding underpinning cooperation and financing framework for the next three years.

Property Tax

Progress / Successes against the Work Plan

During the first quarter of 2009, activities focused on the implementation of the first version of the Property Tax Administration Management System (PTAMS). The system went live on March 16, 2009. The migration of financial data in taxpayer accounts proved especially challenging. There were numerous inconsistencies in the data due to manual adjustments made to individual tax bills by municipal staff. Dealing with these adjustments took longer than anticipated and led to a scaling back of the first phase objectives. The appeals module and interest calculation will be rolled out in April 2009 and the ability to generate reports will be included in May's system release.

Property tax revenue continues to improve substantially year-on-year as a result of ongoing improvements in administration. Table 1 shows property tax revenue on a monthly basis during 1Q2009. The figures for March are estimated based on collection statistics available as of December 19.

Table 1: Property Tax Revenue During 1Q2009

	Jan	Feb	Mar	1Q09
Monthly Property Tax Revenue	€ 911,525	€ 587,830	€ 793,232	€ 2,292,395
% Increase over 2008	+ 88%	+ 76%	+ 43%	+ 67%

In November 2008, property tax bills were once again printed and delivered by PTK to all delinquent taxpayers. Approximately 80% of taxpayers owe some past due amount. Ensuring that every taxpayer receives a bill naturally led to an improvement in voluntary compliance. Property tax bills for 2009 were printed and delivered in March. The 2009 property levy totals €15,188,575 with 392,411 bills delivered. The 2009 levy is about €600,000 less than 2008 while the number of bills increased by 11,000. The decrease in the overall tax assessment is the result of a reduction in tax rates in Pristina and 4 other municipalities. These five municipalities, Pristina in particular, have taken the view that the dramatic increase in voluntary compliance with the property tax, which now accounts for 15% of total revenue in Pristina, allows them to reduce the overall tax burden on citizens.

The Steering Committee for the implementation of the new property tax system met twice this quarter. They have been briefed on the activities to date and have decided to accept the recommendation of the Property Tax Department to change the payment due dates from June 30 and December 31 to April 30 and September 30. This will allow municipalities to collect and spend their annual property tax levy in the same year it is assessed. An amendment to 2003/29 will be drafted in the second quarter and submitted to the MFE Legal Department.

The Law on Expropriation was promulgated in March and provides for the establishment of an Office for Immovable Property Valuation within the Property Tax Department. Given that single-property appraisal skills are lacking in Kosovo, the Property Tax Department is looking at options to tender for these services with a foreign company. In addition, the Property Tax Department has secured a commitment from UNDP to finance three MEF employees to staff the Office for Immovable Property Valuation. These staff will work with the firm selected to value real estate being expropriated to gather all necessary documents and market data. In time, they may acquire appraisal skills and become certified valuers, forming the basis for this profession in Kosovo.

Objective 1.2: Strengthen the Capacity of TAK

Tax Administration

Progress / Successes against the Work Plan

Revenue has remained strong in the first quarter, reaching the targeted amount of €50 million – May, June and July revenues will be the key to determining if TAK will reach the targeted goal of €200.5 Million. One of the major areas of advice has been assisting in the development of a proposal to increase TAK staff by 100 staff years. The current staffing level of TAK is inadequate to deal with the growing number of taxpayers who do not file. In addition, as TAK begins to implement provisions of the amended Law on Tax Administration and Procedures it will need additional staff (tax investigation unit, increased staff for taxpayer registration, etc.).

The amended Law on Tax Administration and Procedures was published in the Official Gazette and came into force on 11 February 2009. The tax administration has spent a great deal of effort to publicize the new law and educate the taxpayers on its provisions. The new law requires a significant number of sub-legal acts to be written. Advisors are assisting the tax administration in the development of these sub-legal acts, which is a time-consuming effort. This is a significant piece of legislation for the tax administration as it provides a number of improvements in TAK's enforcement capabilities. It also provides for a revised penalty regime, which will benefit taxpayers. The ability to implement many of the improvements is heavily dependent on the upgrade to the tax administration data processing system.

The first phase of a TAK-funded project to stabilize and upgrade the core TAK IT system, SIGTAS, commenced February 2nd with the arrival of two Analysts from the Canadian firm, CRC SOGEMA. The objectives of this phase of activity are to: 1) restore operational integrity to the existing system; 2) identify modifications necessary to facilitate issuance of TAK-managed fiscal numbers; and 3) develop functional system requirements for eventual replacement/upgrade of the current system. Progress thus far has been largely positive. It is evident, however, that the TAK is not yet sufficiently

mature as an organization to absorb introduction of an alternate, high-end system. TAK personnel have struggled thus far to deliver consensus on many key issues. As such, heavy involvement of EMSG Advisors has been required to properly communicate legislation and business processes for technical implementation. These difficulties have confirmed the need to continue forward with SIGTAS for the next two or three years.

