



**USAID** | **KOSOVO**  
FROM THE AMERICAN PEOPLE

# MID-TERM EVALUATION OF THE USAID/KOSOVO BUSINESS ENABLING ENVIRONMENT PROGRAM (BEEP)

## FINAL REPORT

**November 7, 2012**

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

**Mid-Term Performance Evaluation of the  
Kosovo Business Enabling Environment Program (BEEP)**

**Final Report**

Prepared under Task Order: AID-167-TO-12-00004  
Under the Evaluation Services IQC

**Submitted to:**

USAID/Kosovo  
September 30, 2012

**Contractor:**

Mendez England & Associates  
4300 Montgomery Avenue, Suite 103  
Bethesda, MD 20814  
Tel: 301- 652 -4334  
[www.mendezengland.com](http://www.mendezengland.com)

**DISCLAIMER**

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

# CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
Background.....	1
Purposes of the Evaluation .....	1
Priority Questions .....	1
Evaluation Methodology .....	1
Limitations of Evaluation .....	2
Main Findings.....	2
Main Conclusions .....	4
Main Recommendations .....	4
<b>1.0 BACKGROUND.....</b>	<b>5</b>
1.1 Historical Context.....	5
1.2 BEEP Objectives .....	5
<b>2.0 EVALUATION PURPOSES AND PRIORITY QUESTIONS .....</b>	<b>6</b>
2.1 Purposes.....	6
2.2 Priority Questions .....	6
<b>3.0 EVALUATION METHODOLOGY .....</b>	<b>6</b>
<b>4.0 EVALUATION LIMITATIONS.....</b>	<b>8</b>
<b>5.0 FINDINGS.....</b>	<b>9</b>
5.1 General.....	9
5.2 Component 1.....	10
5.3 Component 2.....	18
5.4 Component 3.....	26
<b>6.0 CONCLUSIONS.....</b>	<b>29</b>
6.1 Priority Question 1a.....	29
6.2 Priority Question 1b.....	29
6.3 Priority Question 1.c.....	30
6.4 Priority Question 2.....	30
6.5 Priority Question 3.....	31
6.6. Priority Question 4.....	32
6.7 Priority Question 5.....	33
6.8 Priority Question 6.....	34
<b>7.0 RECOMMENDATIONS .....</b>	<b>34</b>

## **ANNEXES**

ANNEX I:	Evaluation Statement of Work
ANNEX II:	Evaluation Design and Workplan
ANNEX III:	Data Collection Instruments
ANNEX IV:	List of Persons Interviewed
ANNEX V:	Bibliography
ANNEX VI:	Questionnaires Results Summary
ANNEX VII:	Self-Evaluation Exercise Memo
ANNEX VIII:	Self-Evaluation Exercise Responses

## ACRONYMS

AI	Administrative Instruction
AmCham	American Chamber of Commerce
BEEP	Business Enabling Environment Program
CBK	Central Bank of Kosovo
CEFTA	Central European Free Trade Agreement
CRK	Credit Registry of Kosovo
DB	Doing Business
DBI	Doing Business Indicators
DBTF	Doing Business Task Force
DEMI	Democratic Effective Municipalities Initiative
DFID	UK Department for International Development
EU	European Union
GCI	Global Competitiveness Index
GFSI	Growth and Fiscal Stability Initiative
GoK	Government of Kosovo
IMF	International Monetary Fund
IPAK	Investment Promotion Agency of Kosovo
ITD	Integrated Tariff Database
ITG	International Trade Guide
LID	Legal Information Database
MAS-Q	Metrology, Accreditation, Standards, and Quality
MCI	Municipal Competitiveness Index
MESP	Ministry of Environment and Spatial Planning
MOF	Ministry of Finance
MTI	Ministry of Trade and Industry
NECD	National Economic Development Council
OEK	Kosovo Chamber of Commerce
OPM	Office of the Prime Minister
PBMP	Performance-Based Monitoring Plan
PR	Project Results
RFP	Request for Proposals
SME	Small and Medium Enterprise
TAK	Tax Administration of Kosovo
TPWG	Trade Policy Working Group
USAID	United States Agency for International Development
WB	World Bank
WBDB	World Bank Doing Business
WBDBI	World Bank Doing Business Indicators

# EXECUTIVE SUMMARY

## Background

This is a report on the Mid-Term Performance Evaluation of the Business Enabling Environment Program (BEEP) funded by the United States Agency for International Development (USAID) Mission in Kosovo, and implemented by Chemonics International, Inc. (Chemonics). BEEP commenced in July 2010, and was dedicated to improving the business environment in Kosovo through the implementation of three components:

- Component 1: Improving rules and regulations
- Component 2: Lowering trade barriers
- Component 3: Creating a more efficient financial sector

A fourth component of the project, as described in the original Request for Proposal (RFP), Implementation of a Transparent System of Public Procurement has not been implemented for various reasons. This component has never been included in a project workplan and is not a part of this evaluation.

## Purposes of the Evaluation

The evaluation of BEEP was conducted during the period from June – September 2012 by a team assembled by Mendez England & Associates (ME&A). The purpose of the evaluation was to:

1. Provide the Development Objective team and the USAID Mission's senior management with an external assessment of the efficiency and effectiveness of the implementation of BEEP to date;
2. Determine how the activities under each program's component contributed to achievement of BEEP's goals; and
3. Identify deficiencies in the program's current target areas and recommend remedial actions to be carried out in the remaining life of the program.

## Priority Questions

The priority questions presented for evaluation included:

1. How have the relevant Kosovo institutions and other beneficiaries been strengthened in their ability to:  
a) simplify and streamline the regulatory framework in Kosovo; b) lower trade barriers; c) increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information; and d) improve the government's procurement processes?
2. Are the results being produced at an acceptable and desired cost level? What could the implementer change to lower the cost of accomplishing the same objectives?
3. To what extent will the beneficiaries supported under BEEP have the capacity to continue carrying out, as desired and expected, their duties and responsibilities 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 BEEP's implementation and results, what recommendations [does the evaluation team] have for possible future USAID programming to improve the business environment in Kosovo?
6. Can any identified deficiencies in the overall implementation of the program's current objectives be remedied in the remaining life of the program, and what are the recommendations and lessons learned?

## Evaluation Methodology

The evaluation methodology included:

1. Interviews and meetings with the USAID country office and the BEEP project team;
2. Key stakeholder interviews and meetings;
3. A brief, self-administered questionnaire with open-ended questions directed to selected stakeholders and counterparts;
4. Intensive review of the BEEP project reporting and technical documents; and
5. A self-evaluation exercise pursuant to which the BEEP team responded in writing to specific questions posed by the evaluation team.

