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# MID-TERM PERFORMANCE EVALUATION OF THE KOSOVO GROWTH AND FISCAL STABILITY INITIATIVE (GFSI)

# FINAL REPORT


**September 11, 2012**

This publication was produced for review by the United States Agency for International Development. It was prepared by Mendez England and Associates and NORC

# MID-TERM PERFORMANCE EVALUATION OF THE KOSOVO GROWTH AND FISCAL STABILITY INITIATIVE (GFSI)

# FINAL REPORT

Prepared under Task Order AID-167-TO-12-00004

Under the Evaluation Services IQC

**Submitted to:**

USAID/Kosovo

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**Front Cover Picture:**

Front cover picture: For the first time ever residents of the municipality of Peja have the option of riding a bus to work, school, or shopping. The service is provided by Urban 029, a private company, under the terms of a PPP that was signed with the municipality in May 2012. Local officials report that ridership has increased from 400 to 800 persons per day since service began just three months ago. GFSI provided assistance to the municipality in preparing, bidding, and negotiating the PPP. This is the first municipal PPP in Kosovo.

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## ACRONYMS

| | |
|---|---|
| BEEP | Business Enabling Environment Program |
| BO | Budgetary Organization |
| CoP | Chief of Party |
| DEMI | Democratic and Effective Municipalities Initiative |
| DFID | Department for International Development (UK) |
| EDVAP | Economic Development Vision & Action Plan |
| EMSG | Economic Management for Stability and Growth Project |
| GFSI | Growth and Fiscal Stability Initiative |
| GOK | Government of Kosovo |
| IMF | International Monetary Fund |
| IT | Information Technology |
| IPSAS | International Public Sector Accounting Standards |
| KFMIS | Kosovo Financial Management Information System |
| KIPA | Kosovo Institute for Public Administration |
| LOGOS | Local Governance and Decentralization Support South-Eastern Kosovo |
| MoF | Ministry of Finance (current name) – MFE |
| MFE | Ministry of Finance and Economy (name in 2009) |
| MOI | Ministry of Infrastructure |
| MTBF | Medium Term Budget Framework |
| MTI | Ministry of Trade and Industry |
| MTEF | Medium-Term Expenditure Framework |
| M&E | Monitoring and Evaluation |
| OAG | Office of the Auditor General of Kosovo |
| OPM | Office of the Prime Minister |
| OSR | Own Source Revenues |
| PAK | Privatization Agency of Kosovo |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| PIA | Pristina International Airport |
| PMG | Project Management Group (for property tax assistance) |
| PMP | Project Monitoring Plan |
| PMU | PPP Project Management Unit |
| PPP | Public Private Partnership |
| PPP-ISC | PPP Inter-ministerial Steering Committee |
| PSC | Project Steering Committee (for property tax assistance) |
| PT | Property Tax |

| | |
|---|---|
| RFTOP | Request for Task Order Proposal |
| SIDA | Swedish International Development Agency |
| SMP | (IMF) Staff-Monitored Program |
| SOE | State-Owned Enterprise |
| SOW | Statement of Work |
| STA | Swedish Tax Agency |
| USAID | United States Agency for International Development |
| USG | Government of the United States |

# EXECUTIVE SUMMARY

## Evaluation Purpose and Priority Questions

This is a report on the mid-term performance evaluation of the Kosovo Growth and Fiscal Stability Initiative (GFSI) program, which began in July 2010 and ends in July 2013. The evaluation was conducted by an independent external team commissioned by Mendez England & Associates (ME&A) on behalf of USAID/Kosovo, pursuant to the Task Order AID-167-TO-12-00002.

The main purpose of the evaluation is to provide USAID/Kosovo with an objective external assessment of GFSI's performance to date. Further, the evaluation will help the Mission: a) understand whether the project is meeting its objectives; b) consider whether GFSI project implementation is efficient; c) identify deficiencies in the program's current target areas and recommend remedial actions to be carried out in the remaining life of the program; and d) use lessons learned to inform the decision for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area.

The evaluation considered the following priority questions:

1. How have the relevant Kosovo institutions been strengthened in their ability to: a) identify, develop and implement Public-Private-Partnership (PPP) projects in Kosovo; b) conduct sound public financial management; and c) develop and implement an action-oriented Government strategy for profitable private sector growth and attracting foreign direct investments?
2. Are the results being produced at an acceptable and desired cost level? What could the implementer change to lower the cost to accomplishing the same objectives?
3. To what extent will the beneficiaries supported under GFSI have the capacity to continue carrying out their duties and responsibilities as desired and expected in the foreseeable future?
4. How well does the program coordinate sufficiently and effectively with other programs on related issues?
5. Based on a review of GFSI's implementation and results, what recommendations do you have for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area?
6. Can any identified deficiencies in the overall implementation of program's current objectives be remedied in the remaining life of the program, and what are recommendations and lessons learned?

## Historical Context of the GFSI

GFSI was designed to address the need for fiscal stability in the context of tight budget constraints and to invigorate economic growth. The USAID/Kosovo's strategic plan for assistance in the period 2010-2014 sought to respond to the changing environment in Kosovo after independence by: shifting focus from institution building to institution functioning; creating the right conditions for strong private-sector-led economic growth; increasing focus on assistance at the municipal level; and supporting Kosovo on its path to European integration. Fiscal sustainability was a key objective of the new strategic plan. It also became a central component of the first Assistance Agreement between the United States and Kosovo, signed on September 14, 2009. GFSI was designed to contribute to these new strategic objectives.

## Objectives of the GFSI

GFSI has three main objectives, which include:

1. Support private sector participation by:

- Strengthening the ability and capacity of central and local institutions to identify, develop and implement PPP projects
- Assisting the Privatization Agency of Kosovo (PAK) in bringing the liquidation of the more than 600 privatized SOEs to timely closure

2. Strengthen fiscal stewardship by:

- Building expertise in sound public financial management in municipalities
- Facilitating the review and assessment of the fiscal operations of the municipalities by the Office of the Auditor General (OAG) in a more timely and effective manner
- Assisting the Ministry of Finance to: a) develop and implement an action plan to enable data sharing among the various legacy IT systems in the ministry; b) assess remaining priority capacity building needs in the Ministry's Budget and Treasury functions; and c) ensure that the Ministry's Property Tax Department and supporting systems remain robust and capable of meeting the own-source revenue needs of municipalities.

3. Improve the prospects for economic development by assisting relevant counterpart institutions to design and implement an action-oriented Government strategy for profitable private sector growth and for attracting foreign direct investment.

GFSI is organized in three components that match the above objectives. Underlying that straight forward structure, is a broad and complex mix of results and activities. The RFTOP issued in 2010 lists 43 separate results that GFSI should achieve within three years. The GFSI's workplan includes 37 distinct activities. Many of these are a continuation of activities that began in one or more of the predecessor programs. Certain activities are interwoven with assistance provided by other development partners, such as in property tax by SIDA and PEFAs by DFID.

## Evaluation Methods and Limitations

**Methods**

With up to 43 separate results and 37 distinct activities to review and evaluate in a two-week time period in the field, the evaluation team made a conscious decision to focus on providing an objective, informed response to the six priority questions identified by USAID in the evaluation's statement of work (SOW). This is especially relevant in the context of the ongoing discussion between USAID the GFSI implementing partner on the workplan for the third and final year of the GFSI. Based on the desk review completed prior to the field visit, the team judged that existing documentation produced both by GFSI and independently by the Government of Kosovo (GOK) and third parties includes sufficient evidence to provide objective, unbiased responses to priority questions 1, 3 and 4, with the remaining questions relying on the team's views based on its findings. Given this perspective, the field work relied on interviews of a broad spectrum of informants to develop a general understanding of what was done, who did it, and what happened as a result. Most important, however, the interviewees helped identify and provide access to relevant existing documents, data and other objective evidence to address priority questions 1, 3 and 4. The team identified and obtained 66 documents and nine databases (see Annexes IV and V) to support the findings of the evaluation. These documents served to verify formal decisions taken by the Government and municipalities; establish budget allocations and approved staffing levels for institutions that would carry on the activities of GFSI; and, provide an independent, third-party assessment of municipal financial performance, among others.

**Limitations**

The field work in Kosovo occurred during the peak of the summer holiday season. As a result, the team was unable to interview respondents from certain key institutions. The inability of the team to conduct these interviews limited to some extent the ability of the team to identify and verify certain results, including the impact of efforts to introduce medium-term budgeting at the municipal level.

## Findings

1. **Although GFSI is still ongoing it has already produced tangible results**

   Objective One – Private Sector Participation (to date)

   - A comprehensive legal, regulatory and institutional framework for Public Private Partnerships (PPP) is in place and functioning
   - The first municipal PPP was signed in May 2012 and service has initiated
   - Progress in implementing mechanisms to monitor ongoing PPPs is mixed
   - The GOK decision to proceed with the construction and financing of Route 6 linking Kosovo to Macedonia on-budget represents a significant lost opportunity to legitimize the arguments put forward in the GFSI Concept Paper to justify PPPs

   Objective Two – Fiscal Stewardship (by the end of fiscal/calendar year 2011)

   - Kosovo returned to a Standby Agreement with the IMF in April 2012, at least in part due to GFSI's support for improved public financial management and fiscal stability
   - The Ministry of Finance (MoF) certified four new municipalities as independent budgetary organizations
   - Sixteen municipalities received an unqualified audit opinion for fiscal year 2011, up from 2 in 2009. Of these, 10 now qualify to borrow, up from 1 in 2009
   - Property tax revenues increased by 21% from 2009 to 2011

   Objective Three: Economic Development (to date)

   - The GOK approved a document setting out Economic Development Priorities. It is proving difficult to link these priorities to an action plan and the Kosovo Budget.

2. **Key central institutions strengthened (Priority Question 1)**

   - The Property Tax, PPP, and Macroeconomic Policy departments are fully staffed and appear able to continue the work done by GFSI; however, the future viability of the last two is uncertain depending on the outcome of the ongoing civil service reform. The proposed introduction of a land tax will present a significant new challenge for the Property Tax Department
   - Assistance to municipalities on financial reporting was done jointly by GFSI and the Treasury, which appears able to continue the effort

3. **GFSI has made timely adjustments to deploy resources consistent with project needs and has maintained costs at a reasonable level (Priority Question 2)**

   - There has been a change in the distribution of costs by objective compared to projections made in the GFSI Concept Paper. The changes seem reasonable in light of events outside the control of the program and of results to date
   - GFSI began using continuous short-term assistance in 2011 as a cost-effective alternative to resident advisors

- The split between labor and ODCs and among labor categories in GFSI costs is reasonable

4. **Coordination generally is effective, but not all (Priority Question 4)**
   - There is effective, long-lasting coordination among donors of the assistance on the property tax and implementation of Public Expenditure and Financial Accountability (PEFA) self-assessments by the central and municipal governments
   - There is good coordination between GFSI and BEEP on economic development
   - Coordination between GFSI and Democratic and Effective Municipalities Initiative (DEMI) project appears to have been limited to date
5. **Attention to gender as a cross-cutting theme focuses on statistics of persons trained by GFSI**
   - Finding: Women represent roughly one-fourth of persons trained

## Conclusions

1. <u>There are key challenges for the GFSI third year workplan.</u> GFSI has the potential to generate results additional to those identified in this report in all three objectives and at the central and local levels. On the other hand, the extent to which central and municipal government institutions supported under GFSI will have the capacity to continue carrying out their duties and responsibilities, as desired and expected in the foreseeable future after GFSI, is still not certain.

It is not clear the extent to which GFSI can maximize efforts to generate additional results and efforts to address both unresolved institutional capacity issues at the central level and gaps at the local level to achieve sustainability. For example, GFSI could try to strengthen institutional capacity by following an arms-length approach to implementation, allowing partner institutions to take the lead. As described in the evaluation of the predecessor to the GFSI, this would mean taking a "step back into coaching and consultation roles in order to permit Kosovar principals and staff to take the lead" (EMSG Evaluation 2009). Doing so, however, might mean that not all potential results would be achieved by the conclusion of GFSI.

The possible trade-off between efforts to maximize additional results and efforts to ensure sustainability of institutional arrangements and capacity at the central and municipal levels is an important issue that USAID and GFSI will want to consider in the Year 3 workplan.

2. <u>The expected shift in 2014 to complete freedom by municipalities in developing their budgets and reliance by the MoF on fiscal rules to monitor their performance is an important focus for possible future USAID assistance in Kosovo.</u>

3. <u>Coordination among USAID programs and with those of other donors is a clear success story. It appears to be most effective when the coordination is reflected in the initial design of the respective activities.</u> General statements of the need to cooperate may not suffice to produce positive results. USAID should consider developing more detailed designs of mechanisms to achieve coordination.

## Recommendations

1. <u>Gender is an important issue that should be addressed in all three GFSI objectives.</u> USAID should consider introducing gender considerations in the design of PPPs, the municipal Medium-term Budget Framework and economic development policies.

2. PPPs have potential implications for public debt. USAID and GFSI have agreed that they will introduce public debt considerations as a key element in PPPs in Year 3 of GFSI.

The USAID's design for GFSI involved the selection of methodologies that, while valid and relevant, also tend to be complex and difficult to implement successfully. This is the case with PPPs, PEFA, and the Medium-Term Budget Framework. It is true as well for the function of Chief Information Officer (CIO), which is part of the approach to improving management of information communication technology (ICT) in the MoF. All of these tend to require an approach that relies on intensive technical assistance (TA) with a relatively small number of counterparts at the expense of a training-based approach that involves a larger number of counterparts. Some also will require careful monitoring and management over long periods of time, well beyond the usual life of a USAID program. At the time of initial program design USAID should consider the implications such choices have for the cost of project inputs and the sustainability of results.

**3.** Regardless of the extent of progress in Year 3 of GFSI, certain activities of that program could be incorporated in a new USAID program, although with modifications in focus or emphasis**.**

GFSI has the potential to generate results additional to those identified in this report in promoting PPPs as an alternative approach to finance priority investments; certification of municipalities to borrow; fiscal stewardship as measured by the PEFA indicators; and economic policy. All these activities could become elements of a new program with adjustments.

- **PPPs**: A new program would provide the opportunity to focus on the all-critical post-contract phase of the PPP process. This should include continued assistance to establish an effective system to monitor performance at the central and municipal levels. It should include as well assistance to establish fair, expeditious and transparent mechanisms to address potential conflicts between the parties, should they arise (which is likely).
- **Municipal borrowing**: A new USAID program would provide the opportunity to support the development of a municipal credit market in Kosovo. This would entail assistance to local borrowers, potential lenders, and GOK. Fiscal constraints will limit municipal borrowing. This will require that the MoF develop a transparent, timely and predictable process to allocate the limited borrowing ceiling to specific municipalities over several years. This also should incorporate a process to identify the public debt implications of existing and new PPPs.
- **Fiscal stewardship**: USAID can and should continue to encourage continued use of the PEFA methodology but that may not require much of an effort as both the central and municipal governments already have conducted PEFA self-evaluations. Instead, USAID may want to focus on providing assistance to explore in-depth the root causes of areas of weakness identified through the PEFA. USAID also may want to consider adding complementary activities, such as the Open Budget Survey promoted by the Open Budget Initiative.
- **Economic policy**: USAID should remain committed to providing assistance to the MoF in formulating and implementing macro-economic and fiscal policy, including the use of the Medium-Term Expenditure Framework (MTEF) as a tool to reflect medium-term economic policy priorities in annual budget allocations.

# 1.0 BACKGROUND[1]

## 1.1 Historical Context of the GFSI

**GFSI is part of a long sequence of successful USAID economic policy and institutional strengthening programs**

The focus of USAID/Kosovo's Economic Policy and Institutional Strengthening programs during the decade ending in 2009 was on establishing key central economic institutions, and on putting in place an enabling environment for private sector growth. External evaluations in 2003, 2006, and 2009 observed that implementation of these programs "set an extremely high standard" and that task orders were "highly successful." Key GOK economic institutions such as the Ministry of Finance and Economy (now MoF) and the Central Bank of Kosovo were created from scratch and by 2009 were perceived to be functioning at a level of proficiency generally consistent with what one typically finds in neighboring or other low-middle income countries.

