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USAID/KOSOVO ECONOMIC GOVERNANCE ACTIVITY

1st QUARTERLY PERFORMANCE REPORT (YEAR 3)
APRIL - JUNE 2021

July 10, 2021

This report was produced for review by the United States Agency for International Development. It was prepared by the USAID/Kosovo Economic Governance Activity implemented by Chemonics International, Prime Contractor, and Crimson Capital Corp. and Overseas Strategic Consulting, Ltd., Subcontractors.

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Contract No.: 72016719C00002

COR/USAID: Dardane Peja

CHIEF OF PARTY: Terence Slywka

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ACRONYMS

AEO	Authorized Economic Operators
AI	Administrative Instruction
AR	Activity Result
AUK	American University in Kosovo
CBK	Central Bank of Kosovo
CDCS	USAID Kosovo Country Development Cooperation Strategy 2020 - 2025
CSO	Civil Society Organization
DMA	European Commission's Digital Markets Act
DO	Development Objective
DSA	European Commission's Digital Services Act
DSPCH	Department of Spatial Planning, Construction and Housing
EU	European Union
GDP	Gross Domestic Product
GIZ	German Corporation for International Cooperation
GoK	Government of Kosovo
IFC	International Finance Corporation
IIP	TAK Integrity Improvement Plan
IMF	International Monetary Fund
IR	Intermediate Result
KAS	Kosovo Agency of Statistics
KCA	Kosovo Cadastral Agency
KFMIS	Kosovo Financial Management Information System
KMPM	Kosovo Macro-Fiscal Projection Model
KWN	Kosovo Women's Network
MELP	Monitoring, Evaluation, and Learning Plan
MESPI	Ministry of Environment, Spatial Planning, and Infrastructure
MFA	EU Macro-Financial Assistance
MFLT	Ministry of Finance, Labor and Transfers
MFLT DW	MFLT Datawarehouse
MFLT MD	MFLT Macroeconomic Division
MFLT YCS	MFLT Young Cells Scheme
MIET	Ministry of Industry, Entrepreneurship and Trade
MoU	Memorandum of Understanding
MTEF	Medium-Term Expenditure Framework
NCTF	National Committee on Trade Facilitation
NGO	Non-governmental Organization
PFM	Public Financial Management
PPRC	Public Procurement Regulatory Commission
SAA	Stabilization Association Agreement
STTA	Short Term Technical Advisor
TAK	Tax Administration of Kosovo
TCP	TAK Taxpayer Communication Plan
USAID TEAM	USAID Transparent, Effective and Accountable Municipalities Project
USAID	United States Agency for International Development
USG	United States Government
VoRAE	CSO Voice of Roma, Ashkali and Egyptians
WB	World Bank
WB DPF	World Bank's Development Policy Financing Instrument
WTO	World Trade Organization
WTO TFA	WTO Trade Facilitation Agreement

EXECUTIVE SUMMARY

The USAID/Kosovo Economic Governance Activity (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, and (3) Enhanced Strategic Communications.

This report covers the period April – June 2021. The Activity continued fluidly adapting to changing circumstances in the public health environment and completed several important reform activities, as detailed below.

In the area of buildings legalization, the Activity's primary partner municipalities (Pristina and Graçanicë/Gračanica) continued receiving and processing legalization applications, resulting in an increased number of buildings successfully formalized in the cadaster. The estimated market value of formalized buildings to date in these two municipalities as of June 30, 2021, is 91.2 to 126.2 million Euros. The Activity continued successfully implementing the Legalization Motivational Campaign in the two primary partner municipalities. The number of applications received by the two primary partner municipalities during this period increased steadily, with 190 applications received in April, 230 applications in May, and 302 applications in June 2021.

The Activity continued supporting its two primary partner municipalities with the definition of internal and external legalization performance management indicators and agreed with both municipalities on these indicators. Additionally, the Activity supported the Ministry of Environment, Spatial Planning, and Infrastructure (MESPI) to update the Government of Kosovo (GoK) Legalization Tracker based on lessons learned during the implementation in the two primary partner municipalities and the updated version was sent to all municipalities in Kosovo.

To support more municipalities with implementation, the Activity identified eight secondary partner municipalities for Activity support, which is expected to start in the second quarter of Year Three.

The Activity worked to further extend outreach on legalization by initiating cooperation with Civil Society Organizations (CSO) on this topic, starting with the Non-Governmental Organization (NGO) "Voice of Roma, Ashkali and Egyptians", with which the Activity has already started working to increase outreach in the respective communities. Cooperation with additional voluntary private sector partners (CSOs, trade associations, other volunteers) is expected to be expanded in the following quarters of Year Three.

In trade, the Activity conducted an analysis outlining current developments with trade facilitation reforms in Kosovo, future actions, and its importance for economic development. The Activity also supported discussions during a meeting of the National Committee on Trade Facilitation in June 2021. The Activity continued its comparative analysis of the European Commission's proposed Digital Services Act (DSA) and Digital Markets Acts (DMA) to Kosovo's current legal framework and supported the Ministry of Industry, Entrepreneurship and Trade (MIET) to complete a first draft of the Ex-Post Evaluation of the Law on Crafts, scheduled to be finalized in the second quarter of Year Three.

The Activity supported MESPI to review the Draft Concept Document on the Inspectorate of Environment, Waters, Nature, Spatial Planning, Construction and Housing and submitted its recommendations for improvement to MESPI for consideration. These recommendations included the need to ensure closer alignment with the Draft Law on Inspections scheduled for approval by GoK in 2021 and best international practices on inspections.

The Ministry of Finance, Labor and Transfers Macroeconomics Division (MFLT MD) continued to demonstrate self-sustainable learning and ownership of economic modelling and analytical tools initiated with Activity support. The Activity supported MFLT MD staff to prepare for the IMF Kosovo Mission on June 7 to 11, 2021 and to present the macro-fiscal forecasting process and the impact of tax legislation on revenues to MFLT Young Cell Scheme recruits. The Activity also supported MFLT to organize and hold 2 university guest lectures on the macro-fiscal forecasting process, to create public policy linkages with academia and broaden the understanding of forecasting in economic policy and development.

The Activity, working closely with the USAID Transparent, Effective and Accountable Municipalities Project (USAID TEAM), supported MFLT to complete the terms of reference for the IT/IS changes to the MFLT Kosovo Financial Management Information System (KFMS) that will enable interoperability between KFMS and the E-Procurement Platform. The Activity identified and is simultaneously pursuing additional upgrades that will increase management control of system functions and allow for confirmation of KFMS data with IBAN and SWIFT information.

The Activity supported the Tax Administration of Kosovo (TAK) to finalize the Tax Compliance Booklet containing introductory tax compliance information and serving existing taxpayers in need of a compliance refresher. The Activity also reviewed TAK's current practices for website coordination and layout, identifying opportunities for additional support to improve data publication, layout, and overall customer service. During this quarter TAK also published the updated TAK Integrity Improvement Plan (IIP) Indicators.

Finally, 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) the International Monetary Fund (IMF) and the German Corporation for International Cooperation (GIZ).