The Government issued a decision in February to finalize a sub-legal act for implementation of fiscal cash registers by 1 June 2009 and begin implementation of fiscal cash registers on 1 July 2009. EMSG advisors have been actively involved in a working group to develop the decision and the sub-legal act, including development of functional and technical specifications for fiscal cash registers. EMSG advisors have relied upon long-range assistance from an expert with the Greek Ministry of Finance, who heads the EU working group on fiscal electronic devices and has implemented similar systems in Kenya and Greece.

In early March, with the assistance of EMSG advisor, TAK deployed an 'e-declarations' application on the public TAK web site. This application allows active taxpayers to download pre-printed declarations for personal and corporate income tax. Declarations include basic contact information and unique UNIREF barcodes required for both Treasury and TAK. Thus far use of the web site functionality has been moderate. To control access to TAK-sensitive information printed on the declarations, taxpayers are being required to submit a line number from their most recently-filed declaration. This authentication technique has caused some problems as first-time filers cannot use the application and, in some instances, existing tax payers are unable to locate their old returns. However, this advancement is significant and represents the first tangible step towards e-filing, which is still scheduled for pilot deployment at the end of the year.

Other activities of EMSG advisors in conjunction with workplan objectives include:

- Public Ruling issued for KEK VAT liabilities to facilitate the privatization process. In addition, work is largely completed on TAK approval of the KEK re-organization plan, which will allow the split of KEK to separate the generation activity from the distribution activity.
- Participated in working group to review draft Corporate and Personal Income Tax Laws prior to submitting them for review by a Government Working Group.
- TAK network security issues are in process of being resolved so that the audit risk model can be distributed to the regional offices. This roll-out has been delayed for more than 5 months due to these issues. Current expectations are that the roll-out can be done by end of April.
- Participation in a working group developing strategies to deal with fictitious invoices and fictitious businesses, as well as a working group to further review and revise VAT refund processing.
- Provided input and assistance to USAID contractor reviewing TAK to formulate the direction that a subsequent assistance project, if one is approved, should take and the objectives that would be accomplished.
- Drafted procedural document for TAK consideration relative to non-filer and stop-filer activities as well as processes for passive accounts.

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- Devoted significant time in providing technical guidance and assistance on a variety of VAT and Income Tax issues, which allows capacity building for a limited group of HQ TAK personnel.

Issues/Obstacles

There is now no doubt that SIGTAS is not sufficient for long-term operation within the TAK. A number of limitations within the technical architecture of the system have been exposed during development of functional requirements that will impact proper implementation of legislation and procedures. These limitations will, ultimately, result in the inability of the organization to properly manage tax accounts as required by law (particularly as related to the proper allocation of penalties and interest). TAK's ability to issue fiscal numbers, which is a key to addressing many compliance issues, is dependent upon the successful upgrade of SIGTAS. At the present time, TAK is scheduled to begin issuing fiscal numbers in July 2009.

The ICO has requested that the Government open the position of Director for TAK to competition. That requires the present Director General to re-apply for his position and successfully compete. The selection panel should make its decision in early April. If the current Director General is not selected, that will mean starting over with a new Director and set the tax administration back in its modernization efforts.

Objective 1.3: Central Bank of the Republic of Kosovo (CBK)

Progress / Successes against the Work Plan

During the last six months, the CBK focus has been primarily on the international financial crisis and its effects on the local financial sector. To date, the commercial banks operating in Kosovo have been isolated from the direct effects of the global crisis and are in reasonably sound condition. At year end 2008, total banking assets, loans and deposits equaled €1.72 billion, €1.16 billion and €1.44 billion, respectively. The industry's aggregate total capital to risk weighted assets equaled 16.5% with an industry return on assets of 2.4% and nonperforming loans of only 3.3%. Bank Supervision is reporting that during the first quarter, the banks' profit margins are starting to narrow and several banks are expecting slower loan growth during 2009. The CBK is increasing its oversight of the banks' financial condition and are now monitoring deposit levels on a daily basis and it is also monitoring remittances volumes at the banks and non-bank financial institutions.

During the last year, progress has been made on strengthening the legal framework for banking supervision. The SRSG approved *Rule XIV: On Licensing and Supervision of Micro-Finance Institutions (MFIs)* which will allow licensed MFIs to accept more than €125,000 in public deposits (currently registered MFIs can only accept up to that amount). The CBK estimates that three registered MFIs are eligible to become licensed MFIs, but unresolved issues with the NGO office and Tax Authority has stalled movement towards that aim. The CBK has also developed, approved and promulgated a *rule on Internal Control Systems*. The CBK has issued several Advisor Letters, including: Minimum Standards on Liquidity Risk Management; Loan Loss Reserve Disclosures; Internal Controls Guidelines.

