USAID/KOSOVO ECONOMIC GOVERNANCE ACTIVITY

3rd QUARTERLY PERFORMANCE REPORT (YEAR 2)
OCTOBER - DECEMBER 2020

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USAID/KOSOVO ECONOMIC GOVERNANCE ACTIVITY

3rd QUARTERLY PERFORMANCE REPORT (YEAR 2)

OCTOBER - DECEMBER 2020

Contract No.: 72016719C00002

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EXECUTIVE SUMMARY

The USAID/Kosovo Economic Governance Activity is a five-year initiative to support Kosovo to implement significant reforms to improve the efficiency of government operations, strengthen public financial management, and ensure that self-reliant, inclusive governance capacities and systems are in place for future reforms. The Activity has the following three objectives: (1) Business Environment Improvement, (2) Strengthened Public Financial Management (PFM), and (3) Enhanced Strategic Communications.

This report covers the period October – December 2020. During this period, further progress was made in achieving the Activity’s objectives. As anticipated, the continued challenging health environment and associated restrictive measures imposed by the Government on businesses and citizens presented continued challenges to an already complex environment.

Further, on December 21, 2020, the Constitutional Court issued a decision ruling that the formation of the current Government was unconstitutional due to irregularities with the vote electing the Government in June 2020 and obligating the current Acting President of Kosovo to announce extraordinary national elections, which are expected to be held in the next two months. In the decision, the Constitutional Court indicated that the current Government would continue to operate until a new Government can be elected by the new Parliament following elections.

The public response to the health environment as well as Government transition are familiar challenges, so the Activity fluidly adapted to these circumstances to ensure that objectives are met, and results achieved, and will continue to do so as circumstances evolve.

In legalization, the Activity’s partner municipalities (Pristina and Graçanicë/Gračanica) continued receiving and processing applications for the legalization of unpermitted constructions, resulting in an increased number of units successfully legalized and between 46.1 to 59.2 million Euros of capital being released in the formal economy through property formalization in the partner municipalities alone. A Legalization Motivation Campaign to further increase the number of legalization applications in the two partner municipalities was launched and is now in progress. Following the delivery of the Legalization Tracker to all municipalities and the training of municipal officers, the Legalization Tracker became fully operational by the Activity’s two partner municipalities and another 17 non-partner municipalities also started using it.

In trade, the Activity provided its final recommendations to the Ministry of Trade and Industry (MTI) to align the Draft Law on Foreign Trade (DLFT) with World Trade Organization (WTO) principles, Central European Free Trade Agreement (CEFTA) requirements, and European Union (EU) law. The Activity also provided its final recommendations to MTI on the Draft Law on Internal Trade (DLIT) and its conclusions on the Concept Document on E-Commerce developed by a GoK working group led by MTI.

The Ministry of Finance (MoF) Macroeconomics Division (MoF MD) demonstrated self-sustainable learning and ownership of economic modelling and analytical tools initiated with Activity support. The MoF MD independently presented to USAID the MoF MD Induction Package consisting of

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1 https://gjk-ks.org/en/decisions-from-the-review-session-held-on-21-december-2020/
International Monetary Fund (IMF)-based materials and bespoke courses, as well as the Digital Library which will support them to ensure institutional knowledge retention and expansion.

The Activity supported the negotiation of a 200 million EUR program as part of the Extended Fund Facility (EFF) with the IMF, which, pending completion of prior actions, will help Kosovo ensure macro fiscal stability and maintain fiscal buffers at adequate levels given the currently strained financial position resulting from the public health emergency response measures.

The Tax Administration of Kosovo (TAK) launched a new initiative requiring businesses to update their taxpayer’s business information in the Electronic Declaration Platform (EDI), including a new requirement for declaring primary and secondary economic activity and started regularly monitoring the update process, which for the first time, will allow for direct data comparison of the level of economic activity and employment by internationally used classification.

The Data Quality Assessment of Selected Business Registration System Data Fields (DQA) was submitted to the Kosovo Business Registration Agency (KBRA). It used standardized international dimensions to review information in the business registry, identified weaknesses in the data, and included recommendations for process improvements to address data quality, concluding the Activity's support to the KBRA.

Finally, the Activity supported the American Chamber of Commerce in Kosovo (AmCham) to host a virtual forum to encourage existing and prospective entrepreneurs to consider using franchising as a business model in Kosovo, with representatives of both franchisees and franchisors operating in the country.

As detailed below, the Activity coordinated with other USAID projects and donors to support the partners, working closely with representatives from the European Union (EU) Office in Pristina, the World Bank (WB) and the IMF.
KEY HIGHLIGHTS

- Legalized buildings in partner municipalities reached an estimated 46.1 to 59.2 million euros market value as of December 31, 2020;
- Confirmed that the Legalization Tracker is fully operational in partner municipalities and 17 other municipalities started providing data;
- Launched the Legalization Motivation Campaign in partner municipalities to further increase the number of citizen applications for legalization of their unpermitted constructions;
- Submitted to MTI/KBRA the Data Quality Assessment of Selected Business Registration System Data Fields (DQA) using international data analysis dimensions;
- Provided recommendations to MTI on the Draft Law on Internal Trade for further harmonization with existing legislation and consultations with public and private sector stakeholders;
- Reviewed Draft Concept Document on E-Commerce and provided summary of conclusions to MTI;
- Organized, jointly with AmCham, a virtual panel promoting franchising as a business model with Kosovo franchisers and franchisees;
- Summarizing support to date, the MoF MD demonstrated self-sustainable learning and staff development with division tools in presentation to USAID;
- GoK approved and submitted to the Assembly of Kosovo the 2021 Draft Budget;
- MoF negotiated an EFF with the IMF, which, pending completion of prior actions and a future Government, will support the GoK budget with more than EUR 200 million;
- Facilitated MoF Treasury Department and National Auditor’s Office (NAO) two-day virtual workshop on the implementation of NAO recommendations and accurate reporting of COVID-19 related expenditure as a key conditionality for expected IFI financial support;
- Incorporating Activity-supported private sector input, TAK published the 2021-2023 Integrity Improvement Plan;
- As monitored by TAK, with mentoring from the Activity, 57.3% of all taxpayer profiles in the EDI were updated, including declaration of primary and secondary economic activity.
INTRODUCTION

On March 26, 2019, the United States Agency for International Development (USAID) awarded the USAID/Kosovo Economic Governance Activity ("Activity") to Chemonics International Inc. and its subcontractors Crimson Capital Corp., and Overseas Strategic Consulting, Ltd.

The Activity is a five-year initiative to improve self-reliant, inclusive governance of the business environment and strengthen public financial management to facilitate economic growth, reducing public perception of and opportunities for economic corruption, thereby encouraging investment in Kosovo’s economy. This result will be achieved through three main objectives:

1. Business Environment Improvement;
2. Strengthened Public Financial Management; and,
3. Enhanced Strategic Communications.

ACTIVITY CONTRIBUTION TO THE USAID CDCS

NOTE: This report aligns with the project’s approved Year 2 Work Plan, which is based on the previous Country Development Cooperation Strategy (CDCS). Once the 2020 – 2025 CDCS is incorporated in the Activity’s Work Plan and Monitoring, Evaluation and Learning Plan (MELP), future reports will duly reflect it.

While specific links between Activity Results (ARs) and the CDCS are provided in more detail in the Activity’s MELP, a summary is provided here to articulate the technical connections between Work Plan tasks and overall USAID goals in Kosovo.