The evaluation did not emphasize the validation of BEEP's accomplishments in quantitative terms. Most of the quantitative results of the project are described in the project's mandatory reporting. Moreover, as discussed later, the quantitative indicators of the project's success are pre-defined and, in the opinion of the evaluation team, often inadequate to accurately evaluate the project's achievements.

The evaluation sought to determine the broader impact of the project on attitudes, policies, institutional capabilities and trends. For example, demonstrable contributions to creating a best-practice credit registry, by general agreement among developed economies for an institution crucial to an efficient credit economy, is considered to be at least as important as the actual number of requests for credit reports from citizens and businesses in the short run. Similarly, significant contributions to creating a sustainable dialog between local governments and their constituents regarding business climate reform, is considered as important as the number of modifications to administrative procedures in the short term.

## Limitations of Evaluation

Some of the key limitations of the evaluation include:

- Time and resources devoted to the evaluation prevented confirmation or validation of data provided by BEEP relating to some key performance indicators and, therefore, must be taken as given for the purposes of this evaluation.
- It is not possible to establish causal links between BEEP activities and higher order outcomes such as increased economic activity in Kosovo. Also, it is often difficult to establish causal links between BEEP activities and lower order outcomes such as the adoption of a piece of legislation because of the large number of actors involved who also deserve some credit for the activity.
- The evaluation is limited to considering the project in terms of the Project Result indicators approved in the performance management plan (PMP). Some of those indicators have acknowledged flaws or inadequacies and, in some cases, can misrepresent the accomplishments of the project.
- Given the short time for which most BEEP initiatives have been in effect and the generally lagging nature of improvements to economic performance on the basis of business climate reforms, even if BEEP had an effect and statistics were accurate, the effect may not register for some time
- With regard to the content and policy basis of most legislative and regulatory acts, the evaluation is necessarily "content neutral." The evaluation is able to confirm achievements such as adoption of legislation and regulatory acts and the fact that key stakeholders consider them to reflect the policy of the Kosovo government. However, given the time and resources, it cannot comment on whether all content of the adopted acts conforms to best practice or is likely to result in improved economic performance.

## Main Findings

### General

- The relationship between project results (PRs) and the chosen performance indicators appears to be tenuous and does not necessarily reflect project accomplishments. Moreover, certain PRs are largely influenced by factors that are entirely beyond, or outside of, BEEP's Scope of Work (SOW).

- There are instances across Components 1 and 2 in which the strongly held policy positions of the BEEP team may have conflicted with the objectives of clients and other stakeholders.

### **Component 1– Rules and Regulations**

- BEEP has identified and raised “doing business” issues to a high level of attention within the government and achieved a wide consensus on business climate reform.
- BEEP is rightfully focusing on the transparency of the legal and regulatory regime as an essential building block of business climate reform.
- BEEP has contributed to developing the legal and regulatory framework of the commercial sector.
- BEEP’s work on reforming the legislative and regulatory framework for construction sector reform is important but incomplete. If successfully completed, ongoing work on the legislative framework in the final project year could be among BEEP’s most significant contributions.
- BEEP’s emphasis on the reform of licensing and permits, and in particular on licensing fees, has had minor to moderate successes.
- The extent of monetized benefits stated under PR2 is questionable, but it is nevertheless likely that there has been a moderate rate of return on project expenditures under Component 1.
- The Municipal Competitiveness Index (MCI) may be of limited value in assessing the reality of business sector constraints or reform efforts on the ground, but of significant value as a tool to raise the profile of business climate reform among national and local decision makers.
- Use of the World Bank Doing Business Indicators (WBDBI) as primary indicators of project results is arguably reasonable under the circumstances, but can either exaggerate or understate the accomplishments of the project.
- The results of the Municipal Partnerships subcomponent appear limited and, to date, arguably lay more in the realm of transparency and communications than concrete reforms of municipal business climates.
- BEEP’s activities in formal and informal training appear to emphasize the transfer of information and not of skills.

### **Component 2 – Lowering Trade Barriers**

- BEEP has made progress in implementing its work plan activities under Component 2.
- Based on the opinions of beneficiaries, BEEP has had a significant impact on the level of understanding and competence on trade policy within the Ministry of Trade and Industry (MTI) and related agencies.
- Updating the legislative and regulatory framework in the trade sector is one of the main accomplishments under Component 2.
- BEEP has contributed to encouraging and facilitating public-private dialog on trade policy.
- BEEP has made progress on technical issues in the trade sector, particularly in cooperation with the Customs Bureau on updating the Customs Code.
- It is likely that BEEP’s assistance with the import/export process has contributed directly to reducing paperwork and the time invested by the private sector in trade-related administrative procedures.
- There are sustainability challenges posed regarding the component’s work in promoting public-private dialog and intra-government cooperation on trade policy, but fewer sustainability concerns regarding continuing technical development of the sector.

### **Component 3 -Creating a More Efficient Financial Sector**

- BEEP’s work with the credit registry of the Central Bank of Kosovo (CBK) is viewed as significant by the CBK and other stakeholders.
- The credit registry work under Component 3 has proceeded on a competent and logical basis.
- BEEP-assisted efforts to educate the public about the role of the credit registry, their rights to credit information, and the importance of maintaining good credit relationships, have been substantial and generally believed by stakeholders to be useful and effective.
- Reported upticks in the number of credit reports requested by citizens and businesses cannot accurately be attributed to BEEP activities; evidence is lacking and the project was not set up to capture the necessary data.

- Beyond the credit registry, work on the overall objective of Component 3 – creating a safer and more efficient credit sector - has been minor by agreement of BEEP and USAID.

## Main Conclusions

- BEEP has been successful in raising “doing business” issues to a high level of attention within the Government of Kosovo (GoK), and has achieved a wide consensus on business climate reform.
- BEEP’s work and performance is viewed as significant by a number of stakeholders including the CBK, MTI and other agencies with which the project has worked.
- BEEP has had a significant impact on increasing the level of understanding and competence on trade policy within the MTI, as well as on updating the legislative and regulatory framework in the trade sector.
- BEEP has made significant contributions to the legislative framework on the Law on Construction. The quality of the law has received praise from development partners, as has the process through which it was developed. BEEP is also contributing to the development of several other laws, such as the Law on Permissive System and a Law On Inspections.
- BEEP has been effective at communicating and coordinating programs with a number of USAID initiatives, as well as those of other international donors. Instances of miscommunication and differences in objectives and approaches have arisen but usually have been resolved. Even in cases of disagreement as to objectives and approaches, few counterparts attribute those to failures to communicate.
- BEEP has been praised by stakeholders for its responsiveness to local wishes and for its rapidity in deploying resources. Its short- and/or long-term advisors are credited for their high degree of professionalism and extensive knowledge of international best practices.
- Key beneficiaries of the BEEP project will have the capacity to carry out some aspects of their “duties and responsibilities” after BEEP because most levels of Kosovo’s government have achieved a basic competence in governance.
- There are some questions about whether BEEP has succeeded as much in transferring skills as in transferring information. This may be particularly true at the local level. This is a different question than whether the beneficiaries of the BEEP program will have the will or resources to continue business climate reform at the same pace and at the same level as they did during the BEEP project.
- It is not possible to say whether the results of the BEEP program are being produced at an “acceptable” cost because there are presently no financial performance benchmarks for similar USAID business climate improvement projects, or USAID projects generally for that matter, and no frame of reference in which to discuss terms such as “acceptable.”
- Sustainability of the current pace of reform initiated under BEEP is one of the key concerns of this evaluation.

