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GROWTH AND FISCAL STABILITY INITIATIVE (GFSI)

YEAR 1 – ANNUAL REPORT

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

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

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1 GFSI ANNUAL REPORT SUMMARY

While the delays in establishing a new Government following the general election in October 2010 disrupted the GFSI work plan at the central government level – especially in the areas of IT, Budget and Economic Policy – it also provided an opportunity to more aggressively pursue activities within the municipality area. As reported in this document, the decision to redouble efforts in the municipalities while there was disruption at the center paid dividends with successes in PEFA, Municipal unqualified audit reports, certification of the new municipalities and prefeasibility for municipal public private partnership projects all exceeding expectations.

The PEFA outcomes were outstanding, with five municipalities completing the self assessment and the report now endorsed by the PEFA Secretariat in Washington. PEFA self-assessments have been launched for an additional six municipalities, with an expected conclusion to that activity by December 2011. Together with PEFA, a comprehensive review of medium term expenditure frameworks (MTEF) at the municipal level was also undertaken, leading to the development of a MTEF manual for municipalities to help guide them in the development of more robust MTEF's for 2012 and beyond.

In Treasury, certification of the new municipalities in financial management has been a success. This required quite extensive training, some one-on-one. As part of this process, the project reached out to the northern municipalities to assess if they were ready for decentralization training and assistance in financial statement preparation. On the latter issue, the project had success and for the first time all 37 municipalities submitted financial statements for 2010.

The project also adopted a strategy – agreed with the Auditor General - on assisting municipalities with their financial statements preparation and problem solving related to the previous year's audit reports. This process yielded success with ten (10) municipalities receiving unqualified audit reports for 2010, an increase from two (2) in 2009. Two municipalities (Pristina, Prizren) are now eligible to borrow consistent with the pre-conditions of the Debt Law.

In Public Private Partnerships (PPP), the airport was formally handed over in a ceremony in April. Much has been written regarding the airport transaction success; this transaction will remain the benchmark PPP project in an emerging market. Pristina launched their bid for underground car park development and another seventeen (17) municipal PPP projects have been earmarked or are underway.

Under Economic Policy, the project assisted the government to develop their Economic Vision and Action Plan at a retreat in Bansko, Bulgaria. This plan covers the period 2011-2014 and the focus is quickly moving to implementation with the project assisting the Minister of Finance (MoF) to launch the Strategic Expenditure Review (SER) (approved by Cabinet in July) and develop a position paper on developing a policy unit within the Ministry (approved by the Minister in July).

In Property Tax, our local advisors continue to work with the SIDA project with the outsourcing and quality control of the re-survey effort and Implementation of a new appraisal model (initially in two pilot municipalities), including the 2011 mass taxation and bill production.

The one area of the project that still lacks an active counterpart and is at some risk is the reform of information technology in the MoF. There will be a concerted effort post the summer holidays to refocus the MoF leadership in taking active steps to improve information technology in the ministry.

2 ACHIEVEMENTS AND SUCCESS STORIES

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

- Closing and ground breaking on the Pristina International Airport PPP. A 106 million Euro 20-year Build Operate and Transfer (BOT) contract was signed with Limak (Turkey) and Aeroports de Lyon (France) and debt financing was provided by Vakif Bank (Turkey).
- Successfully initiated five PPP projects in solid waste, urban transport and city car parking PPP project in three key municipalities. The projects are in various stages of development from feasibility studies to Request for Qualifications (RfQ).
- Completed eight municipal prefeasibility studies including the five mentioned above.
- PPP project pipeline with 18 potential projects, including the projects set forth above.
- Developed the following process PPP methodologies and templates for the Central and Municipal authorities:
 - Project identification, selection and control matrix for pipeline projects.
 - Prefeasibility evaluation (evaluation and structure)
 - Business case (reference and value-for-money models)
 - Standard RfQ
 - Standard RfP
 - Standard BOT/Concession contract
- A Draft Revised PPP Law compliant with new EU requirements was drafted and approved by the Government and has been sent to the National Assembly for adoption.
- Legislative initiatives supported by the GFSI advisor resulted in the formulation of three new laws, including: Law on the Privatization Agency of Kosovo of 2011, Law on the Special Chamber on Privatization Related Matters, and Law on the Reorganization of Certain Enterprises and Their Assets.

Objective 2 – Fiscal stewardship

- Completed the first Kosovo Local Government PEFA Performance Report based on the assisted self-assessment in five Municipalities: Pristina, Podujevo, Vushtri, Sterpce, and Mamusha.
- Roll out of the second round of the PEFA self-assessment for the selected group of six Municipalities primarily representing key regional centers: Ferizaj, Gjakova, Peja, Istog, Gijlane, and Nove Brdo.
- Publication of the Technical Guidance on the implementation of the PEFA assessment in the Kosovo Municipalities, which supports PEFA standard manuals and can now serve as a model approach, including international application.
- Publication of the first comprehensive review of MTEF practices in the Kosovo Municipalities.
- Publication and dissemination of the first comprehensive Technical Manual on the preparation of Municipal MTEF, in support to strengthened approach towards multi-year policy oriented municipal budgeting.
- Capacity building initiatives addressed to the key stakeholders, including MoF, municipal budget practitioners, and municipal executive leaders in strengthened municipal MTEF and budgeting practices.
- Training and certification of the key PFM personnel in three new Municipalities.
- Municipalities Gracanica, Kllokot, and Partesh connected to the government financial management system with live access to the KFMIS.

Objective 2 – Assistance to the Office of Auditor General

- Unqualified audits for 10 municipalities, following GFSI engagement to provide assistance to municipalities in preparing financial statements and in coordinating engagement between the Treasury, municipalities and the Office of the Auditor General regarding preparation of financial statements.

Objective 2 – Assistance to the Ministry of Finance

- Budget Organizations submitted performance measures with their first submissions for the 2012 Budget. While these indicators need further development during the budget process, the foundations are established to enable budget decision making to be supported by information regarding the quality of outputs and outcomes in service delivery by government.
- In the first year of the GFSI project Kosovo has been a signatory to two IMF programs. While the political discourse associated with the 2010 national elections led to some poor policy choices, the MoF have demonstrated capacity to engage positively and effectively with the IMF on technical issues, with coaching and mentoring from GFSI advisors as required.
- The Treasury continues its effective transformation from what was effectively an accounting department to a more analytical and strategic approach – as required for a future where cash and debt management will become more critical. GFSI has assisted the Treasury in developing new financial rules for (1) annual reporting on operations and performance, (2) enhanced reporting on commitments and obligations and (3) a new rule requiring 3rd quarter financial statements to be prepared for interim audit by the Auditor General.

Objective 2 – Assistance to the IT systems in the Ministry of Finance

- Initial assessment of IT at MoF HQ, Customs and TAK
- Proposed a new IT Organizational Structure along with detail description of responsibilities, drafted an IT Transformation Approach, and prepared first set of IT policies and procedures – mainly for use of IT Assets – to be used as a core to build a full set of IT Policies & Procedures
- Defined and documented requirements for Jointed Server Room
- Identified needs of data exchange between some applications – internal and external for the MoF
- Implemented Fiscal Number (FN) in Property Tax System and functionalities allowing TAK to access Property Tax Systems, search and retrieve information

Objective 2 – Assistance to the Property Tax

- Conducted a comprehensive review of the 2009 annual audit reports.
- Develop a new Audit Report Model, including implementation strategy.
- Conducted capacity building initiatives for practitioners from the PTD and municipalities.
- Provided assistance in the property resurvey quality control processes.
- Implementation of a new appraisal model in two pilot municipalities, including the 2011 mass taxation and bill production.
- Capacity building for the roll out of a new appraisal model and property tax impact analysis.
- Enhancements to the PT System.
- Coordinated strategy for sustainable maintenance and development of the PT System needs.

Objective 3 – Economic Policy Assistance

- Supported, the Economic Ministers in developing an Economic Vision and Action Plan following a week long retreat in Bansko, Bulgaria.

3 PROJECT PROGRESS IN YEAR 1

3.1 Objective 1

A – Public-Private-Partnerships: Strengthen the Ability and Capacity of Central and Local Institutions to Identify, Develop and Implement Public-Private-Partnership (PPP) Projects as an Important Private Sector Funding Mechanism for Meeting Kosovo's Public Infrastructure Investment Priorities;

3.1.1 Consolidate the Legal, Institutional, and Strategic Framework for PPP

Work continued on multiple fronts to strengthen the legal, institutional and policy framework for PPP's in Kosovo. To address some of the systematic weaknesses identified during the first year of the PPP program diagnostic, GFSI advisors drafted and/or supported the PPP Unit in the drafting and/or implementing:

- a revised, EU compliant PPP Law,
- two directives (secondary legislation/rules),
- PPP-ISC Rules of Procedure,
- an organizational structure for the Central PPP Unit,
- preliminary draft operating procedures (PPP Guidelines to be developed), a draft “PPP & Concession Report” for the Assembly,
- sample procurement documents for PPP, including a sample “Request for Qualifications” and “Request for Proposals”
- sample Works (BOT)/Concession contract and sample Service Concession contract

A PPP project pipeline was created through a model that identifies, prioritizes, selects and tracks the implementation of PPP projects. The model was created at the central government level and is used in evaluating on a preliminary basis projects proposed by the larger municipalities.

As part of the process, specifically with respect to the larger PPP projects, GFSI advisors undertook a legal “due diligence” of all laws that could affect the implementation and operation of a PPP. The “due diligence” included a review of general laws that affect PPP transactions regardless of the sector, such as the “PPP Law”, the “Law on Public Financial Management and Accountability” and the “Public Debt Law”, as well as sector specific laws, such as solid waste related regulatory and environmental laws that would only affect PPPs within the specific sectors.

The purpose for including a legal “due diligence” in the process was to prepare the PPP Unit and the various contracting authorities for legal issues that may arise when potential private sector investors/operators undertake their own “due diligence” in the ordinary course of business. Another reason for the “due diligence” was to identify potential problems (e.g., conflicting laws) and develop a strategy for synchronizing the laws.

Based on the findings of the legal “due diligence”, the GFSI Team headed a PPP Law working group that resulted in a draft revised PPP Law. The working group included representatives of the PPP Unit, the Office of the Prime Minister, the MoF, the Ministry of Economic Development and the Ministry of Local Government Administration, as well as representatives of the European Commission Liaison Office. This exercise developed into a draft revision of the PPP Law that also incorporates new EU PPP policy, clarifies project approval procedures and ensures better fiscal control of potential financial liabilities which may be incurred through PPP projects. The GFSI Team also participated in or are currently participating in similar groups with respect to the Law on State Aid to ensure consistency with the new PPP Law.. The

Revised PPP Law was approved by the Government in the first week of July and has been sent to the Assembly for review and adoption.

The GFSI PPP Team also prepared two directives that were passed by the PPP Inter-ministerial Steering Committee (“PPP-ISC”) in last quarter of 2010, Directive 1/2011 on Procedures for the Submission and Processing of PPP Project Proposals, and Directive 2/2011 on Procedures for Project Management. The first PPP-ISC approved directive was one of the bases of the Revised PPP Law and the backbone for the PPP Guidelines to be prepared by the GFSI team and the PPP unit following passage of the PPP Law. As set forth in Directive 1/2011, a contracting authority should approach the PPP Unit or the PPP-ISC through the PPP Unit at three points in the project development life cycle as follows:

- The first point at which the contracting authority may approach the PPP Unit is following its completion of the pre-feasibility. The overall purpose of this first step is for the PPP Unit to develop an early understanding of the project to determine whether the pre-feasibility supports the commitment of additional resources to the project. The PPP-ISC does not review or approve the pre-feasibility study. However, the PPP Unit can issue a non-binding recommendation to proceed with the full feasibility and prepare all transaction related documentation (a feasibility study, a draft PPP contract, RfQ and RfP).
- Following the completion of the feasibility study and a draft PPP contract, RfQ and RfP, the contracting authority is required to approach the PPP-ISC requesting authority to proceed with the project. The contracting authority needs to demonstrate “affordability” (sufficient budget/resources to cover costs and/or other liability”) and “value-for-money”.
- Prior to the formal signing of the final contract, the contracting authority is required to approach the PPP-ISC for the third time. The contracting authority is responsible for showing that the final contract(s) continue to meet the “affordability” and “value-for-money” criteria.

This Directive (1/2011) provides a very high level detailed flowchart of the process. Final PPP project guidelines will be developed based on the final revised PPP Law and general PPP “best practices”.

The GFSI Team also prepared sample standard procurement documents, “Request for Qualifications” (RfQ) and a “Request for Proposals” (RfP) as well as a sample Works Concession contract. These sample documents will assist potential contracting authorities in designing the tendering documents for PPP projects as required by law. The Team also prepared a draft “PPP & Concession Report” and presented it to the Government for submission to the General Assembly. As of the date of this report, the draft PPP & Concession Report had not been formally submitted to the General Assembly.

Task order tasks completed during year one:

- Create organizational structure for the drafting of necessary secondary legislation
- Identify priorities and begin drafting of secondary legislation
- Review / Refine PPP-ISC by-laws and operating procedures
- Update organizational structure for central PPP Unit
- Development of municipality selection criteria for PPP assistance / integration strategy
- Update and refine PPP project pipeline
- Prepare annual “PPP & Concession Report” for the Assembly
- Continue drafting of secondary legislation. Review, consult, and finalize draft regulations
- Selection of municipalities and organizational structuring for municipal PPP implementation
- Approve / promulgate secondary legislation
- Establish working group to review PPP law and consider priority amendments
- Develop TORs and recruit / second staff for municipal PPP

Task order tasks not completed during year one:

- Consolidate central PPP Unit – Only one PPP Unit position (Public Relations) was filled during the first year of the project. Other position descriptions and requests to hire additional financial, legal and engineering staff have been submitted by the PPP Unit to the MoF Personnel Department over the past 6 months.
- Draft multi-year PPP strategy and work plan for central government and municipalities – A PPP strategy and work plan for the central Government PPP Unit was approved by the Minister of Finance and the PPP-ISC. For the first year, the focus at the Municipal level has been on identifying, selecting and beginning to implement PPP projects. PPP strategies and work plans will be developed at selected municipalities in years 2 and 3 of the project.

3.1.2 Provide Technical Assistance for Priority PPP Transactions Across Multiple Sectors

The process developed and implemented by the GFSI team and shared with the PPP Unit and the various contracting authorities for each potential project includes the following at both the central and municipal government levels:

- A. Identify, rank and select PPP projects based on an internally developed **“Project Matrix”** (Excel). The process ranks and selects projects based on various criteria including project specific (e.g., “green” vs.” brown” field, replicability, political sensitivity), legal (e.g., enabling legal environment), private sector (e.g., capacity and interest) and contracting authority capacity and commitment (e.g., budget, project “champion”) issues. Emphasis and development focus has been placed on the high ranking potential projects.
- B. Pre-feasibility study which includes the initial “back-of-the envelop” financial model, site visit, further review of the budget (if applicable), preliminary identification and allocation of risk and an early draft timeline. Potential projects can be recommended (to devote additional resources), restructured (if not feasible) or terminated at this point.
- C. Preparation for PPP-ISC and/or municipal approval:
 - a. Feasibility study which, depending on nature of the project, may include technical, legal, environmental, financial and economic and other studies. The overall study includes examination of project “value-for-money” and “affordability” and identifies values and allocates all relevant risks. The financial models include: 1) a reference or “shadow” model that reflects what the private sector would propose, 2) a public sector comparator to measure the true cost of the public sector conducting the project as a traditional public sector procurement.
 - b. RfQ for short-listing potential bidders. The document includes a description of the nature of the project, the expected “output” criteria of the project, and criteria to be used in short-listing.
 - c. RfP that will be issued to the short-listed bidders. The document contains information in significantly more detail than the RfQ. The RfP also includes a draft copy of the contract for comment by the bidders. Additional comments and information received during the RfQ stage may also be incorporated into the RfP.
 - d. Project PPP contract which varies considerably depending on the structure and nature of the PPP, sector. Risk sharing profile, etc. However, it will include all pertinent information described above and other criteria such as expected performance, construction and service standards, key performance indicators, technical scope document, concessionaire’s legal opinion and other necessary documents and information.

- D. The proposals are received and evaluated ending in the awarding of the project. The PPP-ISC reviews and approves the final contract to assure that the value-for-money and “affordability” conditions continue to be met.

The following Table presents the pipeline and brief description of the technical assistance provided to the central and municipal governments through the GFSI Objective 1.

PROJECTS AT CENTRAL LEVEL - Status as of : July 15, 2011

	Project	Type of Project	Contact Point	STATUS
1	Route 6	PPP/PFI (BOT)	Ram Qupeva (Ministry of Infrastructure)	Prefeasibility half completed. Showed potential full cost recovery in 1st and 2nd segments. Currently being considered for traditional procurement.
2	Route 7 (maintenance and tolling)	Management Contract Minimal CAPEX to be invested by Private partner	Ram Qupeva (Ministry of Infrastructure)	Bechtel & Enka currently working on Segment 4 Bechtel has introduced a Tolling Company from Hungary Maintenance & Toll of the Route 7
3	Customs/TAK Bldg.	PFI	Lorik Fejzullahu - MF / PPP Unit (Customs/TAK Director)	Currently underway. Will meet with MoF & MoPA
4	Prishtina Int'l Airport	PPP (BOT)	Lorik Fejzullahu - MF / PPP Unit	Official ground braking in mid-July Independent engineers mobilized PMU contract to be awarded to firm instead of establishing a new government office
5	The Solid Waste-Landfill	PPP (BOT/PFI)	Lorik Fejzullahu - MF / PPP Unit	Feasibility study completed and being reviewed. The investors conference took place at end of May 2011. Over 20 potential investor groups attended the conference, including 5 potential local investors. IFC is transaction advisor.