**GFSI was designed to address the need for fiscal stability in the context of tight budget constraints at national and subnational levels and to invigorate economic growth**

The USAID/Kosovo's strategic plan for assistance in the period 2010-2014 sought to respond to the changing environment in Kosovo after independence by: shifting focus from institution building to institution functioning; creating the right conditions for strong private-sector led economic growth; increasing focus on assistance at the municipal level; and supporting Kosovo on its path to European integration. Fiscal sustainability was a key objective of the new strategic plan. It also became a central component of the first Assistance Agreement between the United States and Kosovo, signed on September 14, 2009. GFSI was designed to contribute to these new strategic objectives.


At the time of program design in 2009, the perception was that the GOK was living beyond its means, funding the shortfall by drawing down its cash reserves and using 'one-off' sources of revenues, such as the sale of state-owned enterprises (SOEs), to fund the deficits. This was viewed as an ominous trend that would restrain future capital spending and limit the growth of grants to municipalities. In the context of tight resource and budget constraints, PPPs were viewed as an appropriate alternative mechanism to fund priority public infrastructure at both the central and municipal levels.

In 2009, municipalities received about 84% of their total revenues in the form of general and special grants from the Kosovo Consolidated Budget (KCB). However, revenue constraints at the central

[1] This section draws extensively on key USAID source documents, including the 2009 GFSI Concept Paper, the Terms of Reference included in the GFSI RFTOP, the Terms of Reference for this evaluation and the Year 2 GFSI workplan.

level were expected to preclude large increases in these grants, perhaps even requiring a reduction of current levels, forcing the local governments to become more self-sufficient. Municipalities were seen as requiring intensive capacity-building to be able to manage their transfers from the KCB effectively and efficiently, and to develop other sources of financing. They also were seen as needing capacity building to improve and strengthen treasury and budget functions to mitigate the adverse effects of excessive political interference and corruption in the budget and expenditure process.

Finally, economic growth was seen as lagging far behind the rate necessary to absorb new entrants into the labor market due to institutional and structural problems at the highest level of the GOK. The priority was to empower the private sector for profitable growth, create jobs for an expanding workforce, and become a welcoming environment for foreign direct investment.

## 1.2 Objectives of the GFSI

**GFSI is a complex and broad program with multiple results and activities**

GFSI has three objectives:

1. Support private sector participation by:

   - Strengthening the ability and capacity of central and local institutions to identify, develop and implement PPP projects as an important private sector funding mechanism for meeting Kosovo’s public infrastructure investment priorities
   - Assisting PAK in bringing the liquidation of the more than 600 privatized SOEs to timely closure and putting the nearly €440 million of privatization proceeds currently held in trust and invested outside Kosovo to work in the Kosovo economy.

The Mission canceled the assistance to PAK at some point in August 2011 because PAK had failed to complete certain conditions precedent to that assistance. USAID provided this information to the evaluation team while it was in Kosovo (USAID, 2012). For this reason, the evaluation does not address this sub-objective of the GFSI.

2. Strengthen fiscal stewardship by:

   - Building professionalism and expertise in sound public financial management in municipalities so that they become institutions capable of autonomously and efficiently stimulating economic development while providing a high standard of public services
   - Facilitating the review and assessment of the fiscal operations of the municipalities by the Office of the Auditor General (OAG) in a more timely and effective manner
   - Assisting the MoF to: i) develop and implement an action plan to enable data sharing among the various legacy IT systems in the ministry; ii) assess remaining priority capacity building needs in the Ministry’s Budget and Treasury functions and design and conduct training programs to address those needs; and iii) ensure that the Ministry’s Property Tax Department and supporting systems remain robust and capable of meeting the own-source revenue needs of municipalities.

3. Improve the prospects for economic development by assisting relevant counterpart institutions in close coordination with other US Government (USG)-funded development initiatives to design and implement an action-oriented Government strategy for profitable private sector growth and for attracting foreign direct investment.

GFSI is organized in three components that match these three objectives. Underlying this otherwise simple and straightforward structure, however, is a broad and complex mix of results and activities. The RFTOP issued in March 2010 lists 43 separate results that the GFSI should achieve within three years. In response to this requirement, the GFSI workplan includes 37 distinct activities, each consisting of multiple steps and numerous outputs. Many of these are a continuation of activities that began in one or more of the predecessor programs to GFSI. In addition, certain of the activities are interwoven with assistance provided by other development partners, such as in property tax by the Swedish International Development Agency (SIDA), and PEFAs by the UK Department for International Development (DFID).

These characteristics of the program had a significant impact on the design of the evaluation methodology as noted in the next section.

# 2.0 EVALUATION PURPOSE AND PRIORITY QUESTIONS

## 2.1 Evaluation Purpose

This is a mid-term performance evaluation of the implementation of the GFSI program, which began in July 2010 and ends in July 2013. The program is intended to assist key Kosovo government institutions at the central and local level to maintain fiscal sustainability and promote private sector-driven economic growth in Kosovo through targeted technical assistance to municipalities and relevant government institutions.

The main purpose of this mid-term performance evaluation is to provide USAID/Kosovo with an objective external assessment of GFSI's performance to date. Further, the evaluation will help the Mission: a) understand whether the project is meeting its objectives; b) consider whether GFSI project implementation is efficient; c) identify deficiencies in the program's current target areas and recommend remedial actions to be carried out in the remaining life of the program; and d) use lessons learned to inform the decision for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area.

## 2.2 Evaluation Questions

The evaluation considered the following priority questions:

1. How have the relevant Kosovo institutions been strengthened in their ability to: a) identify, develop and implement Public-Private-Partnership (PPP) projects in Kosovo; b) conduct sound public financial management; and c) develop and implement an action-oriented Government strategy for profitable private sector growth and attracting foreign direct investments?
2. Are the results being produced at an acceptable and desired cost level? What could the implementer change to lower the cost to accomplishing the same objectives?
3. To what extent will the beneficiaries supported under GFSI have the capacity to continue carrying out their duties and responsibilities as desired and expected in the foreseeable future?
4. How well does the program coordinate sufficiently and effectively with other programs on related issues?

5. Based on a review of GFSI's implementation and results, what recommendations do you have for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area?
6. Can any identified deficiencies in the overall implementation of program's current objectives be remedied in the remaining life of the program, and what are recommendations and lessons learned?

# 3.0 EVALUATION METHODOLOGY

## 3.1 Evaluation Methods

**Adjusting to a complex and broad program**
GFSI is characterized by a broad and complex mix of results and activities. With up to 43 separate results and 37 distinct activities to review and evaluate in a two-week time period in the field, the evaluation team made a conscious decision to focus on providing an objective, informed response to the six priority questions identified by USAID in the evaluation SOW. This is especially relevant in the context of the ongoing discussion between USAID and the GFSI implementing partner on the workplan for the third and final year of the GFSI. It reflects as well the expectation that USAID would want to begin designing a follow-on program, if any, within the next six months to ensure continuity of its Economic Policy and Institutional Strengthening programs in Kosovo.

The evaluation findings, conclusions and recommendations reflect this overall approach. They do not pretend to address individually the status of each of the 43 results listed in the GFSI's RFTOP issued in March 2010, or of the 37 activities in the current GFSI workplan.

**A focus on existing documentary evidence of GFSI activities and results to date**
Based on the review of project documents prior to the field visit, the team concluded that existing documentation produced both by GFSI and independently by the GOK and third parties includes sufficient evidence to provide objective, unbiased responses to priority questions 1, 3 and 4. The team viewed questions 2, 5 and 6 as calling for its opinion informed by these responses. Given this perspective, there was no need for the team to conduct a survey or use other methods, such as focus groups, to generate primary data as evidence for the evaluation. Rather, the field work relied on interviews of a broad spectrum of informants to develop a general understanding of what was done, who did it, and what happened as a result. Most important, the interviewees helped identify and provide access to relevant existing documents, data and other objective evidence to address priority questions 1, 3 and 4. Although none of the findings rely on opinion, even of experts, interviews focusing on the same questions addressed to different respondents were useful in cross-checking key findings of the evaluation.

The team relied on semi-structured interviews that would allow beneficiaries to present and explain points freely, while ensuring that the interview would cover the information relevant to the priority questions in the evaluation SOW. During each interview, the team used as a reference a guide based on the six priority questions in SOW, as illustrated in Annex II.

The selection of persons to interview followed a two-step process. First, the team identified the institutions that were critical to address the objectives of the evaluation and priority questions 1, 3 and 4. Then within each institution the team identified the person(s) to interview, as follows:

- Key institution: The GFSI implementing partner. The team conducted interviews both at the senior management level with the acting Chief of Party (CoP) and new CoP, and with the senior technical staff responsible for each GFSI activity.
- Key institutions: GFSI counterpart institutions at the central level, including MoF (and within it the departments responsible for macro-economic policy, the Kosovo budget, treasury, PPPs and the property tax); Ministry of Trade and Industry (MTI) (economic policy); Ministry of Infrastructure (MOI) (PPPs); the Strategic Planning Office within the Office of the Prime Minister (economic policy); and the OAG (municipal audits). The team interviewed the counterparty representative to GFSI in each institution, except in one or two cases where the person was absent and the interview was with the deputy.
- Key institutions: GFSI counterparts at the municipal level, where time constraints made it necessary to focus on a subset of the 37 municipalities (see box below)

The team visited six of the 37 municipalities. GFSI has worked with different sets of municipalities under different components of the project. The team selected municipalities that had received different levels of assistance in large measure to test the extent to which any improvements in performance could be attributed solely to GFSI.

- Peja, Vushtri and Pristina represent municipalities that have benefited most from GFSI activities
- Podujeva and Klina represent municipalities that have received more limited GFSI assistance
- Sterpce is a special case. It is one of the few municipalities where a pilot annual inspection on the administration of the property tax was completed during 2011. It also is the site of a major ski resort development supported by GFSI under the terms of Modification 1 to the contract.

The persons selected for interview during the trip to the municipalities were those that acted as the counterparty representative in the process of PEFA self - assessment and MTBF preparation which in all the cases was the respective Chief Financial Officer (CFO). The head of Public Services and Property Tax (PT) departments were interviewed to review GFSI assistance on PPPs and the Property Tax respectively.

- Key institutions: USAID projects that overlap with GFSI – BEEP, DEMI. The team interviewed the acting CoP of BEEP and the CoP of DEMI.
- Key institutions: International development partners whose programs overlap with GFSI – European Community (EC), International Monetary Fund (IMF), SIDA, and the World Bank, as well the Ministry of European Integration, responsible within the GOK for donor coordination. The team interviewed the persons responsible for the activities that overlap with those of GFSI.

The team also interviewed other individuals that could provide useful insights on specific aspects of GFSI such as the senior economist in the USAID/Washington Bureau for Economic Growth, Education and Environment, the US Treasury Advisor to the MoF, the head of a private firm engaged in an actual PPP, and the General Secretary of the Ministry of Local Government Administration.

In view of the wide range of issues to address, the two team members mostly conducted separate interviews. They met daily to compare notes and update their respective progress. In total, the team conducted some 30 interviews. Annex III lists the institutions that the team interviewed while in Kosovo, including in some cases more than one person per institution.

**Ample evidence to identify and verify results**

The team identified and obtained 66 documents and nine databases (see Annexes IV and V) to support the findings of the evaluation, including certain documents that are not otherwise publicly available, such as internal project design documents of international development partners. Key documents and data obtained served to: verify formal decisions taken by the Government and municipalities; establish budget allocations and approved staffing levels for institutions that would carry on the activities of GFSI; provide an independent, third-party assessment of municipal financial performance, among others; and show how coordination was built into the design of certain programs.

Data and documents were also useful in understanding the context for key findings as well as the nature and extent of the inputs provided by GFSI. Among others, this includes key macro-economic and fiscal indicators, relevant laws and regulations, and data on training activities conducted by GFSI. The M&E system for the GFSI created under its PMP is an important source for many of the context indicators and benchmarks, although none of the findings rely solely on GFSI sources.

This report uses conventional bibliographic notation, rather than footnotes to reference sources. These notations are tied to Annexes IV and V, which list all the documents and data used by the team in alphabetical order by author (or data source), and within each by date of publication.

### 3.2 Evaluation Limitations

The field work in Kosovo occurred during the peak of the summer holiday season. As a result, the team was unable to interview respondents from key institutions, including the Municipal Budget Department in the MoF and the EC Twinning Project among others, as they were absent from the country.[2] The inability of the team to conduct these interviews limited to some extent the ability of the team to identify and verify certain results. This includes, for example, the impact of the work done by GFSI to introduce medium-term budgeting at the municipal level.

## 4.0 FINDINGS

Although GFSI is still ongoing it already has tangible results as the analysis below, by objective, indicates.

### 4.1 Objective One – Private Sector Participation (to date)

**Finding 1: A comprehensive legal, regulatory and institutional framework for PPPs is in place and functioning**

Context: The Law on public private partnership (2011 Nr. 04L-045) establishes a PPP Inter-ministerial Steering Committee (PPP-ISC), consisting of three ministers and a representative appointed by the Prime Minister, chaired by the Minister of Finance that is responsible for controlling and coordinating PPP projects in all economic and social sectors. Directive 1/2011 adopted by the PPP-ISC in the last quarter of 2010 establishes the following three points in the life cycle of a PPP project when a contracting authority must approach the PPP-ISC:

[2] In the case of DFID, their staff in Kosovo helped the team set up an interview via Internet with a key respondent.

- Upon completing the pre-feasibility for the proposed PPP project, obtain from the PPP-ISC a non-binding recommendation to proceed with full feasibility and prepare all transaction documentation
- Upon completion of those documents that demonstrate "affordability" (sufficient budget/resources to cover costs and/or other liability") and "value-for-money," obtain authority to proceed with the project from PPP-ISC
- Prior to the formal signing of the final contract, which must continue to meet the "affordability" and "value-for-money" criteria

Evidence to support the finding: In January 2012, the Government adopted a decision (OPM 2012 a) establishing the PPP-ISC and appointing its members. Also, at the same time, the General Secretary of the MoF approved a reorganization of the ministry that includes a Department for Public Private Partnerships (MoF, 2012 a). The approved budget of the ministry for 2012 assigns slightly over €66,000 and five positions to the Department (MoF, 2012 f). In fact, the evaluation team confirmed that there are now six persons working in the department, including a young legal advisor currently in training. Using the Peja Bus Service PPP (see next finding) as a case study, the evaluation team also confirmed that it was the staff of the Department that processed the review and approval of this project by the PPP-ISC.

Attribution of impact: During the first two years of the project, GFSI advisors drafted and/or supported the Government in drafting and implementing:

- An EU compliant PPP Law and related directives
- PPP-ISC Rules of Procedure
- Sample PPP procurement and contract documents, such as Request for Quotes, Request for Proposal and Works Concession contract
- PPP Guidelines
- An organizational structure for the Central PPP Unit

As part of this effort, the advisors completed a legal "due diligence" of general laws that affect PPP transactions regardless of the sector such as the "PPP Law," the "Law on Public Financial Management and Accountability," and the "Public Debt Law," as well as sector specific laws such as solid waste regulatory and environmental laws that would only affect PPPs within the specific sectors (GFSI 2011 b, 2011 d, 2011 e).

**Finding 2: The first municipal PPP was signed in May 2012 and service has initiated**

Context: The first PPP in Kosovo was approved under the predecessor program of the GFSI. It covered the operation and expansion of Pristina International Airport (PIA) and was awarded in the second quarter of 2010 to the consortium comprised of the French airport operator, Aéroports de Lyon, and Turkish construction company, Limak Holdings (EMSG 2010). Work to promote municipal PPPs largely began with assistance from GFSI.