The new banking law and the Deposit Insurance Agency of Kosovo (DIAK) legislation are currently before Parliament and are awaiting its review and approval. KfW has helped develop the DIAK and is providing the initial funding for the agency. The project has assisted with identifying and developing proposals to other agencies that could provide a bank up line of credit to DIAK after it has been established. The European Bank for Reconstruction and Development appears interested in supporting the DIAK.

Throughout the year, support has been provided in coordinating the World Bank Technical Assistance Program. During the year, the project has aided in developing numerous Terms of References (TOR) for the World Bank program, including TORs on: Central Bank Sustainability; Human Resources; Compulsory Third Party Liability Insurance Legal Framework; Insurance Tariff Liberalization; and, Life Insurance Framework; and an off-site regulatory reporting system. The project has also helped management with proposal reviews and procurement.

IMF supported on-site supervision but the project helped with review of exam reports for the major banks operating Kosovo before they were published and submitted to the banks. Assistance was provided in ensuring the key issues and weaknesses were prioritized and communicated to the commercial bank leadership.

The Problem Bank Steering Committee was formed three years ago when a small insolvent local bank was taken into receivership. During the last year, the project has been promoting a quick and final resolution of the bank. Unfortunately, during the last 12 months, there has been a revolving door of receivers (the first one passed away, the second one found another job and the third is not working out). Other banking organizations wanting to enter the local market have made enquiries about the remaining assets of the bank and one organization has made an offer; however, the CBK believes the offer is too low, yet they do not know what the bank in receivership is worth. The project has encouraged the CBK to hire an independent third party to value the remaining assets and loan portfolio to assist the central bank in its negotiations with potential buyers. In addition, the PTK has promoted the idea to convert the insolvent bank into a PTK owned post bank. This would not be considered a good solution.

In the near future efforts, the Banking Supervision Department will be starting two major initiatives: Risk-based supervision and Basel II adoption and implementation. The department is migrating from a rules based CAMEL approach to a more forward looking risk-based approach that focuses on the key risks within a bank. Supervision strategies will be amended to include continual examinations at the largest institutions. Manuals will also need to be updated to reflect the changes in supervision philosophy and approach.

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

Commercial Law

Progress / Successes against the Work Plan

In the first quarter of 2009, the team continued its legal training efforts aimed at 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 quarter, all Work Plan objectives in the area of commercial law training were met. The course on the law on Bankruptcy was delivered to judges at the Kosovo Judicial Institute (KJI) in March, 2009. The training course on Copyright will be delivered at KJI in May and the one on Competition will be delivered at KJI in June. The course on Foreign Investment will be delivered at KJI in September. The four courses and reference guidebooks (on Bankruptcy, Foreign Direct Investment, Copyrights, and Secured Transactions) will be revised based on evaluations from the KJI training sessions and delivered to the Kosovo Chamber of Advocates during the third and fourth quarters.

Preparation of the courses and guidebooks on Copyright, Competition and Foreign Investment continued during the first quarter of 2009. 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 also continued its on-going work with the Kosovo Judicial Institute ("KJI") to institutionalize the referenced training courses and the training methodology developed by the project for their delivery. In particular, the team continued to assist the KJI with the development of its train-the-trainers program, which teaches local law trainers to utilize the training methodology to prepare and deliver training courses, create examinations and materials. The program covers the above-referenced legislation and other legal subject matter as well.

In the first quarter of 2009, the legal team 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 (which was submitted by MEM to the Government at the end of the quarter), a new draft Law on the Special Chamber (which is expected to be finalized in April), a new draft Law on the Reorganization of SOE's, and a new draft Law on Expropriation, which was adopted by the Assembly at the end of the quarter. The resolution of fundamental policy issues has delayed the progress of the Law on the Special Chamber and the Law on the Reorganization of SOE's.

Both the ICO and EULEX have taken a serious interest in reviewing and providing comments to these two draft laws. It is now expected that these two pieces of legislation, which will replace two current UNMIK regulations, will be approved by the Government and submitted to the Assembly by the Government in April or May.

In addition to the above, during the first quarter the legal team continued to provide legislative/legal advice and assistance, when needed, in a number of other areas to other project advisors, and the Government. In particular, the legal team assisted in the review of the Law on Leasing and several other laws, provided advice to the MFE on issues arising in connection with the implementation of the POE law and the proposed privatization of KEK's distribution and supply division, and provided advice to the chairman of the PAK on the handling of the Trepca case at the Special Chamber. The legal team also regularly provided USAID and the Embassy with information obtained from its legislative monitoring efforts in the Assembly.

Objective 3: Privatize or Commercialize POEs

Mining

Progress / Successes against the Work Plan

The Project advisor is working towards ensuring that the Government moves forward with a new mining law and strategy that will stimulate growth in the industry. The new law has been drafted and forwarded to the government along with comments from a European mining legal expert. The ministry now has a strategy and set of action plans to achieve this strategy with time lines, responsibilities and goals.

