

Data Sheet

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| USAID Mission: | Kosovo |
| Program Title: | Economic Policy and Institutions |
| Pillar: | Economic Growth, Agriculture and Trade |
| Strategic Objective: | 167-0120 |
| Status: | Continuing |
| Planned FY 2006 Obligation: | \$8,853,000 AEEB |
| Prior Year Unobligated: | \$201,000 AEEB |
| Proposed FY 2007 Obligation: | \$9,419,000 AEEB |
| Year of Initial Obligation: | 2004 |
| Estimated Year of Final Obligation: | 2008 |

Summary: USAID's economic policy program promotes a stable macroeconomic environment to foster and accelerate private sector growth. This involves strengthening newly-established economic institutions, improving the legal and regulatory framework needed to support a market economy, and improving the Kosovar legislative drafting process. Specifically, USAID assists with improving fiscal, financial, energy, trade, and investment policies, as well as commercial law and privatization. Through daily expert advice and on-the-job training by USAID, Kosovar institutions are well on their way to becoming self-sufficient. Future efforts will build on past achievements and will focus on strengthening the ability of Kosovars to manage and operate their own ministries and to enforce laws. USAID efforts include building public understanding and support for these new institutions, policies, and laws.

Inputs, Outputs, Activities:

FY 2006 Program:

Improve Economic Policy and the Business Environment (\$4,800,000 AEEB, \$200,796 AEEB carryover). At the Ministry of Finance and Economy (MFE), the role of USAID advisors has shifted from managing and running the institution to advising, training, and coaching Kosovar counterparts who have assumed management and oversight responsibilities. Specifically, USAID support at the Ministry will focus on ensuring that Kosovar staff in the Ministry's Budget Department are formulating and carrying out the budget in a transparent and effective manner that ensures fiscal discipline and prioritizes budgetary needs. Advisors will play a role in selecting and training staff for a macroeconomic analysis department. In the Ministry's tax administration unit, USAID's advisors will continue to assist with initiatives that identify non-registered and non-complying taxpayers, improve software for processing taxes, refine the skills of tax inspectors, and encourage municipalities to step up collection of property taxes. Beyond the Ministry, USAID will continue to help Kosovo develop a market-oriented commercial law framework by providing legal advice to the Office of Prime Minister and to the Assembly of Kosovo. At the same time, emphasis will shift to training the larger legal community and commercial court judges on the new legislation, including contract, corporate, collateral, and arbitration law. Furthermore, USAID will provide advisory services to ensure that property laws are written, properly enacted, and effectively implemented. As Kosovo increasingly depends on its energy resources for economic growth, USAID will continue to provide policy advice to the Ministry of Energy and Mines. Near the end of 2006, USAID will initiate a new, smaller activity that will consolidate the progress made to date in economic policy development, legislation, and systems to ensure the continued growth of Kosovo's economy. Principal contractors: BearingPoint (prime), The Services Group (sub), Overseas Strategic Group (sub).

Improve Private Sector Competitiveness (\$3,163,000 AEEB). At the Kosovo Trust Agency (KTA), USAID privatization experts will work with KTA counterparts to complete the privatization of socially-owned enterprises (SOEs). Efforts will include identifying ways to accelerate liquidation, and helping to establish policies and procedures for moving the publicly-owned enterprises to the next phase of development, including public/private partnerships. Principal contractors: BearingPoint (prime), The Services Group (sub), Overseas Strategic Group (sub).

Strengthen The Financial Services Sector and Increase Access to Capital (\$890,000 AEEB). USAID will continue to provide advisors to the banking and payments authority of Kosovo to further strengthen their

regulatory capabilities in order to maintain sound commercial banks. In addition, USAID will provide an operations expert to the Kosovo Pension Savings Trust to improve its ability to administer the mandatory defined-contribution pension program. Principal contractors: BearingPoint (prime), The Services Group (sub), Overseas Strategic Group (sub).