## Main Recommendations

- Emphasize completion of work already begun.
- Prepare a detailed audit of incomplete work, including detailed action programs for completing the work; describe fully the implications of leaving the work incomplete at the end of the project; and discuss options for transfer of responsibilities.
- Address issues of sustainability.
- Increase efforts to transfer knowledge and increase technical skills in policy and regulatory analysis and communications at national and local levels, particularly among private sector associations.
- BEEP should devote some time to better explaining and documenting achievements of the project, particularly at the municipal level, in anticipation of the final project evaluation.
- Devise a set of supplemental indicators that would help to more accurately evaluate the the project.

# 1.0 BACKGROUND

## 1.1 Historical Context

In recent years Kosovo has demonstrated strong commitment to and progress in maintaining overall macroeconomic stability while transitioning to a market-based economy. However, any advances made are threatened by the intersection of two trends: unemployment at about 40% (more than 50% for youth), and the reality that the economy is dominated by small and micro-enterprises (more than 99% of the registered businesses employ less than 50 persons).<sup>1</sup> USAID/Kosovo has determined that job creation is critical for the country's development. Accordingly, it has made private sector growth a priority, with the Business Enabling Environment Program (BEEP), launched in July 2010, leading the effort.

## 1.2 BEEP Objectives

BEEP's overall objective is to create a business-enabling environment in Kosovo that reduces barriers to business growth and promotes market liberalization. The objectives of BEEP's specific project components, as described in the evaluation SOW, include:

1. **Improved Rules and Regulations:** Removing barriers to business by simplifying and streamlining the regulatory framework — statutes, regulations, rules, procedures, and other legal requirements that are applied to businesses operating in Kosovo, and carrying out legal reforms that address impediments to business identified in the World Bank Doing Business (DB) reports on Kosovo. Additionally, the project seeks to support reforms in complementary areas to DB reform, including permissive system improvements and consolidation and publication of laws and regulations.
2. **Lower Trade Barriers:** BEEP focuses on reducing barriers to trade to facilitate increased commerce and international cooperation, as well as to implement regional and multilateral trade agreements. The aim is to streamline trade-related activities through broad-based consultative mechanisms – involving private and government stakeholders in the formulating, implementing, assessing, and fine-tuning of trade policy and customs procedures.
3. **A More Efficient Financial Sector:** Through this component, BEEP aims to increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information. The project focuses primarily on the credit registry of the CBK and aims to explore ways to expand the scope of the credit information system by working to add new data providers and to incentivize subjects of credit reports to check and update their own credit information.

The emphasis of Component 1 on deregulation has also affected the other two components. WBDBI relate also to doing business across borders and may stimulate other reforms under Component 2; WBDBI relating to access to credit can stimulate other reforms under Component 3.

A fourth component of the project, Implementation of a Transparent System of Public Procurement, has not been implemented for various reasons, including deference to the European Union's (EU) paramount interest in these issues in a potential member state. That component has never been included in a project workplan and it is not part of this evaluation.

---

<sup>1</sup> World Bank's Country Program for Kosovo – International Development Association, International Finance Corporation and Multilateral Investment Guarantee Country Partnership Strategy for the Republic of Kosovo for the Period FY12 – FY15, May, 2012, p. 6.

## 2.0 EVALUATION PURPOSES AND PRIORITY QUESTIONS

### 2.1 Purposes

The main objective of this evaluation is to review the efficiency and effectiveness of the implementation of BEEP to date. In particular, USAID was concerned that the evaluation:

1. Provide the Development Objective team and the USAID Mission's senior management with an external assessment of the efficiency and effectiveness of the implementation of BEEP to date;
2. Determine how the activities under each of the program's components contributed to achievement of BEEP's goals; and
3. Identify deficiencies in the program's current target areas and recommend remedial actions to be carried out in the remaining life of the program.

As a preliminary note, it should be mentioned that the evaluation team did not attempt to evaluate the "efficiency" of the BEEP project as there is no frame of reference provided for that concept, nor do the evaluation terms of reference or the project PBMP provide indicators with which to assess efficiency. Any specific discussion of project efficiency would, therefore, be subjective and speculative. The same issue arose in connection with the priority question of whether the project results are being produced at an "acceptable and desirable cost level." The response to that priority question is set out at section 6.2, below, and many of the points made with respect to that question are relevant also to the question of "efficiency." For example, the question of efficiency may be closely related to the question of project costs. Having said this, the evaluation does in certain cases raise questions regarding whether project resources and efforts have been properly allocated, or whether certain activities were worth pursuing.

### 2.2 Priority Questions

In the evaluation SOW, USAID poses 6 priority questions, which are listed below and specifically addressed in Section 6.0, Conclusions.

1. How have the relevant Kosovo institutions and other beneficiaries been strengthened in their ability to:  
a) simplify and streamline the regulatory framework in Kosovo; b) lower trade barriers; c) increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information; and d) improve government's procurement processes?
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 BEEP have the capacity to continue carrying out, as desired and expected, their duties and responsibilities 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 BEEP's implementation and results, what recommendations do you have for possible future USAID programming to improve the business environment in Kosovo?
6. Can any identified deficiencies in the overall implementation of the program's current objectives be remedied in the remaining life of the program, and what are the recommendations and lessons learned?

## 3.0 EVALUATION METHODOLOGY

The Evaluation Team used the following tools:

- **Key Person Interviews and Meetings.** Fifty key person interviews were balanced between policy-makers and implementers as well as regulated parties and beneficiaries of BEEP activities. Interviews were mostly unstructured, but with a firm understanding of the interests of the respondents and their

relationships with BEEP project activities. The interview format focused on respondent perspectives on economic development in Kosovo as well as the BEEP project, and included direct questions as to BEEP’s contributions and effectiveness. Most interviews were conducted outside BEEP’s offices to ensure confidential discussions and the opportunity to cross-reference interviewee claims, including but not limited to businesses and public bodies not immediately concerned with business environment issues. Table 1, below, summarizes the type and number of key person interviews done.