PROJECTS AT MUNICIPAL LEVEL - Status as of : July 15, 2011

Nr.	Municipality	Type of Project	Contact Point	STATUS
1	Prishtina	<u>Underground Parking - Municipality Building (BOT)</u>	Avdullah Hoti (D/Mayor) 044 350 133 (avdullah.hoti@gmail.com)	Municipality, under the 5% exemption rule, issued the RfQ without PPP-ISC approval. Short-listing of qualified potential bidders to begin on July 21. Feasibility study being revised and finalized RfP under review by the Municipality Contract under review by the Municipality
2	Prishtina	<u>Underground Parking - Grand Hotel (BOT)</u>	Avdullah Hoti (D/Mayor) 044 350 133 (avdullah.hoti@gmail.com)	Municipality, under the 5% exemption rule, issued the RfQ without PPP-ISC approval. Short-listing of qualified potential bidders to begin on July 21. Feasibility study being revised and finalized RfP under review by the Municipality
3	Prishtina	<u>Underground Parking - Prishtina University (BOT)</u>	Avdullah Hoti (D/Mayor) 044 350 133 (avdullah.hoti@gmail.com)	Municipality, under the 5% exemption rule, issued the RfQ without PPP-ISC approval. Short-listing of qualified potential bidders to begin on July 21. Feasibility study being revised and finalized RfP under review by the Municipality
4	Peja	<u>URBAN TRANSPORT</u> Feasibility Study submitted - needs an upgrade	Aferdita Grapci (aferdita_g63@hotmail.com) 044 139 358 Naim Sahiti (naimisahiti@hotmail.com) 044 137 692	Feasibility study and draft RfQ completed and presented to the Municipality in June - PSC and Value for Money - Demand scenarios and write up - Economic - Project time line
5	Suhareke	Solid Waste Collection	Avni Bytyci - Legal Advisor to Mayor avniytyqi_76@hotmail.com 044 / 259 450 029 / 271 323	Selected as lead SWM collection project. Process to produce standard/template PPP documents and models - Introductory workshop (being prepared) - Evaluation of collection system ("as-is") completed - Prefeasibility Study and PPP options reviewed and completed - Development of key performance indicators underway - RfQ underway - RfP underway - contracts underway - Project Management Unit training to be prepared
6	Prishtina	<u>URBAN TRANSPORT</u>	Avdullah Hoti (D/Mayor) 044 350 133 (avdullah.hoti@gmail.com) Aqim Gashi (Head of Public Service)	Coordination with EU Prishtina Twinning Project. Data collection and pre-feasibility underway
7	Fushe Kosova	<u>WASTE COLLECTION AND SORTING</u>	Fadil Krasniqi (fadil_k58@hotmail.com) 044 126 324	Included as one of four municipal SWM collection projects to benefit from upcoming program that will include: - Introductory workshop - Evaluation of collection system - Prefeasibility and/or feasibility Study and PPP options - Development of key performance indicators for RfQ, RfP and contracts - Project Management Unit training Waste Law related legal concerns have delayed project All PPP related documentation (including feasibility study) to be completed and RfQ to be issued before the end 2011
8	Shterpece	<u>WASTE COLLECTION</u>	Dalibor Jevtic (dalibor.jevtic@ks-gov.net) 045 297 936 (Dimitrije Racicevic)	Parallel Municipal Gov't service provided at half the price of Municipality. Will encourage existing subsidized provider to bid on PPP Included as one of four municipal SWM collection projects to benefit from upcoming program that will include: - Introductory workshop - Evaluation of collection system - Prefeasibility Study and PPP options - Development of key performance indicators for RfQ, RfP and contracts - Project Management Unit training
9	Prizren	<u>PARKING & COMMERCIAL & CINEMA</u> (Multi-level, under&above ground)	Mehmet Butuc (mehmet.butuc@ks-gov.net) 044 144 569 Fejsal Hoti (029 230 941) Laura Suka (029 241 972)	Pre-feasibility underway
10	Prizren	<u>PARKING (Above ground)</u>	Mehmet Butuc (mehmet.butuc@ks-gov.net) 044 144 569 Fejsal Hoti (029 230 941) Laura Suka (029 241 972)	Pre-feasibility underway
11	Gjilan	<u>COMMERCIAL/RECREATIONAL COMPLEX</u>	Nazim Jashari (nazimjashari@gmail.com) 044 112 653 and Afrim Hoti (afrim_hoti@hotmail.com) 044 310 499	Prefeasibility completed. Project not feasible in original structure. Recommended to restructure the project.
12	Gjilan	<u>WASTE COLLECTION AND MANAGMENT</u>	Nazim Jashari (nazimjashari@gmail.com) 044 112 653 and Afrim Hoti (afrim_hoti@hotmail.com) 044 310 499	Included as one of four municipal SWM collection projects to benefit from upcoming program that will include: - Introductory workshop - Evaluation of collection system - Prefeasibility Study and PPP options - Development of key performance indicators for RfQ, RfP and contracts - Project Management Unit training The Municipality chose to fast track the process under the 5% Rule. RfQ has been sent out for the sale of 51% Higijena (Regional solid waste collection POE)
13	Ferizaj	<u>Construction of Recreational, Cultural and Sports Center</u>	Ardian Ferizi - Head of Planning and Development Dept. Ardian.ferizi@ks-gov.net 029-321 - 057 044 - 263 - 227	Pre-feasibility underway
14	Ferizaj	<u>TRADE CENTER AT THE MARKETPLACE WITH UNDERGROUND PARKING</u>	Ardian Ferizi - Head of Planning and Development Dept. Ardian.ferizi@ks-gov.net 029-321 - 057 044 - 263 - 227	Pre-feasibility underway
15	Ferizaj	<u>WASTE WATER TREATMENT</u>	Ardian Ferizi - Head of Planning and Development Dept. Ardian.ferizi@ks-gov.net 029-321 - 057 044 - 263 - 227	Had meeting with USAID funded project (K-WISER) in June. Will coordinate as project moves forward. Follow-up meeting required with Municipality and K-WISER.
16	Prizren	<u>RECONSTRUCTION of MARKETPLACE</u>	Mehmet Butuc (mehmet.butuc@ks-gov.net) 044 144 569 Fejsal Hoti (029 230 941) Laura Suka (029 241 972)	Pre-feasibility underway
17	Ferizaj	<u>BUILDING A RESTAURANT AND MAINTENANCE OF PARK</u>	Ardian Ferizi - Head of Planning and Development Dept. Ardian.ferizi@ks-gov.net 029-321 - 057 044 - 263 - 227	Pre-feasibility underway

3.1.3 Assist the GoK at the Central and Municipal Levels to Develop Contract Governance and Oversight Structures for PPP

The overall objective of this task is to create a Project Management Unit (PMU) and a program for managing the Pristina International Airport (PIA) 20-year build, operate and transfer (BOT) contract while develop methodology and templates for all future BOT projects. The task includes everything from the recruiting of the PMU staff to identifying a sustainable funding source for its operations over the life of the contract. A framework for contract governance or contract oversight model and the related training program would be created for the PIA BOT contract with the intention of using it as the basis for all future large BOT style projects. The development of this task assumed drawing from a qualified technical and management labor pool.

To that end, a contract for the PIA PMU was drafted with the terms of reference for each of the following anticipated positions prepared:

1. Project Manager
2. Technical Advisor
3. Operations Advisor
4. Finance Advisor
5. Legal Advisor

The MoF in its role as contracting authority on the airport project did advertise in order to recruit the above positions. The result of the exercise were deemed unsatisfactory as there were only two applicants for each of the project manager and finance advisor positions, three applicants for technical advisor and no applicants at all for the positions of operations and legal advisors. As a result, the PPP-ISC appointed the existing PPP Unit as the acting PMU, withdrew its outstanding advertisements to recruit individuals and is currently issuing a tender for the management of the PIA project to qualified private sector entities.

It should be noted however, that an international independent engineer (IE) was hired through a competitive tendering process to oversee the construction of the new airport. The IE has been mobilized and is operating. The MoF, acting as the contracting authority, also determined that the best funding source for the project management function of the airport would be through its budget. The PIA PPP contract will generate significant revenues for the GoK and will therefore contribute to the GoK budget.

Per the PIA PPP contract, the PIA concessionaire will file with the MoF, acting as contracting agency, quarterly and annual reports that will form the basis for the monitoring and compliance auditing functions of the contract. The ultimate selection of the project manager will be based on its capacity to assure the proper monitoring and auditing of the contract. The first quarterly report is due in August of 2011 and the MoF intends to have a permanent project manager onboard in time to review the second report.

As described above, the PPP-ISC has passed Directive (2/2011) that provides guidance for the establishment of PMU's as well as project implementation units (PIU), wherever applicable. Although circumstances have required that this task be redefined for PIA and other major PPP projects, it is anticipated that for municipal and smaller Central Government PPP projects the PIU and/or PMU will be recruited and/or drawn from existing staff. Establishing monitoring and auditing capacity within the contracting authorities is and will continue to be a priority on all PPP projects.

Task order tasks completed during year one

- Establish legal and institutional framework for contract governance of the Pristina International Airport (PIA) PPP
- Analyze and identify sustainable funding sources for PMU.
- Implement funding mechanism for PMU
- Ongoing support to PIA PPP PMU

- Ongoing performance monitoring and compliance audit support to PMU
- Outline general framework for contract governance and oversight for PPP projects
- Design project-specific PMU's (as so required)

Task order tasks not completed during year one:

- Recruit key PMU personnel for PIA PPP – Considering the unsatisfactory results of the first request for applications for the PIA PMU, the process has been withdrawn and the PPP Unit has been designated by the PPP-ISC as the acting PMU. A tender for project management services is being prepared and will be issued in the near future. A recently mobilized IE is monitoring of the construction of the project.
- PMU training / capacity building - PMU's are a critical function necessary for the implementation and operation of all PPP's. Once a firm is selected, we will work with them to ensure coverage. This should be completed by first quarter 2012.

3.1.4 Implement a Multi-Sector PPP and Project Financing Capacity Building Program

The GFSI team focused on developing an integrated capacity building and training program in the first year. In addition to a general understanding of PPPs the comprehensive training needs assessment included six PPP competency areas. The results formed the basis for the critical PPP capacity building needs for the project's municipal and Central Government counterparts. The six competency areas included an understanding of:

- PPP Framework
- Project Start-up
- Feasibility Studies
- Transaction Design
- Transaction Implementation
- Effective Partnership

Excel-based questionnaire and assessment tool were developed in order to gather, compile and analyze survey data, and to identify top performance risks, gaps, as well as key success factors. The self-diagnostic questionnaire based on the competencies was prepared and delivered to each counterpart.

Although several municipalities and relevant line ministries received a general introduction to PPPs while the GFSI Team delivered the needs assessment questionnaire, an integrated capacity building program continues to be developed. The PPP guidelines, which will be prepared following the passage of the amendments to the PPP Law by the National Assembly along with the outcome of the training needs assessment, will determine the priority areas of the integrated training program. A curriculum will also be delivered as ongoing education over the course of a semester at one or more universities/training institutes.

A group of fourteen central and municipal officials also participated in an intensive one week PPP training program at PPP Centrum, the PPP capacity center in the Czech Republic. Program participants were selected based on their capacity and the nature of their institutions' PPP projects in the PPP pipeline. The program was funded, organized and managed through World Learning. Two additional Pristina Municipality officials, including the Deputy Mayor, were invited to participate directly by GFSI due to a lack of resources within World Learning budget and the municipality's interest in participating. The program consisted of a combination of PPP training, regional case studies and existing PPP project site visits.

The GFSI Team will focus heavily on continuing to develop PPP capacity building (including environmental assessments) at both the central and municipal government levels. This effort will include developing user friendly PPP Guidelines that in turn will be used to continue to develop a standardized curriculum and a targeted training and seminar program. Year two of the program will also focus on

continuing to identify potential universities and learning institutions to deliver the standardized curriculum and developing a train-the-trainer programs.

Task order tasks completed during year one

- Training Needs Assessment for Targeted Training & Seminars
- Identify and structure study-tour opportunities
- Development of Targeted Training and Seminar Program
- Regular delivery of targeted training and seminars
- Design and Development of standardized curriculum
- PPP Study Tour

Task order tasks not completed during year one:

- Selection of Trainers and Learning Center – The selection of trainers and universities/learning institutions to deliver a standardized PPP curriculum has been pushed back to allow the team to focus on providing technical assistance in the closing of the PIA and other PPP transactions in important and replicable sectors, including solid waste collection, urban transport and parking. In addition to the results of the needs assessment, other activities currently underway that may impact training content are the passage of the PPP amendments, the Public Debt, Procurement and State Aid Laws as well as related sector legislation (e.g., water, solid waste).
- Development of course materials and manuals – Although course material is developed on a continual basis to meet the training requirements, as with the selection of trainers and Learning Centers, the development of standard course materials and manuals will be undertaken in the second year of GFSI.

3.1.5 Promote Positive Environmental Impact Through Public-Private-Partnerships

During the first year, GFSI Team focused on certain sectors in which PPP projects would clearly have a positive impact on the environment. These sectors include solid waste management (SWM) collection and landfills and urban transport and parking.

In the area of SWM collections, the GFSI Team developed a strategy and methodology in which a first project (Suhareka Municipality) if successful will be rolled out to other small and medium sized municipalities. For Suhareka, the financial models (reference/shadow and public sector comparator) for the feasibility study, tendering documents (RfP and RfQ), and draft PPP contract are underway and are expected to be presented to the PPP-ISC in the first quarter of Year Two. The municipalities that will benefit initially from the rollout are likely to be Fushe Kosova and Strpse. On the SWM landfill project, the IFC (as transaction advisors) is revising the feasibility study following comments received during an investors' roundtable that attracted over twenty potential investors/operators (15 international firms).

In the area of urban transport, GFSI is supporting the Peja and Pristina Municipalities. In Peja, the feasibility study, tender documents and PPP concession contract have been completed and are under review by the Municipality. It is expected that the PPP Unit will take the project to the PPP-ISC in the first quarter of Year Two. Support in the evaluation of the Pristina urban traffic system is in the early stages of data gathering and surveying. The pre-feasibility stage will provide a preliminary recommendation on potential PPP structure (if any), "affordability"/availability of budget and value-for-money.

The GFSI team participated in the Waste Law working group and provided PPP related comments. The team is also in the process of completing an outline of an environmental training module and guidelines that will focus on specific sectors and project sizes. For large projects that require international investment, environmental guidelines, including a system for monitoring and evaluating the construction and/or operating process already exists. The process is followed closely to minimize exposure to risk.

Particular attention will be placed on capacity building and the development of environmental guidelines at smaller (mostly municipal) projects. Initially, the sectors focus will be on SWM, urban transport and public parking. The guidelines based training program will be designed for central and municipal government authorities, investors, operators, developers, construction companies, banks, and NGO.

Along with the implementation of the environmental guidelines and training described above, GFSI will continue pay attention to environmental issues surrounding all PPP projects in which it is providing capacity at the central and municipal government levels.

Task order tasks completed during year one

- A. Lend ongoing technical assistance to the central and municipal governments evaluating a PPP for SWM (landfills and collection)

Task order tasks not completed during year one:

- Create a targeted training module regarding environmental planning, mitigation and monitoring measures in PPP projects – The training module and guidelines are in the early stages of development. The material will be based on the sectors included in the pipeline of potential projects. The first year focused on developing the pipelines, implementing early stage PPP projects, and creating PPP primary and secondary legislation and directives that are feeding to the development of the PPP training and guidelines.
- Draft implementing regulations establishing general environmental guidelines for all PPP projects – See previous comment.
- Deliver environmental training module as part of targeted training (see activity 4) –See previous comment.

3.1.6 Assistance to PAK

Legislative initiatives supported by the GFSI advisor resulted in the formulation of three new laws:

Law on the Privatization Agency of Kosovo of 2011: The law will replace the existing PAK Law with a new law that will address certain serious problems created by the existing PAK law. The new law is based on and highly similar to the existing PAK Law but with the following important changes.:

- The new PAK Law eliminates the time-consuming “review committee” process at PAK. Under existing law a claimant who is dissatisfied with PAK’s administrative disposition of its claim must first seek an administrative review of its dispute with PAK before an administrative tribunal at PAK (a “review committee”, headed by an international appointed and paid for by ICO). If the claimant is still dissatisfied after the review committee’s decision, it may take the claim to the Special Chamber. There is no compelling legal reason to maintain these review committees, as it is sufficient if a claimant who is dissatisfied with PAK’s administrative handling of its claim may take the dispute with PAK directly to the Special Chamber. Of course, in the near term, when the new PAK Law comes into force, the large backlog of disputes currently pending before PAK review committees will have to be transferred to the Special Chamber (one of several reasons why the Special Chamber is likely in need of increased funding and staffing.)
- The new Law aims to accelerate the work of the liquidation committees by putting international “professional service providers” in charge. Under current law, every liquidation committee must be chaired by an international paid by the ICO. The new Law requires the PAK to hire, through a transparent international tender, experienced professional liquidation and legal expertise to run the liquidation process for all SOEs that have value or are subject to claims, and to assist the PAK legal department deal more effectively and efficiently with its litigation case load.

- The new PAK Law authorizes the PAK Board to review the claims made against the various trust funds holding proceeds from privatizations and liquidations and to determine whether and to what extent there is money in a trust fund that clearly exceeds any amount that might reasonably be needed to satisfy the claims, even assuming that all claims are completely valid as submitted. This clearly identifiable excess is referred to as “surplus” and the new PAK Law authorizes the PAK Board to identify and pay over this surplus into the Kosovo budget.

Every SOE must eventually be formally liquidated. With respect to those SOE’s whose assets have previously been privatized through the special spin-off method, the proceeds from that privatization – held in a trust fund - are now the assets of the SOE, which – as a legal entity – still exists. Wherever possible, these SOEs need to be formally dissolved and the proceeds in the trust funds distributed first to creditors and then to the owners of the SOE (note: in almost all, if not all, cases, the majority or sole owner of the SOE will be the Republic of Kosovo, a fact important to the previous bullet).

Law on the Special Chamber on Privatization Related Matters: The law will replace (1) UNMIK Regulation 2002/13 on the Special Chamber on KTA Related Matters, and (2) UNMIK AD 2008/06, which sets out the fundamental procedures to be followed by the Special Chamber. The new law is needed to govern the operations of the Special Chamber in a manner that is consistent with the PAK law and the Constitution, especially the Comprehensive Proposal (CP), which is incorporated by reference into the Constitution. The new law replaces the referenced UNMIK Regulation, and contains a procedural annex that replaces the referenced AD. The new law will bring much needed consistency between the legislation governing the Special Chamber and the PAK law and the Constitution, and thereby resolve a number of fundamental legal issues that will aid the chamber in handling cases in a more expeditious manner.

The new Special Chamber Law is based on UNMIK Reg 2002/13 and the procedural annex attached thereto is based on UNMIK AD 2008/6, but there are important differences between this new law and these pieces of UNMIK legislation:

- The number of international judges has been reduced from 13 to 8, and the number of local judges has been increased from 7 to 12. This change is contrary to the wording of the CP, which requires 13 international judges and 7 local judges; however, the ICR – who is responsible for interpreting and overseeing the implementation of the CP - has agreed to this change.
- The international judges will have a majority only on the appellate panel, whereas before the internationals were also a majority on the five specialized panels. Again, this is not what the CP says, but the ICR agreed to this change.
- The President of the Special Chamber will be chosen by a majority vote of all judges of the Special Chamber. The position is no longer guaranteed to go to an international.
- The new Special Chamber Law now forbids the Special Chamber from referring a case to another local court. The Special Chamber made numerous such referrals in the past, but under the new law, all cases involving SOE’s and SOE assets must be litigated at the Special Chamber.