KEY HIGHLIGHTS

- Formalized buildings in the primary partner municipalities (Pristina and Graçanicë/Gračanica) reached an estimated market value of 91.2 to 126.2 million euros as of June 30, 2021;
- The Government of Kosovo (GoK) Legalization Tracker became operational in the primary partner municipalities and 22 other municipalities are providing data;
- Selected eight secondary partner municipalities for Activity support on legalization;
- Continued implementation of the Legalization Motivational Campaign in primary partner municipalities to further increase the number of legalization applications;
- Provided recommendations to MESPI on the Draft Concept Document on the Inspectorate of Environment, Waters, Nature, Spatial Planning, Construction and Housing;
- Conducted an analysis of current developments with trade facilitation reforms in Kosovo, future actions and its importance for economic development;
- Supported MIET to conduct an Ex-Post Evaluation of the Law on Crafts;
- Supported MFLT MD staff to prepare for the IMF Kosovo Mission on June 7 to 11, 2021;
- Completed terms of reference for IT/IS improvements to the MFLT KFMIS that will enable interoperability between KFMIS and E-Procurement Platform;
- Identified and incorporated additional IT/IS KFMIS updates for increased management control of system access and data validation with IBAN and SWIFT information;
- Supported MFLT MD to present the macro-fiscal forecasting process and the impact of tax legislation on revenues to MFLT Young Cell Scheme recruits;
- Supported MFLT MD to review GoK's options for on-budget support, targeting expected balance of payments difficulties;
- Supported TAK to finalize the updated TAK Integrity Improvement Plan (IIP) Indicators;
- Supported TAK to finalize the Tax Compliance Booklet containing introductory tax compliance information, and for existing taxpayers in need of a compliance refresher;
- Reviewed TAK practices for website coordination and layout and identified opportunities for additional support to improve information provision and customer service;
- Facilitated 2 university guest lectures for the MFLT Macroeconomics Division to present the macro-fiscal forecasting process and create public policy linkages with academia.

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

While the specific links between Activity Results and the Country Development Cooperation Strategy 2020-2025 (CDCS) are provided in more detail in the Activity’s MELP, a summary is provided here to articulate the technical linkages between work plan activities and overall USAID goals in Kosovo.

The CDCS 2020-2025 for Kosovo formulates an ambitious agenda. The United States Government (USG) seeks a strong and effective partnership with the GoK that builds on their close relationship to address regional and global challenges. The stated goal of the CDCS 2020-2025 is:

Kosovo realizes its democratic and demographic dividend through Kosovo-led solutions

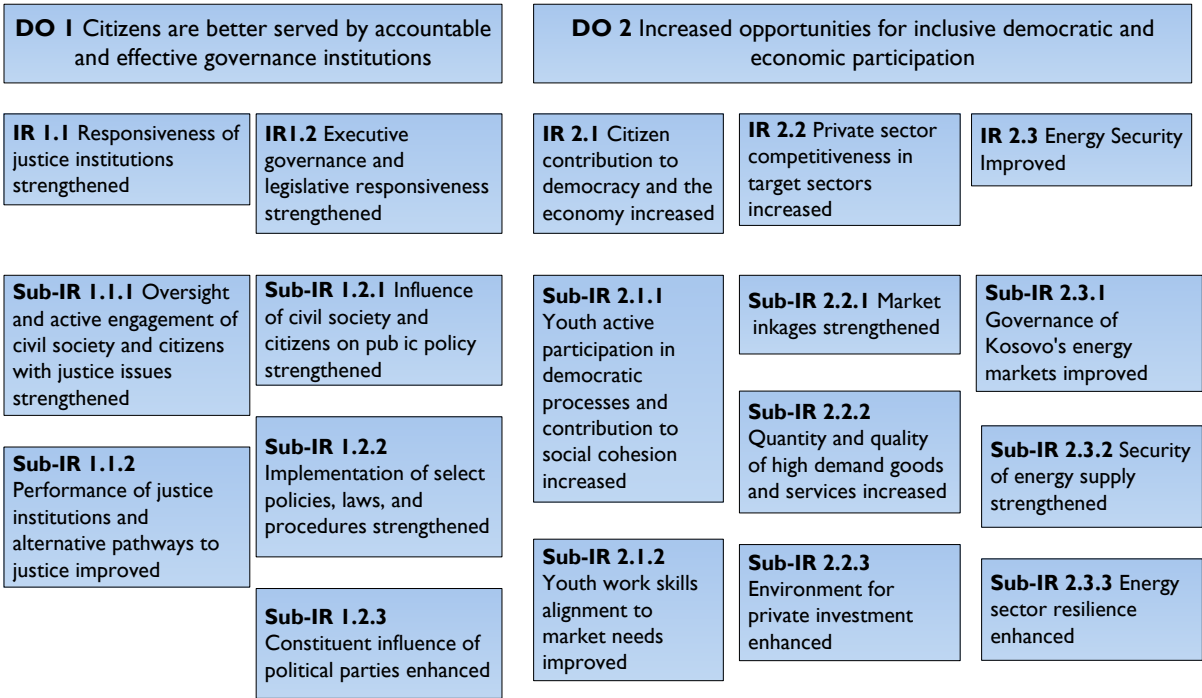


Figure 1: USAID Kosovo Results Framework

Foundational to the sustainable achievement of this goal are two Development Objectives (DOs):

- **DO 1:** Citizens are better served by accountable and effective governance institutions.
- **DO 2:** Opportunities for inclusive democratic and economic participation increased.

The Activity contributes to both DO's in the following metrics:

- **DO 1:** Citizens are better served by accountable and effective governance institutions.
 - **IR 1.2:** Executive governance and legislative responsiveness strengthened.
 - Indicator 1: Number of improved implementation of policies, legislation, and procedures at the central and local level (Aggregation including AR2 (A))*
 - **Sub-IR 1.2.1:** Influence of civil society and citizens on public policy strengthened.
 - Indicator 1: Number of improvements in targeted institutions influenced by civil society (AR2 (A), AR9)*
 - **Sub-IR 1.2.2:** Implementation of select policies, laws, and procedures strengthened.
 - Indicator 3: Percentage of legalization of buildings that complete the registration in Cadaster (AR3)*
- **DO 2:** Opportunities for inclusive democratic and economic participation increased.

- **IR 1.2:** Private sector competitiveness in target sectors increased.
 - **Sub-IR 2.2.3:** Environment for private investment enhanced.

***Indicator 1:** Number of reforms designed and implemented with private sector engagement (AR2 (B), AR9)*

***Indicator 2:** Number of policy, legislation, regulatory and organizational reforms implemented at the central level and local level (AR1, AR6, AR7, AR8, AR9)*

The specific use of DO, IR and Sub-IR indicators is covered in detail in the 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.

DETAILED SUMMARY OF TECHNICAL ACTIVITIES AND RESULTS ACHIEVED

During this 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.

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 in this Objective will expand the advances Kosovo has made to improve its business environment and reduce avenues for corruptive influences. In addition, the Activity assists the GoK and other official counterparts to improve intergovernmental coordination, and further strengthen the transparency, efficiency, accountability, and implementation of regulatory requirements applied to businesses at both national and local levels.

The Activity is assisting its two primary partner municipalities (Pristina and Graçanicë/Gračanica), to implement the legalization program and is expanding the lessons learned to eight secondary partner municipalities through the Extended Legalization Support. At the central level, the Activity is supporting MESPI to resolve remaining administrative challenges impacting legalization implementation, including the finalization and adoption of amendments to the secondary legislation on legalization addressing lessons learned in the process.

The Activity is supporting MESPI with reform initiatives on inspections and the primary partner municipalities with reforms in construction permitting processes, and furthermore, GoK efforts to improve trade facilitation and trade legislation in accordance with WTO principles and the EU Acquis.