The USAID CDCS for Kosovo for 2014-2020 formulates an ambitious agenda. The United States Government (USG) seeks a strong and effective partnership with the GoK that builds on their close relationship in order to address regional and global challenges. The strategic goal of the CDCS is:

Kosovo Becomes an Increasingly Prosperous Country, Progressively Integrating into the Euro-Atlantic Community, with More Effective and Accountable Governance.

The CDCS is based on the implementation of three Development Objectives (DOs):

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

The Activity directly and explicitly contributes to DO2: Increased Investment and Private Sector Employment. Three indicators are provided to capture this DO:

1. Growth in Foreign Direct Investment;
2. Private sector as a share of Gross Domestic Product (GDP);
The Activity’s outcomes also directly contribute to Intermediate Results (IR) 2.1: Improved Economic Governance and Business Environment, Sub-IR2.1.1: Improved Fiscal Framework and Public Financial Management, and Sub-IR2.1.2: Key Economic Reforms Implemented at the Central and Local Levels.

IR2.1: Improved Economic Governance and Business Environment:

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

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

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

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

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

The specific use of the Development Objective and Intermediate Result indicators is covered in detail in the updated Activity MELP. However, in addition to those metrics, activities may also contribute to mission objectives in other DOs and IRs, and potential linkages will be tracked and coordinated with USAID accordingly (see Figure 1).

**Figure 1. Activity Contribution to DO2: Increased Investment and Private Sector Employment**
DETAILED SUMMARY OF TECHNICAL ACTIVITIES AND RESULTS ACHIEVED

During this reporting period, the Activity supported its public and private sector partners to implement important reforms in the areas covered by the Activity’s scope of work. Given the ongoing public health challenges, the Activity managed to effectively use various online communication platforms to deliver its assistance to its partners, including by engaging specialized international expertise.

Following is a detailed description of the progress made towards implementing specific activities and achieving overall targets, as presented in the Annual Work Plan and MELP. With Activity objectives working with different levels of government, achieving these goals required coordination with both public and private sector partners, civil society, other USAID projects and other donor initiatives to maximize the benefits of implemented reforms.

OBJECTIVE ONE: IMPROVED BUSINESS ENABLING ENVIRONMENT

BACKGROUND

Interventions addressing this objective will expand the advances Kosovo has already made to improve its business environment and reduce avenues for corruptive influence. The Activity will help GoK counterparts, with the involvement of the private sector and civil society, to strengthen institutional policy development and intergovernmental coordination. In addition, support will be offered to further strengthen the transparency, efficiency, accountability and implementation of the regulatory requirements applied to businesses, at both national and sub-national levels.

Currently, the Activity is assisting two partner municipalities (Pristina and Gračanica/Gračanica), and the MEE and KCA at the central level, to implement the program for the treatment of unpermitted constructions (legalization program). The Activity is also supporting MEE and the municipality of Pristina with the implementation of reforms in construction permitting and construction inspections. Both reforms will benefit businesses and citizens by addressing informality, releasing additional capital in the formal economy, securing property rights for citizens, and expanding opportunities for financing and better use of property.

The Activity, working together with other donors and stakeholders, is also supporting GoK efforts to improve trade legislation in accordance with WTO principles and the EU Acquis.

CURRENT ACTIVITIES

O1-1: SUPPORT EFFECTIVE COORDINATION OF LEGALIZATION PROGRAM AT THE CENTRAL LEVEL AND IMPLEMENTATION BY PARTNER MUNICIPALITIES

Building on previous support provided to MEE and its two partner municipalities, the Activity continued supporting both levels of government in the implementation of the GoK legalization program. MEE’s coordination role was further strengthened, including through the operationalization of the Legalization Tracking Tool (Legalization Tracker) launched earlier in the year, and both partner municipalities continued to make progress with legalization. Overall
confidence in the success of the initiative is bolstered by citizens’ continuous applications and ongoing administrative processing by municipalities during a period of public health challenges while the GoK maintains restrictions on businesses and citizens.

Legalization program status in two partner municipalities as of December 31, 2020, is presented in Table 1 below.

**Table 1: Status of implementation of the legalization program in Activity’s partner municipalities, as of December 31, 2020**

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Pristina</th>
<th>Gračanica/Gračanica</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of completed applications</td>
<td>1666</td>
<td>104</td>
<td>1770</td>
</tr>
<tr>
<td>Number of applications currently under review</td>
<td>861</td>
<td>44</td>
<td>905</td>
</tr>
<tr>
<td>Number of decisions on pending list</td>
<td>274</td>
<td>9</td>
<td>283</td>
</tr>
<tr>
<td>Number of decisions on demolition list</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Number of decisions on legalization certificate</td>
<td>531</td>
<td>51</td>
<td>582</td>
</tr>
<tr>
<td>Number of buildings with legalization certificate registered in Cadaster</td>
<td>354</td>
<td>26</td>
<td>380</td>
</tr>
</tbody>
</table>

*Source: Municipalities of Pristina and Gračanica/Gračanica*

Using official GoK property tax data from the Department of Property Tax at MoF, to further support partner municipalities with public messaging and strengthen their ability to mobilize additional resources, the Activity developed a process for estimating the market value of legalized buildings.

As of December 31, 2020, the market value of legalized buildings in partner municipalities reached an estimated 46.1 to 59.2 million euros.

In addition to securing property rights of the citizens of Kosovo, the legalization process is also important for fueling economic growth since these buildings can now be legally transferred, inherited and mortgaged, thereby facilitating increased access to finance and economic activity.

To assist Pristina municipality maintain current human resources engaged in legalization in light of legal changes, the Activity, in close cooperation with the USAID Transparent, Effective and Accountable Municipalities Project (USAID TEAM), advised with Pristina officials, including on development of Draft Scopes of Work for legalization officers, which could be used by Pristina Municipality pursuant to procurement procedures and instructions from the PPRC. All parties agreed that in the following quarter, the Activity will mentor the development of the Draft Scopes of Work and USAID TEAM will support the Pristina Procurement Office with technical advice on the execution of the procurement procedure as needed.

The Activity completed a preliminary comprehensive process map of the legalization process in the partner municipalities and a review of the current organizational structures and resources deployed by both partners for administration. The preliminary results of both reviews were discussed with both partners and a more detailed summary is expected to be submitted to partners in January 2021.

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Data on the backlog of legalization applications was uploaded and the **Legalization Tracker became fully operational in the partner municipalities**. In addition to allowing for an accurate registration of legalization application data, the Legalization Tracker allows municipalities to extract accurate statistical data on process efficiency, both for internal management purposes and for public communication purposes. Some challenges continue to persist with data input quality and delays with registration of applications from the moment they are received until they are registered in the Legalization Tracker, and the Activity continues to work with both partner municipalities to address these issues.

As of December 2020, through efforts by MEE and the Activity to encourage other non-partner municipalities to use the Legalization Tracker, **17 non-partner municipalities are uploading their data**. The Activity continues to support MEE to monitor the use of the Legalization Tracker and to encourage other municipalities to correctly and fully utilize it.