Table 1: Key Person Interviews	
Type of Informant	Number
BEEP Staff & Consultants	9
USAID Mission	4
National Government Officials	10
Municipal Government Officials	13
Other Donor Projects	8
NGOs	3
Other (private sector, etc.)	3
<b>TOTAL</b>	<b>50</b>

- **Documentary Review:** Including review of reporting and technical documents, research memoranda, policy notes and some drafts of legislative acts.
- **Stakeholder Questionnaire:** The stakeholder questionnaire included primarily open-ended questions on BEEP’s results and the Kosovo economy. Questionnaires invited both a project-specific and a policy-level focus and policy level responses as to future project emphasis, and suggested alternative measures of BEEP’s progress in advising policy-makers. Questionnaires were presented post-interview to provide the opportunity for reflection. (See Annex VI).
- **Self-Evaluation Exercise:** Presented as a two-week exercise to Chemonics/BEEP concurrent with, and following the, Evaluation Team field engagement to provide the opportunity for consultation and review of work effort. This was an open-ended invitation for BEEP’s staff to balance critical end user comments, emphasize strengths, and elaborate on positions taken during evaluation team field exercise. (See Annexes VII and VIII).

The evaluation did not emphasize the validation of BEEP’s accomplishments in quantitative terms. Most of the quantitative results of the project are described in the project’s mandatory reporting, which we have not verified for purposes of this evaluation. Moreover, as discussed further below, the quantitative indicators of the project’s success are pre-defined and, in the opinion of the evaluation team, often tend to understate or overstate the project’s achievements.

This evaluation sought to determine the broader impact of the project on attitudes, policy, institutional capabilities and trends. For example, demonstrable contributions to creating a best-practice credit registry, a key institution that is by general agreement among developed economies crucial to an efficient credit economy, is considered to be at least as important as the actual number of requests for credit reports from citizens and businesses. Similarly, significant contributions to creating a sustainable dialog between local governments and their constituents regarding business climate reform is as important as the number of modifications to administrative procedures in the short term.

## 4.0 EVALUATION LIMITATIONS

The main limitations of this evaluation include the following:

- **Inability to Establish Causal Links.** It is not possible to establish causal links between BEEP activities and high level outcomes such as increased economic development activity in Kosovo. It is also difficult to establish causal links between BEEP activities and low order outcomes such as enactment of a piece of legislation. USAID and most stakeholders understand this. Variables affecting many project results are too numerous and outside the control of the project. It is doubtful that econometric models would provide plausible causal links between the project activities and economic growth, investment or even business formation for that matter, given the general lack of good economic data in Kosovo and the complexity of the relationships presumed by the project results framework. Strong links with low order outcomes are difficult because of the large number of players contributing to practically all aspects of the work and the long period of time over which business climate reforms have been pursued in Kosovo. In cases where BEEP “collaborated with,” “assisted,” and “supported” the work of others, few interlocutors are capable of or willing to define the relative value or impact of the separate contributions of BEEP and others.
- **Inability to Verify Data.** Limitations of time and resources devoted to the evaluation prevented the confirmation or validation of data provided by BEEP relating to some key performance indicators and, therefore, must be taken as given for the purposes of this evaluation. The main example of this is the PR2 monetization of benefits from reform to regulatory procedures, which BEEP based upon data it has collected from numerous sources, including primarily municipalities.
- **Inadequate Performance Indicators.** If the evaluation were limited to considering the PR indicators approved in the PMP, only a few positive results could be reported at this time. This evaluation necessarily goes beyond the PMP. Some of those indicators have widely acknowledged flaws and, in some cases, can understate the actual accomplishments of the project. Moreover, positive spillovers from BEEP activity (change in culture with businesses understanding their leverage on municipalities through the MCI, better transparency, reduced corruption potential etc.), are not likely to be captured by the established indicators and PRs.
- **Lagging Nature of Results.** Given the short time for which most BEEP initiatives have been in effect and the generally lagging nature of improvements to economic performance on the basis of business climate reforms, any positive effect of BEEP activities might not be discernible for some time.
- **Inability to Critique Legislative Content.** The project was involved with many legislative and regulatory acts across a wide range of sectors. With regard to the legislative and regulatory acts sponsored by the project, the evaluation is, to a large extent, “content neutral.” The evaluation is able to confirm achievements such as the adoption of legislation and regulatory acts and the fact that key stakeholders consider them to reflect the policy of the Kosovo government. However, given the time and resources devoted to this evaluation, further analysis of whether the content of the adopted acts conforms to best practices or is likely to result in improved economic performance was not possible.
- **Large Number of Actors Involved in Aspects of the Work Over Long Time Period.** There have been a large number of participants, both international development organizations and GoK agencies, involved in business climate and trade work over a number of years. They have all made contributions; therefore, precisely allocating credit can be difficult. Determining whether a particular initiative would not have gone forward or achieved success “but for” the intervention of BEEP is rarely possible. The BEEP reporting documentation can be ambiguous in this respect, and it is sometimes difficult to determine from them precisely what BEEP’s role was in certain activities. For example, there is a difference between initiating an activity and supporting an activity the government or another donor or project had already begun, and levels of “support” or “assistance” can differ widely.

## 5.0 FINDINGS

### 5.1 General

#### 5.1.1 Finding 1: The relationship between project results and the chosen performance indicators appears to be tenuous and do not necessarily reflect the project's accomplishments. Moreover, certain PRs are largely influenced by factors which are entirely beyond or outside of BEEP's SOW.

For example, the PBMPs and BEEP's quarterly and annual reports and work plans indicate that the number of requests by businesses and citizens for their own credit reports should eventually increase with improvements in the functioning of the CRK. We have been unable to verify the empirical foundation of this premise and are not aware of this occurring in other emerging markets that have improved their credit registries. Moreover, the logical relationship between this indicator and the work does not appear to take into account other factors such as the fact that requesting the credit report is still a paper based procedure that requires significant effort on the part of consumers, and that the availability of credit to citizens and small businesses is presently restricted for reasons other than availability of credit information. Requests of credit information and availability of credit are likely to be highly correlated and requests for information are a result of, and not a cause of, increased access to credit. It is likely then that requests for credit information may increase only as the availability of credit increases.

The contract between USAID and Chemonics also illustrates as indicators of success: 1) "*Reduction in the interest rate spread,*" reflecting improvements in creditworthiness assessments by commercial banks (from 2009 baseline); and 2) "*Increase in lending to private sector (from 2009 baseline).*" Both of these indicators are included as non-performance indicators in the quarterly and annual reports produced by BEEP. Both are much more dependent on other economic factors. Even with an ideal credit registry system in place, interest spread would first reflect inherent features of country risk (which is still high in the case of Kosovo) and the amount of lending to the private sector would largely depend by the demand side of the market, the global financial crisis, and so on. Actual reliance on these indicators to evaluate project performance, which is done only indirectly in the current case, might in fact undermine the credibility of the evaluation. (Evaluation team review of the interest rate dynamics shows that there have not been any noteworthy movements.)