CURRENT ACTIVITIES

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

Building on previous support provided to MESPI and its two primary partner municipalities (Pristina and Graçanicë/Gračanica), the Activity continued supporting both levels of government in the implementation of the **Government of Kosovo (GoK) Legalization Program**. Both Activity's primary partner municipalities continue to make progress with the legalization of unpermitted constructions and as of June 30, 2021, partners reported 2866 applications received, 798 legalization certificates issued and 641 buildings fully formalized.

Table I: Status of implementation of the legalization program in Activity’s primary partner municipalities, as of June 30, 2021

	Pristina	Graçanicë/ Graçanica	Total
Number of applications	2634	232	2866
Number of applications currently under review	1463	122	1585
Number of decisions on Pending List	456	27	483
Number of decisions on demolition list	0	0	0
Number of decisions on legalization certificate	715	83	798
Urbanism Department Efficiency	44.46%	47.41%	
Number of buildings with legalization certificate registered in Cadaster (formalized)	601	40	641
Cadaster Office Efficiency	84.06%	48.19%	
Estimated market value of formalized buildings in both primary partner municipalities	91.2 to 126.2 million euros		

Source: Municipalities of Pristina and Graçanicë/Graçanica

To further support the primary partner municipalities with public messaging and strengthen their ability to mobilize and direct more resources to their legalization efforts, the Activity continued using the process for estimating the market value of legalized buildings, based on official GoK property tax data from the Property Tax Department at the MFLT.

As of June 30, 2021, the **market value of legalized buildings in the two primary partner municipalities reached an estimated 91.2 to 126.2 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.

The Activity continued to foster close collaboration with both primary partner municipalities, monitor their respective performance and provide guidance on improvements along the process. To support these efforts, the Activity finalized two **Legalization Process Analyses** which assess the implementation of the legalization program in two primary partner municipalities and provided recommendations to reduce processing times and increase performance. Both analyses are expected to be submitted to the primary partner municipalities in the second quarter of Year Three. The Activity will support primary partner municipalities with the implementation of improvements to the legalization process throughout Year Three.



Photo 1: Activity representatives visit Municipality of Shtime/Štimlje, May 2021.

The Municipality of **Graçanicë/Gračanica** **acknowledged the Activity's support** during its Assembly meeting in April 2021 and urged all citizens to apply for legalization, emphasizing that citizens who submit their legalization requests by September 5, 2021, will benefit from shortened procedures and reduced fees. Furthermore, in response to Activity's consistent advocacy with municipal officials, the Municipality of Graçanicë/Gračanica assigned two municipal officials on a temporary basis to help with registration (formalization) of legalized buildings in the Cadaster. A request for access for these two officials in the Cadaster system was made with Activity support and was approved by the Kosovo Cadastral Agency (KCA).

In addition to the support provided to its primary partner municipalities, the Activity **selected eight secondary partner municipalities** for Phase 2, Pillar I (public sector support) of the Extended Legalization Support. The selection of these eight municipalities is a result of two rounds of visits, in March and May 2021, in 36 non-primary partner municipalities, during which visits the Activity gathered data and information on legalization performance and results, data quality, cooperation and support between local and central levels, GoK Legalization Tracker use, and human resources use.

The following are secondary partner municipalities, selected based on Activity-developed numeric criteria (including commitment, use of data, potential impact):

1. Prizren
2. Mitrovicë e Jugut/Južna Mitrovica
3. Suharekë/Suva Reka
4. Drenas/Glogovac
5. Deçan/Deçane
6. Fushë Kosovë/Kosovo Polje
7. Viti/Vitina
8. Obiliq/Obilić

The support to be provided to these municipalities throughout Year Three will focus on I. **Outreach** and II. Continuous **helpdesk assistance** and **data validation**.

For Phase II, Pillar II (private sector support, "Be the Solution"), in response to the private sector identification of more support needed for citizens to complete the process, the Activity partnered with **NGO "Voice of Roma, Ashkali and Egyptians (VoRAE)"** to further expand legalization outreach and provide the tools for private sector application support to members, beneficiaries and others. Through its cooperation with VoRAE, the Activity will be able to reach non-majority communities in twelve municipalities - Prizren, Gjilan/Gnjilane, Fushë Kosovë/Kosovo Polje, Ferizaj/Uroševac, Lipjan/Lipljan, Vushtrri/Vučitrn, Peja/Peć, Podujevë/Podujevo, Obiliq/Obilić, Suharekë/Suva Reka, Klinë/Klina and South Mitrovica through three phases: (1) training of VoRAE staff on the overall legalization process, (2) providing promotional materials which will be further distributed by VoRAE in twelve municipalities, and (3) periodic review of legalization Tracker data and challenges encountered, including potential 3-way discussions with municipalities.

On June 30, 2021, the Activity, in collaboration with MESPI and VoRAE provided training to field staff engaged through this NGO, on the legal framework on legalization and the overall process,

legalization benefits and lessons learned from the support provided to primary partner municipalities. (More detailed information on this is provided in Objective Three section below).

To expand Pillar II, the Activity developed the details and timeline for the **Activity to partner with other private sector volunteers (CSOs, trade associations, others) to support them in assisting citizens to complete applications** in a similar manner as is currently proceeding with VoRAE. This Pillar aligns with Activity's MELP goals and responds to issues raised by private sector voices and the Minister of MESPI recently. The Activity will seek to provide any/all groups who volunteer, the information needed regarding the legalization process so they can assist their members, constituents, and others in their communities with completing legalization applications.

The Activity supported MESPI to update the **GoK Legalization Tracker** based on lessons learned from the direct support provided to two primary partner municipalities. (More detailed information on this is provided in the Objective Three section below).

To further improve the implementation and accelerate the legalization process, based on lessons learned to date, the Activity **supported MESPI working groups in drafting amendments to two Administrative Instructions (AIs) on Legalization:** 1) AI No. 06/2019 on Health and Safety Requirements for Category I and II Constructions without Permit¹, and 2) AI No. 05/2019 on Appeals Procedures Against Decisions on the Treatment of Constructions Without Permit². MESPI established working groups composed of representatives from the Department of Spatial Planning, Construction and Housing (DSPCH), the Kosovo Cadastral Agency (KCA) and the Municipality of Pristina, to further streamline legalization procedures based on lessons learned and feedback received from municipalities to date.

The working group responsible for amending AI No. 05/2019 on Appeals Procedures Against Decisions on Treatment of Constructions Without Permit completed its review. Following public consultations, the draft amendments are currently awaiting submission from the MESPI Legal Department to the Minister for approval and entry into force. A draft of the amendments to AI No. 06/2019 on Health and Safety Requirements for Category I and II Constructions without Permit has been completed and is currently being reviewed by the respective MESPI working group.

Following a request made by the DSPCH, the deadline for the adoption of amendments to both AIs was extended by the Ministry until September 30, 2021. The Activity will continue supporting MESPI until both draft amendments to the AIs are adopted and implemented.

To further support the demand for legalization, during this quarter, the Activity continued executing the **Legalization Motivational Campaign** in partner municipalities, including through mobile outreach units, social media videos, and written articles. (More details are provided in the Objective Three section below).

OI-2: IMPROVE TRADE REGIME AND OFFICIAL DATA MANAGEMENT

Building on support provided by the Activity to MIET in the area of trade, the Activity, supported by International Trade Lawyer STTA [REDACTED], completed an initial draft of an **analysis and recommendations for specific areas of intervention in the area of trade facilitation**. This analysis which is currently being finalized and will be submitted to MIET in the second quarter of

¹ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=20715>

² <https://gzk.rks-gov.net/ActDetail.aspx?ActID=20714>

Year Three, also provides the basis for a forthcoming WTO Trade Facilitation Agreement (TFA) Self-Assessment which is planned to be supported by the Activity.