To further support its partner municipalities improve internal coordination and accelerate the legalization process, the KCA, with Activity support, held two working sessions with the Municipal Cadastral Offices (MCOs) of Pristina and Graçanice/Gračanica, on technical issues encountered during the final stage of the legalization process - registration of the legalized buildings in the Cadaster and the Immovable Property Rights Registry (IPRR). At the invitation of KCA to build on legalization experience, MCOs and legalization staff from the municipalities of Kaçanik/Kačanik and Mitrovica e Veriut/Severna Mitrovica also attended.

During these working sessions, KCA representatives encouraged them to rely on the Framework for the Measurement, Creation and Registration of Cadastral Units adopted by KCA, and on the Guidelines and Circular No. 1 on Treatment of Constructions without Permit at the Municipal Level previously developed with Activity support and issued jointly by MEE and KCA, since most issues raised are already explained in these documents.

Since the adoption of the implementing Al’s for the legalization law in July 2019, MEE, with Activity support, has monitored their implementation by municipalities and citizen experience. MEE and the Activity have identified several key provisions where amendments are needed to further clarify the process and streamline implementation.

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4 [https://mmph.rks-gov.net/procesi_i_legalizimit/341/procesi-i-legalizimit](https://mmph.rks-gov.net/procesi_i_legalizimit/341/procesi-i-legalizimit)
MEE and the Activity identified two implementing regulations that need to be updated:

- Administrative Instruction No. 06/2019 on Health and Safety Requirements for Category I and II Constructions without Permit; and
- Administrative Instruction No. 05/2019 on Appeals Procedures Against Decisions on Treatment of Constructions Without Permit.

The amendment of these AI’s is included in the GoK Agenda for Sub-Legal Acts for 2021.

To further support demand for legalization, during the quarter, the Activity executed the subcontract for the Legalization Motivation Campaign in partner municipalities, effective October 26, 2020. Additional international expertise is also being provided to the subcontractor to ensure their practices incorporate lessons learned and international best practice. (See detailed summary on Legalization Motivation Campaign activities in the Objective Three section).

**O1-2: IMPROVED TRADE REGIME AND STRENGTHENED MARKET INSPECTIONS**

Following the submission of Activity comments on the Draft Law on Foreign Trade (DLFT) to the MTI in the previous quarter, developed with support from International Trade Law Advisor, with a clear identification of remaining provisions where there is divergence between WTO/EU/CEFTA aspects and MTI, on October 8, 2020, a joint online meeting was held between representatives from the U.S. Embassy in Kosovo, USAID, the Activity, and MTI (Minister and heads of legal and trade departments) to discuss the remaining areas of divergence.

Representatives from the U.S. Embassy, USAID, and the Activity noted that USAID has provided considerable technical assistance to assist GoK on the DLFT to ensure that the draft law is in line with WTO agreements and the European Union (EU) Acquis.

It was also noted that diverging from WTO and EU provisions will reduce the credibility of Kosovo’s trade regime and create legal uncertainty for businesses and investors. All parties recognized that while the Activity can present technical recommendations and advice, it is the responsibility of the GoK to politically choose whether to conform to international practices.

Following these discussions, a working session with Activity advisors and representatives from the Trade Department and Legal Department of MTI was held on October 12, 2020. MTI representatives agreed to align Articles 1(1) and 8(3) of the Draft Law with WTO/EU practices. However, the MTI representatives insisted on retaining the divergent language of Article 6 and Article 7(3). By all indications, the remaining provisions, Article 6 and 7(3) together, seemed to reflect the political position of MTI leadership. To the extent the Activity

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provided technical review and comments, it provided MTI with the information and rationale on which MTI can make an informed decision with full knowledge of what is and is not consistent with WTO/EU practice, as well as broader Kosovo commitments for international economic approximation and integration with international harmonized systems.

Subsequently, on December 1, 2020, the Legal Department at MTI submitted the DLFT to the Legal Office in the Office of the Prime Minister (OPM), including the divergent provisions identified above. The DLFT was expected to be included in the agenda of an upcoming Government meeting until a Constitutional Court decision was issued on December 21, 2020 which ruled that the formation of current Government was unconstitutional due to irregularities with the voting process in the Assembly of Kosovo. The Constitutional Court decision required extraordinary elections to be held in the coming months. As has become the norm in cases when extraordinary elections are called, draft laws pending review and approval in the GoK are sent back to the respective sponsor ministries. This means that DLFT will be sent back to MTI for reconsideration following the extraordinary elections based on the priorities of a future Government.

As part of its review of the Draft Law on Internal Trade (DLIT), the Activity held several rounds of consultations with public and private sector stakeholders, including from the Municipality of Pristina and MEE, as well as representatives of business associations and wholesalers. The representatives from Pristina and MEE raised several concerns regarding the overlapping provisions of the DLIT with provisions of the construction and spatial planning legislation, whereas the representatives from business associations and wholesalers raised concerns over the level of regulation envisaged in the DLIT.

Following its analysis of the existing legal framework with the support of International Trade Law Advisor, and extensive consultations, the Activity submitted its analysis to MTI concluding that the DLIT is inconsistent with EU policies. DLIT does not address the growing shift of retail and wholesale trade activities to e-commerce, burdens the trade activities of the private sector with new and unnecessary regulations that in some instances conflict with existing laws, and overall requires further consultations within the GoK and with private sector stakeholders. Therefore, the Activity recommended that the DLIT be withdrawn from the GoK legislative program. The MTI Department of Trade agreed with recommendations to hold the DLIT pending further consultations. Due to the Constitutional Court decision, the DLIT remains with MTI and any action will depend on the policy choices of a new Government.

Based on a request from the MTI Department of Trade, the Activity reviewed the Draft Concept Document on E-Commerce, developed previously by a GoK working group led by the Department of Trade which called for the drafting and adoption of a new Law on E-Commerce. Representatives from the Activity, accompanied by representatives from MTI, consulted with diverse stakeholders, including regulators, consumer protection entities, private sector representatives, major online retailers in Kosovo, and financial technology companies, to better understand their concerns and inform any proposed interventions. Most private sector stakeholders expressed concerns of potential over-regulation of this sector which is currently experiencing very positive growth.

Based on these consultations as well as analysis of domestic and EU legislation and prevailing international practices, the Activity advised MTI that the legal framework for e-commerce is already mostly in place and in line with current EU legislation on e-commerce, but that the EU is potentially
amending its acts\(^8\). The Activity also recommended conducting a more in-depth diagnosis of all relevant dimensions of e-commerce before any public sector action, as many benefits from e-commerce elements should be discussed within the private sector without official intervention. In addition, the Activity also outlined several specific areas where public sector action could be appropriate, including (i) improving the collection and reporting of e-commerce statistics; (ii) improving inter-governmental coordination of e-commerce issues; and (iii) improving consumer protection practices regarding e-commerce issues.

The Activity started supporting the Legal Department at MTI to conduct an Ex-Post Evaluation of Law on Crafts\(^9\). According to the information preliminarily collected by the Activity, the Law on Crafts remains mainly unimplemented with most of the areas covered in this law having been regulated by later legislation on consumer protection, business organizations and other laws. The Ex-Post Analysis will be conducted based on the GoK’s Guidelines on Ex-Post Evaluation\(^10\). In addition to providing valuable guidance to MTI on whether any legislative or other changes are needed in this area (crafts), MTI requested the Activity to transfer much needed know-how to Legal Department staff on the methodology for conducting ex-post evaluations through on-the-job coaching.