Specific achievements during the quarter include the following:with respect to each in this quarter, are:

- The Minister has engaged with the issues of working closely with counterpart institutions and has been significantly engaged with the MFE, ICMM, Trepca Management, and ICO with our support on issues of royalties and the Trepca Reorganization plan. The minister has also continued promotional efforts by attending an international mining conference in Dubai. The Minister has requested a policy paper on Royalties and expects to convene a meeting of all counter parties to the royalty decision in the ministry in the next quarter.
- The Ministers' attendance at the Dubai conference shows engagement with the private sector that is encouraging. Several potential investors, attracted by the presentations at the London Mines and Money conference have contacted the ministry to enquire about the areas of special interest tenders. Two groups have specifically visited Kosovo. The key element to move the development sector forward is the adoption of the new law with has enabling legislation for the areas of special interest.
- An ICO hosted meeting focused attention on the issue, and it seems likely that without some clear movement in the short term, that the soon to be appointed judges in the special chamber will have to take action by appointing an administrator. The law on mining is now progressing through the legislature. However, we also need the Special Chamber law, and the redraft of the Reorganization law to progress before mobilization can be considered.

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 still included and are a serious cause for concern. The key problem occurs where the ministry is envisaging the splitting of the mines inspectorate from the ICMM. This proposal is not compliant with EU legislation and is identified as a major problem by the European mining experts. Hopefully, this issue will be resolved during the committee stage of the adoption of the new law, though it must be expected that the passage of the law may now take a little longer.

The Trepca reorganization plan is still in the early days of acceptance. We have had several productive meetings with the new head of Trepca South and will likely be able to work effectively with this new individual. It is notable that he has changed the entire

management; even so, the new appointees are experts in their areas of operation and therefore should operate effectively. The key potential pit fall will be the probable appointment of an external administrator by the special chamber in the absence of the new laws. This could have significant ramifications to social harmony.

Public Private Partnerships / Airport Concession

Progress / Successes against the Work Plan

The multi-sector Public-Private-Partnerships (PPP) program continued to demonstrate significant progress in the first quarter of 2009.

After some delay, the draft Law on Public Private Partnerships and Concessions finally worked its way through the legislative review process. Although a number of amendments were introduced by the Budget Committee, the changes were not substantive and thus the law remains consistent with UNCITRAL model legislative provisions for privately financed infrastructure projects, as well as with EBRD recommended practices for PPP. Once enacted, the new Law will provide the legal framework for multi-sector PPP projects (including procedures for their award). The Law also establishes the institutional framework for PPP, creating a standing Inter-ministerial Steering Committee responsible for management of the national PPP program and assigning control functions to the centralized PPP Unit in the MFE.

Barring any unexpected delays, the new PPP Law is scheduled to be adopted by the Assembly during second reading in April, 2009. It is expected that the Law will subsequently be promulgated by the President and enter into force during the second quarter of 2009.

In anticipation of the new PPP Law, during the first quarter of 2009 a significant amount of attention was given to the start-up of potential PPP projects. To attend to these multi-sector initiatives, the PPP Unit developed standardized practices aimed at hiring local and international experts to undertake investment grade feasibility studies and to manage PPP project implementation. Completed tasks included the development of a legal structure for the contracting of individual consultants and the drafting of standardized terms of reference for local and international experts. On the basis of this assistance, significant progress was made on multiple projects identified in the Project Pipeline, including Route 7 highway project and the Zhur Hydropower Plant. Likewise these deliverables were also used to assist the Government in the implementation of both the PTK and KEK Distribution and Supply privatizations.

During the first quarter of 2009, significant progress was also made on the Pristina International Airport PPP. With regard to the procurement of a Transaction Advisor for this project, the Inter-Ministerial Project Steering Committee approved the contract award recommendation made by the evaluation committee in January, 2009. The transaction advisory services contract was signed on February 03 with a Dutch and American consortium comprised of well respected companies, including: NACO, Innova, and White & Case. Contract execution began immediately and the due diligence process is well underway, with the PPP Unit acting as the project implementation unit and technical counterpart to the Transaction Advisor.

As of the close of the first quarter of 2009, the Airport project was on time and on budget, with the delivery of the first phase report scheduled for the end of May, 2009. The report will present the findings of the due diligence process and the investment grade feasibility study, as well as identify and evaluate PPP contracting options for the airport. At the close of this first phase, the Government will select the contracting modality for the Airport project.

Institutionally, the PPP Unit in the MF E is now operating as a fully functioning entity, although additional staffing is still required to attend to the growing demand for assistance by line ministries, POEs and municipal governments. It is expected that additional recruiting will take place in the second quarter of 2009.