Activity's preliminary findings are that areas needing GoK attention include statistics on trade facilitation; trade facilitation reforms with wider trade policy objectives; administrative burden from trade licenses, fees, and charges; utilization of Authorized Economic Operators (AEO) scheme; and, establishment of a single window.

To discuss these preliminary findings, MIET called a meeting of the **National Committee on Trade Facilitation (NCTF)** on June 24, 2021. The Acting Director of the Trade Department at the Ministry of Industry, Entrepreneurship and Trade (MIET) and the Kosovo Customs representative reported on the post-Covid 19 activities undertaken in Kosovo for trade facilitation. Their report focused on the progress



Photo 2: 7th Meeting of the National Council for Trade Facilitation, June 24, 2021.

achieved in reducing administrative burden in trade licenses, fees, and charges, status of Authorized Economic Operators, border agency cooperation, and cooperation with the private sector.

At the request of the Trade Department at MIET, in this meeting, the Activity delivered two presentations on:

- best international practices for functionalizing the NCTF; and
- trade facilitation reforms in Kosovo, impact on the economy, and recommended actions.

The Activity, with the support of International Trade Lawyer STTA [REDACTED], started a comparative analysis of the **European Commission's proposed Digital Services Act (DSA)**³ and **Digital Markets Acts (DMA)**⁴ to Kosovo's current legal framework. This comparative analysis derives from Activity's previous involvement with the Draft Concept Document on E-Commerce and is intended to inform any future GoK actions in the area of E-Commerce.

At the request of the World Bank, Activity representatives provided a summary of the findings from Activity's review of the Draft Concept Document on E-Commerce. The World Bank team noted their work on an assessment for enhancing the digital economy in Kosovo in multiple sectors, and they were particularly interested in evaluating the current state of e-commerce and recommendations for how to proceed to facilitate payment services. The Activity briefed the World Bank representatives on the support and recommendations provided to MIET, and on Activity's

³ <https://ec.europa.eu/digital-single-market/en/news/proposal-regulation-european-parliament-and-council-single-market-digital-services-digital>

⁴ https://ec.europa.eu/info/strategy/priorities-2019-2024/europe-fit-digital-age/digital-markets-act-ensuring-fair-and-open-digital-markets_en

anticipated work in Year Three to develop a needs assessment for collecting e-commerce statistics and to conduct a comparative analysis of the European Commission's proposed Digital Services and Digital Markets Acts and Kosovo's current legal framework.

Finally, the Activity supported MIET to complete the fieldwork and main drafting for the **Ex-Post Evaluation of the Law on Crafts**⁵. The Ex-Post Evaluation is expected to be finalized in the first weeks of the second quarter of Year Three. According to this Ex-Post Evaluation, 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. Consequently, both MIET and the Activity agreed that steps should be taken to abolish this law, following procedural consultations with the Legal Offices of the Prime Minister and the Assembly of Kosovo.

The recommendation to abolish a law raises a unique procedural or substantive issue in the Kosovo context. While the Government and the Assembly have significant experience adopting or amending laws, the idea of abolishing a law and not replacing it directly with another law, similarly named, is somewhat unfamiliar. However, given the number of laws amended or adopted each year, the legal process in Kosovo should come to accept the idea of law repeal or abolishment when a law becomes outdated, redundant, contradictory, or otherwise obsolete.

As previously agreed with MIET, in the following quarters of Year Three, the Activity will use lessons learned during this Ex-Post Evaluation to provide training to officers from the Legal Department at MIET on how to conduct similar Ex-Post Evaluations in the future.

O1-3: IMPROVE CONSTRUCTION PERMITTING PROCESS IN PRIMARY PARTNER MUNICIPALITIES AND IMPROVE LEGISLATION ON CONSTRUCTION INSPECTIONS

To support improvements in the construction permitting process in Pristina and Graçanicë/Gračanica municipalities, the Activity conducted an analysis identifying issues and providing recommendations.

According to this analysis, one of the main interventions which would result in streamlined procedures and reduced times for the issuance of constructions permits is the introduction of an electronic information management system. The analysis is currently in its final stages of development and is expected to be delivered to partner municipalities in the second quarter of Year Three.

The Activity supported MESPI to review the **Draft Concept Document on the Inspectorate of Environment, Waters, Nature, Spatial Planning, Construction and Housing** and submitted its comments to the MESPI Legal Department for further consideration.

The Activity recommendations were focused on ensuring closer alignment with best international practices and concepts already included in the Draft Law on Inspections⁶ which is scheduled for approval by the GoK by June 30, 2021. Furthermore, the Activity recommended a review and redefinition of the spatial planning compliance functions of the inspectorate which are currently unclear.

⁵ <https://gzk.rks-gov.net/ActDetail.aspx?ActID=2418>

⁶ <https://kryeministri-ks.net/wp-content/uploads/2021/05/Programi-Legjislativ-per-vitin-2021.pdf>

The Activity also started reviewing options for pilot e-solutions to streamline the internal management of the construction permitting review process in its primary partner municipalities and assist partners to develop draft terms of reference for implementing such e-solutions.

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 the 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 a 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 MFLT 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 MFLT 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, and introducing outcome-based performance management.

CURRENT ACTIVITIES

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

The Activity and the Ministry of Finance, Labor and Transfers (MFLT) General Secretary's Office jointly organized a workshop on April 16, 2021, for **Young Cell Scheme** graduates recently recruited by MFLT to present the macro-fiscal forecasting process and how it links to the policy development and budget cycle in Kosovo. The Acting Head of the MFLT MD explained how the MFLT MD conducts macro-fiscal projections, how these set the framework for the Medium-Term Expenditure Framework (MTEF) and the Annual Budget Law.

Participants were given sample exercises of linking tax revenue items with their respective tax bases, which is one of the main elements of the MFLT MD's existing Kosovo Macro-Fiscal



Photo 3: Macro-fiscal Projection Model presentation for YCS graduates, April 16, 2021

Projection Model (KMPPM). Activity's Macro-Fiscal Training STTA, [REDACTED], discussed the KMPPM and potential future developments in detail. Representatives from the IMF and WB in Kosovo

also discussed the role of the macro-fiscal function for macro-fiscal stability. The MFLT General Secretary's office received excellent feedback from recent hires following the event, several of whom noted their interest in joining the MFLT MD in case there are opportunities to do so in the future.

During the first half of 2021, MFLT reviewed options for additional budget support in 2021 to cover the financing gap expected as a result of increased expenditures to fund public health measures and economic recovery. The main sources of budget support for the GoK have historically been the IMF and EU through their credit arrangements. This type of on-budget support tackles balance of payments difficulties, for which in 2020 the GoK received 52 million Euros under the IMF's Rapid Financing Instrument and 50 million Euros as the first tranche of EU's Macro-Financial Assistance (MFA). The second tranche of the MFA was disbursed on June 1, 2021.

The MFLT MD, with Activity support, reviewed **EU's Financial Assistance Guidelines for non-EU Partners**, which note that EU's on-budget funding is "conditional on the existence of a non-precautionary credit arrangement with the IMF and a satisfactory track-record of implementing IMF program reforms"⁷. According to MFLT MD, this means that if the GoK decides not to enter an IMF program they will also forgo the possibility of similar funding from the EU. Similarly, the World Bank's Development Policy Financing instrument (DPF) is also contingent on "maintenance of an adequate macroeconomic policy framework, as determined by the Bank with inputs from IMF assessments"⁸. Other types of financial support from the EU, the World Bank, or other international financial institutions available to Kosovo are project-based and cannot serve as on-budget support for balance of payments difficulties.