FY 2007 Program:

Improve Economic Policy and the Business Environment (\$5,200,000 AEEB). As the Ministry of Finance and Economy becomes self-sufficient, USAID assistance is expected to be gradually reduced. USAID assistance will continue to promote best practices in implementing budget and treasury systems while developing the Ministry's macroeconomic analysis department. In commercial law development, assistance will emphasize implementation of laws through focused training for the commercial court, and establishment of a certification program for commercial law judges and attorneys. Implementers: to be determined (TBD).

Improve Private Sector Competitiveness (\$3,269,000 AEEB). USAID advisory support to the Kosovo Trust Agency in its privatization of socially-owned enterprises will be reduced since this effort should be almost complete. USAID may provide additional assistance to the Kosovo Trust Agency in its efforts to attract private investment to the many publicly-owned enterprises that still exist. Implementers: TBD.

Strengthen The Financial Services Sector and Increase Access to Capital (\$950,000 AEEB). As this sector builds self-sufficiency, USAID will provide short-term consultation in specific areas of need to the Banking and Payments Authority of Kosovo and to Kosovo Pension Savings Trust in order to ensure effective supervision of commercial banks and sound administration of pension savings. Implementers: TBD.

Performance and Results: USAID's program has provided valuable support for the establishment, development, and strengthening of Kosovo's economic governance institutions. Much of its targeted assistance has been focused on the MFE, resulting in sound, transparent, and well-implemented tax and budget systems, including fiscal decentralization. At the end of this program, the MFE will be a well-functioning institution, able to manage Kosovo's finances effectively.

As a result of continued USAID efforts to strengthen the performance of MFE staff, the 2005 budget process was fully managed and effectively run by Kosovars, and in accordance with International Monetary Fund (IMF) recommendations and international best practices. Revenue collections have improved over the course of 2005 compared to the previous year, increasing by almost 17%. New procedures and systems have made the processes of collecting and spending government funds more transparent, thereby minimizing the potential for corruption. The Banking and Payments Authority of Kosovo has played a significant role in ensuring that Kosovo's banking, insurance, and pension sector have become sound and stable. Over the past year, bank deposits have increased by approximately 19%, an indication that Kosovars have more confidence in their banking sector. The Kosovo Pension Savings Trust is already able to function entirely on its own, effectively administering pension contributions for about 190,000 residents, an increase of some 30,000 contributors from 2004. Core commercial legislation is largely in place and ready for implementation.

Privatization is moving rapidly forward with expectations that most SOEs will have been sold by the end of 2006, and to date, about one-fourth of SOEs have been privatized. To date, over 100 new companies have been created through the privatization process, with paid and pending sales of almost 150 million euro, marking a tenfold increase compared to the last year figures. Investment commitments from major privatization transactions total over 60 million euro, almost one tenth of the 2005 Kosovo consolidated budget. Continued progress in economic policy reform and institutional strengthening will provide the enabling environment required for private sector growth, while continued privatization and liquidation of SOEs will put productive assets into private hands. Together, these activities will lead to increased employment, higher incomes, and better quality of life for Kosovo's population.

US Financing in Thousands of Dollars

Kosovo

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|---|-------------|
| 167-0120 Economic Policy and Institutions | AEEB |
| Through September 30, 2004 | |
| Obligations | 8,767 |
| Expenditures | 3,336 |
| Unliquidated | 5,431 |
| Fiscal Year 2005 | |
| Obligations | 9,149 |
| Expenditures | 9,588 |
| Through September 30, 2005 | |
| Obligations | 17,916 |
| Expenditures | 12,924 |
| Unliquidated | 4,992 |
| Prior Year Unobligated Funds | |
| Obligations | 201 |
| Planned Fiscal Year 2006 NOA | |
| Obligations | 8,853 |
| Total Planned Fiscal Year 2006 | |
| Obligations | 9,054 |
| Proposed Fiscal Year 2007 NOA | |
| Obligations | 9,419 |
| Future Obligations | 0 |
| Est. Total Cost | 36,389 |