Capacity-building also continued during the first quarter of 2009, with training being imparted to government personnel on multiple topics, including financial implications of PPP, calculating value-for-money, project management, anti-corruption, etc. A new training and outreach program was developed in the first quarter of 2009 to accompany the promulgation of the PPP Law, including the drafting of brochures, articles, and other materials to help educate the public about the PPP Law and PPP program in Kosovo.

Finally, in the first quarter of 2009, the PPP Unit kicked-off its website (www.PPPKosovo.org), and began marketing itself as "*Partnerships Kosovo*", working closely with other government agencies and entities (i.e., IPAK, MITI, etc.) to educate international investors about PPP opportunities in Kosovo. The formal launch of *Partnerships Kosovo* was also mentioned in the Economist magazine on the first anniversary of the declaration of independence of Kosovo.

Other Activities Not Included in Work Plan

Building on its reputation for competence and effectiveness, the PPP Unit has increasingly been pulled into supporting other government priority projects. During the first quarter of 2009, the PPP Unit was asked to develop a training program on "*principles of corporate governance*" to be imparted to all the boards of directors of all Publicly Owned Enterprises (POEs). The PPP Unit also imparted training programs on project management, as well as a training program to the Kosovo Institute for Public Administration on Anti-Corruption and Public Procurement.

The PPP Unit has also been requested to advise and support a variety of government priority projects which may or may not include Public-Private-Partnerships. Examples include assistance to the Privatization Committees for the privatization of PTK and KEK, as well as support to the Ministry of Transport in the Route 7 project.

Issues/Obstacles

There is enormous concern regarding the demands being placed on the PPP Unit by the Government, POEs and municipal authorities. Given the group's knowledge and efficiency, there are increasing efforts to allocate more responsibilities to the PPP Unit, including activities that are not within its legal mandate. These efforts will likely increase with the passage of the PPP law and will have a negative effect on the PPP program. It is hoped that once the PPP-ISC is seated, a more coherent PPP program will be developed which will allow the PPP Unit to better prioritize these requests; but this will depend in great part on the focus of the chairman of the PPP Steering Committee.

With regard to the Pristina International Airport PPP, there are increasing concerns regarding specific aviation and airport policies that, at a minimum, appear to limit competition. These same policies may likewise be in violation of ECAA regulations. If said policies are not reviewed, revised, and/or repealed, demand risk and regulatory risk for the Airport PPP transaction may become unacceptably high and impede the Government of Kosovo's ability to attract an experienced concessionaire.

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 continued concern about alleged efforts to unduly influence procurement processes and other decisions relating to PPP projects.

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

Ministry of Mines and Energy

Progress / Successes 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, 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 several new versions of the draft Working Framework Document (WFD) for the New Kosovo Power Plant project, and provided extensive, detailed input and multiple analyses, briefings and talking points for the various counterparts including USAID, the US Embassy, Department of State, Department of the Treasury, USAID funded KEK Advisors and multiple Kosovo government ministries and agencies including MEF, MEM, OPM, ERO, etc. The advisors participated in a trip with USAID/Kosovo to Washington, DC, to support the proper development of the transaction.

The emphasis of the advisors' efforts was on achieving a structure and approach to the New Kosovo project which would remain attractive to the four short-listed bidding consortium while at the same time meeting the paramount needs of Kosovo for secure electricity supply both in the interim period up to when the New Kosovo units come on line as well as thereafter, and to remain KEK from subsidies from the Budget as quickly as possible. During the quarter, this was achieved and incorporated into directives from the Prime Minister and PSC for the key elements and requirements of the GOK for the transaction, and was presented by the PM to the PSC and stakeholders as the GOK's mandate. The PM stated that a comprehensive approach to New Kosovo was required. The USG, EU, and IMF all expressed support for the GOK's comprehensive approach.

The review and development of the legal and regulatory framework continued to be a major focus. The proposed amendments to the three energy laws were provided to the MEM Legal Department and the LPTAP PO. The PO has made extensive efforts to obtain comments and input on the three laws from the Legal Advisors on the New Kosovo project, as required in their contract, but no comments were received, and there are multiple unaddressed requests by the PO to the LA. The new Natural Gas Act is

moving through the Kosovo Assembly. The development of the new law was to assist Kosovo in harmonizing its legislation with requirements under the Energy Community Treaty. The advisors wrote on behalf of the MEM Energy Department, the required legislation status report on Energy Efficiency for the Vienna Secretariat of the Energy Community.

The Project advisors continued their active coordination with KEK's USAID-sponsored advisors during this period, including in the areas of KEK legal and financial unbundling, KEK distribution privatization, and regulatory aspects such as the 2009 tariff filing. The advisors also initiated an update mechanism with MEM in order to keep the ministry informed of progress in these areas. During this quarter, the KEK 2006 and 2007 audits were finally approved by the audit committee, and the auditor was contracted to prepare the 2008 and Q1 2009 Audits. These audits will include consolidated and unbundled financial accounts for KEK mining, generation, distribution and supply, and will greatly facilitate the management of KEK and the distribution and supply privatization. KEK prepared the necessary documents for legal unbundling of distribution and supply into a new POE for privatization, and submitted them to the MFE/POE Unit for registration of the new entity.