Finally, the Activity completed and submitted to KBRA the Data Quality Assessment of Selected Business Registration System Data Fields (DQA) which includes recommendations for improvements to data quality. The DQA concludes Activity support to the Agency. (See detailed summary on the DQA in the Objective Three section).

### O1-3 IMPROVED CONSTRUCTION PERMITTING PROCESS IN PARTNER MUNICIPALITIES AND STRENGTHENED CONSTRUCTION INSPECTIONS SYSTEM

The Activity completed a first draft of its analysis of the construction permitting process and possible future improvements and held initial discussions with Pristina municipality and MEE on its preliminary findings. Feedback and finalization of the analysis are anticipated in the next quarter.

Following a detailed review by the Activity in the previous quarter and submission of substantial proposed revisions to MEE on the Draft Ex-Post Evaluation of the Law on the Inspectorate of Environment, Waters, Nature, Spatial Planning and Construction, the MEE Legal Department decided to conduct a complete rewrite of its document and invited the Activity to support this process.

Incorporating Activity recommendations, the revised MEE Legal Department Ex-Post Analysis Report was approved by the Council of Directors of Legal Departments of the GoK on December 3, 2020. In addition to ensuring closer harmonization between efforts by MEE to reform this particular inspectorate with the broader inspections reform led by MTI, supported by the IFC, this initiative supports good practice institutionalization, particularly for MEE since this is its first Ex-Post Evaluation and will likely serve as a model for future evaluations.

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\(^10\) [http://www.kryeministri-ks.net/repository/docs/2_Guidelines_on_Ex-post_evaluation_.pdf](http://www.kryeministri-ks.net/repository/docs/2_Guidelines_on_Ex-post_evaluation_.pdf)
OBJECTIVE TWO: PUBLIC FINANCIAL MANAGEMENT STRENGTHENED

BACKGROUND

With previous USAID support, Kosovo made considerable progress in improving its systems and practices in the areas of taxation, budget planning, execution, and monitoring. To increase citizens’ trust in government and in turn reduce informality and increase incentives to pay taxes, the Activity supports PFM-related reforms—such as increased transparency of tax policy and administration, strengthened control systems for more efficient spending of public money, and enhanced predictability and private sector engagement in fiscal policymaking. A more transparent, participatory, predictable and accountable PFM system will reduce opportunities for and thus the perception of corruption.

Currently, the Activity is supporting the MoF MD to enhance the skills and capacities of its current staff for economic and budget forecasts, explore options for more efficient structures, and propose solutions to the issue of staff turnover and maintaining institutional knowledge continuity. The Activity is also supporting MoF with fiscal transparency and budget responsiveness.

To strengthen capacities and systems for domestic revenue mobilization, the Activity is also supporting TAK to improve its efficiency and accountability by improving its taxpayers’ services through further process streamlining, introducing more operations automation, increasing public transparency and communication, using risk-based criteria to focus tax compliance efforts, and introducing outcome-based performance management.

CURRENT ACTIVITIES

O2-1: SUPPORT INSTITUTIONALIZATION OF SELF-RELIANT CAPACITIES FOR EVIDENCE-BASED BUDGETING

To support improved sustainability of the macro-fiscal function in the Ministry of Finance (MoF), the Activity, supported by Institutional Improvement Consultant, completed a review of the current status of the MoF Macroeconomics Division (MoF MD). Some of the key recommendations proposed by the Activity were that MoF MD should transition into a Macroeconomic Policy Department, consisting of a Forecasting Division and a Fiscal Risk and Policy Analysis Division and that concrete steps should be taken to retain high quality staff in the MoF MD. The key findings and recommendations from this review were presented by the Activity in an online session with MoF representatives, including the acting General Secretary and the Chief of Cabinet. MoF representatives acknowledged the importance of retaining high quality staff in the MoF MD. It was agreed that given the constraints of upcoming public sector salary legislation, other ways to incentivize and retain high quality staff, as
proposed by the Activity, should be explored (including specialized training via the IMF and WB, increasing opportunities for MoF MD staff to cooperate with external institutions or organizations on economic analysis and publications).

As of December 2020, MoF has implemented two of the Activity’s twenty recommendations, including appointing one of the current MoF MD staff as Division Head (and main coordinator of IMF technical negotiations), and are in discussions with Young Cells Scheme (YCS) alumni to join the MoF MD.

In an online presentation of materials developed by the MoF MD with the support of Activity’s Macro Fiscal Training Expert, held in December 2020, staff from the MoF MD demonstrated excellent self-sustainable learning and staff development with division tools initiated with Activity support. These materials included the digital library populated with third-party (IMF) based materials with bespoke additions as needed, addressing specific needs of the MoF MD for Kosovo, and new modelling and analytical tools, which the MoF MD intends to use to analyze future challenges, such as incorporation of fiscal risks into baseline projections, and long-term forecasts. During the presentation of the digital library, MoF MD staff noted that they had received excellent feedback from past MoF MD alumni on this tool and its usefulness in securing self-sustained learning and development for new staff to ensure institutional knowledge retention and expansion.

The Activity supported MoF technical staff prior to and during the IMF Article IV Consultation Mission (carried out remotely September 23 - October 7) to analyze expenditure data and revenue performance, collect and analyze information from other ministries, conduct scenario analyses of the remainder of 2020, and provide guidance on the overall coordination and management of relations and discussions with the IMF team.

The Activity continued this support throughout negotiations on the Memorandum of Economic and Financial Policies (MEFP) of the proposed Extended Fund Facility (EFF), including underlyng analyses, comparison between the Stand-By Arrangement (SBA) and EFF programs as pertains to Kosovo-specific challenges, comments to the text of the MEFP and the approach to the technical negotiation process.

An important input to the process was the support provided to MoF technical staff to analyze the Law on Public Financial Management and Accountability (LPFMA) and the Law on Public Debt (LPD) in response to the Prime Minister’s (PM) request to increase the debt limit to 50% of Gross Domestic Product (GDP) to enable additional fiscal space for GoK economic recovery plans. Based on this analysis, MoF technical staff and the Activity concluded that this increase would not be possible in practice because of the deficit anchor (2% of GDP) and the investment clause trigger (the clause ceases to be applicable once the debt to GDP ratio reaches 30%).

The Activity supported MoF technical staff to explore other options, including the possibility of increasing the investment clause trigger to 40% of GDP, to which the IMF agreed. The Activity also supported the MoF to prepare a summary for the PM explaining the analysis and that the 10 percentage point increase in financing is needed under the investment clause trigger, rather than at the debt to GDP limit.

Subsequently, a comprehensive program was negotiated with the IMF that requires both technical efforts as well as political willingness and commitment. Below is a summary of the potential MEFP:
Duration: 26 months (January 2021 - February 2023)
Amount: EUR 202 million (SDR 173.75 or 202% of the quota)
Monitoring frequency: 6 months

Prior actions (December 2020, Kosovo requirements):
1. Approval of the 2021 Budget before the EFF proposal goes to the IMF Board;
2. Restore the ability of the Central Bank of Kosovo (CBK) Board to operate with a quorum;
3. Ensure the representation of financial stability and prudential macroeconomic policy functions in the Executive Board of the CBK.