Law on the Reorganization of Certain Enterprises and Their Assets: The law will replace UNMIK Regulation 2005/48, which establishes the procedures to be followed by the Special Chamber when supervising the reorganization of an SOE that has been placed under its authority by PAK. Regulation 2005/48 needs to be replaced for two reasons: (1) it is highly unclear or silent on a number of important issues; and (2) it requires the appointment of an outside administrator for every SOE that is placed under the Special Chamber’s authority.

In the case of Trepca, the only SOE that has so far been placed under the authority of the Special Chamber, the requirement of 2005/48 that an outside administrator be appointed in every case has proved to be a highly politically contentious issue. The new draft law resolves this issue by making PAK the administrator but requiring PAK to delegate these administrative functions to “professional service providers”. The new law allows the current management of a subject SOE (like Trepca) to remain in

place while the reorganization process is conducted. The process is intended to be similar to a Chapter 11 reorganization in the US. The new law also provides a far far clearer procedure for the reorganization of SOEs that have been placed under the Special Chamber's authority.

The new law will enable the Special Chamber to proceed with the reorganization of Trepca and any other SOE that PAK may choose to place under its authority in an expeditious and orderly manner, while leaving the management of Trepca (or such other SOE) in place during the reorganization process. The PAK will have an obligation to ensure that qualified legal and financial professionals are made responsible for the conduct of the reorg. The law also provides the Special Chamber with the authority to order or permit (during the course the reorganization) the sale of non-core assets and non-core sub-enterprises and, if necessary, to deal with different core parts of Trepca (or another SOE) differently. Ultimately, the new law will enable the Special Chamber to approve a plan of reorganization for Trepca (and any other SOE placed under its authority) that will provide for the discharge of all of its debts and enable its privatization or the privatization of its constituent parts.

3.2 OBJECTIVE 2

A – Fiscal Stewardship: Build Professionalism and Expertise in Sound Public Financial Management in Municipalities to Become Institutions Capable of Autonomously and Efficiently Stimulating Local Economic Development While Providing High Standard of Public Services.

3.2.1 Public Expenditure and Financial Accountability (PEFA)

Conduct an inventory of current PFM practices through PEFA self-assessment

The GFSI activities under this component supporting Municipal PFM practices commenced with the inception phase, which primarily served for planning specifics of the GFSI approach; outreaching to the GFSI counterparts from Local Government community with the introduction of a new USAID program and its objectives; establishing relations and modalities of cooperation with the counterparts; initiating technical and analytical preparatory works; recruiting and/or onboarding a team of local municipal PFM experts. A series of high level meetings with the Central and Local Government authorities and donor community took place with to introduce and promote the new USAID initiative and motivate future cooperation with important project counterparts.

GFSI efforts then focused on technical and organizational preparations for an official launch of the first Kosovo Local Government PEFA Self-Assessment. Our PEFA Team developed and coordinated a comprehensive strategy for the PEFA program. We ensured participation of the leadership for this important initiative from the MoF and the Ministry of Local Government Administration (MLGA) as a confirmation of Government's commitment towards public finance management reforms. The Association of Kosovo Municipalities was brought into the process as a partner for the PEFA undertaking. The PEFA Team established principles for the application of PEFA methodology at the Kosovo Local Government level, including criteria for the selection of a representative sample of Municipalities. The following Municipalities were invited and accepted to participate in the first round of the PEFA Self-Assessment: Pristina, Podujevo, Vushtri, Sterpce, and Mamusha. While standard PEFA manuals recommended by the PEFA Secretariat were readily available from the past PEFA exercises in Kosovo, the PEFA Team designed and developed a unique Technical Guidance and Training Materials tailored to the needs of PEFA roll out in the Kosovo Municipalities. Detailed, practice-oriented technical guidance provided hands-on support to municipal assessment teams participating in the PEFA program.

The implementation of the first Kosovo Local Government PEFA was based on the self-assessment assisted jointly by GFSI and DFID/REPIM experts. It was carried out during the period October 2010 – June 2011 and comprised of a series of critical and important events, which supported a phased-in approach to the conduct of the PEFA:

1. **Official Launch of Local Government PEFA Assessment (October 2010):** a high level meeting organized by GFSI project with the five Mayors who expressed the interest to participate in the PEFA assessment under the auspices of MoF and MLGA. The meeting provided an opportunity to discuss the general PEFA concept and framework, past Kosovo PEFA experiences, and the proposed implementation approach for the Kosovo local government.
2. **PEFA Technical Workshop (November 2010):** a three-day workshop for the members of PEFA Municipal Teams organized in accordance with the PEFA recommended standard introductory training. Over 20 municipal officials attended a conference where they were introduced to the PEFA Framework and learned how to conduct and implement an effective PEFA evaluation in their own municipality, by use of lectures, seminars, and interactive group exercises. Overall, this USAID-supported conference provided a comprehensive overview of the PEFA Framework including understanding of the tools for the evaluation of PFM systems and their performance with an emphasis on self-assessment and personal responsibility.
3. **Self-Assessment Process (November 2010 – April 2011):** Each Municipal Team that completed the PEFA training was able to embark on tracking the performance of their own municipal PFM practices in accordance with the PEFA standard methodology. Through dedicated weekly meetings, each Team was supported by the GFSI/REPIM experts working with the Team on the information required to assess and score each of the PEFA Performance Indicators. All Municipal Teams conducted a series of meetings with the representatives of the municipal administration in the areas such as municipal revenue collection, procurement, internal audit, as well as met with Municipal Assembly.
4. **PEFA Progress Workshop (December 2010):** The Municipal Teams convened in Pristina to review the progress and achievements to date in the assessment work. The workshop provided an opportunity for practitioners to debate the challenges of the PEFA assessment process. Issues such as data collection, evidence documentation, realistic scoring methods, and the importance of arguments to support the narrative for each indicator were highlighted during this meeting. The Municipal Teams shared their own experiences in implementing the self-assessment PEFA exercise. Following the workshop, the Municipal Teams together with GFSI/REPIM advisors, met with Municipal Mayors to provide a briefing on the progress in the PEFA process and ensure continued support from the municipal leadership.
5. **PEFA Concluding Retreat (May 2011):** The work of Municipal Teams resulted in the preparation of the first draft of the PEFA Performance Report for each of the five municipalities. Team Members participated in a three-day concluding retreat, which gathered the representatives of the five Municipalities, Association of Kosovo Municipalities, Kosovo PEFA Secretariat, USAID and DFID. The retreat reviewed the output of PEFA process, and there was an exchange of lessons-learned between the Municipal Teams. It also served as an opportunity to launch the debate on a reform action plan oriented towards further strengthening of municipal PFM practices.
6. **Draft PEFA Report Workshop (June 2011):** The draft Report was submitted to the PEFA Secretariat for the review in May 2011. Upon the receipt of Secretariat's comments a workshop was organized for Municipal Teams to discuss the PEFA Secretariat's comments, prepare necessary amendments, and solicit municipal ownership of final version of the Report.
7. **Local Government PEFA Report Dissemination (July 2011).**

Apart from direct works with municipal counterparts, the GFSI Team conducted a series of meetings and consultations with some key stakeholders in the PFM area in Kosovo to solicit input into the assessment process. Meetings took place with such institutions as: MoF Treasury Department, MoF Property Tax Department, MPS Payroll Division, Auditor General Office, and EU-PIP project under the EU Support to Improving the Quality of Public Investments in Kosovo and Preparing the Ground for EU Funding.

Building on the interest, success, and momentum gained during the first PEFA exercise, the GFSI Team immediately embarked on launching the roll out of the PEFA initiative to the second group of Municipalities. The following Municipalities – primarily regional centers - were invited and accepted to participate in the second round of the PEFA Self-Assessment: Ferizaj, Gjakova, Peja, Istog, Gijlane, and Nove Brdo. GFSI Team delivered introductory Technical Workshop for involved municipal practitioners during a three day conference on June 29 – July 1, 2011. The actual implementation efforts will be commenced immediately.

Task order tasks completed during year one include:

- Completion of the first Kosovo Local Government PEFA Performance Report based on the assisted self-assessment in five Municipalities
- Roll out and commencement of the second round of the PEFA assessment for the selected group of six Municipalities primarily representing key regional centers
- Design and development of a unique Technical Guidance on the implementation of the PEFA assessment in Municipalities, which supports PEFA standard manuals and can now serve as a model approach, including international application

Based on PEFA self-assessment, develop and implement municipal PFM

The completion of the first Kosovo Local Government PEFA assessment will subsequently facilitate the commencement of the GFSI activities under this element of task order. Some initial efforts were already staged for the first pilot Municipalities during the PEFA Concluding Retreat in May 2011 (see point 5 above). The strategic approach, concept, and key components of municipal PFM Action Planning were outlined and discussed with municipal practitioners. The experience of the Central Government in the design and implementation of the Reform Action Plan resulting from the 2009 PEFA was shared with municipal officials and is expected to establish a platform for further works with Municipalities.

Task order tasks completed during year one include:

- Introductory training and capacity building initiative in the design and development of municipal PFM Action Plan

3.2.2 MUNICIPAL MEDIUM TERM EXPENDITURE FRAMEWORK

Phase a Municipal MTEF (M-MTEF) approach into municipal budget process

The development and presentation of implementation strategy for the GFSI activities under this component of the task order commenced in autumn 2010. A dedicated seminar to Municipal Budget Department - one of the key stakeholders for this activity – was held on November 12, 2010, including an overview of strategic approach framework. The inception phase centered on the conduct of a formal review and evaluation of the most recent MTEF practices and documents produced by Municipalities during the 2011 budget process. The review undertaken for 26 Municipalities served as a basis for the preparation of a first comprehensive Municipal MTEF Assessment Report, with the emphasis on the application by Municipalities of key aspects of multi-year, strategic, and policy oriented approach towards the development of municipal annual budgets. The Report provided for a range of recommendations addressed to Municipalities and MoF designed to guide the 2012 budget process. The GFSI Team delivered conference for municipal leaders and management with the presentation of the Municipal MTEF Assessment Report on April 26, 2011. The workshop was focused on key findings, recommendations, and outline of the proposed next steps. Subsequently, the GFSI Team developed a Technical Manual, including technical guidance and template formats, for the implementation of a new strengthened approach towards the preparation of MTEF by Municipalities. The Technical Manual was published in three official languages and disseminated to municipal budget practitioners across the Kosovo Municipalities in May 2011.

Task order tasks completed during year one include:

- Publication of the first comprehensive review of MTEF practices in the Kosovo Municipalities
- Publication and dissemination of the first comprehensive Technical Manual on the preparation of Municipal MTEF, in support to strengthened approach towards multi-year policy oriented municipal budgeting

Strengthen the capacity of municipalities to integrate an M-MTEF approach into municipal budget processes

Following the publication of the Municipal MTEF Technical Manual, the GFSI Team organized a one day conference for municipal budget practitioners on June 14, 2011. The conference gathered Municipal Budget and Finance Directors, and Budget Analyst from the Kosovo Municipalities. The conference aimed at providing introductory advice and presenting Municipal MTEF Technical Manual with the view to assist municipal budget practitioners in preparing Municipal Budgets for the 2012-2014 period. The conference also served as an opportunity to introduce advanced MTEF budget planning processes in Municipalities. It was designed to provide comprehensive information on the objectives and benefits of MTEF, its main elements, and relation to annual budget development process.

With the view to institutionalize the proposed new MTEF approach, the GFSI Team assisted the MoF in drafting MTEF procedures for the inclusion in the Municipal Budget Circulars guiding the 2012-2014 Municipal Budgets. However, significant delay in the official issuance of Budget Circulars by the MoF limit the impact of MTEF and annual budget processes at the municipal level during this budget cycle.

Task order tasks completed during year one include:

- Capacity building initiatives addressed to the key stakeholders, including MoF, municipal budget practitioners, and municipal executive leaders
- Input into official Municipal Budget Circulars issued by MoF

3.2.3 PUBLIC FINANCIAL MANAGEMENT IN NEW MUNICIPALITIES

Support establishment of a cadre of professional and competent financial officers; and

Assist new municipalities in the certification of treasury functions and provide continued professional development

The GFSI Team continued the implementation of USAID support to the Treasury of MoF in the area of delegation of expenditure functions from Treasury to the budget organizations. At the Central Government level (ministries and agencies), training in three KFMIS functions, including goods receiving, expenditures and certifying, initiated under the USAID/EMSG initiative was continued.

At the Local Government level, the GFSI advisors provided training for the PFM officers from new Municipalities Gracanica, Kllokot, and Partesh in seven KFMIS functions (commitment, assets, revenues, procurement, goods receiving, expenditures, and certifying). Training was tailored to the needs of new Municipalities and scheduled in accordance with the recruitment and availability timetable of new administration. By April 2011, training was completed for all three Municipalities, with the formal certification of respective PFM officers by the MoF. Subsequently, certification process and live connection to the KFMIS for all new municipalities were successfully completed.

Task order tasks completed during year one include:

- Training and certification of the key PFM personnel from three new Municipalities
- Municipalities Gracanica, Kllokot, and Partesh connected to the government financial management system and uses live access to the KFMIS

3.2.4 ENABLING MUNICIPAL BORROWING

GFSI advisors have actively sought to act as a conduit for negotiation between the OAG and the MoF regarding the preparation of the Budget for the OAG, ensuring its is adequate to fund the annual municipal audits. The OAG remains in a transition phase, where it continues to outsource around 70% of municipal audits to commercial audit firms. Nonetheless, by building its own capacities, including with the use of additional appropriations from the Kosovo Budget, the OAG is doing more audits in-house each year. In addition to facilitating the discussions, GFSI advisors undertake regular communication with the Auditor General and his staff regarding current Public Financial Management issues, including the provision of training for audit staff on topics such as budget preparation.

Two municipalities, Pristina and Prizren have now received two unqualified audits in successive years and are now allowed to borrow in accordance with the Debt Law. With some seven further municipalities with unqualified audits in 2010, there are further municipalities on course to be legally able to borrow in 2012.

The work that GFSI is doing on PEFA, PFM action planning and municipal MTEF development will substantially increase the ability of these municipalities to plan the fiscal strategy appropriately over the medium term and thus enhance the prospect for sensible and sustainable borrowing practices.

Task order tasks completed during year one

- Municipalities are achieving unqualified audits.
- The Budget or the Office of the Auditor General has increased during the first year of the GFSI Project.
- Office of the Auditor General remains on course with its program of doing more audits in-house with less reliance on external audit firms.

B –Assist Office of the Auditor General (OAG) so that Their Ability to Review and Assess the Fiscal Operations of Municipalities is Strengthened and Made More Timely and Effective.

Ensure that KFMIS meets the needs of municipalities for accounting, financial control and reporting

For the preparation of the 2010 financial statements, given the limited time available, the GFSI project focused on supporting municipalities in preparing quality financial statements using the information currently available in the KFMIS. A good result was achieved, with most of the municipalities that GFSI supported achieving an unqualified audit of their 2010 financial statements. This shows that the fundamental elements of the KFMIS are sound.

However, GFSI's consultations with the municipalities and the auditor general, including in the consultation forum hosted in January, highlighted that while KMFIS is strong with cash accounting items it is relatively weak on non-cash items. Fundamentally, the KFMIS was established to support the cash based (IPSAS) approach to financial reporting. However, the financial rules for preparation of financial statement by Budget Organizations in Kosovo require that this cash information be supported by non-cash information such as the value of non-cash assets, revenue levied but not received. Based on advice from GFSI, the Deputy Director of Treasury established a small group of municipal senior finance officers to consult regarding municipality financial management needs and how these might be better met through enhancements to the KFMIS. The goal is to ensure that KFMIS has sufficient information content and functionality so that it is the only accounting system that a municipality needs to use.

Task order tasks completed during year one

- Reconciliation practices have been enforced and strengthened and is demonstrated in the absence of reconciliation errors in municipal financial statements.

- The use of KFMIS devolved to give spending units access, enhanced information, and improved internal control, resulting in appropriate levels of fiscal autonomy.

Raise the standard of accounting professionals at municipal level / Enhance accounting; reconciliation and reporting through automation of municipal financial transactions

The Treasury Department, with direct assistance from GFSI, has a full time training program for finance officers at both central and municipal level. During the second half of 2010, this program focused almost exclusively on the training that municipal finance officers are required to pass in order for the municipality to be certified. Subsequently, this training has also been provided to “alternate” officers in those municipalities. Increasingly, Treasury is offering its standard training package for users of KFMIS for new staff in municipalities and ministries as this training is needed for new certifying officers, commitment officers, goods receiving officers, revenue officers and finance directors to perform their roles effectively.

More recently, Treasury has been providing training to municipal finance officers so that they can independently process sub-allocations of expenditure allocations (such as to individual schools) and the same training that GFSI provided to selected municipalities for the preparation of 2010 Financial statements is to be delivered to all municipalities for the preparation of the third quarter interim financial statements. The demand for these packages of Treasury training is such that a second trainer has recently been engaged by the Treasury.

GFSI Advisors have also provided training to auditors in the Office of the Auditor General on the budget development process such that auditors better understand the process that lead into the development and approval of budget and appropriations prior to their execution.

Task order tasks completed during year one

- Enhanced training to new municipalities on financial management enabling their certification
- Further depth in financial management developed through lower level intense training on KFMIS

C – Assist MFE to Develop and Implement an Action Plan to Enable Data Sharing Among the Various Legacy It Systems in the Ministry

Task 1: Information Technology

Establish a foundation for IT Governance at the MoF

Using Information Technology capabilities in effective and efficient way is a challenge for all organizations, private and state. Effective and efficient use of IT requires:

- IT Organization with capacity and capabilities to take over organization and management of all IT Services and deliver them to businesses at required level to achieve business goals
- IT Infrastructure with capacity and security ensuring systems availability with necessary performance and interoperability
- IT Operations delivered with required level and at affordable cost

The GFSI IT Advisor conducted an initial assessment of IT in the MoF HQ, Customs, and TAK in September, 2010. The assessment identified:

- Six (6) discrete IT Teams within the MoF Departments without cooperating and coordinating their activities
- Lack of Enterprise Architecture leading to implementing applications with low interoperability and build on need data exchange interfaces without following any standards
- Lack of defined and adopted IT Strategies
- Lack of any technology standards
- Lack of IT policies and procedures
- Lack of planning; management and reporting habits

- Lack of IT performance measurement
- High dependencies from donors' project advisors and vendors' for critical applications support and maintenance, such as: Treasury, PIP, Tax Administration, and Property Tax Applications
- A practice of purchasing equipment (mainly hardware) without needs assessment and without having a plan how to use it
- Lack of tools for monitoring infrastructure and preventing incidents – the services are predominantly reactive not proactive
- Existing data exchanges between MoF applications and with external applications are semi-computerized; developed on case-by-case demand, without adopting and following any standards, and in most cases are not documented.
- Problems with MoF HQ, Customs, and TAK's Server Rooms – none of them meets requirements and standards; especially critical problems exist at the MoF HQ's Server Room.
- Help-desk at the MoF doesn't meet any practice model

Following compilation of the issues above, the GFSI designed a conceptual model "To-Be" for three IT areas: IT Organization, IT Infrastructure, and Business Applications as well as to identify short-term winning IT projects. The GFSI IT Advisor prepared and gave a presentation to the Minister of Finance, focusing on assessment results and designed conceptual model "To-Be" and emphasizing on urgent need of IT Transformation on October 1, 2010. Unfortunately, political events and the fact that the appointed IT Director/Chief Information Officer (CIO) was out of the country, from September to mid December, created an environment narrowing our chances to achieve success on any IT initiative.