Evidence of the result: On May 23, 2012 the Mayor of the Municipality of Peja and "Urban 039," a local private company, signed a PPP agreement to provide urban bus services in Peja. The transaction was closed following a competitive tender under the Public Private Partnership Law, through a two-phased bidding process designed to provide a high level of service at the lowest tariff for the citizen. The PPP is a concession to the private operator for 10 years to provide bus services on four key city routes, build new bus stops and develop modern ticketing and information systems. Initially, Urban 039 has invested in 6 new modern buses, a GPS tracking system, and an advanced ticketing system involving smart cards with on bus Wi-Fi planned for September 2012. The technological aspects of this project are a first for Kosovo (MoF 2012 d, GFSI 2012 c).

Attribution of the result to GFSI: GFSI worked closely with municipal officials to strengthen their skills and capacity to identify, develop and implement PPP projects including developing the PPP feasibility study, tender documents and draft contracts. (Same as above).

**Finding 3: Progress in implementing mechanisms to monitor ongoing PPPs is mixed**

Context: The mid-term evaluation of the EMSG, the predecessor to GFSI, commented that “While PPP arrangements are simple in concept, they are extremely difficult in practice. The problem lies in the long-term nature of the relationship. Governments managing PPP arrangements need to appreciate the potential issues in enforcing performance by the concessionaire. [...] This means that the concessionaire can expect the legal system to be strong enough to prevent the government from unilaterally changing the terms of the concession” (EMSG 2009).

Consistent with this view, PPP-ISC Directive 2/2011 provides guidance for the establishment of a Project Management Team that shall be responsible for monitoring the implementation of PPP agreements, and for ensuring compliance with its terms by the private partner.

Evidence of the result: The team confirmed with the PPP Department in the MoF, that while the Pristina airport PPP was approved in 2010 and operation of the airport was handed over in April 2011, a Project Management Unit (PMU) for the Pristina International Airport concession has still not been established in the MTI. The PPP-ISC appointed the PPP Unit as the interim PIA PMU, with an independent engineer that was hired to oversee the construction of the new airport terminal.

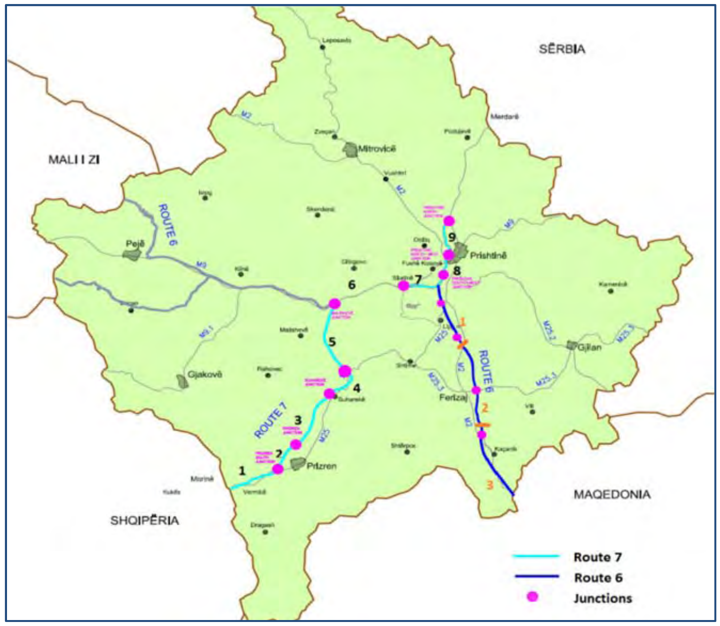
At the time of the signing of the Peja Urban Bus Project operated by Urban 039 in May 2012, the Mayor had already issued a decision on February 23, 2012, appointing a management team to oversee the bus service throughout the whole duration of the agreement with the private partner (MoF 2012 c). Daily reports are produced by a monitoring system, which measures the number of citizens travelling and the time the bus passes from a station to another. Semi-annual reports will be produced and presented to the Mayor and to the Board of Directors. The evaluation team confirmed during a visit to Peja that the monitoring system is operating. Among other things, the person responsible was able to report that six buses are operating and the number of citizens using the buses on a daily basis increased from 400 to 800.

Attribution of the result to GFSI: The current GFSI workplan includes Activity 3.3: Design project-specific PMU’s (as required) in all three years of the program (GFSI 2011 c). The most recent GFSI quarterly report acknowledges that the Pristina airport PPP continues to be implemented under the oversight of the PPP Department (GFSI 2012 a). In their interviews with the various parties, the evaluation team confirmed that this is not a preferred solution as it is a potential conflict of interest to have the entity that oversees and approves PPP transactions also act as the PMU for an approved project.

As confirmed in the visit to the municipality of Peja, GFSI played a very important transaction advisory role in helping the municipality during the negotiations phase with the preferred bidder, assisting in drafting the concession agreement and giving advice on the way the project shall be monitored (GFSI 2011 b).

**Finding 4: The GOK decision to proceed with the construction and financing of Route 6 linking Kosovo to Macedonia on-budget represents a significant lost opportunity to legitimize the arguments put forward in the GFSI Concept Paper to justify PPPs.**

Context: In 2011, USAID approved Modification 1 to the GFSI contract to include assistance to the MoF in identifying and analyzing financing options for the GOK's planned infrastructure investments in the Kosovo portion of Route 6 and 7 highway corridors that are key components of the regional road network of South East Europe (see map on the right) (MoI, 2012). The analysis would include but not be limited to PPPs (USAID, 2011).




Portions of Route 7 are already under construction and the costs are fully on-budget, placing significant stress on overall fiscal stability. As part of a Staff Monitored Program with the IMF - formalized in 2011 - the Government agreed to achieve ¾ of a percent of GDP in structural fiscal adjustment over a period of four years to restore a sustainable fiscal stance (IMF 2011). A decision to finance an investment of approximately 700 million Euros for Route 6 as well fully on-budget would exacerbate an already difficult situation. Seen in this context, the new activity authorized under Modification 1 provided a unique opportunity to demonstrate that PPPs are an appropriate alternative mechanism to fund priority public infrastructure, as noted in the USAID GFSI Concept Paper (USAID 2009).

Evidence of the result: In June 2012, the MoF informed the IMF that it would go forward with the construction of Route 6 to the border with Macedonia on-budget (IMF 2012 b). This meant that the MoF would not carry out a test of market interest in financing and constructing all or part of the planned route, as suggested by GFSI. Instead, GFSI is now assisting the MoI in reviewing options for tolling, road related concessions, and other income generating opportunities which could offset the cost of maintenance of both routes.

Other than the Pristina airport PPP, other PPPs under consideration represent somewhat minor investments relative to the Kosovo Consolidated Budget. In contrast, Route 6 represents an investment with significant potential impact on overall fiscal stability. Although the activities now programmed under Modification 1 were contemplated in that document, clearly a decision by the Government to proceed with a market test and eventual PPP to finance and construct Route 6 would have been a major achievement of the USAID assistance.

Attribution of the result to GFSI: The team found no evidence to indicate that the GOK decision on Route 6 was in any way a reflection on the quality of advice provided to the MoF on the financing options, including PPPs, for that investment. Rather, this appears to have been a decision taken on other grounds unrelated to the work done by the program.

## 4.2 Objective Two – Fiscal Stewardship (by the end of fiscal/calendar year 2011)

**Finding 1: Kosovo returned to a Standby Agreement with the IMF in April 2012**

Context: With the declaration of independence, Kosovo was successful in joining the IMF and World Bank, and signed an IMF Standby Program in July 2010. This was viewed at the time as a highlight to end EMSG assistance (EMSG 2010). Kosovo's 2010 Stand-By-Arrangement went off track, in large part reflecting outsized public sector wage increases in the 2011 budget. It was replaced by a Staff-Monitored Program (SMP) initiated in June 2011 and scheduled to end in December 2011. The second assessment under the SMP, conducted in April 2012 (to review compliance through December 2011), found that overall, implementation of the SMP has been broadly satisfactory, with significant steps taken toward returning to a sustainable fiscal stance, better costing and design of spending initiatives, and structural reforms to enhance the financial sector's stress resilience (IMF, 2012 a).

Evidence of the result: On April 27, 2012, the Executive Board of the IMF approved a return of Kosovo to a Stand-by Agreement. The agreement is for 20 months in an amount of SDR 90.968 million. The first review under the SBA conducted in June 2012 found that macroeconomic and financial policies are broadly on-track (IMF 2012 b).

Attribution of the result to GFSI: Clearly, GFSI by itself does not account for the return to a stand-by agreement. However, it is also clear that the assistance provided by GFSI (and earlier under its predecessor, the EMSG) to the Macroeconomic Policy, Budget and Treasury Departments of the MoF contributed to developing the skills and procedures that account for the improved macroeconomic and financial policy performance by the MoF.

**Finding 2: The MoF certified four new municipalities as independent budgetary organizations**

Context: Article 19 of Administrative Instruction No 02/2009 "Delegation of Expenditure Management to the Budget Organizations" defines the criterion that an organization must meet to be certified as an independent budgetary organization. Pursuant to these rules, before a municipality can be certified, key senior officials of the municipality must pass an exam conducted by the MoF. In 2010, the first 30 municipalities were certified. (EMSG 2010)

Evidence to support the finding: During the period from January 2010 to April 2011, 27 senior officials from four new municipalities – Gracanica, Kllokot, Partesh and Ranilug – were certified by the MoF in key Kosovo Financial Management Information System (KFMIS) functions, including commitment, assets, revenues, procurement, goods receiving, expenditure and certifying. As a result, the MoF certified these municipalities independent Budgetary Organization (BOs) (MoF 2010 a, MoF 2010 b, MoF 2011h; MoF 2011 i).

Attribution of Impact: GFSI provided the training for the 27 officials from the new municipalities (Data set: GFSI 2012 e).

**Finding 3: Sixteen municipalities received an unqualified audit opinion for fiscal year 2011- of these, 10 qualify to borrow**

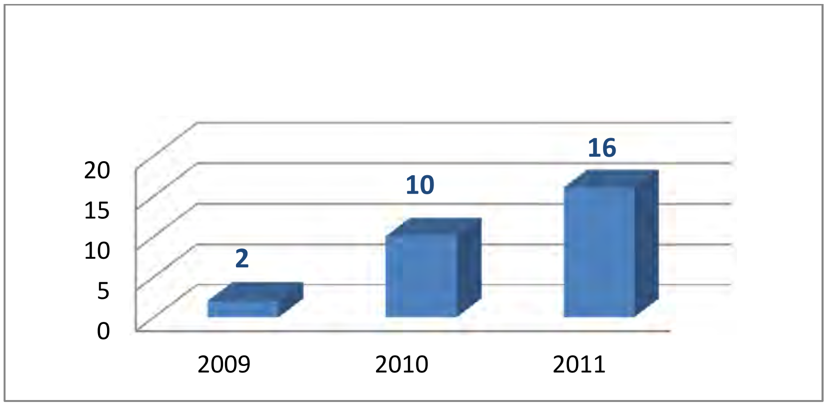
Context: The Office of the Auditor General of Kosovo (OAG) was established in 2008 by Law No 03/L-075 "On the establishment of the Office of the Auditor General of Kosovo and the audit Office of Kosovo". Article 3 of the law requires for the first time that the OAG conduct an annual audit of each municipality. It was not until the OAG budget was revised first in 2009, and again in 2010, to include additional funds for outsourcing the audit to private international audit firms, and to hire additional staff that the OAG was able to meet this requirement.

The administrative regulations issued by the MoF require that municipalities prepare financial statements based in International Public Sector Accounting Standards (IPSAS) on a cash basis, and that they provide additional disclosure information on non-cash items such as receivables, commitments, and property plant and equipment. The audits carried by the OAG in 2009 found that the information in the financial statements of a majority of municipalities was not sufficient, reliable and relevant to issue an unqualified opinion.  In part, this reflects the fact that municipalities rely on the KFMIS to prepare their financial statements.  Since the KFMIS is cash-based, information on non-cash items largely was missing in the municipalities.

Article 1.9 of Law no 03/L-175 “On Public Debt,” requires that a municipality receive in the last two consecutive years an unqualified audit opinion from OAG in order to qualify to borrow.

Evidence to support the finding: Information taken from the published audit reports on the OAG web site (OAG 2010 b, OAG 2011 b, OAG 2012) shows that there is an increasing trend of municipalities that have received an unqualified audit opinion from the OAG, as follows:

Number of Municipalities that Have Received Unqualified Audit Option




This is not a trivial accomplishment. It was not until the audit of fiscal year 2008 that the Kosovo Treasury itself received its first unqualified audit opinion, followed by a similar unqualified opinion for 2009 (EMSG 2010).  Seen in this context, the progress made at the municipal level is impressive.

As audit results have improved, the number of municipalities that qualify to borrow also has increased, from 1 in 2009 to 10 in 2011, as shown in the following table.

Table 1: Municipalities that Qualify to Borrow

| No | Name of Municipality | Opinion 2011 | Opinion 2010 | Opinion 2009 |
|---|---|---|---|---|
| 1 | **Prishtina** | Unqualified opinion | Unqualified opinion | Unqualified opinion |
| 2 | **Prizren** | Unqualified opinion | Unqualified opinion | Unqualified opinion |
| 3 | **Ferizaj** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 4 | **Gjilan** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 5 | **Vushtri** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 6 | **Gracanice** | Unqualified opinion | Unqualified opinion | NA |
| 7 | **Gjakove** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 8 | **Gllogoc** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 9 | **Skenderaj** | Unqualified opinion | Unqualified opinion | Disclaimer opinion |
| 10 | **Ranillug** | Unqualified opinion | Unqualified opinion | NA |
| **Number of Municipalities that qualify to borrow** | | **10** | **2** | **1** |

A number of factors explain this change:

- The external audit service budget increased from EUR 100 thousand in 2008 to EUR 200 thousand by the end of 2010; and number of staff increased from 61 in 2009 to 91 in 2010, thus increasing the ability of OAG to audit all the municipalities (OAG 2010 a, OAG 2011 a).
- The quality of information in the Financial Statement was improved (OAG 2010 b, OAG 2011 b, OAG 2012). The Deputy Director of Treasury established a small group of senior municipal finance officers to consult regarding municipal financial management needs and how these might be better met through enhancements to the KFMIS (GFSI 2011 b).
- Starting with the audit of fiscal year 2011, the OAG modified its approach to include an additional full audit of all municipalities for the nine-month period ending in September of the fiscal year, followed by discussions of the preliminary findings with local authorities. The objective is to help the municipalities take corrective actions to address any weaknesses before the OAG conducts the audit of the full fiscal year (MoF 2011 e).
- In its meetings with the CFO/acting CFO of six municipalities, the evaluation team confirmed that the level of expertise in preparing complete and accurate financial reporting has increased and the ability to discuss, comment and address the issues raised by the auditors has improved.

<u>Attribution of Impact</u>: GFSI used its good offices with the MoF to facilitate approval for the additional resources that OAG needed to audit all the municipalities (GFSI 2011 b). Additionally, GFSI helped the MoF prepare Financial rule No 06/2011 on preparation of a nine-month report by budget organizations, which helped the auditors to perform an interim audit for the period that ended on 30 September, 2011. GFSI also helped the MoF prepare Financial rule No 07/2011, which was an update of the previous year instruction on the preparation of Annual Financial Statements. The new financial rule took into consideration the Auditor General's recommendations to make Financial Statement templates more understandable for the auditors and municipalities. During the last quarter of 2011, GFSI, the Treasury Department, and the OAG presented Financial Rule No 07/2011 to the CFOs of all municipalities.

**Finding 4: Property tax revenues increase by 21% from 2009 to 2011**

<u>Context:</u> The system of property taxation in Kosovo was established through earlier USG-funded technical assistance, with significant parallel assistance provided by the Swedish Tax Agency under a SIDA grant. As of 2009, there still were serious problems. Although municipalities retain 100% of property tax collections as their own-source revenues (OSR), they were making minimal use of the system. The quality of information in the system on property and taxpayers was not at the required level, and the calculation of taxes was not properly done. Large debtors were not properly followed. Improving the OSR by increasing the share of the PT was viewed as an important priority (USAID 2010 b).

<u>Evidence to support the finding</u>: Data provided by the MoF Property Tax Department shows that revenues from the property tax increased by 21 percent from 2009 to 2011 (Data set: MoF 2012). As Table 2, next page shows, that increase is due almost completely to an increase in the percent of taxes billed that are actually collected.