Structural Benchmarks (Kosovo requirements):
1. Publish an audit report (NAO) on expenses related to COVID-19 (April 2021);
2. Finalize electronic procurement (June 2021);
3. Finalize a study on coherent and fair employment policies in the public sector in line with fiscal sustainability and the public sector wage bill ceiling (July 2021);
4. Approve primary and secondary legislation to functionalize the electronic system for the improvement, execution and audit of public investments (September 2021);
5. Finalize an actuarial study of the sustainability of social schemes and provide recommendations (September 2021);

Note that with pending extraordinary elections, the IMF is now expected to evaluate the positions of a future Government prior to additional negotiations on any potential new program.

O2-2: GOK FISCAL TRANSPARENCY AND BUDGET RESPONSIVENESS ENHANCED WITH PRIVATE SECTOR ENGAGEMENT AND INPUT

The Budget for 2021 was approved by GoK and submitted to the Assembly of Kosovo by the legal deadline of October 30, 2020. The Activity supported MoF so that any changes are incorporated within the ceilings agreed with the IMF during the Article IV mission reported in sub-objective O2-1 above. During this process, the Activity coordinated closely with the IMF local representative in Kosovo to align efforts such that the draft budget submitted to the Assembly of Kosovo remains within the ceilings agreed with the IMF. This draft budget takes into the account the outcomes of the IMF Article IV mission on warranted suspension of the fiscal rule over 2020-21 period in order to continue moderating household and income losses. The mitigating measures are reflected by an increase in subsidies and transfers by 1.9%, while the budget on all other expenditure categories is reduced, notably capital expenditures by -31.48% compared to previous revisions of the 2020-21 Budget.

**Table 2: Main indicators for 2021, in mil. EUR**

| Description             | MTEF 2021-2023 Revision (September) | 2020 Budget Revision (August) | 2021 Draft Budget (October) | 2021 Draft Budget Differences to:
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>1,917</td>
<td>1,968</td>
<td>1,886</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Tax revenue</td>
<td>1,684</td>
<td>1,726</td>
<td>1,661</td>
<td>-1.3%</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>222</td>
<td>231</td>
<td>214</td>
<td>-3.6%</td>
</tr>
<tr>
<td><strong>Total Expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>659</td>
<td>639</td>
<td>623</td>
<td>-2.2%</td>
</tr>
<tr>
<td>Goods and services</td>
<td>335</td>
<td>336</td>
<td>311</td>
<td>-7.1%</td>
</tr>
<tr>
<td>Subsidies and transfers</td>
<td>651</td>
<td>631</td>
<td>643</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>646</td>
<td>899</td>
<td>616</td>
<td>-4.6%</td>
</tr>
<tr>
<td>Interest payments</td>
<td>48</td>
<td>46</td>
<td>39</td>
<td>-18.7%</td>
</tr>
<tr>
<td></td>
<td>Budget Balance</td>
<td>Budget Balance (as per fiscal rule definition)</td>
<td>Financing need</td>
<td>External</td>
</tr>
<tr>
<td>-------------------------</td>
<td>----------------</td>
<td>-----------------------------------------------</td>
<td>----------------</td>
<td>----------</td>
</tr>
<tr>
<td></td>
<td>-558</td>
<td>-344</td>
<td>-558</td>
<td>262</td>
</tr>
<tr>
<td></td>
<td>-495</td>
<td>-306</td>
<td>-495</td>
<td>355</td>
</tr>
<tr>
<td></td>
<td>-527</td>
<td>-298</td>
<td>-527</td>
<td>294</td>
</tr>
<tr>
<td></td>
<td>-5.5%</td>
<td>-13.3%</td>
<td>-5.5%</td>
<td>12.2%</td>
</tr>
<tr>
<td></td>
<td>6.4%</td>
<td>-2.6%</td>
<td>6.4%</td>
<td>-17.1%</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance

11 While the Constitutional Court decision mandated new elections, the Government and many political voices called for adopting the 2021 budget prior to dissolving the Parliament. With a first reading of the budget law on December 28, 2020, and a second reading on December 29, 2020, the budget was adopted. Given the rapid nature of the process, further review of the adopted budget will be necessary once the adopted version is consolidated by the Assembly of Kosovo in order to verify final details.

To improve implementation of audit findings and correct disclosure of COVID-19 pandemic related expenditures, the Activity supported the joint NAO-MoF Treasury Department annual workshop with central and municipal level budget organizations. The two-day workshop on December 9-10, 2020, included over 74 participants from central and municipal level budget organizations. Presentations were moderated by the Activity. The Auditor General, Mr. Besnik Osmani, noted that correct disclosure of expenditure related to the management of the COVID-19 pandemic is a conditionality of expected EU budget support, and encouraged budget organizations to report data accurately. MoF Treasury Department Director, Mr. Ahmet Ismaili, informed budget organizations that this year’s strained financial position will require strict monitoring of commitments in the Kosovo Financial Management Information System (KFMIS) and that delayed requests for payments (beyond December 14, 2020) will not be possible, as priority will be given to health sector expenditure. In response to budget organization’s questions regarding pandemic-related expenditure reporting, in particular those that occurred before the Treasury Department created KFMIS codes dedicated to COVID-19 pandemic expenditure disclosure, the Treasury Department noted that they will be supporting budget organizations directly to complete all necessary corrections/re-allocations during December 14-18, 2020 revisions.

O2-3: ENHANCE DOMESTIC REVENUE MOBILIZATION CAPACITIES BY REDUCING COST OF TAX COMPLIANCE AND IMPROVING TAX ADMINISTRATION CREDIBILITY

TAK published the final Integrity Improvement Plan (IIP) 2021-2023\(^2\), developed with previous Activity support for private sector input and review. The IIP uses objective data to measure internal TAK performance, improve communication with taxpayers, and improve and enhance electronic taxpayer services. During November and December 2020, the Activity supported TAK to set baselines and targets for the indicators which TAK has committed to monitor and to develop an initial outline of a Monitoring and Evaluation Framework (M&E Framework) for the IIP.

To improve its taxpayer data which will allow it to better administer the tax system and provide improved services to taxpayers, in October 2020, TAK launched a new initiative requiring businesses to update their taxpayer’s business information in EDI. TAK and Activity representatives jointly conducted an analysis of taxpayer information being entered into the EDI. Taxpayers are providing information such as phone, address, bank account, accountant identification, and declaration of economic activity based on primary and secondary economic activity codes (NACE codes). The Activity is assisting TAK to pull and review data such as:

- Total number of taxpayers that have updated their information periodically vs. total number of taxpayers in EDI;
- Active economic landscape of Kosovo, using primary and secondary economic activities based on NACE codes, compared by municipality, business type, number of employees, and turnover.

As of December 31, 2020, TAK reports that 57.3\% of all taxpayers updated their information in EDI. The Activity is also consulting with accounting firms to obtain feedback on the process, system and internal use/consistency of TAK data after the updates. This data has the potential to provide the most accurate snapshot of the formal economy in Kosovo. Depending on data quality and potential future improvements, the Activity will encourage TAK to coordinate with the Kosovo Statistical Agency (KSA) and incorporate the data in the tax administration risk identification and overall management.