The GFSI IT advisor was able to be reallocated to other projects for almost the entire period from December, 2010 to May, 2011 and save valuable GFSI LOE for when the new Minister of Finance was appointed. Nevertheless, during this period the GFSI IT Advisor was able to organize working meetings on Integrated IT Infrastructure, aimed at building understanding on the topic, get the support from all IT stakeholders, and document the current Infrastructure architectures, resources, systems and services as preparation phase for such undertaking, and worked with the IT Division at the MoF HQ to:

- Organize the installation of the same version of MS Office on all MoF HQ desktop computers.
- Re-organize and streamline the help-desk activities through establishing one-point of contact and implementing software for recording incidents and requests reported by users.

Recently, the GFSI IT Advisor designed and proposed a new IT Organizational Structure aimed at establishing the backbone of the IT Organization, consists of key managers and experts that can drive the IT Transformation. Identifying and appointing those key managers and experts is a highest priority task, and the GFSI Project considers its fulfillment as a pre-condition for executing all other tasks leading to achieving project objectives for establishing IT Governance practice and effective and efficient ICT Services to the MoF's businesses. The GFSI IT Advisor presented the new IT Organizational structure to the Minister and Permanent Secretary July 6, 2011 and to the Deputy Minister on July 14, 2011.

Tasks completed during year one

- Initial assessment of IT at MoF HQ, Customs and TAK
- Created awareness about urgent need of IT Transformation and engaged leadership (Minister, Deputy Minister, and Secretary Permanent)
- Designed and proposed a new IT Organizational Structure along with detail description of responsibilities of key IT managers and experts
- Defined and documented requirements for Joined Server Room
- Created IT teams' initial awareness for building an Integrated IT Infrastructure
- Unified version of MS Office installed on all desktop computers in the MoF HQ

Tasks included in Y1 plan, but not completed during the reporting period:

- Establish IT Governance Organization
- Define IT Governance mission statement, goals, and guiding principles
- Complete an IT Strategic Assessment
- Develop an ICT Strategic Plan
- Identify, develop and implement Shared IT Services
- Design, develop and implement Data Exchange Environment
- Improve skills

IT Strategic Assessment and ICT Strategic Plan

The GFSI IT Advisor developed high-level concept models “To-Be” for IT Organization, IT Infrastructure and Applications Integration. The initial concept for IT Organization “to-be” was developed in a proposed IT Organizational structure.

The GFSI IT Advisor also drafted an approach for addressing IT Transformation in the MoF, initiated drafting of IT Policies and Procedures and provided guidance and input to the Senior Systems Administrator for the completion of this task. The first package of IT Policies and procedures will be distributed to broader audience for review, comments, and amendments by the end of July, in order to have this package approved and enacted by September, 2011.

Tasks completed during year one in relation to this activity are:

- Initial assessment of IT in the MoF, including TAK and Customs - To serve as a foundation for planning and executing a Strategic IT Assessment by new appointed Key IT Managers and Experts
- Define a new IT Organizational Structure outlining key activities and tasks under each organizational unit - To serve as a base for the managers to decide how to organize their teams
- Draft an IT Transformation Approach outlining each phase goals and objectives - To help key managers and experts to identify and plan activities
- First set of IT policies and procedures, mainly related to the use of IT Assets – To be use as a core to build a full set of IT Policies & Procedures

Bring the Budget and Treasury IT Systems to the next level of sophistication and integration

FreeBalance, the vendor of Treasury applications, is in the planning stage to upgrade FreeBalance to a web based system. The Treasury team has implemented some enhancements to the servers, but additional requirements to the infrastructure will be defined for the implementation of new web version, once it is commissioned.

Cash Flow, KFMIS, Debt Management, PIP, and BDMS Applications facilitate business activities at Treasury and Budget Departments. Data Exchange mechanisms between those applications exist, but each is unique and in some cases not completely computerized, which create risks for data inconsistency. Improvement to and integration between Budget and Treasury systems will be an integral part of the overall solution for systems integration.

Improve data sharing among systems / Assist the MFE in Implementation of the SSC and Data Sharing Environment (DSE)

Two IT projects were initiated by the GFSI IT Advisor in October 2010:

- Building a Server room for the MoF HQ, Customs and TAK
- Designing Integrated IT Infrastructure for the MoF HQ, Customs and TAK

Both] are yet to be finalized. Developing a data sharing environment requires all teams currently supporting and maintaining business applications and the business owners of those applications to work together and come up with requirements for data sharing. Those requirements will be a base for designing and developing such an environment. This activity remains in Y2 project plan.

The GFSI IT Advisor identified the need of implementing Fiscal Identification Number (FIN), introduced by TAK in 2010, in Property Tax System in order to enable data exchange between Tax Administration and Property Tax Applications. This has been completed.

Tasks Completed during year one:

- Identify needs of data exchange between some applications – internal and external for the MoF
- Implement Fiscal Number (FN) in Property Tax System and functionalities allowing TAK experts to access Property Tax Systems, search and retrieve information

Improve reporting capabilities of the systems

Due to limitations already described in previous paragraphs of this report, no specific activities and achievements in this area were possible during project year one (Y1), but all tasks under this activity remain with high priority within GFSI year two (Y)2 plan.

MFE IT Staff skills improved

Apart from general findings regarding IT staff skills, it was not possible to complete a thorough skills assessment of the current IT staff.

All tasks remain in GFSI Y2 plan.

D – Assist MFE to Assess Remaining Priority Capacity Building Needs in the Ministry's Budget and Treasury Functions and Design and Conduct Training Programs to Address Those Needs

Task 2: Budget and Treasury

Continue Implementation of PFM Action Plan

GFSI has supported the MoF in the implementation of its Public Financial Management Action Plan. The former Deputy Minister of Finance was a champion of the development of the PFM Action Plan and has continued that engagement as the Minister of Finance. GFSI has supported key elements of the PFMAP as they relate to the Ministry of finance, including:

- Assisting the Budget Department in the process of moving from a single year budget to a true a multi-year project. The 2011 Budget was a good example of this, with “forward estimates” published for both the capital and recurrent elements of the Budget. These forward estimates are playing an important part in budget planning, enabling the focus of the budget to be on new policy and its implications, rather than building the budget from a zero base each year.
- Refining the structure of the MTEF. GFSI has supported the PFMAP in enhancing the strategic focus of the MTEF, where the functional sections of the MTEF are better aligned on sector basis and with more focus on policy and strategy and less focus on trying to fully specify funding, (needlessly) in advance of the budget, for all projects and projects.
- Improving the policy focus of the Budget. A main goal of the PFMAP is to better align the budget. With the strategic goals of the Government. In this regard, GFSI was a key player in the preparation and conduct of the Government strategic economic planning retreat held at Bansko in April 2011. One of the main recommendations of the Bansko retreat was to conduct a strategic expenditure review that will provide recommendations for how public spending can better align with the GoK strategic goals and actions of the Government. GFSi is now working with the Government to conduct the Strategic Expenditure Review.

- Enhanced capital planning. While the EU PIP project has taken the lead on most aspects of capital budget planning, GFSI has supported the Ministry in engaging with stakeholders to better plan and understand the implication of the largest projects, such as the route 7 and route 6 highway projects.
- Introducing performance elements to the Budget (see section below).
- Continuing to develop proposals and solutions to merge the central and municipal Budget Departments, one of the first action items in the PFMAP and also required by law;

Advance cash flow and asset management

As the Government's cash balances decline due to large deficits currently planned, effective cash management and avoidance of expenditure arrears will become increasingly importance. GFSI has been assisting the Treasury in developing enhanced capacity to manage cash flows and arrears. Estimates of arrears from the end of 2010 show increasing level of arrears in Budget Organization. These are known to occur where Budget Organizations do not follow correct procedures by ensuring that their commitments do not exceed available allocations.

One of the issues in recording arrears is that the KFMIS does not yet have the capacity to record invoices as accounts payable when they are received (this is essentially an accrual concept and KFMIS was set up on a cash basis). In order to remedy this prior to planned upgrades to KFMIS, GFSI has assisted the Treasury in drafting and issuing an instruction that required all Budget Organizations to report their arrears at the end of each month. Under the existing legal framework arrears should not and need not occur. The situation arises where Treasury rules are not followed. On GFSI's recommendation, the Treasury Director established a Monitoring Unit to identify those areas of non-compliance, such a contracting without first committing funds that are likely to lead to the accrual of arrears.

Due to the potential for the Government's bank balance to fall to critical level at the end of 2011 if certain revenues are not attained, GFSI advisors have been working with the Treasury regarding the strategic use of expenditure allocations to manage cash balance to ensure liquidity. Specifically, the government has agreed with the IMF that it will hold back 60million euro in expenditure allocations until such time as revenue targets are achievable. GFSI advisors have been assisting the Treasury in the appropriate methodologies for identifying where allocations can be withheld based on information about commitment and obligations. These actions complement the work being done by the US Treasury advisor in the Treasury department to establish a functioning debt management function, including systems for the Treasury and central bank to issue domestic debt.

Task order tasks completed during year one

- Developed and implemented Treasury instruction on arrears
- Assisted Treasury in the process for identifying 60 million euro in appropriations to be withheld pending IMF conditions being met

Introduce performance management in the Budget process

Substantial progress has been made to introduce performance management into the budget process. GFSI advisors engaged with the Budget Director and the Minister to build and gain support for this major change in the approach to budgeting and public management. This is reflected in the Government PFM Action Plan, which includes introducing performance measures in the platforms for enhancing the credibility of the budget.

The aim of the reforms outlined in the PFM RAP are to reach a point where the Budget includes not just "inputs" but also the expected outputs and intended outcomes to be achieved from public expenditure. GFSI worked with the Minister and Budget Department to introduce performance measures for all budget organizations in the context of the 2012 Budget. The steps taken included:

- Preparing detailed materials for inclusion in the first budget circular (in the end only an abbreviated version of this material was included in the circular);
- Engaging with other donors and stakeholders working with the Budget Department (including the EU PIP) project to gain agreement and support.
- Preparing training material for delivery to Budget Organizations. Our approach to this training was to deliver the training to budget analysts in the Budget Department and then work with one of those analysts to train them as a trainer to deliver the training to budget organizations. This approach was successful, with the Budget Department delivering the training to all central budget organizations. This training involved a review of the key concepts and practical exercises to make these relevant to participants.
- Budget Department receiving, collating and reviewing the draft performance indicators provided by budget organizations with their budget submissions.
- GFSI provided to the Director of the central Budget Department a proposed outline for the 2012 Budget Book, which would see Budget organizations publishing their performance targets with the 2012 Budget.

As expected, the quality of the performance targets provided with the first budget submissions is mixed. The challenge for Budget Department is now to work with the Budget organizations to improve the quality of the performance indicators to a standard that will enable them to be published with the 2012 Budget. This will be an iterative process, not just in the months now leading into the finalization of the 2012 Budget, but also across future budget processes.

Task order tasks completed during year one

- Performance information introduced in the context of the 2012 Budget.

Enhance the capacity of the Assembly to hold the GoK account for Fiscal Stewardship

As a result of the national level elections and the time taken for the appointment of new Assembly members and associated appointments to committees, the timing of the activities for direct engagement with the committee has shifted to year 2 of the Project. Nonetheless, the GFSI project has worked to set the framework for enhanced engagement of assembly committees to hold the executive branch to account for their performance, including:

- Assisting the Treasury in issuing a new financial rule requiring the preparation on annual reports that require budget organizations to report on their operational performance in addition to financial outcomes; and
- Assisting Treasury to update the rules for preparation of annual financial statement so that they include reporting on the actions taken against the recommendations in previous audit reports.

These actions will better enable the Assembly to hold budget organizations accountable for their management activities and is a necessary precursor to our future work with the Assembly and its committees to enhance accountability.

Strengthen the system of fiscal intergovernmental relations

The GFSI advisors assisted the Grants Commission Secretariat in determining the 2012-2014 municipal budget parameters. This engagement contributed to preventing further worsening in the MoF treatment of municipal budget organizations in terms of their budgetary authority. The MoF attempts to impose budget constraints, in a form of specifically defined expenditure ceilings, on individual budget expenditure categories were mitigated, while official Municipal Budget Circulars issued by MoF represented continuation of the past year practice.

The IMF Staff Monitored Program (SMP) recently agreed with the Kosovo authorities envisaged some specific actions/commitments in the area of municipal finances. The IMF Mission referred to the GFSI advisors as a primary source of knowledge on current stance of fiscal intergovernmental relations.

Further, GFSI supported the MoF in requesting a dedicated IMF fiscal decentralization mission, which would assist authorities in a comprehensive review of current grant system. In particular, GFSI advisors conducted the assessment of up-to-date progress in the implementation of IMF recommendations formulated by the previous fiscal decentralization mission in March 2010 and performed initial impact analysis of new census statistics on the grants system.

In assisting the Kosovo government in meeting the requirements of the SMP, the GFSI advisors worked closely with the Property Tax Department of MoF to initiate the implementation of progressive increase in the minimum property tax rate to the level of 0.5% recommended by IMF. This initiative aimed at addressing the shortcomings of the current structure of municipal finances (in particular own source revenues), while improving municipal economic/business development potential. GFSI advisors performed initial policy and technical analysis focused on developing an optimal implementation strategy. These efforts were closely coordinated with other USAID assistance projects, including DEMI and BEEP.

Task order tasks completed during year one

- Support to the Grants Commission during the 2012-2014 Municipal Budget process
- Contribution to policy and technical initiatives, including relations with IMF, in the area of municipal finances

E – Assist MFE to Ensure that the Ministry's Property Tax Department and Supporting Systems Remain Robust and Capable of Meeting the Own-Source Revenue Needs of Municipalities.

Task 3: Property Tax

Ensure that annual audits of property tax offices provide feedback to municipalities

The MoF Property Tax Department (PTD) finalized and issued the 2009 annual audit/inspection reports to individual municipalities in July 2010. The GFSI Team used this opportunity and immediately after contract award commenced its activities supporting the implementation of project tasks oriented at ensuring that annual audits of property tax offices provide useful feedback to municipalities. To this effect, we conducted a comprehensive review and assessment of all municipal audit reports to evaluate their quality, scope, and completeness. Particular emphases were placed on the review of adequacy and usefulness of audit recommendations that PTD inspectors provided in their reports. These activities led to the identification of shortcomings in the performance of audit, quality gaps and desirable improvements in PTD audit function.

Based on the assessment, the GFSI Team produced a new Audit Report Form, which was endorsed by the PTD management as a template for the use by Department's staff, including reference checklists and model procedures to guide audit report preparation. Subsequently, the GFSI Team implemented two major training initiatives addressed to the professionals from the PTD and practitioners from Municipalities with the aim to introduce new inspection procedures, management, and resource planning. Outreach to Municipalities took the form of five regional workshops delivered by the PTD staff and supported by the GFSI Team. Workshops gathered municipal practitioners, including Property Tax Managers and Directors of Economy and Finance Departments.

Further, in cooperation with the PTD management, an audit plan was developed for implementation during 2011. The plan envisaged initiation of the 2010 audit for pilot municipalities to serve as a testing sample for the introduction of improved auditing and reporting model as well as a feedback mechanism for the next steps. Three municipalities were selected, Pristina, Shtime (new appraisal model implemented), and Shterpce (minority municipality). The reform had the following objectives:

- Regular inspection activities on annual basis;
- Unique questionnaire for each area of inspection;
- Toughened and improved inspection process in municipalities;
- Improved inspection reports;

- Increased transparency.

With the support of the GFSI Team a seminar was held for the representatives of the three pilot municipalities, including Directors of the Departments of Finance and Economy, Property Tax Managers, Presidents of the Appeal Boards, and Presidents of Appraisal Commissions. The GFSI Team will support the pilot municipalities during the implementation phase (during July – September 2011) assisting the PTD staff in the inspection of municipalities and in the development of the inspection reports. We will then assist municipalities in implementing the recommendations resulting from the inspection reports and, where necessary, organize training in the areas where municipalities find it difficult to meet the recommendations.

Task order tasks completed during year one include:

- A comprehensive review of the 2009 annual audit reports
- A new Audit Report Model, including implementation strategy
- Capacity building initiatives for practitioners from the PTD and municipalities

Calibrate new mass appraisal models

The GFSI Team assisted in the development and implementation of quality control procedures in the property resurvey process. Improvements – introduced in cooperation with SIDA - included an update of the Resurvey Quality Control System, focusing on enhancements in control efficiency. Implementation of changes in the process and system were supported by training provided to the PTD staff.

Progress was marked in the development of a new appraisal model. The GFSI Team, jointly with the Swedish advisors, engaged assisted two municipalities - Fushe Kosove and Shtime. Workshops were organized to present the new appraisal model based on the quality of construction parameters obtained from the resurvey data. Based on thorough analysis of resurvey data the quality of construction was identified as the key factor determining the value of the property. The new appraisal model was introduced in both municipalities and informed the 2011 mass taxation and mass bill production. With the introduction of the new appraisal model the projected revenue from property tax was in general kept at the 2010 level; however the tax burden was distributed more fairly with poorly constructed building charged with lower tax compared to the same size buildings of better quality construction. This outcome makes property tax fairer, and increases the taxpayers' willingness to pay the tax. The GFSI Team also assisted in preparing an information leaflet, which was distributed with the 2011 bill to all taxpayers in pilot municipalities in order to educate taxpayers on the benefits of the new appraisal model.

To assist municipalities in preparing for the implementation of the new appraisal model the GFSI Team, in cooperation with the SIDA advisors, developed a spreadsheet model, which enabled municipalities to simulate new appraisal approach and associated revenue impact. Training for the Directors of Economy and Finance and Property Tax Managers was carried out, focusing on the following areas:

- Usage of spreadsheet model;
- Conduct of associated analysis;
- Revenue impact analysis;
- Usage of the PT System facilities for planning revenues, changes in tax rates and valuations for each property category before approval of the 2012 municipal regulations;
- The importance of new appraisal model implementation and the collection of property photography and coordinates in the PT System.