Table 2: Percentage Change of Revenues from Property Taxes

| Fiscal | Billing | Collection | | Percent Change | |
|---|---|---|---|---|---|
| Year | Amt (Euro) | Amt (Euro) | % | % | |
| 2009 | 15,219,144 | 11,436,232 | 75% | 2009 - 2011 | 2010 - 2011 |
| 2010 | 15,329,900 | 13,442,007 | 88% | | 17% |
| 2011 | 15,736,871 | 14,362,675 | 91% | 21% | 4% |

Source: MoF Property Tax Department, ME Consultants

While the increase in the property tax collection rate is a very significant accomplishment, it is interesting that overall billing has remained pretty much constant. This seems to reflect a continuation of problems identified in the prior USAID program, which found that municipalities responded to improved performance by lowering tax rates or at best keeping them constant (EMSG 2010). Concern with this practice motivated one of the structural adjustment measures included in the KCB 2012 budget, which mandates an increase in the minimum property tax rate from .05 to .15 percent. The measure is expected to yield 3 million Euros in additional revenues this year (IMF 2011).

Attribution of Impact: GFSI provided training on the property tax at both the central and local level, including for 35 users of the PT system from 32 municipalities, among other things to help the staff understand the impact that the accuracy of information in the property tax system has on the rate of collection. As a complement, GFSI supported efforts to improve the quality of data in the PT IT system, and to identify taxpayers with large debts that then became the focus of increased follow up.

Apart from general training on the use of the PT IT system, additional sessions focused on improving staff capabilities in planning PT revenues after the implementation of a new appraisal model (December 2010, 6 participants and July 2011, 19 participants). Finally, a study tour with the participation of senior officials from various institutions of Republic of Kosovo was organized in January 2011 at the Swedish Tax Administration in Sweden, and another tour in April 2011 at the Lincoln Institute of Land Policy in Slovenia where three staff of the PT department participated (GFSI 2011 b).

## 4.3 Objective Three: Economic Development (to date)

**Finding 1: The GOK approved a document setting out Economic Development Priorities, but progress in linking these priorities to an action plan and to the KCB has been limited**

Context: Kosovo's economic growth has been solid since the end of the conflict in June 1999, attributable in part to large public investments in post-conflict reconstruction as well as an increase in private investment (albeit from a low base). GDP growth, reflecting the massive donor-funded reconstruction effort and high public and private investment, averaged 4 percent since the end of the conflict, and reached 5.4 percent in 2008. In 2010, the economy was expected to maintain a moderate growth rate (4.6% according to the IMF). Given the lack of monetary policy instruments, fiscal policy is the main anchor for macroeconomic stability (WB, Country Brief, 2010). This makes it important that the Government have a clear vision and corresponding priorities to promote private sector growth and to attract foreign direct investment.

Evidence of the result: In April 2011, GOK adopted the Economic Development Priorities that had been developed at a week-long conference in Bansko, Bulgaria, from April 11 to 14, 2011 (OPM 2011 b). The document represents a clear direction for implementation of reforms and increased economic development of the country in the medium term. These goals will be realized through concrete activities outlined in the Kosovo Economic Development Vision Action Plan 2011-2013 (EDVAP), as revised now to cover 2012-2014, and through planning documents including the MTEF 2012-2014 (OPM 2011 c). The Government has not yet approved the EDVAP.

A Strategic Expenditure Review (SER) confirmed a strong degree of alignment between the government's policy priorities to invest in economic and human capital development initiatives, and the actual and planned budget expenditure over the period 2007 to 2014 at the level of aggregate functional expenditure. However, there was insufficient information to assess the degree of alignment between the budget appropriateness of individual BOs and the new policy initiatives. Even with the reduced expenditure growth rates, budget deficits are planned for the coming years. It is becoming more important for the Government to re-align its expenditure profile to its current policy priorities. New policies cannot be implemented by adding to the size of expenditures – offsetting savings must be found by cutting funding to lower priority areas (OPM 2012 b).

<u>Attribution of the result to GFSI</u>: GFSI supported an extensive effort to assist USAID in conducting a week-long workshop for the senior Economic Ministers to reach consensus and report to the Prime Minister on an economic vision for Kosovo. The GFSI team participated with USAID in planning the retreat, assisting in PowerPoint presentations, briefing Ministers and general brain storming of ideas. GFSI is assisting the Deputy PM and her staff in preparing a working plan for recently-created National Council on Economic Development, which will be responsible for the monitoring the implementation of EDVAP among other duties and responsibilities. Work done by GFSI in late 2011 highlighted the fact that the current budget formulation process lacks a mechanism to prioritize new policy initiatives contained in EDVAP, EPAP and sector strategies within the Medium Term Expenditure Framework (MTEF) that is consistent with the Government' medium term fiscal targets (GFSI 2011 e).

**Key central institutions strengthened (Priority Question 1)**

**Finding 2: The Property Tax, PPP, and Macroeconomic Policy departments are fully staffed and appear able to continue the work done by GFSI, but the future viability of the last two is uncertain depending on the outcome of the ongoing civil service reform**

<u>Context</u>: By the end of the USAID program that preceded GFSI all three of these units had been incorporated into the structure and budget of the MoF. The Property Tax Department initially was established in the MoF in 2002, downgraded to a division in 2006, and upgraded again to a department in 2008. The central PPP unit (also known as "Partnerships Kosovo") was formally transferred to the Government payroll on October 31, 2009. The Macroeconomic Policy Department transitioned to MFE in 2010. In the case of both the PPP and Macroeconomic Policy Departments, the staff was compensated under the "Brain Fund" scheme that provided for salaries above normal public sector rates to facilitate recruitment and retention of scarce skilled professionals (EMSG 2010).

<u>Evidence of the result</u>: The PPP and Macroeconomic Policy Department were confirmed at departmental level in the latest MoF reorganization adopted by the General Secretary of the Ministry in January 2012 (MoF 2012 a). They are fully funded and staffed in the 2012 MoF Budget (MoF, 2012 f). Both actions demonstrate the continued importance that the senior leadership of the Ministry attributes to these units and to the functions that they perform.

The team confirmed that all three units continue to perform their assigned functions well. Using the Peja Bus Service PPP as a case study, the evaluation team also confirmed that it was the staff of the

Department that processed the review and approval of this project by the PPP-ISC (PPP Department 2012 c). Similarly, the team confirmed that the staff of the Macroeconomic Policy Department prepared the most recent MTEF (2013-2015) and wrote the section on macro-economic and fiscal policy of the document. In the case of the Property Tax Department, the team confirmed that it is capable of continuing existing operations effectively, although they probably could use continuing assistance with the PT IT system. The planned introduction of a land tax may present difficulties for the staff.

The 2009 mid-term evaluation of the predecessor to the GFSI expressed "doubts about whether [the Brain Fund] is a viable strategy for establishing and sustaining a top layer of professional administrators and subject experts that can outlast changes in political control and can lead and deepen the emerging culture of professionalism in Kosovo's civil service" (EMSG 2009). That issue is currently being considered in the context of a civil service reform. The reform has the support of the World Bank, which is working with the Ministry of Public Administration to develop the regulations to implement the new Civil Service Law. To date, these regulations have not been approved. Until they are, and the corresponding position classification and salary scales have been developed, the future of the Brain Fund will remain uncertain, as will ability of the Macroeconomic Policy and PPP Departments to recruit and retain the skilled staff they require.

The most recent recruit in the PPP Department provides an example of the problems that might arise. This is a young lawyer educated and trained abroad that was trained and mentored for one year as a contractor for the department. While the lawyer was working under contract the salary level was not an issue. When it came time to incorporate the lawyer in the formal staffing of the department, the MoF first ruled that the person would fall under the normal salary scale. The lawyer did not accept and was preparing to resign. Literally on the day that the evaluation team visited the PPP Department, the MoF agreed to include the person under the Brain Fund and the lawyer agreed to remain on the job.

<u>Attribution of the result to GFSI</u>: GFSI benefitted from the positive results achieved under its predecessor, which established basic budget and fiscal management functions and capabilities in the MoF (then MFE). The Brain Fund initiative was proposed in Year 2 of that program to address the skills and capacity required to implement MFE responsibilities (EMSG 2010).

GFSI indicated that it will continue to actively engage with the respective department heads, MoF Permanent Secretary and the Minister of Finance on options for retaining staff across all three departments that are in line with the civil service salary reforms and procurement laws. Neither GFSI nor USAID are actively engaged with the World Bank and the GOK regarding the impact that reform might have on the future viability and sustainability of the capabilities that USAID assistance has helped establish in the MoF.

**Finding 3: Municipal financial reporting work was done jointly by GFSI and the Treasury, which appears able to continue the effort**

<u>Context</u>: Extending and deepening the level of competence within the Treasury functions so that they become sustainable and fully capable of independent, reliable operation is very important for the fiscal integrity of Kosovo. As of today, the Treasury department has seen a transformation of its role from an accounting function to a more analytical and strategic approach. This is reflected in a more pro-active approach to supporting sound PFM practices, including at the municipal level.

Evidence to support the finding: New financial rules and administrative instructions have been issued by the Treasury Department concerning the preparation of the annual reporting, nine-month financial reporting and the reporting on commitment and obligations by BOs as listed below:

- Financial rule No 06/2011 “On preparation of nine-month financial statements”
- Financial rule No 07/2011 “On the preparation of Annual Financial Statements”
- Financial rule No 04/2011 “On reporting of arrears by BO”
- Financial rule No 08/2011 “Fiscal rule on opening the New Year”

In the visits to municipalities, the team confirmed with the CFO of the municipalities that the template for municipal financial reporting has been simplified and clarified and, as a result, the ability to produce accurate reporting has increased. In addition, the team confirmed that reconciliation practices between the municipalities and the Treasury have been enforced and strengthened and that is demonstrated in the absence of reconciliation errors in municipal financial statements. The Treasury has a full time training program for finance officers at both central and municipal level. In the last quarter of 2011, the Treasury hired an additional trainer and has provided training to all municipalities on the preparation of interim financial statements (GFSI 2011 b, GFSI 2012 a).

Attribution of Impact: The GFSI assisted the Treasury in drafting the financial rules mentioned above. The training program now run by the Treasury was designed and implemented with the assistance of GFSI advisors as well.

**GFSI has made timely adjustments to deploy resources consistent with project needs and has maintained costs at a reasonable level (Priority Question 2).**

**Finding 4: There has been a change in the distribution of costs by objective compared to projections made in the GFSI Concept Paper. The changes seem reasonable in light of events outside the control of the program and of results to date.**

Context: At the time of the initial design of the GFSI, USAID developed an indicative distribution of the planned level of funding ($10 million) by objective (see Table 3, next page). That distribution was not included in the RFTOP nor is there evidence that the GFSI implementer was made aware of it. The indicative distribution, though, is a useful reference point for evaluating the extent to which the results are being produced at an acceptable and desired cost level, which is one of the priority questions this evaluation is to address.

Evidence of the result: The following table shows that actual, aggregate costs by objective differ from what USAID estimated at the time it prepared the concept paper for the GFSI. The data on initial estimates is from the Concept Paper. The GFSI implementer provided the estimate of costs to date by objective (Data set: GFSI 2012 a). There has been a redistribution of costs from Objectives 1 and 3 to Objective 2.

Table 3: Distribution of the Planned Level of Funding by Objective

| Objective | Concept Paper | Actual To Date | Difference |
|---|---|---|---|
| | % | % | % |
| Private Sector Participation | 50% | 37% | -13% |
| Fiscal Stewardship | 30% | 51% | 21% |
| Economic Policy | 20% | 12% | -8% |
| Total | 100% | 100% | 0% |

Discussion: Two developments outside the scope of control of USAID and the GFSI implementer may help explain why costs in the first and third objectives are lower than anticipated at the end of the Year 2 of the GFSI. As noted earlier, USAID canceled the assistance to PAK at some point in August 2011 because PAK had failed to complete certain conditions precedent to that assistance. That is consistent with a lower level of spending on Objective 1 – Private Sector Participation.

Work on Objective 3 – Economic Policy did not begin in earnest until the first quarter of 2011. GFSI began in July 2010. In September 2010, President Fatmir Sejdiu resigned, leading eventually to Parliamentary elections in December of that year. It was not until February 2011 that a coalition government was formed, providing a counterpart for GFSI on economic policy. The conference on an economic development vision and priorities took place shortly thereafter in April 2011. In effect, GFSI did little or no work on this objective for one semester in the first two years of program implementation, which would account for the lower level of spending.

GFSI results to date suggest that the program adjusted reasonably to these two events. Work on PPPs under Objective 1 has yielded a comprehensive legal, regulatory and institutional framework for PPPs; the first municipal PPP; and a pipeline of 17 potential PPPs. Work on Objective 3 has moved rapidly. By April 2011, the Government had adopted the Economic Development Priorities that had been developed at a week-long conference in Bansko, Bulgaria. Finally, Objective 2 – Fiscal Stewardship has accounted for a higher than anticipated share of total spending. It has also generated the largest share of tangible results, including significant progress in public financial management at the municipal level and a substantial increase in revenues from the property tax. Considering all these events and program results to date, the change in the distribution of costs by objective seems reasonable.

**Finding 5: GFSI began using continuous short-term assistance in 2011 as a cost-effective alternative to resident advisors**

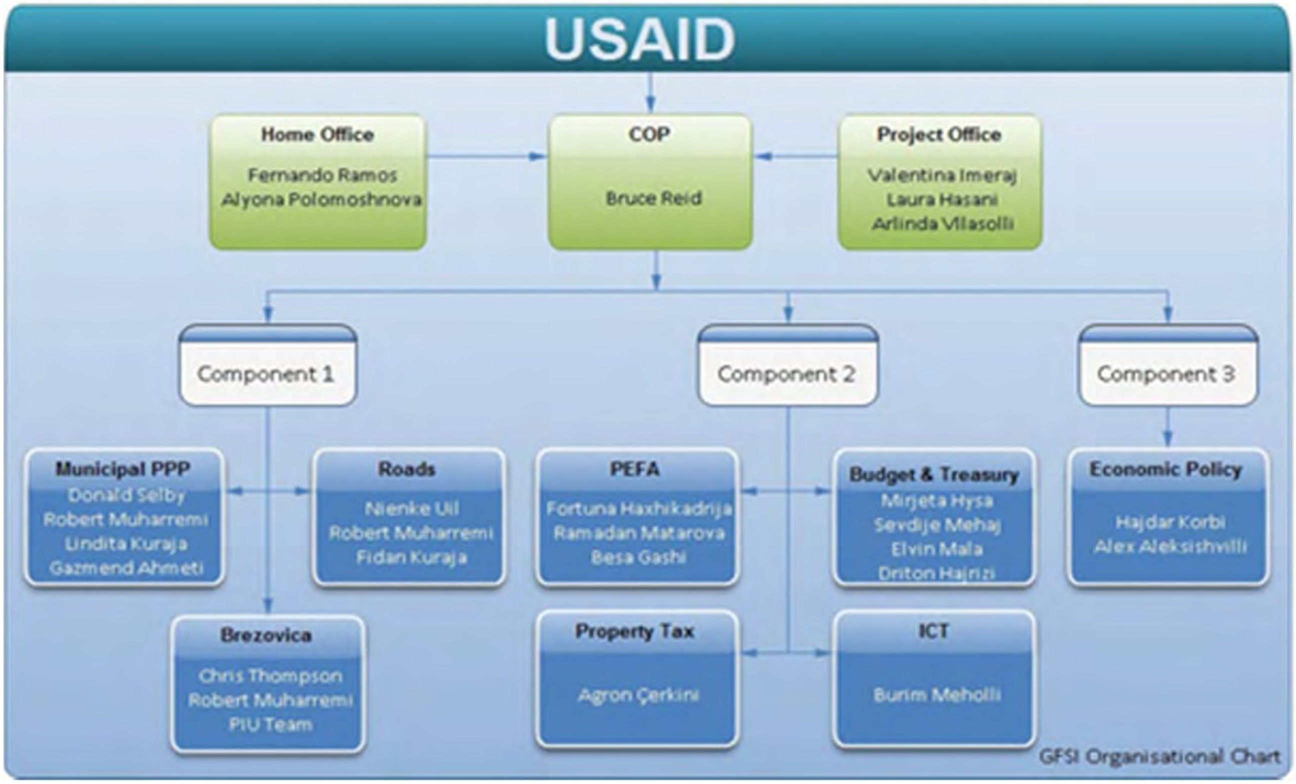
Context: The USAID concept paper for GFSI identified two methods for delivering assistance: "The primary assistance will continue to be rendered by resident expert advisors, as that methodology has proven to be very effective in Kosovo, supplemented by short-term expertise in those areas where discreet, limited duration assistance can be beneficial to program objectives (e.g., industry experts assisting with PPP)" (USAID 2009).