Relying on improvements in WBDBI as performance indicators may be reasonable as a fallback in the absence of good project-specific log frames and baseline data. However, the WBDB program has been subject to widespread criticism for not necessarily reflecting the reality of a business climate on the ground or the overall pace of reform because of the narrowness and specificity of its indicators. Moreover, there remains considerable debate on whether the DB indicators are indicators of economic development generally, given the complexity of the dynamics of growth.<sup>2</sup> Placing so much emphasis on improvement in WBDBI, which will only be seen, if at all, at the end of the third and final year of the project, seems to us to be a risk that may undermine the accomplishments of the project. There has also been some evidence of the unreliability of the MCI as a performance indicator (as opposed to a communications tool) in the second round of the MCI, which has shown some inexplicable anomalies (in the words of the authors), including regressions among municipalities which were highly ranked in year one and had been thought to be making progress. Specific issues with PR2, the standard cost model evaluation of the monetized benefits of project results, are discussed further below. (See Finding 5.2.6). The main point here is that these all have flaws that should be considered in the evaluation of project results.

---

<sup>2</sup> See for example Simeon Djankov, Caralee McLiesh, Rita Ramalho. Regulation and Growth. The World Bank, , March 17, 2006 (<http://www.enterprisesurveys.org/~media/FPDKM/EnterpriseSurveys/Documents/Research%20Papers/Regulation-and-Growth-2006.pdf>); Dinuk Jayasuriya. Improvements in the World Bank's Ease of Doing Business Rankings: Do they Translate into Greater Foreign Direct Investment Inflows? The World Bank, Policy Research Working Paper 5787, September 2011. (<http://econ.worldbank.org>); Sunil Sinha and Ignacio Fiestas. Literature review on the constraints to investment in developing countries. UK Department for International Development, February 2011. (<http://www.dfid.gov.uk/Documents/Constraints-to-Investment-dev-countries.pdf>)

### **5.1.2 Finding 2. There have been several instances in which the strongly held policy positions of the BEEP team may have conflicted with the objectives of stakeholders.**

There is a sense among some stakeholders and counterparts that BEEP is most responsive on issues and tasks that conform to its positions on what constitutes best international practices and its strongly held view of its mission, which emphasizes de-regulation and market liberalization, and perhaps less responsive where clients' wishes or the objectives of other donors or projects conflict with its own positions. Examples given include:

- There have been conflicts between BEEP and MTI over differences between technical advice and political advice, to which the MTI has formally objected. The evaluation team did not pursue these allegations in the understanding that USAID is already aware of the conflict, which at this time seems to have been resolved.
- Similarly, it appears that BEEP and MTI have conflicted over the role of MTI in market inspection and regulation, on which BEEP seems to have taken positions contrary to those of MTI and advocated for its position in dealing with lawmakers and other Ministries of government in the development of the pending Laws on Inspections and Permissive Systems.
- Despite support for licensing of trade agents from Kosovo Customs and the Association of Trade Agents, which BEEP has opposed, BEEP's current position is that its contribution to this issue will be to assist in the development of the pending law on Permissive Systems. There is a rationale to this but some feel that that this outcome, desired by both government and private sector stakeholders, could have moved more quickly with BEEP support.
- The involvement of BEEP in the development of the pledge registry law, a task which was unplanned, did lead to some conflict with the World Bank Group and surprise over the fact that BEEP would take its position so far, when strategic retreat may have been the better course.

These points are made by some interlocutors anecdotally and in confidence, and the evaluation team has determined that researching the history of these potential conflicts would have limited returns. They are raised here only because they were raised without prompting by a number of stakeholders. The implications of these perceptions for the project is that they may instill in stakeholders the sense that some of the BEEP's activities can be "supply driven" which, according to some stakeholders, has been a common flaw in international assistance delivered in Kosovo.

## **5.2 Component 1**

### **5.2.1 Finding 1. BEEP has identified and raised "doing business" issues to the high level of attention within the government and achieved a wide consensus on business climate reform.**

There is a strong consensus among stakeholders that one of BEEP's main contributions to business sector reform has been raising the profile of these issues among government decision makers and engaging the private sector in the reform process. In the opinion of the evaluation team, this is a significant accomplishment, but it can be ephemeral unless the reform process is institutionalized and steady progress is demonstrated.

Highlights of BEEP's activities in raising awareness include:

- The U.S. Embassy-supported **economic retreat** commissioned by the U.S. Ambassador and supported by BEEP, resulted in the *Economic Vision 2014*, which builds on and commits the GoK to many of the targets that BEEP has pursued since the launch of the project. While this was not a BEEP initiative, BEEP is given high marks for organizing the conference, developing its agenda and background material, and publicizing and aggressively promoting its results. A result of this conference was the GoK's commitment to improving doing business indicators and achieving a "top 40" ranking by 2014.

- **Implementation of the Municipal Competitiveness Index.** The MCI, discussed further under Finding 5.2.7 below, is perhaps more important for its communications effect than for its value as a diagnostic and monitoring tool. The series of meetings conducted by BEEP and its Municipal Coordinators to present and discuss the MCI results in each locality has become an important avenue of communications for local business with municipal officials, a foundation for greater transparency, and a means of asserting influence of the private sector on the reform process. Many municipal officials acknowledge that the MCI process has spurred local officials to exert greater efforts to respond to business concerns. Talk of course is cheap, and there are BEEP municipalities that have not bought into the MCI process. Whether the spur of the MCI will have lasting effects beyond BEEP is discussed elsewhere herein.
- **Implementation of the AmCham Listening Events.** The AmCham series of roundtables and focus groups in eight cities targeted by BEEP for reform work was a useful counterpoint to the Economic Vision 2014, which had the input almost exclusively of government officials and trade associations. Structured around specific business topics (e.g. Customs, Taxation, Municipal License and Permits, etc.), the AmCham events brought in private businesses to describe their main issues and priorities and, in some cases, learned that it has been the first time the opinions of the attendees had been sought by anyone. BEEP funding and the support for and organizational skills of the BEEP Municipal Coordinators were apparently crucial to this effort, which has provided a continuing opportunity for input by businesses into the reform process through ongoing AmCham monitoring and reporting on action plans produced in the meetings.
- **Component 2 and 3 Work.** BEEP’s activities under Components 2 and 3 can also be viewed as consensus building under Component 1 and raising the profile of business climate issues. For example, work with the National Economic Development Council (NECD) and Trade Policy Working Group (TPWG) provides an opportunity for public-private dialog on issues of concern to business (though BEEP acknowledges that there is some dissatisfaction in the private sector regarding the responsiveness of these forums to business concerns.)
- BEEP supported the creation of and worked with the **Doing Business Task Force (DBTF)**, a public-private forum established by order of the Prime Minister in the first project year, that was also supported by the World Bank in connection with the start of its business climate work in Kosovo. BEEP has used the task force and its “indicator specific” subgroups to advance its agenda on construction sector reform, in particular. There are indications that the role of the DBTF has diminished and that it is largely dormant at this time, but the evaluation team did not obtain sufficient information on its current status or use by the BEEP project.
- **Public Education.** BEEP reached an agreement with the MTI to advertise critical reforms, including the elimination of charter capital for LLCs, the elimination of the business registration fee, the reduction of documentary requirements for import and export transactions (discussed below under Component 2), and the elimination of the work permit. The media campaign is considered by MTI and other stakeholder to have been very successful.
- **Study Tours.** Study tours for senior officials to Turkey and Georgia are credited by many stakeholders with instilling a sense of enthusiasm and possibility. The study tour to Georgia is considered by some to have been particularly influential in the development of the construction law, a process that Georgia had itself completed only several years ago.