GFSI advisors assisted in the 2011 bill production process. Unlike previous years, this activity was managed by local team without any assistance from SIDA advisors. The bill production was finished on the 13th of February 2011 for 34 municipalities, with over 411,000 bills produced and total tax assessment of 15.7 million euro. In addition, GFSI coordinated and assisted in the creation of the new municipality Partesh and splitting cadastral zone Cagllavica between municipality of Pristina and Gracanica.

Task order tasks completed during year one include:

- Assistance in the property resurvey quality control processes
- Implementation of a new appraisal model in two pilot municipalities, including the 2011 mass taxation and bill production
- Capacity building supporting the roll out of a new appraisal model and property tax impact analysis

Train in the use of the property tax IT solution and administrative best practices

The GFSI Team coordinated the stabilization of existing functions of PT system and enhancements to its facilities, reporting, and security. New functions and abilities were added, including: viewing property photography, adding notes to property and taxpayer information, adding new fields to the tax and collection reports, increased accuracy, and calculating fixed tax based on the new law. In cooperation with SIDA advisors the GFSI advisors documented the property resurvey process, which by the end of the year will be fully supported by the PT system. The Swedish advisors donated a new server for the PT system, and the GFSI advisors assisted in planning and implementation of major infrastructure changes.

In coordination with the counterparts from the PTD, the MoF IT Department, and SIDA the GFSI advisors assisted in finding sustainable solution for a smooth transfer (hand-over) of the competencies and know-how to IT of MoF and started preparations for the transition of some SIDA-employed staff to MoF financing. SIDA funding will end on December 31, 2011 and the maintenance and development needs of the PT System require that some staff is retained. Further, the GFSI advisors in coordination with TAK started integration efforts between the TAK and PT Systems. This will enable TAK to identify taxpayers who own property and enforce collection from the delinquent taxpayers.

Task order tasks completed during year one include:

- Enhancements to the PT System
- Coordinated strategy for sustainable maintenance and development of the PT System needs

3.3 OBJECTIVE 3

Economic Policy Assistance – Development and Implementation of an Action-Oriented Government Strategy for Profitable Private Sector Growth and the Attraction of Foreign Direct Investment Through Technical Assistance Provided to the Relevant Counterpart Institutions and Closely Coordinated with Other USG-Funded Development Initiatives.

The economy of Kosovo is characterized by distinct weaknesses such as suboptimal income growth, a negative domestic savings rate, low investment productivity, high unemployment, a significant Current Account deficit and an even larger Balance of Trade deficit. However, Kosovo has also put in place an impressive package of core legislation, has a clear European perspective (promised at the Thessaloniki Summit in June 2003), adopted the *euro* used as its currency, has a well-capitalized banking sector and has low import duties (10%) and tax rates.

The key to Kosovo sustained success is to develop the export market. Possible candidates as drivers of the economy could include:

- Agriculture (diversification)
- Forestry
- Minerals (metals)
- Energy (electricity exports)
- Labor intensive, medium skills intensive and resource-based industries (food, textile, wood processing and articles of metal)
- Tourism
- Construction (value added created through major infrastructure projects)

- Migrants' remittances

Kosovo's current export pattern does not match the country's comparative advantage in labor intensive industries, does not adequately use of low skilled labor resources, and heavily relies on energy intensive industries. In other words, the challenge is to align – through policies and an enabling environment - Kosovo's competitive advantage with its intrinsic comparative advantage.

Upon the formation of the new government, the GFSI project worked extensively with the new economic Ministers to assist them in designing and developing an Economic Vision and Action Plan for Kosovo for the period 2011-2014. The Ministers, with the support of USAID conducted a conference in Bankso, Bulgaria to facilitate the development of their economic vision. The GFSI project was represented in Bankso by their Chief of Party, Senior Budget Advisor and Public Private Partnerships advisor.

The outcome of Bankso was a clear statement of economic vision, accompanied by a action plan that has now been adopted by the Government and is in various stages of implementation.

Subsequently, the attention of GFSI has quickly moved to implementation and the project is now active in assisting the Minister of Finance to implementing a Strategic Expenditure Review and in designing and implementing an economic policy unit with the ministry. Assistance and support is also provided, in conjunction with the BEEP project, to the reforms to support the private sector which will see Kosovo become one of the top 40 World Bank Doing Business reformers by 2014.

Task order tasks completed during year one

- Economic Ministers of the Government develop an Economic Vision and Action Plan
- Strategic Expenditure Review initiated
- Policy paper on implementing a Policy Development Unit developed and agreed with Minister.

Prepare articles, presentations, and speeches on relevant economic policy issues and promote development economic studies to stimulate policy debate

The economic policy advisor performed an analysis of the Kosovo economy and developed a Concept Paper on the economy and several policy briefs on the following topics:

- The role of Agriculture
- Lending rates
- Corruption
- FDI
- Growth and exports
- Productivity improvements
- Role of government

Task order tasks completed during year one

- Concept Paper on the Kosovo Economy
- Seven (7) policy briefs developed on various sectors

Identify legislation needed to enhance environment for private sector growth

The GFSI has worked closely with the BEEP project on identifying and revising legislation such as the Business Organization Law, Law on Solid Waste and associated Law on the Regulation of Solid Waste. Within the project, the focus has been on revising the existing PPP law to better conform to EU standards and to substantially revise the three laws related to the socially owned enterprise sector; namely, the Law on the Special Chamber, Law on the Privatization Agency (PAK) and the Law on the Reorganization of

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Enterprises. Further information regarding these laws and the benefits of the reforms can be found in section 3.1.6.

All four laws have now been submitted to the Assembly, from the Government and are in various stages of Assembly approval.

Task order tasks completed during year one

- Law on Public Private Partnerships revised in conjunction with the European Union and submitted to the Assembly
- Law on Special Chamber
- Law on Privatization Agency of Kosovo (PAK)
- Law on Reorganization of Enterprises

Foster creation of working group for international development partners

No activity has been undertaken in this area in year 1.

3.4 OBJECTIVE 3 - DONOR COORDINATION

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

The GFSI Team headed a PPP Law working group that resulted in a draft revised PPP Law that is currently in the National Assembly for adoption. The workgroup included representatives of the European Commission Liaison Office as well as representatives of the PPP Unit, the Office of the Prime Minister, the Ministry of Finance, the Ministry of Economic Development and the Ministry of Local Government Administration, and their respective international consultants. This exercise developed into a draft revision of the PPP Law that also incorporates new EU PPP policy, clarifies project approval procedures and ensures better fiscal control of potential financial liabilities which may be incurred through PPP projects.

The GFSI Team also participated in or are currently participating in similar groups, that include representatives of US, other sovereign and certain regional donor groups, with respect to the Law on State Aid to ensure consistency with the new PPP Law.

The GFSI team coordinates efforts with various donor funded programs in specific infrastructure sectors and projects. In the solid waste sector, GFSI is coordinating with the IFC, as transaction advisors, on the landfill PPP project and with the USAID funded DEMI project on solid waste collection. The team is also coordinating its work on Pristina Municipality Urban bus services with the Commission Liaison Office (ECLO) funded “European Cooperation for Stronger Municipalities – Planning for Service Delivery European” who as part of their “Twinning” program are providing technical assistance to Pristina on Urban Transport Planning (Master plan development).

Objective 1 – Fiscal stewardship

Donor cooperation efforts primarily focused on coordinating the GFSI project start-up, in particular work planning, with other projects in the USAID Local Government portfolio: DEMI and BEEP. The GFSI Team delivered an inception presentation to the members of USAID Local Government Working Group. The GFSI dialog with other donors led to transforming the Kosovo Local Government PEFA program into a multi-donor initiative supported jointly by USAID and DFID. The GFSI cooperation with other donors included EU Twinning project and DFID project supporting the decentralization of social services. The GFSI was regularly represented, with several update presentations, on the Working Group on Donors Coordination and Capacity Building functioning under the auspices of the MLGA.

Further, DEMI representatives were invited to participate in the first PEFA Technical Workshop with the view to provide DEMI counterparts with better understanding of the PEFA process. Cooperation with BEEP took place in the area of development of BEEP's Municipal Competitiveness Index.

GFSI Advisors, jointly with DEMI project, organized a one day capacity building workshop for the members of Municipal Assemblies in Mamusha and Junik municipalities. The workshop gathered 25 participants from both Municipalities. GFSI contributed with a dedicated training session aimed at the introduction and overview of key principles for municipal financing and budget process currently in place in Kosovo Municipalities. The main emphasis was on the role and responsibilities of Municipal Assembly in the PFM processes, with the focus on legislature involvement in the policy conduct, oversight, and accountability. The workshop was received with a great interest from participants and created a platform for DEMI training outreach to other Municipal Assemblies.

Objective 2 – Assistance to the Office of Auditor General

Close coordination has occurred with the Swedish SIDA on their review of the Auditor General Office and the potential future role of donors regarding building the capacity of the organization.

Objective 2 – Assistance to the Ministry of Finance

Coordination has occurred with DFID through the SER and updating the central PEFA Action Plan. GFSI continues to cooperate positively with SIDA in the Property Tax and FreeBalance (Treasury) areas. Other cooperation occurs with the EU in the PPP, Budget (Priority Infrastructure Projects – PIP) and with the World Bank and IMF in general fiscal issues. Daily coordination occurs with the US Treasury Debt advisor on debt and fiscal issues.

A comprehensive paper on municipality financing issues is under development, the Chief of Party is leading a Working Group to produce a paper for USAID, with representatives from both DEMI and BEEP.

Objective 2 – Assistance to the IT systems in the Ministry of Finance

Coordination with the EU projects in Budget (PIP) and Customs has been ongoing and positive. Together with the USAID, ESTAK project.

Objective 2 – Assistance to the Property Tax

The GFSI Team coordinated project activities with SIDA under the Swedish Tax Agency project. Following the extension of the STA project, GFSI advisors were engaged in drafting a detailed plan for the project implementation in 2011. GFSI advisors took part in the study visit organized by the Swedish Tax Agency.

Objective 3 – Economic Policy Assistance

GFSI and BEEP were close collaborators during the Economic Ministers retreat to Bansko, Bulgaria for the development of the Economic Vision and Action Plan.

4 PROBLEMS ENCOUNTERED AND PROPOSED SOLUTIONS

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

Necessary data – GFSI faces constraints in the availability, quality and timeliness of data necessary to conduct certain PPP feasibility study steps, most notably the information necessary to prepare a Public Sector Comparator (PSC) model. The PSC is used to determine the value-for-money of a proposed project. The GFSI team continues to work with the PPP Unit in its efforts to become a center of excellence for PPP's at both the central and municipal government level.

Conflict between the central and municipal governments – Tension exist between the central and municipal governments. The principal concern on both sides is the level of authority that the PPP-ISC has over municipal PPP projects. Per the GFSI mandate, the team will continue to support and provide capacity to both central and municipal contracting authorities. The amendments to the PPP Law that is currently at in the National Assembly should reduce some of the ambiguity over the PPP-ISC's authority over municipal projects. Clarification of the law combined with a better understanding, at the municipal level, of the central government's concern for the budgetary and fiscal exposure related to PPP projects should mitigate some of the municipal concerns.

Lack of capacity within the PPP Unit – Although position descriptions and requests to hire additional financial, legal and engineering staff have been submitted by the PPP Unit to the MoF Personnel Department, only one position (public relations) has been filled in the past 6 months. The lack of capacity is further exacerbated by the PPP Unit's new role as acting PMU of Pristina International Airport (PIA). The process is underway to procure the project management services of a qualified firm to act as PIA PMU. The GFSI team will continue to build and provide capacity to the PPP Unit while its positions are filled. It is also expected that some of the GFSI staff will move to the PPP Unit at the end of the program.

Objective 2 – Assistance to the Ministry of Finance

Budget Department - The Ministry of Finance has not yet unified the Budget Department into a single Department under a single General Director. This has resulted in poor coordination between the central and municipal budgeting functions which has impacted on the Ministry's ability to undertake an efficient budget process and to plan and implement the aggregate expenditure targets in the MTEF. Changes to the structure of the Budget Department, such as implementing a Strategy & coordination Unit have been held up whist this issue is resolved. The solution involves simply joining the department and appointing a General Director.

Treasury FMIS - Updates to the FreeBalance software that underpins the KFMIS has resulted in the need for manual reporting of expenditure arrears. The Treasury Director is working to resolve these issues.

Budget BDMS - The BDMS budgeting system is not designed to budget on a multi-year rolling forward estimates approach. Further changes or upgrading of this system will be required before it will become a fully useful tool to the Budget department. Stakeholders should engage with the Budget Director to outline the requirements of the system based on the reform initiatives in the PFMAP.

Objective 2 – Assistance to the IT systems in the Ministry of Finance

IT operations - The general election called in October 2010 created a lot of uncertainty in the MoF, so much so that little progress could be made on the IT side when the Minister was disengaged. Deloitte decided to take the opportunity to relocate the IT advisor for some months while a new Minister was appointed. Subsequently, the new Minister has endorsed our strategy but the project remains without a

local head of IT that has the Minister and Permanent Secretary support. In the meantime, the IT advisor is working directly with the Permanent Secretary to solve the staffing issue and then to move forward on the strategic plan.

Objective 3 – Economic Policy Assistance

Economic Assistance - The dedicated position to provide private sector economic advice to the government was also interrupted with the general election. Given the key economic ministers would all change post election, working with the (then) existing ministers to develop an economic agenda would have been unproductive. Following the appointment of new Ministers post election, the GFSI project was very active in supporting the development of the governments first Economic Vision and Action Plan. The project is now dedicating short term resources in order to facilitate the MoF in implementing the outcomes of the Economic Action Plan.

5 VARIANCES FROM THE YEAR 1 WORK PLAN

GFSI work has broadly continued in line with the Year 1 Work Plan but with the following variances:

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

- GFSI undertook a **legal “due diligence”** of all laws that could affect the implementation and operation of a PPP in Kosovo. The legal “due diligence” included a review of general laws that affect PPP transactions regardless of the sector, such as the “PPP Law”, the “Law on Public Financial Management and Accountability” and the “Public Debt Law”, as well as sector specific laws, such as solid waste related regulatory and environmental laws that would only affect PPPs within these sectors. The purpose for including a legal “due diligence” in the process was to prepare the PPP Unit and the various contracting authorities for legal issues that may arise when potential private sector investors/operators undertake their own “due diligence” in the ordinary course of business. As a result of the legal “due diligence”, the GFSI Team headed a cross-ministerial PPP Law working group that resulted in a draft revised PPP Law. The GFSI team also participated or are currently participating in similar groups with respect to the Law on State Aid and the Waste Law to ensure consistency with the new PPP Law.

- GFSI has begun evaluate the feasibility of a **“PPP Project Development Fund” (PDF)**. The purpose of the PDF, if feasible, will be to provide the municipalities and/or central government with the financial resources necessary to properly evaluate and implement PPP’s into the future. Some of the principal issues to be considered through the evaluation of the PDF will be:
 - To determine the level of capacity within the private sector to provide PPP Feasibility Study and Transaction Advising services.
 - To identify potential sources of funds (GoK budget, donor community)
 - To determine the legal feasibility of such a fund
 - To develop a structure for the PDF based on “best practices” and the Kosovo legal and regulatory environment.
 - To identify a potential PDF management entity.

Determining the level of private sector capacity to provide PPP implementation related services will be undertaken in the first half Year 2.

Objective 2 – Assistance to the Ministry of Finance

During the first year of the GFSI project the MoF has faced the challenge of seeking to stay within its IMF program while at the same time coping with substantial demands for new expenditures directed at achieving social and economic objectives. Some examples of this include the implementation of large salary increases announced at the start of 2011 that resulted in previous IMF program going off-track and current proposals for funding the route 6 highway, laws providing benefits to war martyrs and political prisoners as well as proposed health insurance – all of which might see the current IMF program go off-track. In regard to the situations, GFSI advisors are engaged by the minister as a trusted source of advice in relation to the possible strategies and actions to maintain fiscal sustainability.

6 UPCOMING EVENTS AND ACTIVITIES FOR THE NEXT YEAR

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

PPP Projects closed:

- Pristina Underground Parking – University
- Pristina Underground Parking – Municipal Building
- Pristina Underground Parking – Grand Hotel
- Peja Urban Transport (Bus)
- Suhareka Solid Waste Collection

Legislation adopted:

- Amended PPP Law
- State Aid Law
- Law on Privatization Agency of Kosovo
- Law on Special Chamber
- Law on Reorganization of Enterprises

Objective 2 – Fiscal stewardship

PEFA:

- Regional roll out of the PEFA Self-Assessment initiative to the next group of municipalities
- Assistance in the implementation of PFM Action Plan for municipalities participating in the PEFA program

Municipal MTEF:

- Assistance in the implementation of a new MTEF model during the 2013-2015 municipal budget cycle

New Municipalities:

- Strengthened integration of new municipalities into ongoing capacity building initiatives in the area of municipal PFM and budgeting

Objective 2 – Assistance to the Ministry of Finance

- Strategic Expenditure Review final report due to Cabinet 15 October 2011
- Budget 2012 due to Assembly October 31 2011 with non-financial performance information measures
- Medium Term Expenditure Framework, incorporation the Governments Economic Vision and Action Plan and the outcomes of the SER, due 30 April 2012
- IMF Staff Monitoring Program reviews September, December 2011 and March 2012

7 INDICATOR DEFINITIONS AND COLLECTION AND REPORTING PLAN

7.1.1 GROWTH IN GDP

Element: High-Level Indicators							
Indicator Title: Growth in GDP							
<i>Definition/Rationale:</i>							
GDP growth indicates growth of economy of Kosovo							
<i>Calculation:</i>							
Each year GDP growth over previous year							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Nil			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE and SOK data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	4.4%	4.8%	4.0%	6.1%		5.7%	
<i>Notes:</i>							

7.1.2 VALUE OF PRIVATE INVESTMENT

Element: High-Level Indicators							
Indicator Title: Value of private investment							
<i>Definition/Rationale:</i>							
Total value of private investment in Kosovo economy							
<i>Calculation:</i>							
Amount in Euro that represents a sum of all private sector investment in the economy							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Amount, Euro				Nil			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE and SOK data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	844	934	757	1068		1203	
<i>Notes:</i>							

7.1.3 OVERALL BUDGET DEFICIT

Element: High-Level Indicators							
Indicator Title: Overall Budget Deficit							
<i>Definition/Rationale:</i>							
Percent of GDP. 2009 Baseline from the 2001-13 MTEF. Analyses of GFSI impacts will take into account changes in expenditure programs, the economy, tax law, other exogenous factors.							
<i>Calculation:</i>							
Calculated as a percentage of overall budget deficit of GDP amount.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Lower = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	-1.1%	-5.1%	-5.3%	-7.1%*		-5.4%	
<i>Notes: The planned increase in the deficit in 2011 is due to the increased spending against the one off factor of Albanian / Kosovo highway, running down established surplus and revenue from asset sales.</i>							

7.1.4 BUDGET RESERVES AS % OF GDP

Element: High-Level Indicators							
Indicator Title: Budget reserves as % of GDP							
<i>Definition/Rationale:</i>							
Budget reserve is achieving a balance between economic investment and managing fiscal risk. Hence a relatively stable budget reserve as a % of GDP is a measure of fiscal discipline							
<i>Calculation:</i>							
Percentage of GDP							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Stable = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	8.7%	5.7%	5.7%	7.7%		5.1%	
<i>Notes:</i>							
Higher budget reserves as % of GDP means lower fiscal risk and increased fiscal discipline							

7.1.5 TOTAL ANNUAL GOVERNMENT REVENUES

Element: High-Level Indicators							
Indicator Total Annual Government Revenues							
<i>Definition/Rationale:</i>							
Tax, customs and municipal own source revenues							
<i>Calculation:</i>							
Amount of collected revenue							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Euro				Central / Municipal			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				GoK Fiscal Year-End			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	1146	1106	1126	1068		1203	
<i>Notes:</i>							

7.1.6 NUMBER OF KEY PERSONNEL IN FISCAL POLICY AND ADMINISTRATION TRAINED WITH GFSI ASSISTANCE

Element: High-Level Indicators							
Indicator Title: Number of Key Personnel in Fiscal Policy and Administration Trained With GFSI Assistance							
<i>Definition/Rationale:</i> Number of key personnel engaged in fiscal policy and administration work who received training with involvement of GFSI project.							
<i>Calculation:</i> Number of people who participated in training programs organized by GFSI project.							
<i>Unit:</i> Headcount				<i>Disaggregate by:</i> Gender			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Project Reports				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	n/a	125*	1215	280		350	
<i>Notes: half year impact</i> Minimum levels based on identified training numbers. Training attendance in other activities (e.g., workshops) will be included in Project reports.							