**Table 3: Taxpayer Profile Updates in EDI as of December 31, 2020**

<table>
<thead>
<tr>
<th>Reporting date</th>
<th>Total number of taxpayer profiles in EDI</th>
<th>Number of taxpayers that have entered information during period</th>
<th>Number of taxpayers that have entered information (cumulative)</th>
<th>Percentage of updated profiles</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 1</td>
<td>112,745</td>
<td>2,485</td>
<td>2,485</td>
<td>2.2%</td>
</tr>
<tr>
<td>October 9</td>
<td>113,005</td>
<td>18,996</td>
<td>21,481</td>
<td>19.0%</td>
</tr>
<tr>
<td>October 16</td>
<td>113,596</td>
<td>23,961</td>
<td>45,442</td>
<td>40.0%</td>
</tr>
<tr>
<td>October 23</td>
<td>113,957</td>
<td>4,650</td>
<td>50,092</td>
<td>43.9%</td>
</tr>
<tr>
<td>October 30</td>
<td>114,237</td>
<td>2,757</td>
<td>52,849</td>
<td>46.3%</td>
</tr>
<tr>
<td>November 13</td>
<td>114,680</td>
<td>3,877</td>
<td>56,726</td>
<td>49.5%</td>
</tr>
<tr>
<td>November 27</td>
<td>115,097</td>
<td>3,431</td>
<td>60,157</td>
<td>52.2%</td>
</tr>
<tr>
<td>December 4</td>
<td>115,282</td>
<td>1,957</td>
<td>62,114</td>
<td>53.9%</td>
</tr>
<tr>
<td>December 11</td>
<td>115,518</td>
<td>1,737</td>
<td>63,455</td>
<td>54.9%</td>
</tr>
<tr>
<td>December 25</td>
<td>115,875</td>
<td>2,123</td>
<td>65,578</td>
<td>56.6%</td>
</tr>
<tr>
<td>December 31</td>
<td>115,954</td>
<td>1,269</td>
<td>66,475</td>
<td>57.3%</td>
</tr>
</tbody>
</table>

OBJECTIVE THREE: CROSS-CUTTING: ENHANCED STRATEGIC COMMUNICATION

BACKGROUND

The reforms Kosovo needs to undertake to reduce the space for corruption are politically difficult to develop and implement and can cause a reaction by some actors with competing adverse incentives. In this context, one key element to gain traction and support for the necessary reforms is an open and comprehensive communication between government institutions and the public.

Through this cross-cutting objective, the Activity helps ensure that the private sector and the public are engaged throughout the policy development and reform cycle in Kosovo, starting from the identification of reforms, to the design and implementation of such reforms, to the ultimate recognition of successful outcomes.

In pursuit of this objective, the Activity will support its partners to integrate strategic communications in the policy development process and in the implementation of reforms to help ensure that GoK’s reform agenda is developed in a coordinated, transparent and accountable manner. Such an approach will strengthen broad support for the successful implementation of citizen-responsive Government action and realization of its associated outcomes, which is expected to have a notable impact on the quality of citizen’s lives and increased trust in public institutions.

Furthermore, the Activity will help GoK partners to develop more informed, effective and transparent dialogue with the private sector and civil society, using existing systems and platforms for public-private sector dialogue, but also exploring other, more inclusive and efficient channels and platforms of communication.

Finally, the Activity will support partners to identify and use objective performance data to identify problems, set commonly understood goals, and track performance and overall improvement, both in the delivery of public services and in public-private dialogue.

CURRENT ACTIVITIES

O3-1: IMPROVE MANAGEMENT, COMMUNICATION, AND GOVERNANCE USING EVIDENCE-BASED PERFORMANCE DATA

To improve the quality of data managed by the Kosovo Business Registration Agency (KBRA), the Activity supported KBRA to complete the Data Quality Assessment of Selected Business Registration System Data Fields (DQA) and develop recommendations for improvements to data quality. Improving data quality increases public confidence in the business registration system and opens the way for improved performance tracking through potential automated Key Performance Indicators (KPI).

The DQA was conducted using an internationally recognized methodology focused on three dimensions: completeness, consistency, and integrity. Of 23 data fields examined, seven
complied with all requirements, whereas 16 failed to meet requirements in one or more dimensions (see Figure 1).

For data analysis purposes, a Limited Liability Company (LLC), with in-person registration, was used as the model for the DQA, as this is the most common form of legal entity registration.

The DQA, while limited in scope, potentially reflects the quality of data across many Kosovo systems, and the assessment and recommendations will be particularly useful as the GoK eventually transitions to e-registration and moves to address data harmonization and system interconnectivity in the future.

With the submission of the DQA, the Activity fully concluded its support to KBRA. Nevertheless, the Activity continued to monitor KBRA, to validate that it was institutionalizing prior support and operating self-reliantly, such as the continued development and publication of Basic Performance Reports on Business Registration in Kosovo. **KBRA has been developing these reports independently**, including the latest third quarterly report for 2020 with no additional support from the Activity or any other projects.

As mentioned under Objective One above, with Activity support, the **Legalization Tracker** became fully operational in Pristina and Gračanica. Moreover, as a result of efforts by MEE and the Activity, 17 other non-partner municipalities are uploading process data to the Legalization Tracker.

Following the publication of the **IIP 2021-2023**, the Activity supported the TAK IIP Working Group to develop an initial outline of an M&E Framework for the IIP (see Figure 2) which will help measure the impact of IIP activities on the perception of integrity and monitor overall implementation.

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**O3-2: ESTABLISH SELF-RELIANT PUBLIC-PRIVATE ENGAGEMENT**

As noted above, the Activity facilitated public-private engagement throughout its technical activities. This includes: the TAK IIP informed by broad public input, public-private meetings on trade and e-

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Figure 1: Data Quality Assessment Compliance Scores by Data Quality Dimension

Figure 2: Theory of Change from the Initial Outline of the M&E Framework for the IIP 2021-2023

commerce issues, the launching of a subcontract for legalization outreach with groundbreaking performance-based elements consistent with USAID’s Private Sector Engagement Strategy.

On November 12, 2020, the American Chamber of Commerce in Kosovo (AmCham) with Activity support, held a virtual panel with representatives of franchisors and franchisees in Kosovo, including Burger King, KFC, SushiCo, and Green & Protein. This event promoted franchising as a viable business model that increases investment, creates jobs, increases the tax base, facilitates economic modernization by increasing competition, brings demanded goods to consumers, and increases business skills across a range of economic activities.

The virtual forum, the first of its kind in Kosovo, informed potential entrepreneurs on franchising and encouraged considering this business model for future opportunities.

The panelists provided firsthand information on the advantages and challenges of franchising, discussed lessons learned during the establishment and operation of franchises in Kosovo and explained efforts by Kosovo franchisors to expand to foreign markets.

Drawing on his experience as both a franchisor and a franchisee, SushiCo and Green & Protein owner, Ardian Hoxha, who also moderated the event, encouraged entrepreneurs to seek additional franchising opportunities. Both he and Shkumbin Muçolli, representing Burger King, noted that franchising enables workforce skill development by providing structured staff training and introducing more efficient company structures.

The panelists also noted that franchising can improve supply chain management and establish more efficient standard operating procedures. In developing economies, franchising also has important spillover effects, as it broadens consumer preferences and raises expectations, thus increasing the range and quality of goods and services available in the market.

The panelists advised entrepreneurs interested in pursuing franchising as a business model to study the local market thoroughly and to fully inform themselves on the requirements and standards necessary to obtain a franchise. In addition, they highlighted the importance of analyzing financial resources and available options for access to finance.