Throughout May 2021, the Activity supported the MFLT MD to prepare for the **IMF Kosovo Mission on June 7 to 11, 2021**. The IMF pre-mission preparatory questionnaire contained questions ranging from MFLT MD expectations on the impact of vaccine rollout on real GDP growth, to questions on distinguishing between formal and informal remittances. Another topic of discussion during the mission were the data revisions in the annual national accounts statistics released by the Kosovo Agency of Statistics (KAS) in May 2021 and their impact on growth expectations.

These revisions include the integration of agriculture data, integration of non-observed economy data, and Central Bank of Kosovo (CBK) data revisions of financial services and of trade in goods and services. These changes impact national accounts, however, KAS has only recently included their impact on 2008-2019

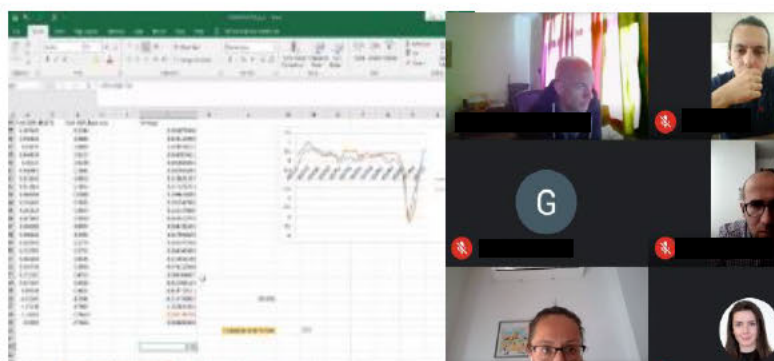


Photo 4: IMF mission preparations with the MFLT Macroeconomics Division, June 4, 2021.

national accounts and is yet to conduct this revision for quarterly 2020 national accounts data, which created difficulties in assessing and forecasting the impact of 2020 health emergency developments

⁷ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en

⁸ <https://ieg.worldbankgroup.org/topic/development-policy-financing-dpf>

to economic indicators. The Activity held virtual sessions with MFLT MD using one of the exercises developed by Macro-Fiscal Training STTA, [REDACTED] and the 'nowcasting' tool to assess the potential impact of these revisions.

On June 25, 2021, the **GoK approved the 2021 Budget Revision**. The main differences between the 2021 Budget Law and 2021 Budget Law revision were a result of the improved economic outlook. MFLT MD analysis of fiscal data covering the first five months of 2021, where revenue performance was better than expected (around 30% higher than the same period of 2020) and company turnover data was strong, was reflected in an upward revision of revenues by 155 million Euros for 2021, to 2,043 million Euros, and an upward revision of expenditures by 62 million Euros for 2021, to 2,516 million Euros. The latter includes 101 million Euros allocated under 'Subsidies and Transfers' to support economic recovery efforts, 8 million Euros allocated for additional medical supplies, 4.5 million Euros for the Ministry of Defense, and an additional 3.6 million Euros for municipal elections expected to be held in October 2021.

In response to a request from the MFLT General Secretary, the Activity engaged with the MFLT to analyze sample datasets in the MFLT Datawarehouse (DW) to evaluate and identify improvements in the accuracy of the DW data. The DW is a database created with MFLT's own funding in 2018, which collects and stores data from various operational databases within the MFLT, including Treasury, the Tax Administration of Kosovo (TAK), Customs, the Budget Department, and the Property Tax Department. However, MFLT officials report that they are not utilizing the DW but continue to receive data straight from the sources: Treasury, TAK, Customs, who are now becoming less responsive arguing that the same data is being transferred regularly into the DW and have reported this inefficiency to the General Secretary. Activity-supported validation revealed a data discrepancy in a Treasury dataset of the DW (versus the Budget Law) of well over 100 million Euros. **With the support and facilitation by the Activity, the MFLT Software Development Division and Treasury Departments identified DW errors caused by incorrect treatment of quarterly data in large budget line items.** By correcting the DW usage processes, the current discrepancy has been reduced from over 100 million Euros to within tens of thousands of Euros – at least 95% error elimination and data correction. Ultimately, the data in the DW must be a 100% match to the Budget Law to be a credible automated tool for MFLT. Combined efforts to find and eliminate the remaining discrepancies will be repeated for other datasets, following a joint prioritization effort with MFLT officials and the General Secretary's office throughout the second quarter of Year Three.

The Activity and USAID TEAM Project coordinated ongoing support to MFLT Treasury and the Public Procurement Regulatory Commission (PPRC) to develop and implement a solution that will allow **interoperability and data exchange between the Kosovo Financial Management Information System (KFMIS) and E-Procurement Platform**. MFLT Treasury contacted FreeBalance, the sole-source software and on-going service provider of KFMIS, requesting an estimate of the cost of implementing the needed changes to KFMIS that can enable the interoperability between the two systems. In parallel, USAID TEAM and the Activity drafted a Memorandum of Understanding (MoU) between GoK partners to further support the agreement for interoperability between KFMIS and E-procurement. A detailed assessment and incorporation of the terms of reference into a scope of work for a sub-contract through which the Activity will fund the changes to KFMIS for enabling interoperability are planned to be finalized in the second quarter of Year Three.

Based on further discussions with MFLT representatives, the KFMIS upgrade will be expanded to improve management access controls and data validation with IBAN and SWIFT information, increasing data validity and overall accountability within the system.

The upgrade is expected to be tendered and implemented in the next quarters, followed by validation of improvements.

O2-2: ENHANCE DOMESTIC REVENUE MOBILIZATION CAPACITIES BY REDUCING COST OF TAX COMPLIANCE AND IMPROVING TAX ADMINISTRATION CREDIBILITY

Tax Administration of Kosovo (TAK) published the **updated indicators for TAK performance of the Integrity Improvement Plan (IIP) 2021-2023**.⁹ While the indicators were published in November 2020 outlining the internal data, indicators, and their methodology, one of the first tasks in the IIP was updating them with baselines, targets, and implementation risks for each indicator. The Activity supported TAK's IIP Working Group to analyze the internal data feeding into each indicator, in cooperation with relevant TAK department representatives. (More detailed information on this is provided in the Objective Three section below). At the request of TAK, the indicators include a citizen perception measure of corruption, creating clear alignment between partner goals and Activity MELP indicators.

On June 7, 2021, the Activity supported the MFLT General Secretary's Office to organize a workshop for Young Cell Scheme graduates recently recruited in the MFLT to present the scope of tax legislation in Kosovo, main types of taxes collected and their impact on Table I of Kosovo's Annual Budget Law (the main Revenue and Expenditure table). Activity representatives presented the structure of the main taxes in force and gave participants practical tasks to understand how these affect revenues in the main budget table. The presentations also included a comparison of tax policies in different countries, which prompted a discussion regarding the inability of an attractive tax system alone to foster foreign investment and induce economic growth. Participants were presented with tax expenditure examples and were tasked to hypothetically 'support the MFLT Minister with preparations for a discussion with private sector representatives on the tax regime'.



Photo 5: Impact of Tax Legislation on the Budget Presentation for MFLT recent recruits, June 7, 2021.