At the end of 2008, seven proposals were received for the Transaction Advisor (TA) for the privatization of KEK distribution and supply. Unfortunately, the evaluation of the proposals was delayed until 2009. After the evaluation and determination of the winner, the PC decided to annul the tender and re-launch it due to possible process irregularities. The tender dossier was updated and further refined and the tender was re-launched in March, and the proposals are due at 2:00pm, April 7, 2009. It is expected that the proposals will be evaluated in April and the winner contracted in May.

The team continued to work with the MEM cabinet, energy department and legal departments on issues relating to legislation and regulation, EC Directives and Kosovo's obligations in respect of those Directives and the Energy Community, energy efficiency and security, renewables, and market opening. The Advisors coordinated closely with the EC advisors to MEM and the EC advisors to the ERO.

The team also provided the following specific activities during the quarter:

- Coordinated with and provided briefings to the EC advisors to MEM (new advisors), ERO and KOSTT;
- Prepared and presented workshops to the MFE Macro Unit and POE Unit and the ERO on the models for the energy sector in Kosovo including mining, generation, distribution and supply, and on the regional electricity dispatch model. Gave the models to the participants and built capacity for them to utilize the models on their own;
- Assisted in updating the tender dossier for the TA for KEK Distribution and Supply for the re-launch of the tender;
- Prepared briefing materials for IMF mission, participated in IMF energy briefing, responded to specific IMF information requests;
- Researched political risk insurance and partial risk guarantees for New Kosovo and KEK Disco privatization transactions;
- Prepared analyses and briefings for World Bank visits and PSC meetings;

Issues/Obstacles

A considerable amount of legislation, regulation, policies and administrative instructions still have to be drafted or amended, and passed by the Assembly relating to the energy sector and the various key projects including New Kosovo, KEK Disco privatization, and Zhur Hydro, and Kosovo's obligations under the Energy Community and EC Directives. The assistance in this regard from the New Kosovo LA is behind schedule. Hopefully, this will all accelerate with the arrival of the TA for KEK Disco Privatization and the GOK/PSC final decisions on structure for the New Kosovo project.

The New Kosovo transaction has been significantly delayed. There have been diametrically opposed approaches to the project among counterparts. The Working Framework Document (WFD), including the revised one dated March 31, 2009, is not consistent with the position of the GOK/PSC and does not provide a comprehensive solution for Kosovo, including provision of interim power and removing KEK as a recipient of subsidies from the Budget. Further, it is not sufficiently developed or concrete to form the foundation for development of the RfP. A final resolution for the structure and approach of the New Kosovo transaction, including the disposition of the existing lignite generation plants, is critical for the project to proceed.

The tender for the TA for KEK Disco privatization had to be annulled and re-launched. This has resulted in a 4-5 month delay in the process.

Energy Regulatory Office

Progress / Successes against the Work Plan

The role of the ERO in the two principal energy sector tenders, the New Kosovo Power Plant (NK PP) and KEK Distribution and Supply, remains prominent in the last quarter, and is expected to remain that way through the completion of both processes. In the last quarter, the principal events and results related to the KEK and KOSTT tariff filings; and evaluation of issues for the NKPP process. The ERO role in KEK privatization at present is approval of documents related to the unbundling of KEK, not all of which have yet been filed by KEK, hence little actions from ERO as yet. Several sets of new consultants have arrived for ERO and other energy sector agencies, so proper coordination was developed.

As to the NK PP, a critical event in the period was the continued discussion of a draft "Working Framework Document", specifying terms of the tender. The ERO, through direct discussions requested by the Chairman, consulted closely with the advisor. Those discussions covered in detail the issues raised by the draft letter of the Prime Minister on the proper structure of the NKPP project, and how those matters affect actions, and what positions ERO might take on them.

In discussing these issues, the two sets of analytical sheets noted in the previous quarterly report, were completed and strongly relied upon. The two sheets are for analysis of interactions of effects within the KEK sale (such as collection rate, level of new investment, allowed rate of return, and so on), and of interactions of effects in the NKPP tender (such as levels of investment in coal operations, numbers of NKPP units constructed, profits from sales for export separately from sales within Kosovo, and so on). The two models are related since the NKPP model allows to estimate energy supply costs to the KEK as a distribution company. Both models allow to study

simultaneously the viewpoint of a regulator, from a cost of service point of view, and the relevant investor, from an internal rate of return on equity point of view.