Evidence of the result: GFSI has implemented a new approach that involves continuous assistance by the same expert in a series of short stays over a protracted period of time. This is the case, for example of the GFSI advisor on economic policy. The impact is similar to that achieved by a resident advisor. Data provided by GFSI shows that the cost to the project of this approach may be as little as half the cost of a resident advisor, assuming that the advisor makes ten trips to Kosovo per year for an average of two weeks per trip (Data set: GFSI 2012 f).

Discussion: The approach identified by USAID in the GFSI concept paper reflected the need to maintain a large number of resident advisors to support the transition from government institutions run by UNMIK to institutions run by an elected Kosovo government. This certainly was true in the early part of GFSI. To the extent that the transition largely has been completed this argument has become less relevant. GFSI deserves credit for having shifted to a less-costly but equally effective approach to providing continuous technical assistance.

**The split between labor and ODCs and among labor categories GFSI is reasonable**

Context: As shown in the GFSI organization chart below, the project includes a mix of expatriate resident advisors, many of whom are TCNs, and local professionals (GFSI 2012 d).




Evidence of the result: Table 4 below shows the total amount expended by GFSI to June 30, 2012 (Data set: GFSI 2012 g).

| Budget Cost Elements | Share of Expended | Share of Remaining Budget |
|---|---|---|
| Fixed Daily Rate - Labor | 22% | 28% |
| TCN - Labor | 26% | 23% |
| CCN - Labor | 21% | 15% |
| Sub-total Labor | 70% | 66% |
| Other Direct Costs | 30% | 34% |
| Total | 100% | 100% |

**Notes:**

Fixed Daily Rate: Labor costs for short-term and resident US National advisors

TCN Labor: Labor costs for TCN advisors

CCN Labor: Labor costs for CCN advisors

Other Direct Costs: Includes Airfare, Per Diem, Resident Advisor Allowances, Office Operating Expenses, venues

As shown in the table, the ratio of total labor costs to ODCs is 70/30. Allowances for resident advisors and travel and per diem for short-term advisors tend to be costly. Given the intense use of both in the project, the 70/30 ratio is not unreasonable. CCN advisors represent roughly 30 percent of total labor costs. Although there are a large number of expatriate advisors, both long- and short-term, CCN costs nevertheless represent an important share of the total. This reflects a commitment to building and making good use of local expertise, which the team observed during its extensive interviews with GFSI staff.

**Coordination generally is effective, but not all (Priority Question 4)**

**Finding 6: There is effective, long-lasting coordination among donors providing assistance on the property tax and implementation of PEFA self-assessments by the central and municipal governments**

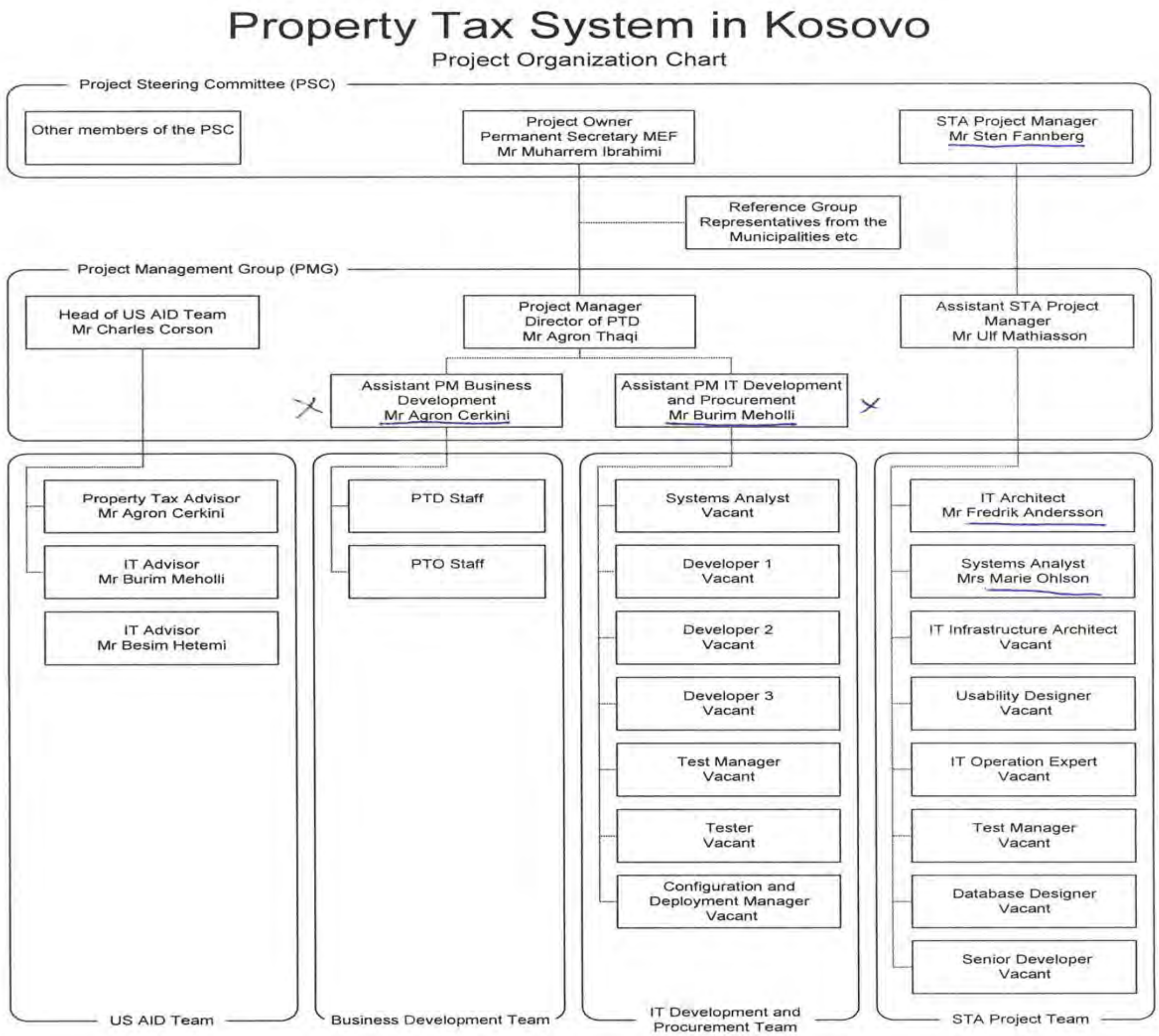
Property Tax: Work on the local property tax under USAID programs dates to 2001 with support for a pilot program in selected municipalities. Under EMSG, the predecessor to GFSI, the assistance expanded to include four full-time advisors providing general capacity building and assistance in the areas of property tax administration, valuation, and related IT applications. In 2008, the Tax Agency of the Ministry of Economy of Finance of Sweden (STA) submitted a proposal to SIDA for a grant to provide assistance to Kosovo on the property tax. It is notable the extent to which that proposal incorporates both the USAID assistance plan and the related staff in a single coherent framework. It starts with a detailed description of the USAID program, including staffing levels and areas of focus and incorporates that ongoing effort in the proposed project design. To facilitate coordination, the proposed design included creation of a project management group (PMG) headed by the Director of the Property Tax Department, the senior EMSG property tax advisor, and the assistant STA project manager. It also proposed creation of a Project Steering Committee of key Government, including the General Secretary of MoF as chair, Swedish Embassy, USAID and the STA team leader (see chart next page) (STA 2008).

One year later, in 2009, the USAID adopted a similar approach by incorporating the ongoing SIDA property tax assistance in the design of GFSI, indicating that "GFSI will coordinate closely with the Swedish SIDA/Swedish Tax Agency on their implementation of the enhanced Property Tax system.

Together with SIDA, GFSI will provide support on training and capacity building of staff of the newly-established municipalities for proper utilization of the new property tax system. Training materials and training sessions will be developed and delivered jointly by the MFE Property Tax Department, SIDA, and USAID (through GFSI)" (USAID, 2009).

The evaluation team confirmed that these arrangements are in place and operating as designed. It is interesting that the Swedish Embassy representatives were unaware of GFSI, and rather spoke of the USAID role on the PSC. At the working level, the team observed the STA and GFSI staff that sit and work together in the offices of the Property Tax Department. Each party seems to have settled on their areas of comparative advantage – STA on highly technical issues, such as mass valuation techniques; and, GFSI on the PT IT system they helped develop and, above all, in the capacity building and assistance for municipalities.

PEFA: The story on the donor coordination of assistance to the MoF and municipalities on the application of the PEFA methodology is similar to that for the property tax, but somewhat simpler. In this case, the key donor partner is DFID. As DFID explained to the evaluation team, their assistance in Kosovo has consisted of small, highly targeted interventions that do not always merit having their own detailed design or logistical arrangements. In the case of PEFA, DFID basically incorporated GFSI's ongoing activity to the extent that their advisor often sat in GFSI offices and benefitted from their logistical support, such as translators at joint events. As in the case of the assistance on the property tax, the collaboration began under EMSG.




The evaluation team confirmed that these arrangements have been implemented as described by DFID, GFSI and USAID. A DFID document provided to the team refers to work on municipal PEFAs "completed by the joint USAID/ DFID team" (DFID, 2012). Another document indicates that "The MFE secretariat of PEFA Team was supported by in-country advisors of USAID and DFID funded consultant, experienced in PEFA assessments" (DFID, 2009). In response to a question about a part of its PEFA work at the municipal level in which the methodology was not clear, GFSI suggested that the team speak with the DFID advisor.

**Finding 7: There is good coordination between GFSI and BEEP on economic development**

<u>Context</u>: Both GFSI and BEEP seek to promote and support private-sector based economic development and growth. In the case of GFSI, this refers mainly to activities under Objective 3: Economic Development, including support to the GOK to develop an Economic Development Vision and Priorities and assistance to the MTI in its role as secretariat of the National Economic Development Council.

<u>Evidence of the result</u>: GFSI and BEEP organized and ran jointly the workshop for senior GOK officials on economic development in Bansko, Bulgaria (GFSI 2011 b). Participants in that

workshop from the MTI and the Strategic Planning Office (of the Office of the Prime Minister) interviewed by the team were unaware that two different USAID programs had been involved in this activity. Similarly, senior MTI officials seem to be unaware that the two advisors working in the ministry are from different USAID programs.

Attribution of the result to USAID: Both GFSI and BEEP give credit to the USAID Economic Growth Office for having brought them together to ensure that the joint activities would be carried out smoothly and transparently.

**Finding 8: Coordination between GFSI and DEMI appears to have been limited to date**

Context: GFSI and DEMI both work with municipalities, often on overlapping issues, such as the local budget process and property taxes. USAID designed the two programs more or less at the same time in 2009. The 2009 DEMI Concept Paper indicates that "The concept of DEMI was developed in part by analyzing the planned activities of the Mission's Growth and Fiscal Stability Initiative (GFSI) and the Business Enabling Environment Project (BEEP). Many of DEMI's activities will supplement and support both GFSI and BEEP." In areas where the two overlap, generally the distribution of responsibilities has GFSI focusing on implementation of technical guidance or "financial rules" adopted by the MoF, with DEMI focusing on involving the elected local council and citizens in the effort. There were similar arrangements to address the overlap between DEMI and BEEP (although the team did not look into these in detail) (USAID 2010 a).

Evidence of the result: The only instance of specific collaboration between GFSI and DEMI that either program could identify is from June 2012, although DEMI began in August 2010, one month after GFSI. The proposed coordination relates to possible involvement by DEMI in the development by GFSI of municipal medium-term budgets (MTBF) (GFSI 2012 b). In fact, this is one of the joint GFSI/DEMI areas identified in the DEMI concept paper, which indicates that DEMI would support the GFSI "through public participation of key stakeholders at the local level (complementary to GFSI support)." It is interesting that the GFSI message in June 2012 references work done in this area since Year 1 of GFSI (July 2010 – July 2011) that DEMI appears to be unaware of and describes an existing arrangement that GFSI has with the LOGOS project of the Swiss Agency for Development and Cooperation as a possible model for cooperation between DEMI and GFSI (USAID 2010 a).

Discussion: The team found no single, simple explanation for the limited levels of cooperation between GFSI and DEMI, especially in the context of an otherwise strong culture of collaboration among USAID and donor programs. This deserves more in-depth review than was possible in a two-week visit that had to address literally tens of other issues. The final section of this report includes a discussion of lessons learned from the successful coordination in the assistance on the property tax and PEFA. That discussion suggests possible reasons why GFSI and DEMI have not had closer collaboration.

**Attention to gender as a cross-cutting theme focuses on statistics of persons trained by GFSI**

**Finding 9: Women represent roughly one-fourth of persons trained**

Context: GFSI addresses gender equality as a cross-cutting theme and reflects specific achievements in these areas in quarterly and annual project reporting (GFSI 2011 c). The GFSI reporting plan includes three indicators that reflect gender:

7.1.6 Number of Key Personnel in Fiscal Policy and Administration Trained With GFSI Assistance

7.1.9 Number of public and private sector Kosovars trained in PPP

7.1.13 Municipal PEFA assessors trained (GFSI 2011 b)

Evidence of the result: Data provided to the evaluation team by GFSI shows that women have represented roughly one-fourth of the persons trained by the program by year (Data set: GFSI 2012 e).

Table 5: Number of Persons Trained by GFSI, Segregated by Gender

| Indicator | Subject | YEAR 2010* | | | | YEAR 2011* | | | | YEAR 2012* | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | MALE | FEMALE | % | TOTAL | MALE | FEMALE | % | TOTAL | MALE | FEMALE | % | TOTAL |
| Col No. | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 7 | 11 |
| | Budget | | | | | 15 | 4 | | 19 | 30 | 8 | | 38 |
| | Treasury | 32 | 43 | | 75 | 92 | 65 | | 157 | 141 | 92 | | 233 |
| | Property Tax | 195 | 50 | | 245 | 44 | 15 | | 59 | 118 | 19 | | 137 |
| 7.1.6 | Sub-total | 227 | 93 | 29% | 320 | 136 | 80 | 37% | 216 | 259 | 111 | 30% | 370 |
| 7.1.9 | PPP | | | N/a | | 338 | 117 | 26% | 455 | 73 | 10 | 12% | 83 |
| 7.1.13 | PEFA | 15 | 2 | 12% | 17 | 126 | 20 | 14% | 146 | 175 | 33 | 16% | 208 |
| All | Total | 242 | 95 | 28% | 337 | 600 | 217 | 27% | 817 | 507 | 154 | 23% | 661 |

* Represents the USAID Fiscal Year - Data for 2012 is to July 2012

Discussion: GFSI has complied with the reporting requirements on gender, as established in the annual workplan approved by USAID. The final section of this report recommends that USAID consider addressing gender issues in additional aspects of GFSI activities.

# 5.0 CONCLUSIONS & RECOMMENDATIONS

## 5.1 Conclusions

### Key challenges for the GFSI third year workplan

GFSI has the potential to generate results additional to those identified in this report.