Examples ranged from lowering the excise rate on domestically produced soft drinks and how this is affected by Stabilization Association Agreement (SAA) provisions, to VAT reductions upon import for certain sectors, and how such differentiation introduces complications for administering taxes that may ultimately affect collection. Starting in the

⁹ https://www.atk-ks.org/wp-content/uploads/2021/06/DokumentiperIndikatore_EN.pdf

second quarter of Year Three, the Activity will train several of the recent MFLT recruits, in addition to MFLT MD staff, on tax expenditure analysis.

O2-3: ENHANCE TAX ADMINISTRATION AND FISCAL TRANSPARENCY

During May and June 2021, the **MFLT MD, with support from the Activity, held two guest lectures with two universities in Pristina**, with the Public University of Pristina and the American University in Kosovo. These guest lectures were the first of their kind, where MFLT MD presented the macro-fiscal forecasting process to economics students and discussed how it links to the annual budget process and policy making. Besides increasing fiscal transparency, the visibility these lectures are providing for the MFLT MD will serve the MFLT MD to establish linkages with academia which can help identify promising young economists, thus mobilizing existing Kosovo-based solutions to better manage staff turnover in the future. (More detailed information on this is provided in the Objective Three section below).

The Activity supported TAK to develop a **Tax Compliance Booklet**¹⁰ which is particularly helpful for individuals who have not yet established a relationship with TAK but are considering engaging in economic activity and are unsure of what tax compliance entails. When engaging in economic activity, the process of registering for tax purposes, documenting tax information, filing, and ultimately paying payable taxes, is known as tax compliance. Complete, easy to understand tax compliance information is crucial for improving taxpayers' perception of TAK and can thus directly impact collection.

The booklet responds to both those individuals introducing themselves to the tax system, but also serves existing taxpayers in need of a compliance refresher. The booklet is expected to be published on the TAK website and made available in print during the second quarter of Year Three.



Photo 6: Tax Compliance Booklet cover page.

The Activity examined past **TAK seminars and presentations for taxpayers**, based on which TAK will be able to review their information dissemination strategy to gradually introduce online seminars. Seminars are a responsibility of the Taxpayer Services and Education Department within TAK. During 2017-2019, TAK has conducted between 60-80 information dissemination activities annually, including:

- regular seminars, such as on filing requirements, or on the application of taxes on wages and pension contributions;
- topical seminars, ranging from treatment of NGOs in tax filing, to treatment of VAT on external donations to internal contractors, or VAT reverse charge application in construction;
- legislative changes, when applicable; and
- presentations in high schools and elementary schools.

¹⁰ <https://www.atk-ks.org/wp-content/uploads/2021/07/TaxCompliance.pdf>

During Year Three, the Activity will support TAK to take the first steps to gradually shift toward online seminars. (More detailed information on this is provided in the Objective Three section below).

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 both private sector and the public sector 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 the public-private dialogue.

CURRENT ACTIVITIES

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

The **Legalization Performance Management Indicators** for the primary partner municipalities (Pristina and Graçanicë/Gračanica) were developed. These indicators were discussed and agreed with partner municipalities. This is part of Activity's efforts to support effective administration of the GoK legalization program at the central level and implementation by partner municipalities.

The indicators are separated into two categories:

1. **Internal** indicators, which are to be used for informing the process efficiencies and support process improvements for smoother handling of legalization program, and
2. **External** indicators for publications, one version for individual applicants, and another one on estimated market value impact of completed legalizations for unpermitted buildings.

The data will be extracted automatically from the GoK Legalization Tracker to minimize human resources efforts for processing the data. This approach will also indirectly encourage partner municipalities to use the Tracker more extensively and minimize data entry delays.

The Activity supported MESPI to update the **GoK Legalization Tracker** based on lessons learned from the direct support provided to two primary partner municipalities. The updates include improved filtering and reporting functions which can help the municipalities as well as MESPI, who is granted viewing access, to make it easier to track results. The Tracker was then tested and delivered to all municipalities as an updated version.

As of May 2021, through efforts by MESPI and the Activity to encourage other non-partner municipalities to use the Legalization Tracker, **22 non-partner municipalities are uploading their data**. The Activity continued to support MESPI to monitor the use of the GoK Legalization Tracker and to encourage other municipalities to utilize it correctly and fully.

Tax Administration of Kosovo (TAK) published the **updated indicator document for TAK performance of the Integrity Improvement Plan (IIP) 2021-2023**. While the indicators were published in November 2020 outlining the internal data, indicators, and their methodology, one of the first tasks in the IIP was updating them with baselines, targets, and implementation risks for each indicator. The Activity supported TAK's IIP Working Group to analyze the internal data feeding into each indicator, in cooperation with relevant TAK department representatives.

The operational data baselines and targets analysis took into account TAK's reprioritization of activities in 2020 as a result of TAK's direct role in implementing health emergency response measures throughout the year. The Activity guided TAK officials through an analysis of Agency data that produced realistic and relevant targets, considering most recent expectations that full recovery of the economy will not materialize before 2022. The IIP focuses on the use of objective data to measure the performance of internal management, improving taxpayer communication, and increasing electronic taxpayer services.

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

To expand outreach of the legalization program and encourage support for applicants, **the Activity partnered with NGO "Voice of Roma, Ashkali and Egyptians" (VoRAE)** to inform and encourage citizens in the respective communities to apply for legalization. The Activity support to the NGO is three-folded:

- training of VoRAE staff on overall legalization process, including application support;
- providing promotional materials which will be further distributed by VoRAE in twelve municipalities; and
- periodic review of legalization Tracker data and challenges encountered, including potential 3-way discussions with municipalities.

On June 30, 2021, the Activity organized a one-day training session on the legalization process for VoRAE field staff, to increase outreach with the respective communities on the topic of legalization. Legalization promotional materials were provided to the field staff to be distributed to the communities.

The Activity plans to expand partnerships with other private sector volunteers (civil society organizations, trade associations, others) that can provide direct application support to applicants in the following quarters, encourage citizens to apply, and advocate for accountability of the local governments. Therefore, during May 2021, the Activity conducted first meetings with four potential CSOs to partner with, namely Kosovo Women's Network (KWN), Ec ma Ndryshe, Social Housing and Property Rights and Developing Together. All four CSOs agreed on the importance and the positive impact of the legalization process, both at national and individual level, and agreed in principle to find modalities to join efforts to motivate and support their beneficiaries.

In support of inclusive communication and dialogue with both public and private sectors regarding the legalization process of unpermitted constructions, and as part of the Extended Legalization Campaign, the Activity held a second round of engagement with 36 non-primary partner municipalities during May 2021. Promotional materials were distributed and a more extensive outreach program in eight selected municipalities will take place during the following quarters.

The Extended Legalization Campaign is designed to be implemented in three phases: (1) joint Activity-MESPI status/encouragement visits to all 36 non-primary partner municipalities (now concluded), (2) selection of, and more extensive outreach activities with up to eight selected secondary partner municipalities, and (3) twelve-month progress monitoring and mentoring for secondary partners.

During this quarter, the Activity also commenced its outreach activities for the MFLT MD by coordinating a **guest lecture series at Universities in Kosovo**. These lectures are to improve the understanding of MFLT MD functions in maintaining the macro-fiscal stability and to improve MFLT linkages with academia. Following consultations with MFLT's senior management, the Activity supported the MFLT MD to approach the Faculty of Economics of the University of Pristina, the American University in Kosovo, and Riinvest College, to inquire about their interest in holding guest lectures. All three institutions agreed, and the first lecture was held virtually with the University of Pristina on May 17, 2021, while the second guest lecture was held in-person at the American University in Kosovo (AUK) on June 14, 2021.