7.1.7 NUMBER OF PPP/PRIVATIZATION DEALS COMPLETED

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Number of PPP/privatization transactions completed with USAID/GFSI support							
<i>Definition/Rationale:</i>							
Tracked number of PPP/privatization transactions completed– with USAID support							
<i>Calculation:</i>							
Number of transactions completed							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Central / Municipal			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
				Quarterly			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Quarter				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Quarter				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	N/A	1	1	4		7	
<i>Notes:</i> Targets and baselines presented on a cumulative basis							
Large PPP projects will generally take more than one reporting cycle to be completed.							

7.1.8 VALUE OF PRIVATE INVESTMENT FROM COMPLETED PPP/PRIVATIZATION DEALS

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Value of private investment from completed PPP/privatization transactions with USAID/GFSI support							
<i>Definition/Rationale:</i>							
Monetary value of private investment in public sector from completed PPP and privatization deals							
<i>Calculation:</i>							
Progress measured annually against PPP program work plan							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Million Euros				Central / Municipal			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Quarterly			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Quarterly				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Quarterly				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	n/a	€ 0	€ 106*	€ 120		€ 180	
<i>Notes: does not include privatization receipts</i>							
All funds have been committed. To date about 5% have been dispersed. Targets and baselines presented on a cumulative basis							

7.1.9 NUMBER OF STAFF TRAINED IN PPP ADMINISTRATION (DISAGG. BY CENTRAL/MUNICIPAL, INDIVIDUAL MUNICIPALITIES AND GENDER)

Element: 1.1.1 – Public Private Partnerships							
Indicator Title: Number of public and private sector Kosovars trained in PPP							
<i>Definition/Rationale:</i> Number of staff trained on PPP with assistance of GFSI project							
<i>Calculation:</i> Number of staff who participated in training organized by GFSI project							
<i>Unit:</i> Headcount				<i>Disaggregate by:</i> Central/municipal/private sector, individuals and gender			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Training Logs				<i>Timing and Availability of Data:</i> Quarterly			
<i>Frequency of Data Availability/Collection:</i> Quarterly				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Quarterly				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID + GFSI			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	0	50	376	200		300	
<i>Notes:</i> Training attendance will vary by type (e.g., workshops) and will be included in training and Project reports. Number of staff trained on PPP may include repeat participants on different topics Targets and baselines presented on a cumulative basis.							

7.1.10 ALL CLAIMS AGAINST TRUST FUNDS INHERITED FROM KTA RESOLVED AND ALL SUCH TRUST FUNDS DISBURSED: PERCENTAGE DISBURSED

Element: 1.1.2 – Privatization – Support to Privatization Agency of Kosovo (PAK)							
Indicator Title: All claims against trust funds inherited from KTA resolved and all such trust funds disbursed: percentage disbursed							
<i>Definition/Rationale:</i> Percentage of disbursed trust funds as a result of resolved claims inherited from KTA							
<i>Calculation:</i> Claims against the 250 Inherited Trust Funds represent, by value, a significant majority of all expected claims; the funds in the Inherited Trust Funds represent, by value, a significant majority of all expected privatization/liquidation proceeds.							
<i>Unit:</i> Percentage				<i>Disaggregate by:</i>			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> PAK Report				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	0%	0%	na	25%		65%	
<i>Notes: advisory support requires the Kosovo government to meet conditions precedent</i>							

7.1.11 NUMBER OF PEFA ASSESSMENTS CONDUCTED AT THE MUNICIPALITIES

Element: 1.2.1.1 Public Financial Management							
Indicator Title: Number of PEFA assessments – number of municipalities capable of conducting PEFA assessment							
<i>Definition/Rationale:</i>							
Self Assessment completed for each municipality utilizing PEFA methodology							
<i>Calculation:</i>							
Report issues by municipality							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				By municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Project / Municipal PEFA Reports				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010/11 Target	2010/11 Actual	2011/12 Target	2011/12 Actual	2012/13 Target	2012/13 Actual
2009	0	5	5	10		15	
<i>Notes: assessments are completed prior to end of project</i>							

7.1.12 NUMBER OF MUNICIPALITIES CAPABLE OF UNDERTAKING A PEFA ASSESSMENT

Element: 1.2.1.1 Public Financial Management							
Indicator Title: The number of municipalities capable of conducting PEFA assessment							
<i>Definition/Rationale:</i>							
Number of municipalities trained in the PEFA methodology							
<i>Calculation:</i>							
Trainer personnel in each municipality							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				By municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Project / Municipal PEFA Reports				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010/11 Target	2010/11 Actual	2011/12 Target	2011/12 Actual	2012/13 Target	2012/13 Actual
2009	0	5	5	15		30	
<i>Notes:</i>							
Individual municipalities will have trained personal and the discretion to conduct their own PEFA assessment							

7.1.13 MUNICIPAL PEFA ASSESSORS TRAINED

Element: 1.2.1.1 Public Financial Management							
Indicator Title: Municipal PEFA assessors trained							
<i>Definition/Rationale:</i> A cadre of PEFA Assessors will be trained through a dedicated training in PEFA methodology with monitoring by GFSI advisors during PEFA Self Assessment exercises. Training of PEFA assessors will increase capacity of municipalities.							
<i>Calculation:</i> Number of trained municipalities PEFA assessors							
<i>Unit:</i> Number				<i>Disaggregate by:</i> Gender, municipalities			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Project reports				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	No	15	17	40		72	
<i>Notes:</i>							

7.1.14 NUMBER OF MUNICIPALITIES WITH LOCAL ASSEMBLY APPROVED MTEF'S

Element: 1.2.1.2 Municipal Medium-Term Expenditure Framework (M-MTEF)							
Indicator Title: Number of Municipalities that publish MTEF-s on their websites and submit copy to MFE at the beginning of municipal budget process							
<i>Definition/Rationale:</i> Local Assembly has approved MTEF and hence it is a public document							
<i>Calculation:</i> Number of municipalities that publish MTEF-s on their website and submit a copy to MFE							
<i>Unit:</i> Number				<i>Disaggregate by:</i>			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Municipal Assembly records				<i>Timing and Availability of Data:</i> Annually			
<i>Frequency of Data Availability/Collection:</i> Annually				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
	Baseline	2010/11	2010/11	2011/12	2011/12	2012/13	2012/13
Baseline	Value	Target	Actual	Target	Actual	Target	Actual
Year							
2009	0	n/a*	n/a	25		30	
<i>Notes:</i> MTEFs are due to be produced by April 30 each year, hence for 2010/11 the target is not applicable due to project beginning July 2010.							

7.1.15 NUMBER OF NEW MUNICIPALITIES CERTIFIED AS INDEPENDENT BUDGET ORGANIZATIONS FOR THE DELEGATION OF EXPENDITURE MANAGEMENT

Element: 1.2.1.3 Public financial Management in New Municipalities							
Indicator Title: Number of New Municipalities certified as independent budget organizations for the delegation of expenditure management							
<i>Definition/Rationale:</i>							
Budget organization certification conducted within 9 months following certification of financial officers. Targets subject to establishing new municipalities.							
<i>Calculation:</i>							
Number certified by Treasury / MFE							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Enclave / North			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE data				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	0	n/a	3	4		5	
<i>Notes: cumulative</i>							

7.1.16 NUMBER OF MUNICIPALITIES WITH UNQUALIFIED AUDITS OF THEIR FINANCIAL STATEMENTS

Element: 1.2.1.4 Enabling Municipal Borrowing							
Indicator Title: Number of municipalities with unqualified audits of their financial statements							
<i>Definition/Rationale:</i>							
Unqualified audit reports demonstrate a certain level of financial management maturity within each municipality							
<i>Calculation:</i>							
Review of audit reports							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number				Actual			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
OAG Annual report				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	2	2	10	10		15	
Notes: Year relates to the year for which the municipal financial statements apply. Audit process occurs in subsequent year. E.g. target for 2011 is for 2011 financial statements that are audited in 2012.							

7.1.17 NUMBER OF MUNICIPALITIES THAT HAVE IN PLACE REVENUE SYSTEMS WITH ELECTRONIC RECONCILIATION FEATURES

Element: 1.2.2 Treasury Functions and Accounting							
Indicator Title: Number of Municipalities that have in place revenue systems with electronic reconciliation features							
<i>Definition/Rationale:</i>							
Revenue systems with electronic reconciliation features are expected to increase efficiency of municipalities.							
<i>Calculation:</i>							
Percentage of municipalities that implemented and use revenue systems with electronic reconciliation features.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage of revenue reconciled electronically				Ethnicity			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Audit reports				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	TBD	20%	TBD	70%		80%	
<i>Notes: Percentage relates to percentage of municipal own-source revenue managed through systems with appropriate reconciliation features.</i>							

7.1.18 ANNUAL MUNICIPAL FINANCIAL STATEMENTS

Element: 1.2.2 Treasury Functions and Accounting							
Indicator Title: Annual municipal financial statements							
<i>Definition/Rationale:</i>							
Preparation of financial statements is a legal requirement. Number of municipalities preparing annual financial statements within 1 month of end of Fiscal year.							
<i>Calculation:</i>							
Treasury data							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Number of municipalities							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Auditor General				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
	Baseline	2010	2010	2011	2011	2012	2012
Baseline	Value	Target	Actual	Target	Actual	Target	Actual
Year							
2009	30	34	37	37		38*	
<i>Notes: dependent on all municipalities being fully established</i>							

7.1.19 BUDGET SPENDING COMPARED TO BUDGET ALLOCATION

Element: 1.2.3.2 Budget and Treasury							
Indicator Title: Budget spending compared to budget allocation							
<i>Definition/Rationale:</i>							
Increase in budget spending compared to budget allocation indicates increased fiscal efficiency.							
<i>Calculation:</i>							
Percentage of budget spending compared to budget allocation.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Subjective assessment			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
Treasury Financial Statements				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009	85%	>89%	94%	>90%		>92%	
<i>Notes:</i>							

7.1.20 AMOUNT OF PROPERTY TAX COLLECTED

Element: 1.2.3.3 Property Tax							
Indicator Title: Amount of Property Tax collected							
<i>Definition/Rationale:</i> All property taxes collected by municipalities							
<i>Calculation:</i> With monthly collection of tax revenue statistics, calculation of tax revenue collected can be reported annually to coincide with USAID fiscal year-end on September 30.							
<i>Unit:</i> Value in Millions of Euros				<i>Disaggregate by:</i> Municipality			
<i>Type: Output/Outcome</i> Outcome				<i>Direction of Change:</i> Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i> Property Tax Department data				<i>Timing and Availability of Data:</i> Monthly			
<i>Frequency of Data Availability/Collection:</i> Monthly				<i>Timing of Data Collection, Consolidation and Reporting:</i> USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i> Annually				<i>Reporting and Target-Setting Deadline:</i> 15-Oct			
<i>Frequency of Target Setting:</i> Annually				<i>Responsibility for Target-Setting:</i> USAID			
Targets and Baselines							
	Baseline	2010	2010	2011	2011	2012	2012
Baseline Year	Value	Target	Actual	Target	Actual	Target	Actual
2009	€ 11.3	€ 12.4	€ 13.3	€ 14.0		€ 16.6	
<i>Notes:</i> Potential growth is greater, but municipalities will be reluctant to significantly raise tax rates without some external motivation.							

7.1.21 PERCENTAGE OF PROPERTY TAX IN OSR

Element: 1.2.3.3 Property Tax							
Indicator Title: Percentage of Property Tax in OSR							
<i>Definition/Rationale:</i>							
Share of property tax in OSR							
<i>Calculation:</i>							
Percent of property tax amount in OSR - estimated based on MTEF projection of MOSR							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage				Municipality			
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Outcome				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
MFE Property Tax Dept				Monthly			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Monthly				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
Year							
2009	23.4%	24.6%	28.8%	27.0%		31.0%	
<i>Notes:</i>							

7.1.22 EXPORTS GROW AS % OF GDP

Element: 1.3 Economic Policy Assistance							
Indicator Title: Exports as % of GDP							
<i>Definition/Rationale:</i>							
Percent of GDP. 2009 Baseline from the 2001-13 MTEF. Analyses of GFSI impacts will take into account changes in expenditure programs, the economy, tax law, other exogenous factors.							
<i>Calculation:</i>							
Percent of GDP.							
<i>Unit:</i>				<i>Disaggregate by:</i>			
Percentage							
<i>Type: Output/Outcome</i>				<i>Direction of Change:</i>			
Impact				Higher = Better			
<i>Source of Data/Responsibility for Data Reporting:</i>				<i>Timing and Availability of Data:</i>			
National Accounts				Annually			
<i>Frequency of Data Availability/Collection:</i>				<i>Timing of Data Collection, Consolidation and Reporting:</i>			
Annually				USAID Fiscal Year-End (Sept 30)			
<i>Frequency of Data Reporting:</i>				<i>Reporting and Target-Setting Deadline:</i>			
Annually				15-Oct			
<i>Frequency of Target Setting:</i>				<i>Responsibility for Target-Setting:</i>			
Annually				USAID			
Targets and Baselines							
Baseline Year	Baseline Value	2010 Target	2010 Actual	2011 Target	2011 Actual	2012 Target	2012 Actual
2009		4%	TBD%	5%		8%	
<i>Notes:</i>							
On 2009 base. Recognizing that Kosovo's exporters are price takers and thus value of exports subject to international price movements, such as for minerals.							

ANNEX 3: GFSI BIBLIOGRAPHY

GFSI Project Deliverables:

- GFSI Annual Work Plan Year 1 (July 15, 2010 – July 15, 2013)
- GFSI Quarterly Report (September, 2010)
- GFSI Quarterly Report (December, 2010)
- GFSI Quarterly Report (March, 2011)
- GFSI Annual Work Plan Year 2 (July 15, 2011 – July 15, 2013)

Other GFSI Documents during Year 1:

- Amended PPP Law
- Law on Special Chamber
- Law on Privatization Agency
- Law on Reorganization of Enterprises
- Directive Processing of PPP
- Kosovo Local Government PEFA – Application Manual and Technical Guidance, January 2011
- Public Expenditure and Financial Accountability (PEFA), Public Financial Management Assessment, Kosovo Local Government Level, May 2011
- Assessment Report – Municipal Medium Term Expenditure Framework 2011-2013, April 2011
- Municipal MTEF Manual – Strengthened Approach To Budget Planning, May 2011
- Treasury instruction on mandating third quarter financial statements
- Treasury instruction on
- IT Strategic reorganization
- IT organization chart
- Position Paper on the development of a Policy Unit in the MoF
- Various documents associated with the Strategic Expenditure Review
- Concept Paper on the Kosovo Economy and several policy briefs on the following topics:
 - The role of Agriculture
 - Lending rates
 - Corruption
 - FDI
 - Growth and exports
 - Productivity improvements
 - Role of government

ANNEX 4: TECHNICAL ASSISTANCE ACTIVITIES, ACHIEVEMENTS & PROBLEMS ENCOUNTERED

Set out below is a high-level summary of the main technical assistance activities conducted by GFSI team members, excluding translators and administrative support staff, during Year 1. The main achievements and problems encountered (where applicable) with these activities are also listed below and specified in more detail in the main body of this report.

(1) Chief of Party – Matthew Smith (July 2010 to July 2011)

Activities:

- (a) GFSI team leadership and advisor to the Minister of Finance
- (b) GFSI program introduction and ongoing liaison with stakeholders
- (c) GFSI annual workplan, updates and quarterly report preparation
- (d) Advisor to the broader group of Economic Ministers
- (e) Provision of assistance with “Doing Business” initiatives
- (f) Donor coordination with DIFD, SIDA, EU, ESTAK, USAID Energy (transaction and KEK projects), BEEP, DEMI and US Treasury.
- (g) Coordination and liaison with IMF and World Bank on fiscal and development issues

Achievements:

- (a) GFSI project management including preparation of project deliverables
- (b) Economic Development Vision and Action Plan of the government
- (c) Launch of the Strategic Expenditure Review
- (d) Agreement with Minister on development of an Economic and Public Policy Department
- (e) Ten unqualified municipal audit reports for 2010

Problems Encountered:

- (a) General election created disruption to the project, particularly in the central government supported areas of economic policy, budget development and IT.