- **More than one new PPP:** The pipeline of PPPs includes 17 projects, six at the central level and 11 at the municipal level (Data set: GFSI 2012 b). The team's meetings in the municipalities of Pristina, Sterpce, Podujeve and Peja showed that there is an increased interest from both the municipalities and private investors in investing in PPPs.
- **More than 10 municipalities qualified to borrow:** As noted, earlier 16 municipalities received an unqualified audit opinion for budget year 2011. Of these, 10 qualified to borrow after receiving a second unqualified audit opinion. Should there be the same results in budget year 2012 the remaining six municipalities also would qualify to borrow.
- **Improved fiscal stewardship:** A follow-on PEFA analysis will show whether and to what extent there is improvement in the 11 municipalities that have received assistance from GFSI on the use of this assessment tool to develop a financial management improvement action plan.

- **ICT data sharing:** Ongoing work under this activity has the potential to generate a vision and a target of the "To-Be" model for ICT Services at the MoF, with detailed plans for achieving the "To-Be" state (GFSI 2011 g).
- **Economic policy:** As follow-on to the Strategic Expenditure Review it is possible that the MTEF for the period 2014-2016 will link economic development priorities to the Kosovo budget (OPM, 2012 b). This will not be easy. It has been a challenge since the EMSG, as noted in the 2009 evaluation of that program (EMSG, 2009): "We recommend that the EMSG Program give highest priority to reestablishing the MTEF this year as the Government's vehicle for turning policies into concrete multi-year plans and targets for collection and use of resources to advance the Government's highest priorities" (EMSG, 2009).

On the other hand, the extent to which central and municipal government institutions supported under GFSI will have the capacity to continue carrying out their duties and responsibilities as desired and expected in the foreseeable future after GFSI still is not certain (Priority Question 3).

- **General:** The entire staff of the PPP unit and the Macroeconomic Policy Departments is paid by the Brain Fund. The future of this fund under the civil service reform is not clear. Depending on the final resolution, it is possible that these units and others dependent on the "brain" fund could lose a large part of their staff that has been trained extensively by GFSI and its predecessor programs. This problem had already been identified in the evaluation of the predecessor to the GFSI (MoF 2012 f) (EMSG 2009).
- **PPPs:** As noted earlier, the PPP Department in the MoF has the capability to perform the review and approval functions required by law. There is no existing operating unit or staff to assume the GFSI "strategic advisor" role for PPPs. GFSI indicated that it will address the issue of the sustainability of this role through undertaking the planned initiative to establish a PDF and working with the PPP Department to establish a separate unit to perform the strategic advisory role. Establishing a separate unit within the PPP Department will not fully remove potential conflicts of interest but is considered to be the most cost effective solution for continuing the advisory function in Kosovo and is consistent with the approach adopted in Croatia. The transfer of capacity building for PPPs to Kosovo Institute for Public Administration (KIPA) is ongoing and the outcome is not yet clear. The planned Project Development Facility is still not formalized (GFSI 2012 a).
- **Municipal fiscal stewardship:** In some municipalities, key activities, such as the PEFA and Medium-Term Budget Framework, will depend on the extent to which the respective MoF department continues to make them a priority in their annual rules and requirements. The PEFA Secretariat has not yet been given a home and has no staff. The evaluation team was unable to determine the extent of the interest in PEFA and Medium Term Budget Framework (MTBF) in the Municipal Budget Department.

It is not clear the extent to which GFSI can maximize both efforts to generate additional results and efforts to address unresolved institutional capacity issues at the central level and gaps at the local level to achieve sustainability. For example, GFSI could try to strengthen institutional capacity by following an arms-length approach to implementation, allowing partner institutions to take the lead. As described in the evaluation of the predecessor to the GFSI, this would mean taking a "step back into coaching and consultation roles in order to permit Kosovar principals and staff to take the lead" (EMSG 2009). Doing so, however, might mean that not all potential results will be achieved by the conclusion of GFSI.

The possible trade-off between efforts to maximize additional results and efforts to ensure sustainability of institutional arrangements and capacity at the central and municipal levels is an important issue that USAID and GFSI will want to consider as part of the Year 3 GFSI workplan.

**The expected shift in 2014 to complete freedom by municipalities in developing their budgets and reliance by the MoF on fiscal rules to monitor their performance is an important focus for possible future USAID assistance in Kosovo.**

The circulars for the 2013 budget grant municipalities, for the first time, autonomy to allocate own-source revenues freely across spending categories except wages, in line with the corresponding end-May structural benchmark agreed with the IMF. Starting in budget year 2014, this flexibility will be extended to all municipal spending, including expenditures financed with the general grant from the central government. In return, the general grant could gradually be reduced, thus contributing to fiscal adjustment (IMF, 2012 b).

This change in policy will provide increased autonomy to municipalities, while placing a significant burden on their financial management systems, procedures and capability. GFSI can help municipalities plan and prepare for this through July 2013, but that assistance probably will fall short of what will be required to ensure that municipalities achieve a proper balance between the exercise of autonomy and prudent fiscal stewardship. Providing follow-on assistance could be an important element of a USAID program to follow GFSI, should that be part of the Mission's plans.

**Coordination among USAID programs and with those of other donors appears to be far more effective when the coordination is reflected in the initial design of the respective activities. General statements of the need to cooperate may not suffice to produce positive results.**

As noted earlier, the evaluation team found that there is effective, long-lasting coordination within the Mission itself, among USAID programs and with other development partners. The team believes this is a clear success story that warrants an additional effort by USAID to describe these efforts more extensively than was required for this report. This could be in the form of a special evaluation that addresses coordination across the entire Mission portfolio, not just GFSI.

The team also noted that this experience is not universal. There are exceptions. The findings of this evaluation show that collaboration across programs, whether within those funded by USAID or those funded by different development partners, seemed to work best when the programs had a shared design, including objectives and activities, as in the case of the work on the property tax (USAID/SIDA) or on economic policy (GFSI/BEEP).

Where collaboration has been less effective, the problem appears to have resulted from a disagreement between the programs (GFSI/DEMI) with no established mechanism to address the issue. Specifically, in the case of DEMI and GFSI, the respective program designs do not appear to have considered that central government views and priorities (GFSI) might not necessarily be compatible with those of the municipalities (DEMI). Yet, neither of the projects includes support for the design and implementation of a process through which central and municipal authorities could meet to discuss and try to resolve their differences. The lesson seems to be that statements of good intent are helpful but not nearly sufficient.

## 5.2 Recommendations

**Gender is an important issue that should be addressed in all three GFSI objectives. USAID should consider introducing gender considerations in the design of PPPs, the municipal Medium-term Budget Framework and economic development policies.**

Market studies that establish the need and demand for a service are an essential component of a successful public private partnership. Such studies are informed by a breakdown by key demographics, of which gender is a vital element. Put simply, the extent to which women and men may perceive the need for service affects key service design issues, such as the timing and location of a service. In the case of urban transport, such as in the Peja PPP, this might have a bearing, for example, on the design of routes and on the volume of buses available on those routes on different days and at different hours. The Peja Bus Service feasibility study does not report any such analysis. The only mention of women and men is in proposing standards for employee uniforms (Peja, 2011).

Municipalities constantly face the challenge of trade-offs across services, as they cannot afford to provide everything that the community might need. In addressing these trade-offs municipalities must consider that men and women living in their community may not have the same needs and priorities. This cuts across everything that a municipality does from the days and hours of its own operations – when they are open for attention to citizens, for example – to quality of life – where to locate parks and playgrounds, for example – to essential social services, such as education and health. These trade-offs can be addressed effectively in a multi-year framework that provides time to make adjustments in the distribution of expenditures across sectors and to plan and implement capital improvements. The MTBF manual prepared by GFSI notes the importance of empowering women to participate effectively in decision-making processes, but otherwise does not address gender considerations in the process of preparing the MTBF (GFSI 2011 g).

Similarly, economic development affects and is affected by men and women differently. This is the case, for example, regarding participation in and access to the labor force; in the opportunity to rise within the hierarchy of firms or to engage in entrepreneurial activities; and in the nature and extent of the adverse impacts of an economic crisis. EDVAP does not mention gender as a key consideration in Kosovo economic policy and priorities (OPM 2011 c).

USAID should consider amending the approach to PPP feasibility studies and the MTBF manual to include specific consideration of gender issues. USAID and GFSI should consider introducing gender considerations in their discussions with the GOK on economic development policies and priorities.

**PPPs have potential implications for public debt. USAID and GFSI have agreed that they will introduce public debt considerations as a key element in PPPs in the time remaining for the GFSI.**

Eurostat requires that the debt and deficit treatment of a PPP follow the requirements of the European System of Accounts (ESA95). This is an important issue in its own right, but more so as Kosovo moves toward European integration given the economic convergence criteria in the Stability and Growth Pact and the mandatory requirements of its excessive deficit procedure. The allocation of the construction risk and the market risk (i.e. availability and demand) between the Authority and the PPP Company. (See Table 6 next page) (EPEC 2012) [3]**.**

Accordingly, for the purposes of recording PPPs, ESA 95 requires national statisticians to look at the risk/reward balance in the underlying PPP arrangement. This balance is judged by analyzing in

[3] The European PPP Expertise Centre (EPEC) is a joint initiative of the EIB, the European Commission and European Union Member States and Candidate Countries

detail the allocation of the construction risk and the market risk (i.e. availability and demand) between the Authority and the PPP Company. (See Table 6) (EPEC 2012) [4]

GFSI indicated to the team that the public debt implications had been raised with them by the US Treasury Advisor. They informed the evaluation team that they will include this issue in the discussions with USAID of the Year 3 workplan.

Table 6: Accounting Treatment of PPP

<table>
<tr><th colspan="5">Accounting Treatment of a PPP according to ESAPS rules</th></tr>
<tr><td rowspan="2"></td><td colspan="3">Risk Type</td><td rowspan="2">“ON” or “Off”<br>Government Balance Sheet</td></tr>
<tr><td>Construction Risk</td><td>Demand Risk</td><td>Availability Risk</td></tr>
<tr><td rowspan="8">Who bears the risk?</td><td rowspan="4">Government</td><td rowspan="2">Government</td><td>Government</td><td>ON</td></tr>
<tr><td>Private</td><td>ON</td></tr>
<tr><td rowspan="2">Private</td><td>Government</td><td>ON</td></tr>
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<tr><td>Private</td><td>OFF</td></tr>
<tr><td rowspan="2">Private</td><td>Government</td><td>OFF</td></tr>
<tr><td>Private</td><td>OFF</td></tr>
</table>

**Key GFSI methodologies (PPP, MTBF, and PEFA) are ambitious and technically complex. USAID should consider the implications such choices have for the cost of project inputs and the sustainability of results when it designs new programs.**

The USAID design for GFSI involved the selection of methodologies that while valid and relevant also tend to be complex and difficult to implement successfully. This is the case with PPPs, PEFA, and the Medium-Term Budget Framework. It is true as well for the function of chief information officer (CIO), which is part of the approach to improving management of ICT in the MoF.

All of these tend to require an approach that relies on intensive TA with a relatively small number of counterparts at the expense of a training-based approach that involves a larger number of counterparts. This is what happened, for example, with GFSI efforts to implement medium-term budgeting in municipalities. Initially, the approach relied on training. To its credit, GFSI’s own evaluation of progress in the participating municipalities showed that training alone would not be sufficient. GFSI moved to provide more hands-on direct technical assistance to a relatively small number of municipalities (GFSI 2011 f).

Results achieved under all three methodologies also will require careful monitoring and management over long periods of time, well beyond the usual life of a USAID program. This is the case, for example, with PPPs. This challenge was identified in the evaluation of the predecessor the GFSI, which noted that “While PPP arrangements are simple in concept; they are extremely difficult in practice. The problem lies in the long-term nature of the relationship. It is not enough that the current government of Kosovo strongly embrace agreements made with a concessionaire; subsequent governments must also honor those commitments.” GFSI is aware of this and provides

4 The European PPP Expertise Centre (EPEC) is a joint initiative of the EIB, the European Commission and European Union Member States and Candidate Countries

assistance to make sure that the contracting party has in place a process to monitor performance over the life of the contract. However, if problems come up after USAID assistance has ended, due for example, to unanticipated increases in costs or a serious drop in performance by the contractor, the institutions are left to fend for themselves.

Before opting for such methodologies and approaches, USAID should consider alternatives that are simpler to implement and less challenging to implement successfully. For example, a multi-year capital investment plan achieves many of the most important benefits of a full medium-term budget framework, yet is far simpler to prepare and easier to explain to non-technical stakeholders, including citizens and local elected officials.

**Regardless of the extent of progress in Year 3 of GFSI certain activities of that program could be incorporated in a new USAID program, although with modifications in focus or emphasis.**

As noted above, GFSI has the potential to generate results additional to those identified in this report in promoting PPPs as an alternative approach to finance priority investments; certification of municipalities to borrow; fiscal stewardship as measured by the PEFA indicators; and economic policy. All these activities could become elements of a new program with adjustments.

- **PPPs**: A new program would provide the opportunity to focus on the all-critical post-contract phase of the PPP process. This should include continued assistance to establish an effective system to monitor performance at the central and municipal levels. It should include as well assistance to establish fair, expeditious and transparent mechanisms to address potential conflicts between the parties, should they arise (which is likely). This is consistent with the recommendation made in the evaluation of the predecessor program to GFSI that "Particular attention needs to be given to creation of a regulatory framework that would provide assurances to both the government and to future concessionaires of fair adjudication of contract disputes" (EMSG 2009). That recommendation will become more relevant by the end of GFSI when several PPPs will have been completed and under contract than it was when GFSI began and only the Pristina airport concession was on the books.

  At the same time a new program could provide limited, targeted assistance in the form of mentoring and consultation to support the institutions established under the GFSI, including the PPP Department, the municipal PPP units, the PDF (assuming it is established), and the training component proposed for KIPA. This assistance should not become a full-fledged replica of current efforts under GFSI. Existing institutional arrangements should be allowed to fail if they are unable to function without extensive new USAID-funded assistance. The Government and municipalities must show that they have the commitment and capacity to ensure the continued viability of these institutions.

- **Municipal borrowing**: So far, a number of municipalities have been declared eligible to borrow but none have actually made use of this authority. A new USAID program would provide the opportunity to support the development of a municipal credit market in Kosovo. This would entail assistance to local borrowers – learning to assess their borrowing capacity and evaluate borrowing risks; to potential lenders – the same but from a lender's perspective; and to the Government to establish and adopt borrowing rules and procedures. Consistent with this report's earlier comments about methodologies that are especially ambitious and technically complex, USAID should weigh carefully the implications of including assistance for the issuance of municipal bonds as an option in the new program. Bank lending, which is less complicated than issuance of bonds and easier to implement, has proven to be a viable path to early development of an active municipal credit market in other countries of the region, including Albania, the Czech Republic, Poland and Romania.

A focus on municipal borrowing would provide an opportunity to build on another aspect of GFSI's support for municipalities. Current efforts to help municipalities prepare and adopt a medium-tern budget (MTBF) should continue with a focus on helping municipalities use the MTBF as a tool to identify priority investment projects that warrant and justify the risks and costs of loan financing (versus other options, such as a PPP); to evaluate future operating and maintenance costs of the investment, once completed; and, to ensure that these costs are incorporated in a timely manner in the municipal budget.

Given overall limits on public debt that are likely to persist for some time as part of continued efforts to maintain fiscal stability, municipal borrowing options will be very limited. This will require that the MoF develop a transparent, timely and predictable process to allocate the limited borrowing ceiling to specific municipalities over several years. This also should incorporate a process to identify the public debt implications of existing and new PPPs. USAID might want to design the assistance as a modification to the annual process of allocating of grants to municipalities. This might require modifications to the MTEF to include a careful consideration of overall public debt, including municipal public debt. It might also entail an analysis of the role that the Grants Commission can and should play in the process. Finally, once all the pieces have been analyzed, the assistance should focus on helping to establish a legal and regulatory framework for prudent municipal borrowing.