The first guest lecture held on May 17, 2021, was on the topic **'What is macro fiscal stability?'** In total, 36 first year students of the Faculty of Economics of the University of Pristina attended the virtual lecture conducted by the head of the MFLT MD, Esida Bujupi, as part of assistant professors' Mjellma Carabregu's macroeconomics class. They discussed challenges in ensuring the sustainability



Photo 7: Legalization Training with VoRAE Field Staff June 30, 2021.

of public finances, maintaining fiscal rules, and improving fiscal transparency and the budget drafting process. They agreed that the pandemic has created significant fiscal challenges, but that sustainable public finances are essential for economic recovery after the pandemic. Following the lecture, all 27 respondents of the lecture evaluation survey said that they were satisfied with the practical content presented and would like more similar lectures in the future.

The second guest lecture titled **'Policymaking in uncertain times'** was held on June 14, 2021, at AUK, as part of their summer cohort and the "Change Management" class of Professor Medina Orana on June 14, 2021.

MFLT MD and the students discussed how the MFLT managed the regular budget process in the face of an unprecedented external risk, such as the 2020 health emergency situation, and noted the importance of stable public finances for the expected economic recovery.



Photo 8: MFLT Macroeconomics Division Guest Lecture at the American University in Kosovo, June 14, 2021.

MFLT plans to hold a series of similar lectures in the future with private and public universities in Kosovo, to expand the knowledge of future economists on the importance of macro-fiscal stability. The Activity also prepared an evaluation survey which was shared with students attending the lectures to help draw lessons learned and the impact of the presentations, which will inform the planned guest lecture series with other universities in the third quarter of Year Three, covering the fall semester.

Given the importance of the TAK website, as the main portal for information and electronic services offered to taxpayers, the Activity supported TAK to conduct a **preliminary assessment of the administration and content management of the TAK website** as a foundation for improving layout and accessibility of information. Based on this preliminary assessment, during the second quarter of Year Three, the Activity will seek an STTA expert who will conduct an in-depth review of procedures for layout and accessibility of information on TAK's website, develop recommendations with a focus on functionality, support TAK's webmaster to create a sitemap, as well as support TAK to standardize the process through which information is uploaded and displayed on TAK's website and thereby improve website design and functionality.

During this quarter, TAK's Department for Taxpayer Services and Education, with Activity support, **reviewed past TAK educational seminars for taxpayers**, along with Taxpayer Communication Plan (TCP), whilst exploring the potential of introducing online seminars. It was assessed that topics covered during TAK's in-person seminars are mainly general recurring topics foreseen in the TCP, as well as specific topics in line with TAK's management priorities and legislative changes, whereas topics for seminars were also occasionally selected from the most frequently asked questions by the public during a fiscal year.

Thus far, taxpayers have been encouraged to take part in these in-person seminars even when they have had a single specific concern, or a single question for TAK officials. However, with the

introduction of online seminars, taxpayers would be able to access the same information by watching a video and have the opportunity to focus on sections of interest (through video timestamps), thereby saving taxpayers' time and money spent on participating in physical seminars.

A shift from in-person educational seminars to an online modern learning experience is a necessary step for TAK to scale taxpayer education. The latter would significantly increase the efficiency of the Department for Taxpayer Services and Education and reduce costs. Moreover, registered questions that will be answered during online seminars will be able to reach a much broader audience than just representatives physically present at the educational seminars organized annually by TAK.

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

To further encourage legalization applications in partner municipalities (Pristina and Graçanicë/Gračanica), the Activity continued implementing the **Legalization Motivational Campaign** in both municipalities.

During this quarter, **sixteen promotional videos on legalization were developed**. Six of these videos were posted during this quarter on Pristina's and Graçanicë/Gračanica's Facebook Pages, MESPI's Legalization Facebook Page, and USAID's Facebook/YouTube pages. The current number of views for these six videos ranges from 87,200 views for the lowest viewed video and 366,500 views for the highest viewed video^{11,12,13,14,15, 16},

These six videos **showcase citizens who have successfully completed legalization cases and influencers** from Pristina and Graçanicë/Gračanica region, encouraging citizens to apply for legalization through informal meetings and by emphasizing the benefits and advantages of the legalization process.



Photo 9: Screenshot from the developed video for LED monitors in Pristina bus stations, June 12, 2021

Ten further videos were developed to encourage citizens to apply for legalization and will be posted during the second quarter of Year Three. Two videos showcase **the work and dedication of**

¹¹ Idriz Zhinipotoku, influencer from Pristina region:

<https://www.facebook.com/703451626366730/videos/555354815482045>

¹² Agim Ropica, influencer from Pristina region:

<https://www.facebook.com/703451626366730/videos/2923083901292916>

¹³ Stefan Milić, influencer from Graçanicë/Gračanica:

<https://www.facebook.com/125034000887110/videos/3985296914863740>

¹⁴ Mrika Vraniqi, owner from Pristina: <https://fb.watch/6BgyGqv3Da/>

¹⁵ Sheqer Ukaj, owner from Pristina: <https://fb.watch/v/3dHwadYDF/>

¹⁶ Tomislav Cvetkovic, owner from Graçanicë/Gračanica: <https://fb.watch/v/YIwgIDNf/>

legalization officers in Pristina and Graçanicë/Gračanica municipalities^{17,18} Six short videos are framed as questions & answers with the Director of the Department of DSPCH at the Ministry of Environment, Spatial Planning, and Infrastructure (MESPI). The questions addressed in these videos are as follows^{19,20, 21}:

1. What is legalization and why is it important?
2. How do you calculate the economic value of the legalization?
3. How much does it cost to legalize a building?
4. Who should apply and what is the current deadline for legalization?
5. How do you monitor the legalization process?
6. Where can I find additional information about legalization?

One further video **showcases the successful legalization of a Category 2 building** in Gjakovë/Djakovica, while the last one explains the legalization application procedures and necessary documents and will be shown in LED monitors in bus stations around Pristina during the second quarter of Year Three.

The Activity, through its subcontractor, continued to further encourage and assist citizens to apply for legalization through the Mobile Outreach Units by providing **information and outreach materials to citizens** about the importance of applying, the procedures, and benefits of legalization.

The subcontractor is tracking the daily visits. The information gathered will be used by the subcontractor **to assess the potential number of legalization applications as well as their estimated outcome**, depending on the land ownership status. The work of the Mobile Outreach Units is being tracked by the subcontractor through the 'Repsly'²² tracking application to which the Activity has access to and can track daily progress.

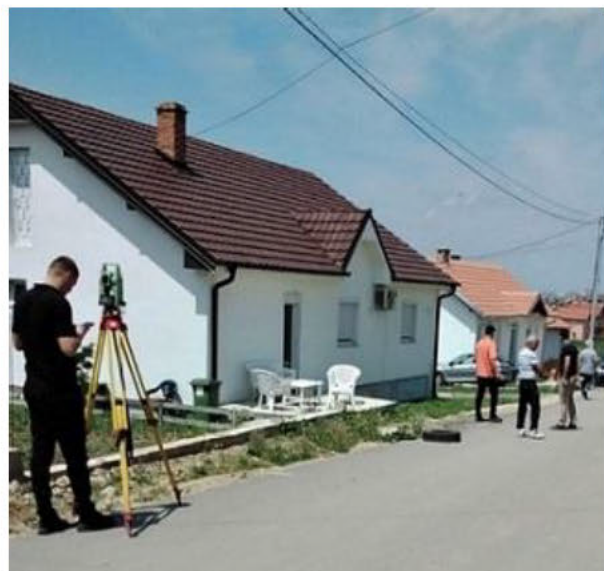


Photo 10: Surveyor taking measurements in Graçanicë/Gračanica as part of the legalization process, June 3, 2021.