(2) Scott Jazyuka (November 2010 - July 2011)

Activities:

- (a) Oversight/coordinator of the PPP component of the GFSI
- (b) Supporting the GFSI and PPP Unit staff in developing a Kosovo based “best practices” project identification, prioritization, selection and monitoring matrix.
- (c) Mentoring and coaching on “Introduction to PPP’s” and the process to be followed for selecting PPP’s at 7 municipalities and at 3 central government ministries
- (d) Identification of 18 potential PPP projects at the municipal and central government levels
- (e) Working with GFSI financial analyst and lawyer and Municipality of Pristina staff (including Deputy Mayor) in undertaking the feasibility studies/RfQ’s and contracts for the three Pristina Underground Parking Projects. The RfQ’s have been issued.
- (f) Assessing the feasibility and providing transactional support to GFSI and PPP Unit staff on various municipal and central government urban transport, accommodation, parking, sports & recreation, fruit & vegetable market and solid waste projects. The projects are at various stages of development from pre-feasibility to the RfQ stage.

- (g) Supporting and coordinating the GFSI development of pre-feasibility, full feasibility and Public Sector Comparator systems (including Excel models)
- (h) Providing input and support to the GFSI lawyer in the creation and review of the standard PPP RfQ, RfP and BOT/Concession contract documents to be delivered to the PPP Unit for dissemination to the line ministries, publicly owned enterprises (POE) and municipalities.
- (i) Mentoring & coaching of GFSI & PPP unit staff

Achievements:

- (a) Development of pipeline and identification, prioritization, selection and monitoring matrix based on conditions in Kosovo and industry “best practices”
- (b) Development and implementation of initial process for analyzing potential PPPs (pre & full feasibility stages including determining the “affordability” and value-for-money of a project)
- (c) Completion of standard PPP documentation including RfQ, RfP and BOT/Concession contract
- (d) Assisted in the final stages of the negotiation and implementation of the Pristina International Airport BOT/Concession.
- (e) Assisted the PPP Unit and/or the municipalities in taking three projects to the RfQ stage, completing five feasibility studies and completing nine pre-feasibility studies (all on a cumulative basis).

Problems Encountered:

- (a) Creating a new PMU for the Pristina International Airport. Lack of capacity/interest in the private sector to join the newly created PMU. The PPP Unit is acting as interim PMU and an RfP will be issued under the Procurement Law to hire a firm that will perform Airport PMU services.
- (b) Limited capacity in hiring finance, legal and engineer staff at the PPP Unit and Municipal levels to manage PPP programs. GFSI is assuming a broader role than originally anticipated until our counterparts within the PPP Unit achieve proper staffing. As set forth above and in the revised “Life-of-the-Project Work-plan” Document, the project is also recommending that GFSI also evaluate the viability of setting up a Project Development Fund (PDF) that will provide the municipalities and/or central government with resources necessary to hire private sector firms to perform the required feasibility study and transaction advisory services.
- (c) Confusion over the authority of the municipalities vs. the central government on municipal projects. The revised EU compliant PPP Law will clarify the roles of each party.

(3) Don Selby (March 2011- July 2011)

Activities:

- (a) Initial review and financial evaluation of road project pipeline.
- (b) Initial drafting of RFQ & RFP for Transaction Advisors for the Lipjan-Hani I Elezit Motorway.
- (c) Transactional support to GFSI & PPP unit staff on bus concession, underground parking & solid waste projects
- (d) Review & development of pre & full feasibility and Value for Money (VfM) studies (including excel modeling & economic analysis)
- (e) Mentoring & coaching of GFSI & PPP unit staff

Achievements:

- (a) Sound progress on three transactions (bus, parking & solid waste)
- (b) Improved process for analyzing potential PPPs (pre & full feasibility stages including VfM methodology)
- (c) Advanced standard financial modeling & methodology

Problems Encountered:

- (a) Government decided to procure route 6: Lipjan – Hani I Elezit Motorway by traditional public procurement not by PPP.

(4) Robert Muharremi (October 2010 – July 2011)**Activities:**

- (a) Reviewed and prepared amendments to PPP Law and Law on State Aid
- (b) Prepared secondary rules and regulations of the PPP-ISC
- (c) Reviewed legal framework related to PPPs
- (d) Prepared sample PPP procurement documents
- (e) Prepared draft PPP procurement documents for specific PPP transactions (Prishtina underground parking project and Peja bus transport project)
- (f) Oversee and coordinate the Suhareka waste collection project

Achievements:

- (a) Primary Legislation
 - Draft Law on Public-Private-Partnerships
 - PPP related amendments to draft Law on State Aid
- (b) Secondary Legislation
 - Review of legal framework related to and affecting PPP
 - PPP-ISC Rules of Procedure
 - PPP-ISC Directive on Procedures for the Review and Approval of PPP Projects
 - PPP-ISC Directive on Project Management Teams
- (c) Samples
 - Model works concession agreement (DBFOT/BOT type)
 - Model 'Request for Qualifications'
 - Model 'Request for Proposals'
- (d) Transaction documents
 - 'PPP: Underground Parking with Commercial Facilities', Municipality of Pristina:
 - Legal due diligence & procurement plan for feasibility study
 - Draft works concession agreement
 - Draft Request for Qualifications
 - Draft Request for Proposals
 - 'PPP: Urban Bus Transport Services', Municipality of Peja
 - Legal due diligence & procurement plan for feasibility study
 - Draft Request for Proposals
 - Draft service concession agreement

Problems Encountered:

- (a) There is a lack of precedents and case-law with respect to PPP legislation which leads to interpretations of applicable law bearing to some degree uncertainty and risk.
- (b) There are a number of laws, which with respect to PPPs, are inconsistent with each other (e.g. the problem of economic support for PPPs being treated differently by the PPP Law and the Law on Public Financial Management and Accountability).

(5) Lindita Kuraja (November 2010 - July 2011)

Activities:

- (a) Liaison with municipalities for potential municipal PPP projects
- (b) Work on pre-feasibility reports in the sectors of waste collection, recreational-educational-commercial center, parking facilities and marketplaces
- (c) Work on feasibility reports on urban bus transport, waste collection and underground parking projects
- (d) Work on Value for Money studies
- (e) Work on preparation of standard financial and Value for Money excel models including visual basic for applications (VBA)

Achievements:

- (d) Set-up of matrix outlining the initial potential PPP project pipeline.
- (e) As part of capacity building task, worked jointly with Peja Municipality in the development of PPP feasibility report for urban bus transport project
- (f) Suggested a pre-feasibility format for PPP projects
- (g) Suggested a feasibility report template for PPP projects
- (h) Suggested a risk matrix for evaluating likelihood and impact of risk on PPP projects

Problems Encountered:

- (a) Difficulty in receiving proper data on a timely basis

(6) Gazmend Ahmeti (November 2010 - July 2011)

Activities:

- (a) Coordinating and liaising with Prishtina municipality PPP Team
- (b) Work on pre-feasibility reports in the sectors of underground parking
- (c) Work on feasibility report on parking project
- (d) Coordinating and delivering training to public and private sector participants
- (e)** Work on preparation of training programs and standards

Achievements:

- (a) Set-up of activities for Prishtina Underground Parking Project.
- (b) Coordinating and delivering training to over 376 participants from public and private sector
- (c)** Participating in designing and drafting the pre-feasibility and feasibility report for Prishtina Municipality.

Problems Encountered:

- (a) The lack of knowledge and information on PPP by government officials.

Magdalena Tomczynska (July 2010 – July 2011)

Activities:

- (a) Led and coordinated the conduct of the first Kosovo Local Government PEFA Self-Assessment

- (b) Commenced the roll out of the PEFA Self-Assessment to the second group of the Kosovo Municipalities
- (c) Led and managed GFSI activities supporting the strengthening of Municipal MTEF practices across the Kosovo Municipalities
- (d) Coordinated and contributed to the municipal PFM training and capacity building initiatives for the Kosovo Municipalities
- (e) Provided assistance and guidance to Property Tax Department of MoF
- (f) Led and coached a team of local GFSI experts working under the municipal PFM component of GFSI project

Achievements:

- (a) Completion of the first Kosovo Local Government PEFA Performance Report for five pilot Municipalities: Pristina, Podujevo, Vushtri, Sterpce, and Mamusha
- (b) Roll out of the second round of the PEFA self-assessment for six Municipalities: Ferizaj, Gjakova, Peja, Istog, Gijlane, and Nove Brdo
- (c) Publication of the Technical Guidance on the implementation of the PEFA assessment in the Kosovo Municipalities
- (d) Publication of the first comprehensive review of MTEF practices in the Kosovo Municipalities
- (e) Publication of the first comprehensive Technical Manual on the preparation of Municipal MTEF
- (f) Capacity building initiatives addressed to the key municipal stakeholders
- (g) Donor coordination

Problems Encountered:

- (a) Considerable delays in the commencement of the 2012 Municipal Budget process by the MoF negatively affected timetable and strategy for the implementation of new approach towards the Municipal MTEF practices during the 2012 budget cycle.

Fortuna Haxhikadrija (Sept 2010 – July 2011)

Activities:

- (a) Contributed to the selection of sample municipalities for the first and second round of the Kosovo Local Government PEFA assessment
- (b) Contributed and provided input to Technical Guidance manual, based on PEFA methodology, for municipal teams carrying out PEFA self assessment
- (c) Trained 11 municipal PEFA self assessment teams on PEFA methodology and its application to SN level
- (d) Coached PEFA self assessment teams in two municipalities (Vushtri and Shterpce) during the assessment period
- (e) Drafted individual PEFA self assessment reports for two municipalities
- (f) Contributed to the draft PEFA self assessment comprehensive report for five municipalities included in the first round of PEA selected municipalities

Achievements:

- (a) Human capacities built: Eleven municipal teams trained and acquainted with the application PEFA methodology at SN level
- (b) Resources available: PEFA Secretariat assessment book translated in to local languages; technical guidance book drafted based on PEFA methodology
- (c) Comprehensive first SN PEFA self assessment report produced as a guiding document for the future municipal PFM reform

(d) Problems Encountered:

- (e) The participation of municipalities in PEFA self assessment exercise was purely on voluntary basis. However the burden on municipal staff was high, acknowledging the fact that this was an additional work to their day-to-day responsibilities. Therefore, from time to time the advisor had to confront and manage conflicting agendas disturbing the PEFA process. Overall, the PEFA process and advisor's assistance were strongly supported by municipal staff.

Ramadan Matarova (August 2010 – July 2011)

Activities:

- (a) Training the Kosovo Budget Organizations in the Financial Management Information System (KFMIS) for the delegation of expenditure management
- (b) Implementation of the first Kosovo PEFA assessment for the local government level
- (c) Training and coaching of two counterpart municipalities in the conduct of PEFA self assessment
- (d) Contribution to the technical guidance and manual for the implementation of municipal PEFA
- (e) Prepared draft PEFA report for two counterpart municipalities

Achievements:

- (a) 32 Budget Organizations, including four new municipalities, were trained, tested and certified on seven KFMIS modules, with total of 495 financial officers certified
- (b) Two PEFA counterpart municipal teams were trained in the PEFA methodology application and successfully undertaken self assessment
- (c) Comprehensive first Sub National PEFA self assessment report produced as a guiding document on future municipal PFM reform

Problems Encountered:

- (a) Despite the enormous efforts to include three north municipalities in the training program for the delegation of expenditure management so far we have not been successful in convincing municipal officials to join the program
- (b) Municipal PEFA teams were very cooperative during the whole process but during the fourth quarter of 2010 the end-of-year budget closer process and elections caused some delays

Besa Gashi (February 2011 – July 2011)

Activities:

- (a) Designed and drafted the Assessment Report on the Municipal Medium Term Budget Framework 2011-2013, including comparative analysis for 26 municipalities
- (b) Implemented training for the management and staff of the Municipal Policy and Budget Department of MoF based on the key findings and recommendation of the Assessment Report of Municipal Medium Term Budget Framework
- (c) Organized and contributed to the Conference on Municipal Budget Practices, which gathered representatives of Ministries (Ministry of Finance and Ministry of Local Government Administration), Mayors, Municipal Budget and Finance Directors, and Associations of Kosovo Municipalities
- (d) Provided input and drafting effort to the Municipal MTEF Technical Manual with the view to assist municipal Budget practitioners in preparing Municipal Budgets during the 2012 budget cycle
- (e) Organized and contributed to the seminar introducing advanced MTEF budget planning processes in Municipalities based on the Municipal MTEF Technical Manual

Achievements:

- (a) Human capacities built: (1) municipal participants who participated in the conference were informed about key findings and recommendation of the Assessment Report of Municipal Medium Term Budget Framework (MTBF); (2) municipal budget practitioners were trained in a new approaches towards multi-year strategic budget planning

- (b) Resources available: (1) Assessment Report on the Municipal Medium Term Budget Framework 2011-2013; (2) Municipal MTEF Technical Manual

Problems Encountered:

- (a) Participation of municipalities and budget analysts from the Municipal Policy and Budget Department of the MoF in training activities was to some extent unsatisfactory despite the efforts of the project team in reaching out and invitation campaign. Out of 37 municipalities only 22 were represented at the conference and 18 at the seminar.

Kris Kauffmann (July 2010 – July 2011)

- (a) Led the process for incorporating performance information in the 2012 Budget submissions
- (b) Coordinated the efforts of GFSI and Treasury staff in supporting municipalities in preparing 2010 financial statements,
- (c) Oversaw GFSI efforts to improve understanding of key issues in audit of municipal financial statements, including 3-way interactions between OAG, Treasury and municipalities.
- (d) Assisted the Treasury in responding to the cash management challenges posed by current fiscal status and IMF Program.
- (e) Active participant in the Government's strategic planning retreat.
- (f) Oversaw the work of Treasury and GFSI local staff in completing the training and certification of all budget organizations for decentralized execution of expenditures in the KFMIS.
- (g) Provided strategic advice to the Budget Director and Minister on issues of strategic fiscal policy, including the costing and impact on fiscal sustainability of major new policy initiatives.
- (h) Led and coached a team of local GFSI experts working under the PFM component of GFSI project

Achievements:

- (a) Following intervention of GFSI to improve the quality of financial statements of selected municipalities and enhanced coordination and cooperation between Treasury, OAG and municipalities, 10 municipalities achieved unqualified audits of their 2010 financial statements - up from 2 in 2009.
- (b) Realized the inclusion, for the first time, of output and outcome based performance measures for all programs in the 2012 Budget submissions of all central budget organizations.
- (c) Witnessed the 2012-14 MTEF be prepared by local staff in the Ministry - for the first time without any direct drafting intervention by international stakeholders, with the role of GFSI coaching local staff on issues associated with structure of the document.
- (d) Prepared enhancements to the SCAAK training materials and delivered training to auditors in the OAG on budget preparation.
- (e) Assisted Treasury in drafting and issuing a new financial rule on annual reporting, to compliment the use of performance information in the budget and to enhance the capacity of the Assembly to hold public sector managers to account.
- (f) Assisted Treasury in finalizing a financial rule for preparation of interim 3rd quarter financial statements - that will receive interim audit review by OAG and further enhance prospects for improved financial statements and audit outcomes at municipal level.
- (g) Saw fiscal issues gain greater attention and focus within the new government following the Banskó economic retreat, where GFSI played a key role in preparing background material and briefing on fiscal challenges.
- (h) Initiated a process that saw the process of sub-allocation of the budgets of municipal service delivery units (such as schools) be devolved to municipalities following training by GFSI and Treasury staff (previously Treasury performed this function).

Problems Encountered:

- (a) Budget Department remains split into two department, creating massive and avoidable coordination challenges in preparing the budget and complying with aggregate fiscal rules.
- (b) Budget Department needs improved staffing, better succession planning and implementation of proposed restructure if it is to meet the challenges of future reforms to the budget process.
- (c) 2010 election process and subsequent unplanned policy changes shifted the focus of the ministry from reform issues to dealing with now-critical fiscal sustainability issues. A feature of this was Kosovo going off-track from its IMF SBA and need for subsequent negotiation of a SMP. The deteriorating fiscal position has by necessity drawn the focus of the Treasury into nearer term cash flow risk mitigation activities.

Neli Baeva (July 2010 – July 2011)**Activities:**

- (a) Collected information for IT organization, Applications, and IT Infrastructure at all MoF Departments.
- (b) Initiated and supervised unification of MS Office version on MoF HQ.
- (c) Initiated and supervised the work related to Joined Server Room project.
- (d) Initiated and supervised the work on project - Integrated IT Infrastructure.
- (e) Initiated, created requirements, and executed QA for the implementation of Fiscal Number (FN) into Property Tax System and enable Tax Administration experts to access, search and retrieve necessary information.
- (f) Assessment of reporting capabilities of property Tax System and design some reports.
- (g) Designed new IT Organizational structure for the MoF along with detail description of responsibilities, skills requirement, and positions classification according to Law on Civil Servants in Kosovo.
- (h) Presented the concept for IT “to-be” at the Minister and drafted an approach for IT Transformation at the MoF.
- (i) Initiated transformation of the help-desk at the MoF HQ IT Division.
- (j) Initiated drafting of IT Policies and Procedures for the MoF HQ. Guided, supervised and contributed to the draft of the first package of IT policies and procedures.
- (k) Initiated research on HR System identification and implementation for the MoF.
- (l) Coordination meetings with:
 - o MoF HQ, TAK, and Customs;
 - o other donors’ projects, such us: EU project at Budget Department, CIDA – Property Tax Project, and others;
 - o Other Government institutions, such as: Business Registration Agency, and Ministry of Public Administration

Achievements:

- (a) Initial IT assessment of IT Domain within the MoF completed and a conceptual model of “To-Be” IT designed and documented.
- (b) MS Office 2007 installed on all computers at the MoF HQ.
- (c) Requirements specification document for a joined server room prepared. Decision on location to be used for the new server room pending, based on which the requirements document can be finalized and tender for server room preparation can commence.
- (d) FN implemented in the Property Tax System and some of the requirements completed.
- (e) Few reports for municipality’s collection and management of property tax units designed and delivered to CIDA project.
- (f) A document describing new IT Organizational structure along with all supplementary descriptions for recruiting and hiring key managers and experts delivered to the Secretary Permanent.

- (g) Approach for IT Transformation drafted and delivered to the Minister and Secretary Permanent.
- (h) PPT Presentation on ITIL standards for ICT Operations – organization, processes and tools created and distributed to all members of the MoF IT Division and GFSI local IT Experts..
- (i) First package of IT Policies and Procedures drafted.

Problems Encountered:

- (a) Lack of IT Leadership – The new appointed IT Director was extremely passive and didn't support any of the initiated projects; quite opposite he stopped one of them.
- (b) Existing staff of the IT Division lack qualifications and management oversight.
- (c) Lack of cooperation between the discrete IT teams (MoF, Treasury, Tax, Customs, Property Tax).