The sheets were used as follows. In each case, a complete set of the sheets was provided to the participants, and thus made available for their own analysis of contingencies. First, in several meetings, the Advisor worked directly with the Chairman of ERO to analyze alternative policies, and factual contingencies, and understand their effects on practical options, means of mitigation of effects, and so on. Second, in a half day working session, the Advisor presented to a group of ERO staff the full versions of both models, and together with their EU advisors, discussed structural options for both the KEK sale and the NKPP Process. Third, at request the Ministry of Economy and Finance, the Resident Advisor presented a series of three two hour seminars, for staffs of that agency and other members of the Government.

The seminars in turn presented the KEK sale model, discussing policy options and means of mitigation, and delivering the full model in usable form to about 20 staff from working levels of the PPP unit the Privatization Unit the Macroeconomics Unit, and the PM office. The second seminar, also about 2 hours, presented, discussed implications of, and delivered working copies of the NKPP Model to about 10 working staff from those same Units. The third seminar, to that same group, delivered the regional SEE wholesale market model (previously created for and delivered to ERO in first half of 2008), and used the session to demonstrate how the NKPP project interacts with the operations of the SEE regional market. It is believed that delivery of these easy to use, practical analytical tools, may have helped the Government gain a deeper understanding of the practical implications of these various major activities, and thus may have assisted them to resolve political and policy issues on how to proceed with those matters.

The ERO increasingly uses the Resident Advisor to advise them on regional market issues. They do this for their own reasons, since they are active in the processes of the ECRB itself, and also of the Athens Treaty generally. ERO often asks for the Resident Advisor views, and then quite often adopting the views into their own documents. Creating a regional market is certainly an objective of USAID, and of US Policy in the region. Also, the issue will become more prominent in the near term. In early April 2009 the ECRB Consultants for creating a regional market will be in Kosovo, and ERO has asked the Resident Advisor to join their discussions won that.

An ECRB final draft report, to include proposed options for regional design, will be issued by end of April. Obviously, if an actual coordinated "market" with a common design is created, this will be of direct relevance not just to ERO as a regulator. It is of principal concern to the NKPP Project operator, who would necessarily sell via that market or in compliance with this rules; to KEK Distribution and Supply, since it would necessarily be a buyer via that market and also need to comply with the rules; and KOSTT, who has to assure system load stability in technical senses, and is also a principal transit corridor for that market.

While the Resident Advisor as an individual consultant, cannot participate directly in those discussions, if ERO is willing to be involved, the Advisor can have constructive effects in making a market come to occur, and making its workings realistic. ERO seems to understand that result is in its interest as the regulator for Kosovo, and in Kosovo public interest. ERO has noted in general that the Resident Advisor tries to give

practical advice, not just theory, and that is probably part of why they seek and often accept his views on regional market issues.

A more immediate term action prominent at ERO in the first quarter, has been the KEK tariff application. The principal advisors to the ERO on tariffs are the EC-funded team of advisors, not the USAID advisor. However, the Resident Advisor has worked actively with the ERO staff especially on developing a more transparent model of cost allocation and rate design. He (and the project research assistant) have met regularly with working ERO staff to discuss techniques for cost allocation, for rate design, the underlying theories and doctrines of those skills, and how to embody them into a more transparent and “user friendly” set of spread sheets. It is a common goal that within the calendar year, ERO will have issued a more transparent version of those sheets. This will also significantly assist in the KEK sale process, since it will enable the potential buyers to have a more clear view of what ERO does and intends, with the critical matter of retail distribution and supply tariffs.

ERO continues its “partnership” arrangement with the Illinois Commerce Commission (ICC), sponsored via the NARUC. They seek advice of the Resident Advisor on designing sessions for common meetings with ICC.

The Government and assembly took final steps to and did, appoint a full working Board of five members, now all sitting at ERO

Issues/Obstacles

Within the NK PP process, the Project Office has not properly consulted the members of the PSC in advance of meetings. It is believed that the series of seminars noted above, on the NKPP process especially, has encouraged more concrete decisions by the NKPP Processes. ERO has asked the Resident Advisor to consider the proper structure and function of its staff, for managing the effects of the NKPP and KEK sales, but cannot yet fully consider that until the structures of those transactions are better known.