A total number of visits by the Mobile Outreach Units in Pristina and Graçanicë/Gračanica during this quarter was 3,018 (April 1,093 visits, May 1,011 visits, and June 914 visits).

In addition, a document titled “Tips for municipal communication officers on the legalization of unpermitted constructions” is being developed with the support of Legalization Motivational

¹⁷ Legalization application process in Pristina: <https://fb.watch/v/1M7nZCkjt/>

¹⁸ Legalization application process in Graçanicë/Gračanica: <https://fb.watch/v/1eVPGq33Y/>

¹⁹ Questions 1: <https://fb.watch/6BhcjwXtvR/>

²⁰ Question 2: <https://fb.watch/v/1UgzaBXef/>

²¹ Question 3: <https://fb.watch/v/CZShXtZn/>

²² Repsly tracking tool: <http://3rdparty.repsly.com/>

Campaign Advisor STTA [REDACTED] and in close coordination with MESPI. This document is intended to assist Communication Officers at the municipal level **to educate citizens, change public perceptions, and promote the legalization of unpermitted constructions.** The document is structured in such a way that helps Communication Officers to enhance their understanding on applied human behavior and behavior attitudes, the importance and messaging, social media outreach tips, as well as content suggestions related to the legalization of unpermitted constructions.

NEXT QUARTER ACTIVITIES

Building on the results from previous quarters, the Activity anticipates the initiation and completion of the following initiatives in the next quarter, depending on evolving circumstances, including:²³

- Support primary partner municipalities with the implementation of recommendations from the process mapping and organizational structure analysis conducted with Activity support (AR1, AR2, AR3, AR4, AR9);
- Support MESPI to finalize and adopt amendments to the secondary legislation on legalization (AR1, AR2, AR3, AR4, AR9);
- Deliver presentations to primary partner municipalities on the methodology for estimating the market value of legalized buildings and encourage its use as a means of mobilizing internal and external support for the legalization program (AR1, AR2, AR3, AR4, AR9);
- Invite private sector organizations and volunteers to partner for legalization application support (AR1, AR2, AR3, AR4, AR9);
- Support MESPI Communications Office to finalize the “Tips for municipal communication officers on the legalization of unpermitted constructions” (AR1, AR2, AR3, AR4, AR9);
- Conclude the Legalization Motivational Campaign in the primary partner municipalities (AR1, AR2, AR3, AR4, AR9);
- Continue to support MESPI’s Communication Office to inform citizens on legalization process as well as to motivate them to apply for legalization (AR5, AR6, AR12, AR13);
- Support primary partner municipalities to institutionalize and publish performance indicators extracted from the GoK Legalization Tracker (AR5, AR6, AR12, AR13);
- Implement the extended Legalization Motivational Campaign in secondary partner municipalities in cooperation with MESPI; (AR1, AR2, AR3, AR4, AR9);
- Support further institutionalization of the GoK Legalization Tracker in secondary partner municipalities (AR1, AR2, AR3, AR4, AR9);
- Support MIET to finalize the WTO TFA SA review (AR1, AR2, AR9);

²³ 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.

- Support MIET to finalize the Ex-Post Evaluation of Law No. 2004/44 on Crafts (AR1, AR2, AR9);
- Finalize the review of European Commission’s newly proposed Digital Services Act and Digital Markets Act and compare with existing Kosovo legislation on E-commerce (AR1, AR2, AR9);
- Support MESPI to finalize the Concept Document on Inspectorate of Environment, Waters, Nature, Spatial Planning and Construction, as needed (AR1, AR2, AR9);
- Finalize the draft analysis of the construction permitting process (AR1, AR2, AR4);
- Begin training of trainers’ activity with MFLT MD and recent Young Cell Scheme recruits, guided by Activity Macro Fiscal Training STTA expert (AR1, AR2, AR6);
- Begin data analysis training using the MFLT DW with MFLT MD and recent Young Cell Scheme recruits (AR1, AR2, AR6, AR7);
- Begin tax expenditure analysis training with the MFLT MD and recent Young Cell Scheme recruits (AR1, AR2, AR8);
- Review existing internal practices for tax reimbursement processing between TAK and MFLT Treasury and propose recommendations to improve efficiency (AR1, AR2, AR8);
- Support TAK to update and publish ‘Taxpayers’ Rights and Obligations’ brochure (AR1 2);
- Support TAK to implement IIP monitoring plan 2021-2023 (AR1, AR2, AR8);
- Finalize preparations for launching TAK’s customer service training (AR1, AR2, AR5, AR8);
- Start in-depth review of TAK’s website layout and design (AR1, AR2, AR6, AR9);
- Provide TAK with recommendations on its media plan to include a testing period for online seminars (AR1, AR2, AR6, AR9); and,
- Support TAK to begin developing templates for publication of aggregate tax datasets (AR1, AR2, AR6, AR9).

CHALLENGES AND ADAPTATION

During this quarter, the GoK rescinded many measures previously put in place in response to COVID-19. The Activity continued to react in an adaptive manner, taking into account the capacities of its partners to respond to changes in counterpart priorities, and other factors.

The new Government elected by the Assembly in the previous quarter published its Governing Program in May 2021. The Activity has and will continue to find areas of alignment for support as well as informing USAID when GoK decisions may diverge from best practices in areas such as trade or other key areas of involvement.

Additional challenges and implementation issues for all three objectives, which affect the commitment to and pursuit of reforms, required continued considerable effort in coordinating activities between different institutions and often between departments within the same institution.

The Activity continues to expend significant effort to address knowledge and ability gaps in partner institutions through changes as well as gaps in budgetary and human resources within the GoK.

Finally, despite an overall improvement in the public health environment, the situation remains fragile and 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 Transparent, Effective and Accountable Municipalities (TEAM) Project to support the interoperability between KFMIS and the e-Procurement system;
- The EU Office in Kosovo on PFM, trade legislation, and other related issues;
- The WB on findings from Activity's review of the Draft Concept Document on E-Commerce;
- The IFC on inspections;
- The IMF on fiscal related support initiatives; and,
- GIZ on the review of the Concept Document on the Inspectorate of Environment, Waters, Nature, Spatial Planning, Construction and Housing sponsored by MESPI and on PFM related issues.

ANNEX I. REPORTS AND DELIVERABLES

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

- Periodic GoK summary receipts and payments, as well as inflation and budget information;
- Legalization Process Analysis for Pristina and Graçanicë/Gračanica;
- Comments and Recommendations on Draft Concept Document on the Inspectorate of Environment, Waters, Nature, Spatial Planning, Construction and Housing;
- Tax Compliance Booklet;
- Telling our Story: Properties valued at €96.5 million constructed without a permit now legal;
- Telling our Story: Property Formalization Opens Opportunities for Secure Business Investment and Expansion in Kosovo;
- Updates on activities for USAID media on Twitter, Facebook, Instagram and other outlets;
- Annual Summary Report (Year 2);
- Annual Work Plan (Year 3);
- Quarterly Accrual Report (Q2 FY2021); and,
- Quarterly Finance Report (Oct-Dec 2020).

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 materials.

U.S. Agency for International Development
Mission in Kosovo
Rr. 4 Korriku, nr. 25
10000 Pristina Kosovo