Burim Meholli (July 2010 – July 2011)

Activities:

- (a) Managed the development and enhancements of the Property Tax System (PTS)
- (b) Managed the development of the Resurvey Application for the devices used in the field and the Resurvey Quality Control Application used in the Property Tax Department before data migration to the production environment
- (c) Managed the migration of PTS to the new server hardware
- (d) Daily maintenance of the PTS infrastructure
- (e) Assisted MoF in the 2011 mass taxation and bill production
- (f) Assisted in the management of property tax records during the establishment of new municipalities

Achievements:

- (a) In cooperation with the Swedish counterparts, the finalization of the 2011 mass taxation by early February
- (b) Successful implementation of the new appraisal model reflecting the quality of construction for two pilot municipalities of Shtime and Fushe Kosove
- (c) Migration of the PTS system to a new hardware (SIDA donation), which increased PTS performance further improving taxpayer service
- (d) 100% uptime of the Property Tax System achieved during the last year

Problems Encountered:

- (a) While very important functionalities were added to the PTS system (GIS) it still remains mostly underused due to the dependency on the parcel map data from Kosovo Cadastral Agency. Although the GFSI in cooperation with SIDA and MoF counterparts managed to provide for an agreement between MoF and KCA, KCA still refuses to provide relevant data to MoF. This issue needs to be resolved in order to get the benefits of the GIS interface and it is crucial for the Land Taxation for the future.

Agron Cerkini (July 2010 – July 2011)

Activities:

- (a) Supported identifying, prioritizing, and implementing requirements on new functionalities for the property tax system
- (b) Assisted SIDA and PTD during the properties resurvey process, including defining resurvey requirements, preparation of resurvey manual, resurvey training for PTD staff and surveyors private company, preparation of resurvey application for quality control, training students and PTD staff in the use of resurvey application for quality control
- (c) Provided ongoing assistance to municipalities and PTD in the system's maintenance requests
- (d) Prepared property tax information leaflets for municipalities Shtime and Fush Kosovo

- (e) Updated administrative instruction on “Gathering and registration of information on the property and taxpayer”; assisted PTD working groups in the establishment of administrative instructions in accordance with a new property tax law
- (f) Reviewed the 2009 inspection reports and prepared assessment report for PTD staff and municipalities
- (g) Conducted analysis, testing, and acceptance of the result for the 2011 mass taxation
- (h) Developed software facility and trained municipalities in planning of property tax revenues and impact analysis of resurvey data in the new valuation model
- (i) Developed reform plan for the PTD inspection process
- (j) Managed and responded to ad-hoc property tax data requests from various stakeholders

Achievements:

- (a) Property tax system is stable, enables good management of information on properties or taxpayers, and supports new property tax law and administrative instructions. Most of functions are developed.
- (b) Property tax system provides essential information to improve services to taxpayers. For 2010, the collection amounted to 13,411,475 euro or 17% increase as compared with 2009. In cooperation with the Swedish counterparts, the 2011 mass taxation for most of the municipalities was finalized already in early February. This resulted in an overall increase in collections (11% increase in the first half of 2011 as compared with the previous year).
- (c) Resurvey data for Shtime and Fush Kosovo are migrated into the system so the new appraisal model reflecting quality of construction could be successfully implemented for these two pilot municipalities.
- (d) PTD management is better equipped with the reformed inspection process and understood the benefits of annual inspections.
- (e) Municipalities are trained in planning property tax revenue and new valuation model.

Problems Encountered:

- (a) Problems in the resurvey process: delays in planned finalization beyond June 2011; Serbian communities refusing to participate in the resurvey; poor quality data for some municipalities; insufficient resurvey funding; delays in the implementation of new valuation for the 2012 taxation.
- (b) While a very important functionality was added to the PTS system (GIS) it still remains mostly unused due to the dependency on the parcel map data from Kosovo Cadastral Agency. The GFSI in cooperation with SIDA and MoF counterparts managed to achieve a data exchange agreement between MoF and KCA; however KCA still refuses to provide data. This issue needs to be resolved in order to ensure the benefits of the GIS interface and it is a critical factor for the Land Taxation in the future.

Driton Hajrizi (July 2010 – July 2011)

Activities:

- (a) Daily maintenance of Treasury Department’s IT infrastructure.
- (b) Distribution of computer packages to Budget Organizations as requested.
- (c) Support to all the Budget Organization’s users that uses KFMIS (Free Balance).
- (d) Tenders evaluations for IT Equipment
- (e) Working in Decentralization Project
- (f) Intranet Server for Treasury needs.

Achievements:

- (a) Daily maintenance of IT Infrastructure which includes Servers, Computers, Printers and Local Network. Support and maintenance on these systems: KFMIS, Cash Plan System, Help Desk System, CS-DRMS and Grants System. Support has been given to the Treasury department employees in daily bases for better performance.

- (b) Successful distribution of computer packages to each Budget Organization and direct connection to Treasury terminal servers has been made for each PC.
- (c) More than 1000 KFMIS (Free Balance) active users have been supported daily, including on site visits all over the Country. Currently, there are around 340 PC's all over the Country that have been sent by Treasury IT Department to connect to KFMIS. The support has been given for: Network problems PC Hardware problems, which includes fixing and changing of parts Software problems Security issues Printing problems.
- (d) Successful evaluation of three tenders for IT Equipment, including Servers.
- (e) Supporting decentralization team on project implementation. PC package has been delivered to all municipalities, ministries and almost every Budget Organization, during the expenditure delegation. Around 100 PC's have been delivered and configured. The network connections between these computers and Treasury servers have been made using Government Network and Virtual Private Network. Designing the documents, presentations and certificates during the project implementation.
- (f) An intranet server is being built. The database, structure and design have been completed. Currently, the process is in data entry phase, in cooperation with Treasury managers of divisions. The purpose of this server is to ensure access to all employees for these resources: Administrative Instructions, Treasury Standardized forms, Published Documents, Books, Procedures and other information.

Problems Encountered:

- (a) Permission has been sought several times from Ministry of Public Administration for Remote Control to our PC's on site. The purpose is access to PC's, so we can solve problems remotely, which in some cases would save time, by accessing them from office. There have been meetings between Treasury IT, Ministry of Finance IT and MPA and all agreed, but the access has not been given.

Sevdije Mehaj (July 2010 – July 2011)

Activities performed in addition to training of officers:

- (a) I have exchanged correspondence in writing with northern municipalities of Kosovo (Zveqan, Laposaviq and Zubin Potok) regarding their inclusion in KFMIS training. I met officially with the Deputy Mayor of Laposavic and at that time this municipality expressed great interest to be included in the training (we had agreed on when to start the training) but due to the change in circumstances we remained at that level.
- (b) I assisted with an analyze of audit reports (from Auditor General) of municipalities for year 2009 with the aim of improving performance management and financial accountability, and together we prepared a summary report of findings and recommendations from the Auditor General, as well as provided our recommendations in the report.
- (c) I delivered a variety of training courses covering commitments, purchase orders, sub-allocations, goods received, approving, revenue and expenditure officer training (statistics included in the training summary).
- (d) I have finalized all preparations to start training (KFMIS demonstration) to Internal Auditors related to functions delegated for expenditures. This training is expected to start in September this year.

Problems:

- (a) The environment in the training room is not appropriate in terms of air conditioning, light, temperature, etc. A long term solution needs to be found.

Mirjeta Hysa (July 2010 – July 2011)

Activities:

- (a) Drafted comments and assisted the Treasury team on preparing response to the 2009 Audit report and an action plan on addressing recommendations
- (b) Assisted the Reporting Unit within Treasury Department at MEF in daily activities, including preparation of annual financial statements for year 2010, focused on presentation of notes and annexes (liabilities, designated donor grant reconciliation)
- (c) Organized and held training to a selected group of municipalities on the preparation of Annual Financial Statements for year 2010
- (d) Separate trainings with Northern Municipalities (Zubin Potok, Zvecan and Leposavic) in January 2011, on preparation of municipality Financial Statements. The training sessions had to be held separately with each individual municipality as that was their request.
- (e) As part of the GFSI team, worked on the organization of a workshop with Municipalities on the common issues encountered during preparation and presentation of Financial statements
- (f) Worked with Reporting Unit on activities surrounding inclusion of Kosovo data into the IMF General Data Dissemination System (preparation of metadata form) and on the publication of a National Statistics Data Page on CBK website, as per IMF standards
- (g) Assistance to collection of information and formulation of responses for meetings with IMF team on the Staff Monitoring Program Agreement
- (h) Drafted and with the Treasury team, finalized, a Treasury internal procedure on the recording of debt transactions
- (i) Contributed as part of Treasury working groups on the drafting and update of Treasury Financial Rules on Internal Controls, Expenditures and Revenues
- (j) Prepared procedure, manual and held training for Kosovo Property Agency finance officers towards delegation of recording KPA rent scheme payments, prepared functional class, user group, updated and amended system vendor data for this function to be delegated successfully from Treasury to KPA.
- (k) Worked with Treasury and GFSI team on drafting several administrative instructions to complete the reporting framework, including on Annual Reporting for Budget Organizations for year 2010, on Reporting Arrears, on Interim Three-Quarters Reporting for Budget Organizations and Performance Reporting by budget organizations.

Achievements:

- (a) In cooperation with the Treasury/GFSI team, increased annual reporting quality among municipalities (10 unqualified opinions)
- (b) Submission of Northern municipality annual financial statements for year 2010
- (c) Inclusion of Kosovo in the IMF GDDS reporting system, as regards the Treasury contribution side
- (d) Production of financial rules and administrative instructions to improve financial management and reporting within the government of Kosovo
- (e) First performance reports received from some budget organizations in 2011.

ANNEX 5: TRAINING ACTIVITIES

15 July 2010 TO 15 July 2011

Objective 1 – Support private sector participation through PPP and through support to the Privatization Agency of Kosovo

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Introduction to PPP		November 2010 – January 2011	Municipalities Peja, Ferizaj, Fushe Kosovo, Shterpce, Gjilane, Mitrovica, Podujevo, Pristina, Prizren, Suha Reka, Istog	147	35
Introduction to PPP		February 2011	Municipality Gjakova	22	5
Study Visit – Czech Republic		March 2011	Municipalities/Central Government	16	1
Internal Capacity Building		March 2011 – June 2011	PPP Unit, GFSI PPP	5	2
Introduction to PPP		April 2011 – May 2011	UBT University, Municipality Ferizaj, AmCham, Water Co., Municipality Obiliq	101	45

Objective 2 – Fiscal stewardship

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
PEFA Official Launch	Magdalena Tomczynska Fortuna Haxhikardija Ramadan Matarova	October 22, 2010	Municipal Mayors	5	0

PEFA Introductory Technical Workshop	Magdalena Tomczynska Kris Kauffmann Fortuna Haxhikardija Ramadan Matarova	November 3-5, 2010	Municipal PEFA Teams Head of Kosovo PEFA Secretariat Head of Budget and Finance Collegium	16	4
PEFA Progress Workshop	Magdalena Tomczynska Fortuna Haxhikardija Ramadan Matarova	December 2010	Municipal PEFA Teams	15	3
Municipal Finance and Budgeting Workshop (in cooperation with DEMI)	Magdalena Tomczynska	March 23	Policy and Finance Committee Members from Junik and Mamusha Municipalities	25	?
Municipal Budgeting Practices - Conference	Magdalena Tomczynska Besa Zogaj	April 26, 2011	Municipal Mayors Municipal Budget Practitioners	41	6
PEFA Concluding Retreat	Magdalena Tomczynska John Short (DFID) Fortuna Haxhikardija Ramadan Matarova	May 4-6, 2011	Municipal PEFA Teams Head of Kosovo PEFA Secretariat Head of Budget and Finance Collegium	16	4
Introduction to Municipal MTEF Manual Seminar	Magdalena Tomczynska Besa Zogaj	June 14, 2011	Municipal Budget Practitioners MoF	37	2
Draft PEFA Report Workshop	Magdalena Tomczynska Fortuna	June 17, 2011	Municipal PEFA Teams	15	3

	Haxhikardija Ramadan Matarova				
PEFA 2 Official Launch	Magdalena Tomczynska Fortuna Haxhikardija Ramadan Matarova	June 16, 2011	Municipal Mayors	8	1
PEFA 2 Technical Workshop	Magdalena Tomczynska Fortuna Haxhikardija Ramadan Matarova	June 29 – July 1, 2011	Municipal PEFA Teams	25	3

Objective 2 – Assistance to the Office of Auditor General and to the Ministry of Finance

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
Budget Preparation (line ministries)	Kris Kauffmann	January 2011	43	30	13
Performance Budgeting (MoF)	Kris Kauffmann	March 2011	19	12	7
Performance Measures in Budget (MoF)	Kris Kauffmann	June 2011	10	7	3
Performance Budgeting (line ministries)	Kris Kauffmann	June 2011	118	-	-
Financial Statements	Mirjeta Hysa	Jan-Mar 2011	52	37	15
Commitments	Sevdije Mehaj	Various	51	17	34
Purchase Orders	Sevdije Mehaj	Various	42	28	14
Sub- Allocations	Sevdije Mehaj	Various	47	36	11
PFIC Public Accounting	Sevdije Mehaj	Various	32	22	10

Goods Received	Sevdije Mehaj	Various	14	7	7
Expenditure Officers	Sevdije Mehaj	Various	95	69	26
Approving Officers	Sevdije Mehaj	Various	105	58	47
Revenue Officers	Sevdije Mehaj	Various	91	50	41

Objective 2 – Assistance to the Property Tax

Training Title/Topic	Presenter	Instruction Dates	Participants	Males	Females
General Training on PTS	Agron Cerkini	July 2010	Municipalities Suha Reka, Pristina, Ferizaj, Obiliq, Lipjan, Shtime,	3	4
Valuation Training for resurvey process	Agron Cerkini Burim Mehulli	July 2010	Resurvey Company Staff	39	13
Field Training for Valuation and Resurvey	Agron Cerkini Burim Mehulli	July 2010	Resurvey Company Staff	39	13
Field Training for Using Resurvey Devise	Agron Cerkini Burim Mehulli	July 2010	Resurvey Company Staff	39	13
Review of the 2009 Inspection Reports: Performance, Interpretation, and Responsibilities	Agron Cerkini	November – December 2010	All Municipalities, except Gracanica and Partesh	69	7
Planning of revenues from PT after implementing new appraisal model	Agron Cerkini	December, 2010	Municipalities Fushe Kosovo and Shtime	6	0

Study Tour: Swedish Tax Administration (Sweden)	Swedish Tax Agency	January 2011	MoF Deputy Minister, President AKM, TAK Director, Property Tax Director, Pristina Finance and Property Director, Regional Auditor, GFSI Advisers	8	0
Study Tour: Market Value-Based Taxation of Real Property (Slovenia)	Lincoln Institute of Land Police in collaboration with the center of Excellence in Finance	April 11-15, 2011	Property Tax Department staff	0	3
Reforms on Property Tax Inspection Process	Agron Cerkini	June 2011	Municipalities Pristina, Shtime, Sterpce	4	0
Planning of revenues from PT after implementing new appraisal model	Agron Cerkini	July 2011	Municipalities Ferizaj, Skenderaj, Obiliq, Glogovc, Malishevo, Kline, Lipjan, Mitrovica	16	3

ANNEX 6: EQUIPMENT AND MATERIALS PURCHASED

(a) Equipment:

The GFSI project purchased the following equipment during the year:

Type of Equipment	Purchase Date	Purchase Price \$
	mm/dd/yy	
Digital Camera	11/03/10	241.92
Desksx6	10/27/10	1,015.34
Chairsx15	10/27/10	1,015.34
WirelessG x2	11/10/10	344.48
Laptop	11/19/10	739.00
Multi function Color Laser Printer	2/14/2011	862.62

These were added to the inventory, along with the previous items transferred from the predecessor EMSG project.

The project also shares a common project office with the ESTAK project, the office equipment for which is recorded under the GFSI project.

ANNEX 7: SUCCESS STORIES

Pristina International Airport (PIA) Concession

In April of 2011, the Government of Kosovo entered into a 20 year €106 million design, build, finance, operate and transfer (DBFOT) Pristina International Airport concession with Limak Group (Turkey) and Aeroport de Lyon (France). A debt investment of about €85 million (80% of total capital) was invested by Vakif Bank (Turkey). The concession agreement, which includes an average concession fee of 39% of total revenues to be paid to the GoK, is expected to contribute about €400 million to the GoK's budget over the life of the project. The investment is all encompassing and will cover both the landside (New Terminal) and the airside (new control tower and apron).

Since the closing of the transaction, passenger traffic has increased by 10.5% to 1.4 million and total revenues have increased by 8% to about €32 million annualized to on a year to year basis. Increased efficiency has also seen a marked decrease of 10% in operating expenses.

In addition to the success of this specific project, this very high profile transaction demonstrated to many potential domestic and international PPP investors that Kosovo, as a nation has strong PPP enabling environment and is ready for business. This flagship project also provided the GoK with the wherewithal and experience to amend the PPP Law, pass operational directives, and create standard BOT/concession PPP transactional documents..

Kosovo Local Government PEFA

The Kosovo Government has demonstrated a strong commitment to public financial management (PFM) reform. First, the Government embarked on a wide review of PFM by conducting a Public Expenditure Financial Accountability (PEFA) assessment, which was carried out in the first quarter of 2009. Subsequently, a PFM Reform Action Plan was formulated, which established the basis for strengthening practices across the Government PFM systems based on the PEFA diagnostics.

The Government also recognized that the engagement of Local Government would be crucial for the success of this overarching PFM reform initiative. A similar PEFA self-assessment on the Kosovo Municipalities was initiated by with the ultimate goal of formulating a comprehensive PFM Reform Program geared to the specific needs of Local Government institutions, complementing that of the Central Government. The donor community responded to this initiative with technical assistance provided jointly by USAID and DFID. Overall, the Local Government PEFA process will contribute to improvements in fiscal stewardship in Kosovo's municipalities through improved public financial management with enhanced capability in providing autonomously managed and efficiently delivered public services that can, in turn, stimulate local economic development.

The first Kosovo Local Government PEFA was carried out during the period October 2010 – June 2011. Five Municipalities, including Pristina, Podujevo, Vushtri, Mamusha, and Stepcce were involved in the PEFA process, led by the Municipal Mayors and with the strong commitment and excellent participation from municipal administration staff. The Kosovo Local Government PEFA Performance Report, meeting the standards and methodology of PEFA Performance Framework, was completed in May 2011.

The Kosovo Local Government PEFA was based on an assisted self-assessment approach. The successful implementation benefited from a specially designed process, which brought together key stakeholders and ensured a unique mix of continued engagement and support from the Central Government authorities, municipal executive leaders, municipal administration, and donors. Capacity building and professional education were particularly addressed to the PFM practitioners from municipal administration and has represented an important by-product and benefit of this PEFA exercise.

Building on the success of the first PEFA process at the Kosovo local level, GFSI currently embarked on the roll out of the PEFA self-assessment to the second group of the Kosovo Municipalities comprising of Municipalities: Ferizaj, Gjakova, Peja, Istog, Gjlane, and Nove Brdo.