- **Fiscal stewardship**: To date the work in this area, both at the central and municipal levels, has relied on the use of the PEFA methodology to identify areas of weakness and develop a corresponding action plan to address them. USAID can and should continue to encourage continued use of that methodology but that may not require much of an effort as both the central and municipal governments already have conducted PEFA self-evaluations. Instead USAID may want to focus on providing assistance to explore in-depth the root causes of areas of weakness identified through the PEFA. The PEFA Secretariat has stated clearly that the methodology "does not provide […] an assessment of underlying causes for good / poor performance" and that a "complementary analysis to PEFA is required to identify root causes" (PEFA Secretariat 2011). In the GFSI, especially at the municipal level, this process has consisted primarily of a roundtable discussion of the findings in which the participants are all government officials. While sufficient for an early stage of the process, this may not be the best approach should USAID wish to continue providing support in this area. USAID may want to provide support for outside experts (not necessarily expats) to analyze what may have led to a weak indicator score in the PEFA. Their findings and the overall PEFA results can then be discussed in a roundtable format by government officials.

  USAID also may want to consider adding complementary activities. One possibility is to add to a process known as the Open Budget Survey promoted by the Open Budget Initiative[5] if it is not being applied already in Kosovo. The survey provides a citizen-centered perspective that complements the government-centered focus of the PEFA. Such a

[5] The Open Budget Initiative (OBI) is a global research and advocacy program to promote public access to budget information and the adoption of accountable budget systems. More information is available on the OBI web site at http://internationalbudget.org/what-we-do/major-ibp-initiatives/open-budget-initiative/

combination of the PEFA and Open Budget Survey methodologies was implemented in Honduras in 2011 at the initiative of the Millennium Challenge Corporation. The results of the two methodologies were presented together and measures to address the weaknesses identified by both assessments were included in the action plan prepared by the Government.

- **Economic Policy**: As noted above, the Strategic Expenditure Review highlighted the need link economic development priorities to the Kosovo budget through the MTEF. The process of linking not only economic policy priorities but any multi-year policy or strategy to annual budget allocation decisions is both critically important and highly challenging. Assuming that the GFSI makes progress in Year 3 in this area, it will still be an incomplete achievement. The MTEF for the period 2014-2016 will be ready before GFSI ends in July 2013 but not the process of preparing and adopting the final Kosovo budget for 2014. Following that will be the process of implementing a budget that is certain to include difficult changes derived from the reallocation of resources from lower- to higher-priority activities.

  DFID – the other donor that has been active in this area – has announced that it is ending its Kosovo assistance. USAID through EMSG and GFSI has earned a unique place and role as key advisor to the Ministry and Minister of Finance. USAID should build on this important achievement and confirm that it will remain committed to providing assistance to the MoF in formulating and implementing macro-economic and fiscal policy, including the use of the MTEF as a tool to reflect medium-term economic policy priorities in annual budget allocations.

# ANNEXES

# ANNEX I: EVALUATION STATEMENT OF WORK

## I. SUMMARY

USAID/Kosovo seeks to carry out a mid-term performance evaluation of the implementation of Growth and Fiscal Stability Initiative (GFSI) program – (Contract Number: EEM-I-00-07-00005).

The program began in July 2010 and ends July 2013. The program is intended to assist key government institutions at the central and local level to maintain fiscal sustainability and promote private sector-driven economic growth in Kosovo through targeted technical assistance to municipalities and relevant government institutions. The evaluation will explore and assess whether the activities carried out under each objective contributed to the achievement of the goals.

## II. BACKGROUND

Since 1999, USAID/Kosovo Economic Policy and Institutional Strengthening programs focused on establishing key central economic institutions and putting in place an enabling environment for private sector growth. The technical assistance evolved to meet changing situations and needs as the overall level of effort first increased and then declined as capacity was successfully built. The focus of technical assistance continues to build upon the experience and lessons learned from the successful creation of reliable fiscal and financial institutions in the central government, applying that same results-oriented approach to the fiscal stewardship challenges faced by sub-national governments. GFSI is working with municipalities in areas that are directly linked with the Ministry of Finance and Economy (budget, treasury, property tax, Public Private Partnerships).

GFSI activities focus on supporting the Government of Kosovo (GOK) institutions at both central and local levels, the application of Public Private Partnerships (PPPs) as a reliable alternative for the funding of public infrastructure investments, building capacity so that counterparts can conceive, develop, procure and manage PPPs in a sustainable fashion.

In addition, GFSI is working with key counterparts and stakeholders to develop an integrated approach aimed at promoting and enabling economic growth for Kosovo. The Economic Development Vision and Action Plan (EDVAP) is the GOK's key strategic document that sets out the Government's priorities in different sectors.

GFSI provides day-to-day assistance to the Ministry of Finance, other economic ministries, and relevant municipalities to maintain fiscal sustainability and promote private sector-driven economic growth in Kosovo through targeted technical assistance to municipalities and relevant government institutions.

The following are GFSI objectives:

**1. Support private sector participation through Public-Private-Partnerships and through support to the Privatization Agency of Kosovo**

A. Public-Private-Partnerships: Strengthen the ability and capacity of central and local institutions to identify, develop and implement Public-Private-Partnership (PPP) projects as an important private sector funding mechanism for meeting Kosovo's public infrastructure investment priorities;

B. Privatization - Targeted technical assistance to the Privatization Agency of Kosovo (PAK) will be provided with the intention of bringing the liquidation of the more than 600 privatized SOEs to timely closure, putting the nearly €440 million of privatization proceeds currently held in trust and invested outside Kosovo to work in the Kosovo economy.

**2. Fiscal Stewardship:** Build professionalism and expertise in sound public financial management in municipalities so that they become institutions capable of autonomously and efficiently stimulating local economic development while providing a high standard of public services. Assist the Office of the Auditor General (OAG) so that their ability to review and assess the fiscal operations of the municipalities is strengthened and made more timely and effective. Assist the Ministry of Finance to (i) develop and implement an action plan to enable data sharing among the various legacy IT systems in the ministry; (ii) assess remaining priority capacity building needs in the Ministry's Budget and Treasury functions and design and conduct training programs to address those needs; and (iii) ensure that the Ministry's Property Tax Department and supporting systems remain robust and capable of meeting the own-source revenue needs of municipalities.

**3. Economic Policy Assistance:** Develop and implement an action-oriented Government strategy for profitable private sector growth and attracting foreign direct investment through technical assistance provided to the relevant counterpart institutions and closely coordinated with other USG-funded development initiatives.

## III. PURPOSE OF THE EVALUATION

The main purpose of this Mid-term Performance Evaluation is to provide USAID/Kosovo with an objective external assessment of GFSI's performance to date. Further, the evaluation will help the Mission: (a) understand whether the project is meeting its objectives; (b) GFSI project implementation efficiency; (c) identify deficiencies in the program's current target areas and recommend remedial actions to be carried out in the remaining life of the program; and (d) use lessons learned to inform the decision for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area.

## IV. STATEMENT OF WORK

The Contractor will provide a two person team to conduct a GFSI Performance Evaluation. The team will develop and adopt an approach that elicits and analyzes information, and provides key findings, conclusions, and recommendations on the issues below.

**Priority Questions:**

1. **How have the relevant Kosovo institutions been strengthened in its ability to a)** identify, develop and implement Public-Private-Partnership (PPP) projects in Kosovo; **b)** conduct sound public financial management; and **c)** develop and implement an action-oriented Government strategy for profitable private sector growth and attracting foreign direct investments?

2. **Are the results being produced at an acceptable and desired cost level? What could the implementer change to lower the cost to accomplishing the same objectives?**

3. **To what extent will the beneficiaries supported under GFSI have the capacity to continue carrying out their duties and responsibilities as desired and expected in the foreseeable future?**

4. **How well does the program coordinate sufficiently and effectively with other programs on related issues?**

5. **Based on a review of GFSI's implementation and results, what recommendations do you have for possible future USAID programming in the macro-fiscal policy and economic institutions strengthening area?**

6. **Can any identified deficiencies in the overall implementation of program's current objectives be remedied in the remaining life of the program, and what are recommendations and lessons learned?**

## V. METHODOLOGY

The contractor should propose the most relevant methods and tools for data collection and analysis for each of the required research questions. This should not be limited to the available and relevant quantitative and qualitative instruments and measurements. The contractor should also collect information from key informants and stakeholders (e.g., client enterprises, associations and government counterparts), relevant USAID/Kosovo staff and other relevant stakeholders. At a minimum, the evaluation team USAID Economic Growth Office (EGO) staff and direct beneficiaries of assistance provided under GFSI.

Therefore, the contractor should propose the most relevant methods and tools for data collection and analysis and include them in the evaluation design. The evaluation will also draw on project documents and reports. As a helpful tool, related Indicators List of this project is attached as Annex A to C.2.

The contractor in collaboration with USAID/Kosovo will finalize the overall evaluation methodology as well as initial work plan. The work-plan will be submitted to USAID/Kosovo at least one week prior to the team's arrival in Kosovo for approval.

## VI. CONTRACTOR TASKS AND DELIVERABLES

### A. Task One: Literature Review and Evaluation Methodology Preparation

Prior to beginning the interview process, the Contractor shall prepare for the evaluation by reviewing key documents and background material on Kosovo's economy; and applicable USAID design and project documentation, and be familiar with the fiscal policy and institutional strengthening activities.

**B. Task Two:** Meet with USAID/Washington's Office of Economic Growth and Trade (EGAT)

### C. Task Three: Conduct Fieldwork

Upon arrival to the Mission, the Contractor shall meet with the Mission M&E specialist and with the USAID/Kosovo Economic Growth Office to review objectives of this evaluation. The contractor shall collect data from a broad range of stakeholders familiar with the Growth and Fiscal Stability Initiative (GFSI) program following the approved evaluation design. These stakeholders may include: The Ministry of Finance (MoF); Municipalities; Office of the Auditor General (OAG); Privatization Agency of Kosovo (PAK); IMF; World Bank; DFID; ECLO; and SIDA.

### D. Task Four: Report Preparation and Briefing

The Contractor shall provide an oral briefing and an outline of findings to the USAID/Kosovo senior management and Economic Growth Office prior to departure. The evaluation team will present a draft report within ten business days of returning to their base offices. The final report will be due within 15 business days (three calendar weeks) following receipt of comments from USAID. See deliverables below for more detail.

### E. Deliverables

**1. Work Plan and Evaluation Design -** A Work Plan and Evaluation Design for the evaluation shall be completed by the lead evaluator within two weeks of the award of the contract and presented to the M&E Specialist/COR. The evaluation design will include a detailed evaluation design matrix (including the key questions, the methods and data sources used to address each question and the data analysis plan for each question), draft questionnaires and other data collection instruments, known limitations to the evaluation design and a dissemination plan. The final design requires COR approval. Unless exempted from doing so by the COR, the design will be shared with country-level stakeholders as well as with the implementing partners for comment before being finalized.

The work plan will include the anticipated schedule and logistical arrangements and delineate the roles and responsibilities of members of the evaluation team.

**2. Oral Briefings.** The evaluation team will meet with USAID/Kosovo upon arrival in Kosovo. The team will also provide an oral briefing and a written summary of its findings to the USAID/Kosovo senior management and economic growth office prior to departure.

**3. Draft Report -** The evaluation team will present a draft report of its findings in English and recommendations to the USAID/Kosovo Program Office within ten business days from the time of return to their base offices.

**4. Final Report.** The Final Report will be provided to the USAID/Kosovo Mission Monitoring and Evaluation Specialist/COR in electronic form within 10 days following receipt of comments from USAID. The report shall include an executive summary, introduction, background of the local context and the projects being evaluated, the main evaluation questions, the methodology or methodologies, the limitations to the evaluation, findings, conclusions, and recommendations and lessons learned (if applicable). In addition, the Final Evaluation Report shall be accompanied by a Financial Report which describes in detail how contract funds were utilized.

**5. Other Requirements:** All records from the evaluation (e.g., interview transcripts or summaries) must be provided to the COR. All quantitative data collected by the evaluation team must be provided in an electronic file in easily readable format agreed upon with the COR. The data should be organized and fully documented for use by those not fully familiar with the project or the evaluation. USAID will retain ownership of the survey and all datasets developed.

## VII. PROPOSED TIMELINE

This evaluation is expected to last up to 90 days.

# ANNEX II: DATA COLLECTION INSTRUMENTS

## 1. Is the GFI meeting its objectives?

<table>
<tr><th colspan="2">1. Status of institutional ability to identify, develop and implement PPP’s in Kosovo – central and municipal levels</th></tr>
<tr><td colspan="2">Quantitative Analysis</td></tr>
<tr><td colspan="2">General / Aggregate Indicators<br>• Capital expenditures as a share of the central and municipal budgets*<br>• Number of PPP’s in the pipeline at the national and municipal level (proposed, agreed, completed) both with and without GFSI support*<br>• Value of completed investment in these PPPs*<br>• Number of public sector staff and private operators trained by the GFSI in the concepts and methods of a PPP</td></tr>
<tr><td colspan="2">Benchmarks<br>• Priority secondary PPP legislation promulgated<br>• Multi-year PPP strategy approved<br>• Secondary legislation and implementing regulations reflect environmental considerations in all phases of PPP</td></tr>
<tr><td colspan="2">Data / Information specific to institutions interviewed by the evaluation team<br>• Capital expenditures as a share of the municipal budget<br>• Location of PPP Unit in institution’s organization chart<br>o Functions<br>o Hierarchical level<br>o Reporting<br>• Staffing<br>o Number of professional staff and qualifications<br>o Number trained by GFSI or other project<br>o Outside experts that support the unit<br>• Results to date<br>o Number of PPP’s in the pipeline (proposed, agreed, completed) including those generated with and without GFSI support</td></tr>
<tr><td>Qualitative Analysis</td><td>Outside sources that can provide other views on the capacity of the central and municipal PPP units</td></tr>
<tr><td>Points to cover in interviews with central PPP unit and PPP unit in sample of municipalities covered by the evaluation<br>Analysis of roles played by unit staff, other government officials, GFSI and others in each step of the PPP process taking a specific, existing PPP as a case study<br>• Role in identifying the PPP<br>o Analysis of priority investments<br>o Selection of specific investment as the focus<br>• Role in developing the PPP<br>o Prepare and issue request for proposals<br>o Evaluate proposals and award contract<br>o Negotiate and sign contract<br>• Role in implementing the PPP<br>o Monitor performance<br>o Identify and address problems<br>• General issue: Problems and obstacles encountered<br>o Description of the major problems encountered<br>o How resolved/by whom<br>o Current status of the problem</td><td>Key institutions/projects to interview on this topic<br><br>• Central PPP unit regarding municipal PPP units<br>• GFSI<br>• DEMI regarding municipal PPP units<br>• Private sector participants in PPP projects<br><br>Reports that bear on the issue<br><br>Documents will be identified during the visit</td></tr>
</table>

## 2. Status of institutional ability to conduct sound public financial management – central and municipal levels

### Quantitative Analysis

**General / Aggregate Indicators**

- Overall budget deficit
- Budget reserve as % of GDP
- Regarding municipal PFM
  - Number of municipal level PEFA assessments conducted
  - Number of municipalities with staff trained in PEFA concepts and methods
  - Number of municipal staff trained in PEFA concepts and methods
  - Number of municipalities that have completed and adopted an MTBF
  - Number of municipal staff trained in the MTBF concepts and methods
  - Number of municipalities with unqualified audits of their financial statements
  - Number of municipalities that qualify to borrow
  - Number of municipalities with electronic reconciliation of revenues
  - Number of municipalities that issue financial statements within one month of the end of their fiscal year
  - Budget to actual performance in participating municipalities
- Regarding the property tax
  - Municipal own source revenues from the property tax total
  - Property tax revenues as a share of municipal own source revenues
  - Number of municipal property tax offices audited /share of total

**Benchmarks**

- Steps taken to Implement Government PFM Action Plan
- ICT
  - ICT strategic assessment completed
  - Strategic ICT plan completed
  - Budget and Treasury Systems enhanced and integrated
  - Approach for ensuring effective and efficient data and information sharing among systems and business units selected
  - Data and information sharing solutions implemented
- Property tax
  - Mass appraisal methodology calibrated/implemented