A sustainable and well-developed private sector, learning from its own experiences, is crucial for the economic development of Kosovo. Successful domestic, practical business examples, such as current franchisors / franchisees, should encourage and motivate prospective entrepreneurs in Kosovo to self-reliantly and

“Franchising provides direct and indirect benefits to the Kosovo economy; it increases product quality in general and it also increases the labor force development in Kosovo”

Erëmal Bajrami, KFC General Manager

14 Albanian: https://www.facebook.com/129448720504451/videos/819581812191728
English: https://www.facebook.com/129448720504451/videos/362322111512652
independently take the lead in Kosovo’s future economic growth and business development.

The virtual session was livestreamed on AmCham’s Facebook page and cross-shared on news portal Telegrafi.com and news agency EkonomiaOnline as well as on the USAID Kosovo Facebook page. Moreover, the virtual session was subsequently covered by the media such as telegrafi.com\textsuperscript{15}, koha.net\textsuperscript{16}, zeri.info\textsuperscript{17}, and rtklive.info\textsuperscript{18}.

O3-3: INCREASE PRIVATE SECTOR ACCESS TO AND USE OF INFORMATION THROUGH IMPROVED COMMUNICATION BY PUBLIC SECTOR PARTNERS

To support increased legalization applications, the Legalization Motivation Campaign for Activity’s partner municipalities (Pristina and Graçanicë/Gračanica) started on October 26\textsuperscript{th}, 2020. In accordance with USAID’s Private Sector Engagement Strategy, the subcontract focuses on outcomes and is partially performance based, focusing on the number of new completed applications submitted by applicants in the two partner municipalities.

The mobilization phase of the Legalization Motivation Campaign was concluded with the support of STTA Motivation Campaign Advisor, who provided a two-day initial training to key subcontractor staff, including the Project Manager and two municipal managers. The training focused on behavioral attitudes and changes and message development necessary especially for the mobile outreach units working in the field as well as for the social media promotional/educational materials.

During the mobilization phase a Detailed Action Plan was also developed based on the initiatives and timeline agreed in the subcontract.

During this quarter, initiatives one and two under the Detailed Action Plan were concluded, whereas initiative three and four started in December 2020 and are expected to be concluded in January 2021.

In the subcontract’s first initiative, a one-week campaign was concluded through broadcasting / publication of radio ads, LED monitor ads, and a 10-minute interview on November 30\textsuperscript{th}, 2020 in the KTV Morning Program ‘Sot’\textsuperscript{19} with the Director of Urbanism of Pristina Municipality, Mr. Ardian Olluri, during which he encouraged building owners to apply for legalization by explaining the simplified procedures, economic benefits, low fees, and other issues related to the legalization of unpermitted constructions.

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{15} Telegrafi.com: \url{https://telegrafi.com/sesion-virtual-drejtperdrejte-promovimi-franchising-franshizimit-si-model-biznesi-ne-kosove/?fbclid=IwAR2H2HsDb8y21LXe3Y13zO0515Clw0krPB8yZb8LdnjJFb0s5iXTy3Hyzo}
\item \textsuperscript{16} Koha.net: \url{https://www.koha.net/arberi/245421/perfaqesuesit-e-franshizave-ne-kosove-inkurajojne-zhvillimin-e-ketij-modeli-te-biznesit/}
\item \textsuperscript{17} Zeri.info: \url{https://zeri.info/ekonomia/376947/perfaqesuesit-e-franshizave-ne-kosove-inkurajojne-zhvillimin-e-ketij-modeli-te-biznesit/}
\item \textsuperscript{18} RTKlive.net: \url{https://www.rtklive.com/sq/news-single.php?ID=478121}
\item \textsuperscript{19} KTV Morning Program ‘Sot’: \url{https://tinyurl.com/y27qfpmn}
\end{itemize}
\end{footnotesize}
In its second initiative, two online conferences to promote the legalization process and answer questions submitted by citizens were held in Pristina on December 8, 202020 and Graçanicë/Gračanica on December 10, 202021.

The conferences informed the general public on the legalization process, including simplified application procedures, low fees and the economic benefits of legalization. The panelists also answered questions submitted online by citizens during the live broadcast.

Both conferences were livestreamed on the Facebook pages of respective municipalities. The conference in Pristina was also livestreamed (cross-shared) in the Facebook pages of news agency ekonomiaonline.com22 and news portal telegrafi.com23, the Facebook page of USAID Kosovo24 and the Legalization Facebook Page maintained by MEE25. The conference in Graçanicë/Gračanica was also livestreamed (cross-shared) on the Facebook page of news portal gracanicaonline.info26 and the Legalization Facebook Page maintained by MEE27.

Total number of viewers reached more than 14.000 (13,000 views for Pristina and 1,300 views for Graçanicë/Gračanica).

Both online conferences in Pristina28 and Graçanicë/Gračanica were extensively covered by the media, further amplifying the message and encouraging citizens across Kosovo to apply and to use this opportunity for legalization.

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20 Conference in Pristina: https://www.facebook.com/komunaprishtine/videos/226849992131174
21 Conference in Graçanicë/Gračanica: https://www.facebook.com/opstinagracanica/videos/756172755002048
22 Conference in Pristina - EkonomiaOnline.com FB page: https://www.facebook.com/watch/live/?v=226851555464918&ref=watch_permalink
24 Conference in Pristina - USAID Kosovo FB: https://www.facebook.com/usaidkosovo/posts/3871097989641293
26 Conference in Graçanicë/Gračanica - GracanicaOnline.info FB page: https://www.facebook.com/watch/live/?v=75618554332302&ref=watch_permalink
27 MEE legalization FB page - Graçanicë/Gračanica conference: https://www.facebook.com/101844774565700/videos/756185544998969/
Building on the momentum generated through the implementation of the first two initiatives under the Legalization Motivation Campaign, the Activity, working closely with the subcontractor, also facilitated two additional interviews with the Director of Urbanism in Pristina Mr. Ardian Olluri, in the morning programs of two additional TV stations on December 11, 2020, in Klan Kosova Morning Program ‘Ora 7’ and on December 21, 2020, in TV Dukagjini’s Morning Program ‘Mirëmengjesi’. During these interviews, Mr. Olluri encouraged citizens to apply for legalization, explained the benefits of legalization and the simplified procedures through practical examples.

**NEXT QUARTER ACTIVITIES**

Extraordinary elections anticipated during the next quarter will present familiar challenges to the Activity. However, work will continue with existing partners until a new Government is in place. At that time, the Activity will adapt to any new priorities. At present, building on the results from previous quarters, the Activity anticipates initiation and completion of the following initiatives in the next quarter, depending on evolving circumstances, including:

1. Extend cooperation with existing partner municipalities for effective municipal implementation of the legalization program until January 2022; (AR5, AR6)
2. Support existing partner municipalities with implementation of recommendations from the process mapping and organizational structure analysis conducted with Activity support; (AR2, AR5, AR6)
3. Support partner municipalities of Pristina and Graçanicë/Gračanica to identify the data for publication and internal performance management using the data from the Legalization Tracker; (AR2, AR5, AR6, AR13)
4. Continue implementation of Legalization Motivation Campaign in partner municipalities;
5. Initiate extended support and outreach campaign on legalization in additional non-partner municipalities to help further motivate citizens in other parts of Kosovo to apply for legalization; (AR12, AR13)

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30 As relevant, planned activities are referenced at the end in brackets with the indicator(s) to which they will directly or indirectly contribute. For details on respective indicator description and targets, refer to the USAID/Kosovo Economic Governance Activity Monitoring, Evaluation, and Learning Plan.
• Continue to support the MEE Communication Office to inform citizens on legalization process as well as to motivate them to apply for legalization; (AR5, AR6, AR12, AR13)