The impacts of these activities are largely unmeasurable, except perhaps in current opinion polls, of which the MCI is one. However, opinions of local and national officials are extremely positive on these efforts as leading to a level of momentum that has not previously been experienced. One local official opined that “there is no going back” on business climate reform.

### **5.2.2 Finding 2. BEEP is rightfully, in the opinion of the evaluation team, focusing on the transparency of the legal and regulatory regime as an essential building block of business climate reform.**

If successfully completed and sustainable, BEEP’s ongoing work with the office of the Legal Advisor to the Prime Minister and the MTI on providing greater transparency to the legal and regulatory framework could be among its lasting legacies. The highlights of this work include:

- **Audit of Normative Acts.** BEEP sponsored with GoK a week-long event with EU/SME's support to identify all effective normative acts. 1,579 acts were identified, many of which were of dubious value or validity and, to date, almost 440 acts have been repealed. This work is continuing in the Legal Office of the Prime Minister with BEEP support, which provided guidance and legal interns to pour through the existing acts and see to their translation into the three official Kosovo languages. It not only eliminated questionable normative acts that open the door to abuse by officials, but prepared the foundation for the creation of an accurate and accessible legal data base.
- **Development of Database of Normative Acts.** BEEP is working with the Legal Office of the Prime Minister to develop an accurate, searchable database of normative acts that will be accessible to citizens and businesses. BEEP is assisting with defining the concept of the database as well as with its system architecture. Work on the database is proceeding at this time. Work on the database dovetails with work on the Law on Normative Acts (See Finding 5.2.4, below), which will establish the legal basis for the database and assure its continuity by incorporating the mandatory publication of acts in the database, an important principle of administrative procedure in developed economies.

The impact of this work cannot easily or adequately be monetized or measured in quantitative terms. It would perhaps, be possible to measure the amount of time saved by businesses by having an accurate and searchable database of regulatory acts, and by depriving potentially corrupt officials of the opportunity for obfuscation and interpretation of obscure norms. However, it is questionable whether that effort would be worth the investment. Accurate and easily accessible legal and regulatory databases are such an accepted part of good governance and business climate theory that they can safely be said to justify themselves. While it may be possible to argue about the return on investment of improvements to an existing legal database, the argument becomes academic when no accurate and accessible legal and regulatory databases exist.

Questions may be raised about why BEEP - and not for example the rule of law project - undertook this work, which was not anticipated in the initial work plan. This is a question of resource allocation and there is arguably enough nexus between this work and business climate reform for BEEP to have taken the work on. On the other hand, BEEP could be commended for having the flexibility and vision to see the importance of this work even though results may be longer term and largely unmeasurable.

The work on the database is incomplete now. Moreover, it may encounter some issues of sustainability, as at the present time there is no clear home for the maintenance of the facility upon completion. An emphasis on completion of this work and close monitoring of the progress and sustainability of the effort is advised.

### **5.2.3 Finding 3. BEEP has made significant contributions to development of the legal and regulatory framework of the commercial sector.**

As under the other 2 components, BEEP has emphasized strategic reforms to the legislative framework. The consensus of opinion is that most of this work has been well conceived and has had a positive impact.

Based on its own research, BEEP sponsored a five-day, off-site legislative drafting session for key government stakeholders to consider proposed-amendments to laws affecting business climate reforms under the WDBI. The session resulted in preparation of 10 laws and amendments to laws including:

1. Law on Business Organizations;
2. Law on Notary;
3. Law on Cadastre;
4. Law on Registering Immovable Property Rights;
5. Law on Fire Protection;
6. Law on Construction;
7. Law on VAT;
8. Customs Code;

9. Law on Internal Trade; and
10. Law on Accounting, Financial Reporting and Audit.

Each of these laws contained some provision deemed by the drafting group, and guided by BEEP's recommendations, as important for achieving a favorable business climate. Though individually none of them is game changing, the proposed modifications to laws in the aggregate are viewed by many to represent a positive and significant contribution to the legislative framework that will lessen the burden on business creation and operation. Examples of the types of reforms proposed include:

- Eliminating the universal work permit for businesses required as a condition of creating a business
- Eliminating the charter capital requirement for LLCs and reducing the charter capital requirement for joint-stock companies
- Increasing corporate disclosure requirements to protect minority shareholders
- Eliminating notarization requirements for business registration documentation
- Imposing a cost recovery limitation on fees charged by the national cadastre and registry of rights to property

By the time of this evaluation, most of the proposed modifications have been adopted by Parliament. Most of these modifications were intended by BEEP to address indicators measured under the WBDBI and may ultimately have some impact on those rankings; most occurred too late to be included in the WBDB 2012 study. Whether impact on WBDBI was a sufficient guide for developing modifications to the laws, or whether there were more important and potentially impactful changes that could have been made, was beyond the scope of this evaluation.

Arguably, BEEP's most significant contribution to the legislative framework was its work on the Law on Construction. Also aimed directly at the WBDBI "Obtaining Construction Permits," on which Kosovo ranked near the bottom of surveyed countries, this was not a modification to an existing law but a major piece of legislation that had been under consideration by GoK for some time but had failed to gain traction. By all accounts, BEEP made significant contributions to improving the law and advocating for its adoption through an inclusive process.

The quality of the law has received praise from development partners, as has the process through which it was developed. That process included close consultation with development partners such as the World Bank Group, which is a leading advocate of construction sector reform throughout the world, as well as consensus building activities with the business sector and skeptical municipal authorities whose prerogatives were being directly affected by the proposed law. BEEP is considered to have made deft use of a timely study tour to Georgia to focus primarily on the countries' recent reforms in the construction sector. Ultimately most of the provisions of the new law are considered to be best practice.