**Data / Information specific to institutions interviewed by the evaluation team**

- Identify relevant unit(s) in institution's organization chart and for each unit specify
  - Functions
  - Hierarchical level
  - Reporting
- Staffing
  - Number of professional staff and qualifications
  - Number trained by GFSI or other project
  - Outside experts that support the unit
- Results to date
  - New methods implemented (studies, reports, IT systems)
  - Example of outputs of the studies, reports, IT systems

### Qualitative Analysis

**Points to cover in interviews with central and municipal PFM units**

Analysis of change in PFM using a concrete example from the institution being interviewed

- Describe a change that occurred as a result of PFM assistance (Note change can be in existing PFM systems or in the composition and/or execution of the budget)
- Describe its impact on the institution's finances

Analysis of roles played by unit staff, other government officials,

**Key institutions/projects to interview on this topic**

- MFE regarding municipal PFM
- GFSI
- DEMI regarding municipal PPP units
- IMF
- DFID
- World Bank
- EC
- SIDA (property tax)

| 2. Status of institutional ability to conduct sound public financial management – central and municipal levels | |
|---|---|
| GFSI and others in effecting the change and achieving the impact<br>• Role in identifying the need / opportunity to improve performance<br>o Analysis of the existing situation<br>o Selection of specific change(s) to pursue<br>• Role in developing the measures to improve performance<br>o Design the measures<br>o Review and adopt the measures<br>• Role in implementing the measures<br>• Monitor performance<br>• Identify and assess impact of the measures<br>• General issue: Problems and obstacles encountered<br>• Description of the major problems encountered<br>• How resolved/by whom<br>• Current status of the problem | Reports that bear on the issue<br>• PFM Action Plan<br>• PEFA – Local Level<br>• PEFA – Individual municipality interviewed<br>• IMF staff monitoring reports<br>• Other documents will be identified during the visit |

<table>
<tr><th colspan="2">3. Status of institutional ability to develop and implement an action-oriented Government strategy for profitable private sector growth and attracting foreign direct investments</th></tr>
<tr><td colspan="2">Quantitative Analysis</td></tr>
<tr><td colspan="2">General / Aggregate Indicators<br>• GDP growth<br>• Private investment in the economy<br>• Exports as a share of GDP</td></tr>
<tr><td colspan="2">Benchmarks<br>• Economic Development, Vision and Action Plan (EDVAP) adopted</td></tr>
<tr><td colspan="2">Data / Information specific to institutions interviewed by the evaluation team<br>• Location of Economic Policy Unit in institution’s organization chart<br>o Functions<br>o Hierarchical level<br>o Reporting<br>• Staffing<br>o Number of professional staff and qualifications<br>o Number trained by GFSI or other project<br>o Outside experts that support the unit</td></tr>
<tr><td colspan="2">Qualitative Analysis</td></tr>
<tr><td>Points to cover in interviews with central economic policy unit<br>Analysis of roles played by unit staff, other government officials, GFSI and others in each step of a change in economic development policy/strategy using a concrete example<br>• Describe the change<br>o Previous versus current economic development policy/strategy<br>o Estimated impact of the new policy/strategy<br>Analysis of roles played by unit staff, other government officials, GFSI and others in effecting the change and achieving the impact<br>• Role in analyzing the existing policy/strategy<br>o Analysis of the existing situation<br>o Selection of specific change(s) to pursue<br>• Role in developing the new policy/strategy<br>o Propose reform(s)<br>o Review/adopt reform(s)<br>• Role in implementing the measures<br>• Identify and assess impact of the reform(s)<br>• General issue: Problems and obstacles encountered<br>o Description of the major problems encountered<br>o How resolved/by whom<br>o Current status of the problem</td>
<td>Key institutions/projects to interview on this topic<br>• Central Bank<br>• GFSI<br>• BEEP<br>• IMF<br>• DFID<br>• World Bank<br>• Private sector (TBD)<br>Reports that bear on the issue<br>• Economic Development, Vision and Action Plan (EDVAP)<br>• Strategic Expenditure Review<br>• IMF Staff monitoring reports<br>• Other documents will be identified during the visit</td></tr>
</table>

| 4. Capacity of these institutions to continue carrying out their duties and responsibilities as desired and expected in the foreseeable future | |
|---|---|
| Quantitative Analysis | |
| Benchmarks<br>• Institution(s) identified to carry on capacity development in PFM and economic development after GFSI assistance ends<br>• Generic capacity development materials developed and disseminated<br>• Lessons learned recorded and disseminated | |
| Data / Information specific to institutions interviewed by the evaluation team under items 1, 2 and 3 above<br>• Regarding the organizational units interviewed<br>o Staff turnover by level and year<br>o Qualifications of replacement staff<br>o Annual budget – total and as share of total institutional budget<br>o Audit findings regarding the unit or its work, if any | |
| Qualitative analysis | |
| Additional points to cover in interviews under items 1, 2 and 3<br>• Commitment by superior authorities<br>o Comments by superior authorities on the need to maintain the unit and its function<br>o Role of superior authorities in resolving problems/obstacles related to the continued existence of the unit and function | Key institutions/projects to interview on this topic<br>• Same as 1, 2 and 3 above |

## 2. Has the GFSI been implemented efficiently?

| 1. Costs incurred in achieving results | | | | |
|---|---|---|---|---|
| Cost item | Objective 1 | Objective 2 | Objective 3 | Share by cost item (%) |
| Share by objective (%) | | | | 100% |

| 2. Nature and extent of coordination with other programs |
|---|
| Points to cover separately with GFSI, other donor programs, and GFSI participants<br>• Information on actual efforts to achieve coordination<br>o Nature of effort<br>o When it occurred<br>o Who participated<br>o What was discussed<br>o What was resolved<br>• Major issues or differences among donors<br>o Issue<br>o Position of respective donors<br>o How it is being/has been addressed<br>o Current status of differences<br>• Regarding impact on GFSI participants<br>o Lack of coordination of inputs/events<br>o Simultaneous, conflicting demands on their time and resources<br>o Differing positions on issues |

# ANNEX III: LIST OF PERSONS INTERVIEWED

| Persons Interviewed | | | |
|---|---|---|---|
| Organization | Name and title | Address | Contact Information |
| Government of Kosovo | | | |
| Ministry of Finance | Bedri Hamza, Minister of Finance | Government Building, Floor 11, Mother Theresa Str. 10000 Pristina | |
| Budget Department, MoF | Agim Krasniqi, Budget Director | Government Building, Floor 14, Mother Theresa Str. 10000 Pristina | Email: akrasniqi@mfe-ks.org |
| Economic Policy Department, MoF | Valmira Rexhëbeqaj, Macroeconomic Director | Government Building, Floor XIII Office 7, Mother Theresa Str. 10000 Pristina | Office: +381 3820034462<br>Mob: +386 49313307<br>Email: vrexhebeqaj@mfe-ks.org |
| Economic Policy Department, MoF | Semra Tyrbedari, Macroeconomic Advisor | Government Building, Floor XIII Office 7, Mother Theresa Str. 10000 Pristina | Office: +381 3820034462<br>Fax: +381 38213113<br>Email: styrbedari@mfe-ks.org |
| Property Tax Department, MoF | Agron Thaqi, Proerty Tax Department Director | Tring Smajli Street, Pristina | Office: 03820034638<br>Mob: +377 45393863 |
| PPP Department, MoF | Lorik Fejzullahu, PPP Department Director | Floor 3, Room, 20, Tring Smajli Street, Pristina | Office: +381 3820034632<br>Fax: +381 38213143<br>Mob: +377 45505511<br>Email: lfejzullahu@mfe-ks.org |
| Treasury Department, MoF | Nysret Koca, Deputy Director of the Treasury for Accounting & Reporting | Government Building, Mother Theresa Str. 10000 Pristina | Mob: +377 44666360 |
| Ministry of European Integration | Jeton Karaqica, Senior Officer for Economic Development and SMEs | New Government Building, Scanderbeg Square, 10000 Pristina | Office: +381 3820027049<br>Mob: +377 44231024<br>Email: jeton.karaqica@ks-gov.net |
| Ministry of Infrastructure | Ramë Qupeva, Director of the Road Infrastructure Department | Ex-Gërmia Building, Level 2, Office 213D, Mother Theresa Str. 10000 Pristina | Office: +381 38211494<br>Fax: +381 38211514<br>Mob: +38649747048/+37744220516<br>Email: qupeva@yahoo.com |
| Ministry of Local Government Administration | Besnik Osmani, Secretary General | New Government Building, Ex-Media Palace “Rilindja”, Floor 13 | Office: +381 3820035577<br>Fax: +381 3820035521<br>Email: besnik.osmani@rks-gov.net |
| Ministry of Trade and Industry | Mimoza Kusari Lila, Minister of Trade and Industry / Deputy Prime Minister | Lagja e Spitalit, Muharrem Fejza Street, Office 128, 10000 Pristina | Office: +381 3820036504<br>Office: +381 38512828<br>Fax: +381 38 512798<br>Email: mimoza.kusari.lila@rks-gov.net |
| Ministry of Trade and Industry | Bernard Nikaj, Senior Political Adviser | Lagja e Spitalit, Muharrem Fejza | Office: +381 3820036553 |

| Persons Interviewed | | | |
|---|---|---|---|
| Organization | Name and title | Address | Contact Information |
| | | Street, Office 128, 10000 Pristina | Office: +381 38512206<br>Mob: +377 44122819<br>Email: bernard.nikaj@rks-gov.net |
| Strategic Planning Office, Office of Prime Minister | Ruzhdi Halili, Office Director | Government Building, Floor V. Office 508, Mother Theresa Str. 10000 Pristina | Office: +381 3820014021<br>Mob: +377 44384178<br>Email: ruzhdi.halili@rks-gov.net |
| Office of Auditor General | Lage Olofsson, Auditor General | Str. Musine Kokollari, No.16, 10000 Pristina | Office: +381 382535109<br>Fax: +381 382535122<br>Mob: +377 45509000<br>Email: lage.olofsson@oagks.org |
| Municipalities | | | |
| Association of Kosovo Municipalities | Sazan Ibrahimi, Executive Director | Tring Smajli Street, 10000 Prishtine | Office: +381 38245734<br>Fax: +381 38245733<br>Mob: +377 44182437<br>sazanibrahimi@komunat-ks.net |
| Municipality of Klina | Refki Krasniqi, CFO | Municipality of Klina | Mob: +381 39471119 |
| Municipality of Peja | Aferdita Grapci, Chairwoman for Budget and Finance Committee/Association of Kosovo Municipalities | Municipality of Peja | Mob: +377 44139358 |
| Municipality of Peja | Naim Sahiti, Director of Public Services | Municipality of Peja | Mob: +377 44137692 |
| Municipality of Pristina | Xhelil Bekteshi, Director of Finance and Property, PFM | Str. UCK, No.2 Pristina | Office: +381 38230900 ext.1200<br>Mob: +377 44233448<br>Email: xhelil.bekteshi@ks-gov.net |
| Municipality of Pristina | Ekrem Rexha, Director of Public Procurement , PPP | Str. UCK, No.2 Pristina | Mob: +377 44504380 |
| Municipality of Pristina | Hyra Muharremi, Budget and Finance Officer, PEFA | Str. UCK, No.2 Pristina | Mob: +377 44156026 |
| Municipality of Pristina | Avdullah Hoti, Deputy Mayor, PPP | Str. UCK, No.2 Pristina | Mob: +377 44350133 |
| Municipality of Podujeva | Isuf Latifi, Director of Budget and Finance | Municipality of Podujeva | Office: +381 38 20035061<br>Mon: +377 44663494<br>Email: isuf.latifi@ks-gov.net |
| Municipality of Sterpce | Daniel Vuksanovic, Manager of | Municipality of Sterpce | Mob: +377 45511719 |

| Persons Interviewed | | | |
|---|---|---|---|
| Organization | Name and title | Address | Contact Information |
| | Property Tax | | |
| Municipality of Sterpce | Sladjan Ilic, CDF Advisor, Capacity Development Facility for Kosovo | Mayor Office, Sterpce Municipality, Sterpce, | Tel: +381 290 370004<br>Mob: +377 45 511 719<br>Email: borzani2000@yahoo.com |
| Municipality of Sterpce | Sinan Imeri, Chief Financial Officer | Municipality of Sterpce | Mob: +377 44219472 |
| Municipality of Vushtrri | Isuf Jashari, Director of Budget, Treasury and Finance (ZKF) | Municipality of Vushtrri | Tel: +381 28 572080 / 571018<br>Mob: +377 44965404<br>Mob: +386 49814858<br>Email: isufjashari@hotmail.com |
| Kosovo Private Sector | | | |
| American Chamber of Commerce | Arian Zeka, Executive Director | Fehmi Agani Str. No.36/3, 10000 Pristina | Office: +381 38246012<br>Mob: +386 49808111<br>Email: arian.zeka@amchamksv.org |
| Urban 029<br>(Peja PPP private partner) | Gezim Salihu, Director | Luan Haradinaj, Kino ABC 1, Pristina | Tel: +381 38 244 936<br>Fax: +381 38 244 936<br>proreklam_europlakat@hotmail.com |
| International Development Partners / International Development Partner Contractors | | | |
| Department for International Development (UK) | Valbona Bogujevci, Deputy Programme Manager | Arberia 1, Ekrem Rexha Str.8, 10000 Pristina | Office: +381 38249724/5 ext.105<br>Fax: +381 38249723<br>Mob: 044402664<br>Email: v-bogujevci@dfid.gov.uk |
| EC twining, Local Government | Steven Moore, EC Twinning Project Manager (replacing Alan Parker) | Rilindja, New Government Building, Floor V, Room 508 | Office: +381 3820035626 |
| Embassy of Sweden | Maria Melbing, Counselor/Head of Development Cooperation | Str. Perandori Justinian, No.19, 10000 Pristina | Office: +381 38245795 ext.8211<br>Fax: +381 38245791<br>Mob: +377 44503908<br>Email:<br>maria.melbing@foreign.ministry.se |
| Embassy of Sweden | Fatos Mulla, Programme Officer Development Cooperation Enviroment and Climate | Str. Perandori Justinian, No.19, 10000 Pristina | Office: +381 38245795 ext.8216<br>Fax: +381 38245791<br>Mob: +377 44506117<br>Email: fatos.mulla@foreign.ministry.se |
| International Monetary Fund | Jose Suleman, IMF Resident Representative | Central Bank Building, Garibaldi str. no.33 Pristina | Office: +381 38244655 |

| Persons Interviewed | | | |
|---|---|---|---|
| Organization | Name and title | Address | Contact Information |
| REPIM | John Short, DFID Contractor | Fernwood House, West Woodfoot, Slaley, Hexham,Northumberland NE47 0DF England | Office: +44 (0) 1434 673385<br>+447791576864<br>Email: jjoshort@yahoo.co.uk |
| World Bank | Evis Sulko, Country Operations Officer | Rruga Prishtinë Fushë-Kosovë 10060, Pristina, Kosovo | Tel:0037738138-609333<br>Fax:0037738138-60<br>Email: esulko@worldbank.org |
| U.S. Government | | | |
| USAID Kosovo | Luan Gashi, Program Economist, Economic Growth Office | Arberia (Dragodan), Ismail Qemali Str. No.1 Pristina, 10130 | Office: +381 385959 ext.2214<br>Fax: +381 38249943<br>Mob: +377 44161560<br>Email: lgashi@usaid.gov |
| USAID Kosovo | Elizabeth Santucci, Private Enterprise Officer | Arberia (Dragodan), Ismail Qemali Str. No.1 Pristina, 10130 | Office: +381 385959 ext.2156<br>Fax: +381 38249943<br>Mob: +377 44506634<br>Email: esantucci@usaid.gov |
| USAID Kosovo | Ardian Spahiu, Program and Project Office, Development Assistance Specialist | Arberia (Dragodan), Ismail Qemali Str. No.1 Pristina, 10130 | Office: +381 385959 ext.2235<br>Fax: +381 38249943<br>Mob: +377 44161551<br>Email: aspahiu@usaid.gov |
| Bureau for Economic Growth, Education & Environment, USAID | David Dod, Senior Economist Office of Economic Policy | | Office: +1 202 712-1638 |
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