• Support MEE to draft amendments to the secondary legislation on legalization; (AR1, AR2, AR5, AR6)

• Support MTI to conduct Ex-Post Evaluation of the Law on Crafts based on existing GoK Ex-Post Evaluation Guidelines; (AR1)

• Finalize the draft analysis of the construction permitting process; (AR1, AR2, AR4)

• Support MoF MD to automate internal reports and monitor main fiscal rules via new Datawarehouse functionality; (AR8)

• Finalize assessment of system requirements for interoperability between MoF Treasury and PPRC systems working closely with USAID TEAM; (AR1)

• Support MoF technical staff to consolidate budget and expenditures at program level for subsidies and transfers as input to IMF program reporting; (AR1, AR10)

• Support TAK to review two existing brochures to create more accessible and user-friendly versions for newly registered taxpayers and citizens; (AR12)

• Propose options for a more user-friendly layout and design of TAK website; (AR12)

• Support TAK to develop templates for publication of data as foreseen by the Open Data Initiative in the IIP 2021-2023; (AR3, AR11, AR12)

• Assess potential for KSA updated information in EDI, including updated NACE code as part of economic data publications; (AR1)

• Support TAK to finalize M&E Framework for the IIP 2021-2023, including baselines and targets for IIP indicators; (AR1, AR12)

• Develop an updated MELP, incorporating the new USAID Kosovo CDCS 2020-2025, increased alignment with emerging partner operational metrics, and providing the foundation for the Year 3 work plan;

• Draft Year 3 work plan.

**CHALLENGES AND ADAPTATION**

As the COVID-19 pandemic and related Government measures continued during this reporting period, the Activity has flexibly adapted, taking into account the capacities of its partners to respond, limitations imposed by the government, changes in counterpart priorities, and other factors. The overall health environment and related government measures had an impact on the willingness and commitment of civil servants to push reforms forward, partly because such reforms require political leadership, vision and guidance, and partly because of the institutional vacuum created by health and political developments.
For example, TAK resources continued to be focused on the implementation of the government program to financially support the private sector, and this had an impact on the pace of progress with other initiatives. Staff shortages at MEE and in the Activity’s partner municipalities due to the public health environment also had an impact on the pace of progress, particularly as related to the construction permitting reforms and to a lesser degree on the legalization of unpermitted constructions. In some cases, municipal offices which provide necessary services for legalization were fully closed or operated at reduced levels.

Additional challenges and implementation issues for all three objectives, which affect commitment to and pursuit of reform, required continued considerable effort in coordinating activities between different institutions and often between departments within the same institution. The Activity also needed to expend significant effort to address knowledge and ability gaps in partner institutions; gaps in budgetary and human resources within the GoK, including as a result of measures to contain the COVID-19 pandemic; and ensure commitments going forward.

Finally, the continued public health environment and political uncertainty, particularly during the following quarter when extraordinary elections are expected to be held, will continue requiring proven project adaptability.

**COORDINATION WITH OTHER DONORS AND PROJECTS**

As elaborated above under respective Objectives, the Activity coordinated with other USAID projects and donors involved in areas covered by the Activity. In summary, during this quarter, the Activity worked and coordinated with the following projects and donors:

- USAID TEAM on interoperability of MoF Treasury Department and PPRC systems and procurement procedure for engagement of legalization support staff in Pristina municipality;
- The International Finance Corporation Kosovo Investment Climate II Project supporting MTI in the review of trade legislation;
- The EU Office representatives on the support to the macro fiscal function at MoF and on the review of trade legislation;
- British Embassy technical staff on the review of Concept Document on E-Commerce and scoping of potential PFM related activities for their planned Good Governance Fund;
- USAID Kosovo Compete Activity, with initial discussions conveying Activity history and experience with legal provisions for corporate governance as might inform business consultancy and other opportunities for future cooperation;
- IMF on fiscal related support initiatives.
ANNEX I. MELP REPORTING

This section provides the status on achievement of targets for Activity indicators tracked on quarterly basis, as noted in the latest version of the MELP. The Activity is in the process of updating the MELP to incorporate the new USAID Kosovo CDCS 2020-2025, and any increased alignment of indicators with partners as anticipated during the life of the project, and to provide the foundation for the Year 3 work plan. Both drafts of the revised MELP and Year 3 work plan are anticipated to be developed in the next quarter.

As the table below shows, achievement of targets is on track. Details for each of the ARs are provided below as well.

Table 4: MELP Indicators – targets and actual results for reporting period

| MELP Ref. Number | Performance Indicator                                                                 | Targets (April – March) | Actuals
|------------------|----------------------------------------------------------------------------------------|-------------------------|--------
|                  |                                                                                        | Baseline | Y1 | Y2 | Y3 | Y4 | Y5 | LOP | Year One | Year Two (at Q3) |
| AR 5             | Percentage of buildings in pilot municipalities that complete legalization review       | 0%       | 0% | 10% | 20% | 50% | 60% | 60% | 0%       | 49%               |
| AR 6             | Percentage of eligible buildings in pilot municipalities that complete the full legalization process | 0%       | 0% | 10% | 30% | 60% | 90% | 90% | 0%       | 65%               |

AR 5  Percentage of buildings in pilot municipalities that complete legalization review

Y2 Actual results (to date): 49%
Y2 Target (full year): 10%

*Percentage of applications completing first review*

\[
\text{Percentage} = \frac{\text{Total applications assigned to legalization or pending list}}{\text{Total Applications Received}} \times 100
\]

283 applications placed on pending list + 582 legalization certificates issued (which includes 380 buildings registered in Cadaster) = 865 applications completing first review. This is 49% out of 1770 applications received in both partner municipalities.

**Note:** Calculation includes all applications carried over by Pristina from 2010 and 2015-2016 legalization processes in accordance with the law.

AR 6  Percentage of eligible buildings in pilot municipalities that complete the full legalization process

Y2 Actual results (to date): 65%
Y2 Target (full year): 10%
Percentage of buildings legalized

\[ \frac{\text{Total applications resulting in successful registration in the cadaster}}{\text{Total applications from 1st review legalization category}} \times 100 \]

380 buildings fully registered in the Cadaster and IPRR is 65% out of 582 applications from 1st review eligible for full registration in the cadaster and IPRR.

**Note:** Calculation includes all applications carried over by Pristina from 2010 and 2015-2016 legalization processes in accordance with the law.
ANNEX II. REPORTS AND DELIVERABLES

During this reporting period, the Activity completed the following reports and deliverables, which were submitted to USAID:

- Weekly GoK Summary Receipts and Payments Report;
- 2nd Quarterly Performance Report (Year 2);
- 2nd Quarterly Financial Report (Year 2);
- Telling our Story: Kosovo Franchising Panel Informs and Encourages Entrepreneurship;
- Summary of Review of Draft Law on Internal Trade;
- Summary of Conclusions on Draft Concept Document on E-Commerce;
- PFM Institutional Improvement Report;
- Macro Fiscal Training Report;
- Updates on activities for USAID media on Twitter, Facebook, Instagram and other outlets;
- Quarterly Accrual Report (Q1 FY2021);

In addition to the above, during the reporting period Activity personnel provided responsive information to USAID regarding budget developments, Government fiscal status, legalization, trade, and related material.