**5.2.4 Finding 4. BEEP's work on reform of the legislative and regulatory framework for construction sector is incomplete. If successfully completed, ongoing work on the legislative framework in the final project year could be among BEEP's most significant contributions.**

Significant BEEP contributions to the legislative framework remain to be completed. These include:

- Regarding the construction law, significant supporting pieces are incomplete. These include the Law on Spatial Planning, which may have been approved by the Council of Ministers before this report is submitted, and is an essential component of construction sector reform because of the centrality of land use and planning permission to construction permission. Also incomplete is the Construction Code, an essential technical supplement to the Law on Construction which if not updated could diminish the beneficial effects of the new construction law. The risk of not completing these laws is that the work on the construction law would be diminished because the law could not be fully implemented. It has been commonplace in emerging markets that many good laws have gone unimplemented for years for failure

to develop the necessary supporting framework. Completion of these initiatives should be a focus of the project in the final year.

- BEEP's contribution to the development of the Law on Normative Acts is considered to be crucial by the responsible agency, the Legal office of the Prime Minister. That law would institutionalize the work already done on audit of the regulatory framework, regulatory transparency and regulatory simplification by governing the process of development and implementing regulations. If adopted, this act could cement progress already made in regulatory simplification and transparency, which is at this time somewhat insecure.

BEEP is also contributing to the development of several other laws, the work on which is led by another donor project. These include a Law on Permits and a Law On Inspections. The Law on Permits would provide a common framework for adoption of business licenses and permits and could help to institutionalize BEEP's work on reducing unnecessary permits and licenses, as well as allow and incorporate concepts championed by BEEP into the administrative practices of the GoK. The Law on Inspections would provide a common framework for establishing the need for inspections and the way in which they would be carried out. Inspections are a common complaint of businesses in emerging markets, though on the evidence of the MCI and other sources, they do not appear to be major concern in Kosovo today.

Adoption of new legislation of this significance is always unpredictable, but BEEP appears to have developed strong support in the key ministries and there is a high profile to these pending laws today; they are highly anticipated and mentioned by most knowledgeable interlocutors as important unfinished work. A key objective of BEEP in its final year should be to see that sufficient resources are devoted to moving these initiatives along to the extent possible during the term of the project.

#### **5.2.5 Finding 5. BEEP's emphasis on reform of licensing and permits, and in particular licensing fees, has had minor to moderate successes.**

An emphasis of Component 1 has been the attempt to reduce or eliminate business licenses and permits as well as license and permit fees. This effort has cut across project Components 1 and 2. The project's achievements for this initiative have been minor to moderate and include the following:

- **Elimination of the Work Permit and Fee.** In BEEP's estimation, the annual work permit was essentially a redundant licensing mechanism that was used by municipalities as a source of revenue, not protection of health and safety. This was eliminated by amendment of national legislation (Law On Internal Trade) recommended by BEEP at its initial legislative drafting session (see Finding 5.2.3, above), resulting in savings in time and direct costs to businesses. The practical effect of eliminating this particular permit and fee is considered by some interlocutors to be, ultimately, minor in the overall scheme of things, given 1) the many licenses and fees which localities have not agreed to change; and 2) that the change was not applicable to Prishtina, which is the locale of a significant portion of new business creation. However, it is considered symbolically important to both businesses and government as an example of what could and should be done in business climate reform
- **Reduction in Some Other Licensing and Permit Fees.** BEEP claims that it has had success in eliminating some other municipal licenses and licensing fees, but documentation of the specific items eliminated or reduced is unclear and the evaluation team was not able to identify the specifics of this claim in its field work. BEEP states that "already, twenty-three (23) municipalities have committed to or implemented the elimination or suspension of business license fees in their municipalities, nine (9) have acted on their commitment and adopted the implementing municipal regulation, and thirteen (13) are in the drafting process." BEEP acknowledges that many of these steps "are not permanent," suggesting one-off steps taken by municipalities to establish cooperation and good faith. The actual success of these efforts remains to be seen; more information may be available by the end of the project.

- **Elimination of Licensing for Companies Engaged in Importing and Exporting.** BEEP recommended to Kosovo Customs, and was instrumental in implementing the elimination of licensing for companies that wished to import or export goods, limiting licensing only to customs agents (“Spediteurs”). Previously, all companies engaged in external trade transactions would have to register with Kosovo Customs prior to the transaction.
- **Elimination of Certain Types of Construction Licenses.** On BEEP's recommendation, by administrative act, MTI eliminated six types of construction licenses containing over 50 different license categories.

Work in this area has been affected by the revenue implications of these steps to municipalities. One municipal official noted that since adopting BEEP’s recommendations on the reduction of licensing fees, municipal own source revenues are down 40%, which he conceded was not due solely to the licensing changes but to other factors as well. Nevertheless, it was clear in his mind that there was a direct relationship between municipal financial health and further fee reductions. To counter these perceptions, BEEP is promoting the role of an improved property tax – higher rates and better collection mechanism - to offset reductions in other revenue sources. Work on property tax systems, on which BEEP’s role is limited, is seen by some as legitimate but rather a mid- to long-term prospect and not of much immediate comfort to municipal treasurers.

It appears also, that there are differences of opinion between BEEP and its government counterparts on the need for licensing in certain areas and the trade-offs between reduced burdens on businesses and protection of the public. BEEP’s rationale underlying its approach to licensing seems to be that most licensing today does not actually protect public interests because the authorities lack the will, training, and resources to do anything but simply collects fees. The evaluation team does not have the benefit of, and could not generate for this evaluation analysis, individual licensing regimes that might support or refute the point. It is sufficient to say that both local and national officials do not necessarily agree with all of BEEP’s recommendations on licensing reform.

It is possible to speculate that the work in municipal licensing may have reached its peak at this point and that further breakthroughs may not be forthcoming during the remainder of the project. It is likely that the next breakthrough in these spheres will be the proposed Law On Permissive System, which may arguably have a greater overall effect on the practice of licensing than the piecemeal effort to convince national and local officials of the benefit of changes.

**5.2.6 Finding 6. The extent of monetized benefits stated under PR2 is questionable, but it is nevertheless likely that there has been a moderate rate of return on project expenditures under Component 1.**

A close assessment of the monetization of BEEP’s results revealed challengeable assumptions. The most updated figure received during the evaluation, for the economic impact of the reforms (PR2), was about \$119 million, out of \$170 million, which is the PR2’s expected goal for the entire life of the project. However, this figure is based on assumptions (all the following data refer to the PR2 table obtained from BEEP during the evaluation process) which are of questionable validity. For example:

- The “*Reduction of charter capital requirement for Joint Stock Companies (JSCs)*” has an estimated total impact of \$3.3 million. The evaluation team observes that while the reduction of the capital requirement indeed constitutes a removal of business-entry barrier and supports new business establishment, it should not be considered as a cost-saving for businesses, because even without the removal of the requirement, businesses were free to use for their own purposes the initial capital – it was not a fee payment for the government.
- *Elimination of charter capital requirement for Limited Liability Companies (LLCs)*” with an estimated total impact of \$0.94 million, the same logic as above applies for the category of LLCs.