3. PROBLEMS ENCOUNTERED, STATUS AND PROPOSED SOLUTIONS

Objective	Problem/Issue	Mitigation Plan	Status
1.1 Budget	Staffing and structure of Budget Department not yet consistent with plan. Untimely advertising of key positions and staff departures.	Proposing amendments to LPFMA to clarify roles of Directors.	In difficult transition phase.
1.1 Budget	MTEF behind schedule. Not likely that a high quality document can be produced by counterparts within the deadlines being set. Consultation likely to be weak.	Advising Minister on revised timetable. Providing advice on the engagement of the Fiscal & Budget C'ttee as a mechanism to improve MTEF.	MTEF running behind schedule.
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.	Decision by Government but as yet, no Transfer date agreed
1.1 Economic Policy	Achieve Membership of IMF and World Bank for Kosovo	Maintaining presence in OPM Working Group and providing necessary support	Progress highly satisfactory – Quota agreed. Membership expected June 2009
1.1 Staffing Skills	Attract and retain skilled Kosovo nationals to work in MFE	Approaches to universities and local accounting body to 'sell' MFE as a career opportunity.	Ongoing
1.1 Property Tax	Establish an Office of Immovable Property Valuation as foreseen in the Expropriation Law	Outsource this function to a competent fee appraisal firm in the region.	Issue tender for appraisal services in 2Q09.
1.1 PPP	PPP Unit is being pulled in too many directions, negatively impacting the PPP program.	Hire additional staff and develop a detailed work plan for the PPP-ISC and PPP Unit.	In progress
1.2 Tax Admin.	TAK IT staff has limited capacity to maintain the TAK IT system and network	Contract out portions of IT activity, retaining that portion that TAK personnel can maintain	In early stages of determining what parts should be contracted out and what the budget implications would be
1.2 Tax Admin.	SIGTAS functionality is more limited than initially believed	Continue with SIGTAS upgrade and work with contractor to develop solutions to allow	Contractor has been advised of areas requiring a solution (penalty

		maximum use of the automated system	implementation in such a way that previous penalty amounts are not deleted and new amounts assessed, etc.)
1.2 Tax Admin.	TAK staffing inadequate to meet compliance needs and staff new positions provided by amended Law on Tax Administration and Procedures – Government staffing levels are capped and gaining Government approval will be difficult	Increase staff by a minimum of 100 staff years	Proposal prepared and Director has had some discussion with Minister
2.0	MEM insists that the draft law place the Mining Inspectorate under MEM, counter to the TAIEX expert's and my advice	Promote change in the Assembly that places Inspectorate under ICMM.	
2.0	New rules of procedure of the Government place the Government legislative working groups under the chairmanship of the sponsoring ministry, making the Government review group a rubber stamp, and not a vetting body, for legislative proposals from the ministries	Change rules of Government to place chairmanship of Gov working group under someone other than a representative of the sponsoring ministry. Rules should also clarify the role of the Government working group.	Submission to be discussed with USAID/Embassy and tabled in Government meeting by a sponsoring Minister.
	New rules of legislative formatting in both the Government's and the Assembly "rules of procedure" require a legislative numbering system that makes laws more difficult, not easier, to follow and understand	Change the rules	As above
4.0 Energy	Contradictory approaches by counterparts for New Kosovo Project structure	GOK/PSC take final decision on key project requirements and instruct parties to implement.	GOK announced comprehensive position and approach. Next PSC meeting on April 8, 2009
4.0 Energy	Original tender for TA for KEK Disco annulled.	Tender re-launched. PC needs to insure that evaluation done according to law and procedures.	New proposals due April 7, 2009 at 2:00pm.

4. SUCCESS STORIES

The Property Tax Administration Management System (PTAMS) v1.0 went live on March 16, 2009. The new system institutionalizes improvements to property tax administration and will lead to increased collections.

The successful hiring of a transaction advisor for the Pristina International Airport PPP represents the first international public procurement of this type in Kosovo and is now being viewed as “best practice” for future projects. The use of experienced transaction advisors to manage these projects will generate greater confidence in PPP projects from international investors.

A important development was achieved with the decision of the Government to appoint a Fiscal and Budget Committee (“FBC”) that is now responsible for driving the MTEF and fiscal policy generally. This was a key recommendation prepared by the Project for the Minister, which sought to address the lack of leadership in the Government on fiscal issues.

Project Advisors provided support to the Ministry in the preparation of the Public Expenditure Financial Accountability (“PEFA”) assessment. The PEFA self-assessment has been prepared by the MFE, with guidance from advisors, and sent to major donors for input.

5. MAJOR UPCOMING ACTIVITIES

Objective	Upcoming Activity	Counterpart(s)	Planned Dates
1.1 Economy	Membership of IMF and world Bank	MFE and OPM Working Group	June 2009
1.1 Economy	Finalization of MTEF	MFE	April 2009
1.1 Property Tax	Issue tender for real estate resurvey	Property Tax	April 2009
1.1 PPP	Approval of PPP Law by the Assembly	Assembly	April 2009
1.1 PPP	Promulgation of the PPP Law by the President of the Republic of Kosovo	Presidency	May 2009
3.1 Airport Concession	Submission of Phase 1 Report for Airport PPP and selection of the contracting modality by the Government	Project Steering Committee, Transaction Advisor, PPP Unit	May 27, 2009
4.0 Energy	KEK Disco TA proposals due	MFE Procurement Office	April 7, 2009
4.0 Energy	New Kosovo PSC Meeting	PSC, PO, TA, LA, Observers	April 8, 2009