- “*Work Permit Elimination*” has an estimated economic impact of \$9.7 million across different municipalities in Kosovo. The Evaluation Team suggests that the cost savings per day for each business needs to take into consideration the variations in business activity across different municipalities and the differences in business sizes and sectors. In addition, from the discussion with business representatives, it appears that often the work permit procedure was undertaken by specialized individuals, which eventually lowers the related cost per business unit.
- Reduction in municipal fees may be a benefit to businesses but if they reduce municipal revenues and expenditures (as they appear to be doing) there is a net effect on economic activity that is not reflected in the model. The effects on overall economic growth from fiscal policy and tax reductions can be very similar.
- There is no attempt to measure spillover benefits from these results, such as the reduction in informal payments, which might actually increase the value of the investment.

The PR2 standard cost model is very simple and not a true cost-benefit or regulatory impact calculation. BEEP management acknowledges this point. The evaluation team suggests that these results should be discounted as the PR2 model is only a rough indicator of project results. In our opinion, the monetized value of the regulatory reforms is probably lower than suggested. Nevertheless, there is a positive return on investment. With the aid of experienced econometricians BEEP could do a better job on the PR2 calculations and that, perhaps, should be considered for final project evaluation.

**5.2.7 Finding 7. The Municipal Competitiveness Index may be of limited value in assessing the reality of business sector constraints or reform efforts, but of significant value as a tool to raise the profile of business climate reform among national and local decision makers.**

The MCI, taken at municipal level, engages the local business communities. The MCI uses eight narrowly tailored sub-indices to measure municipalities’ economic governance using responses from over 3,000 business owners across all municipalities of the country<sup>3</sup>. Through the MCI 2012, businesses reported improved business environments in 91% of municipalities, celebrating these successes and incentivizing future reform.<sup>4</sup>

The MCI assists municipalities to better understand the local impediments to doing business, incentivizes local officials to increase their reform efforts, provides an agenda for public-private dialog and provides civil society with some leverage over and input into local policy. MCI ranks municipalities for market reforms and offers evidence to the public of success or failure. The GoK has outlined an Economic Vision 2014, which incorporates the main objective of BEEP to rank Kosovo within the top 40 performers of the World Bank’s Doing Business Report in 2014. As a consequence of this new consciousness of the need for market liberalization, MCI has provided momentum for positive action.

However, MCI arguably has limitations from a long term perspective and it may fail to provide a comprehensive model to recognize the full complexity of the problems in doing business and competitiveness in Kosovo. Competitiveness and growth of business activity largely depend upon other relevant factors, which are not captured by the MCI survey and MCI report.

The evaluation team is of the opinion that, although MCI may be useful to obtain a broad picture of the current business climate, and identify constraints and guide policy-making at local levels, the repetition of the process on annual basis with a dispersed sample in a small country such as Kosovo would, in the long run, inevitably reflect variations which are based solely on changes in local perceptions but not necessarily in actual progress

---

<sup>3</sup>USAID Business Enabling Environment, Annual Report, 2010-11.

<sup>4</sup>see Kosovo Municipalities More Hospitable to Business, USAID Kosovo, August 2, 2012 ([http://transition.usaid.gov/kosovo/eng/successStory\\_kosovo\\_municipalities\\_more\\_hospitable\\_to\\_business.html](http://transition.usaid.gov/kosovo/eng/successStory_kosovo_municipalities_more_hospitable_to_business.html))

(or regress) of reforms. For example, the 2012 MCI report may be useful to observe that some municipalities have improved their business climate (Kamenica, Shtimje etc.), although this progress still needs to be validated through alternative methods to confirm that reforms have indeed advanced and not only business perceptions have changed. Yet, MCI has difficulties in explaining why, for instance, the business climate of some municipalities, like Prizren or Istog, has significantly deteriorated within a short, one year period. Authors of the MCI acknowledge that the second year results reflect several inexplicable anomalies.

**5.2.8 Finding 8. Use of the WBDBI as a key indicator of project results is arguably reasonable under the circumstances, but can either exaggerate or understate the accomplishments of the project.**

Interviews and meetings with both national and municipal BEEP counterparts indicate a fair degree of sophistication in understanding the ramifications of the work on WBDB indicators and the MCI. There is certainly enthusiasm among Kosovar public officials for a high ranking under either measure. At the same time, on about half of the occasions this was discussed, counterparts recognized that mere “paper” and legal reforms do not constitute a sufficient basis for assuming improvement in the business climate.

In general, and as discussed in Finding 5.1.1, the evaluation team believes that too much reliance on the WBDBI as an indicator of project results may overstate or understate the project’s accomplishments. This conclusion underlies Recommendation 7.6 to discuss supplemental indicators for purposes of final project evaluation.

**5.2.9 Finding 9. The results of the Municipal Partnerships subcomponent are limited and arguably lay more in the realm of transparency and communications than concrete reforms of municipal business climates.**

A major subcomponent of Component 1 is the Municipal Partnership program. BEEP has now placed municipal coordinators in 25 municipalities, building on the initial set of eight municipalities at the start of the work. This subcomponent absorbs a significant part of project resources.

One of the objectives of the Municipal Partnership program, put simply, is to prod municipalities to enter into dialog with local civil society and to adopt business-friendly regulatory reforms. Much of the work seems to surround doing and presenting the MCI. Through this work, individual municipal coordinators have established good relationships with local governing bodies and serve as trusted advisors and mentors. The municipal coordinators appear to be well qualified for their tasks by background and education, and BEEP has provided training in project concepts and methodologies.

Concrete changes in rules and procedures at the local level seem sparse. By concrete changes we mean, by way of example:

- Actual simplification of licensing, permit, filing, etc. procedures, documented by time-motion or standard cost studies
- Actual elimination of permit and licensing requirements
- Reduction in time or cost to acquire information, reports, certifications, documents from municipal authorities
- Documented improvements in e-government and other transparency measures
- Implementation of one-stop shops

The evaluation team learned that the uptake of project concepts and objectives differs widely among the municipalities, and thus far there appears to be more discussion than action. Elimination of the work permit, which is an important element of BEEP’s self-evaluation, was a national and not a local initiative. Some other municipalities have committed to reforms in licensing and administrative procedures but only a handful have taken concrete steps at this time, and mostly in the realm of licensing fees. BEEP acknowledges that these steps may be ephemeral. Some interlocutors suggest that more significant improvements in local administrative practice have been achieved by the World Bank’s BETA project’s business registration centers, and the Democratic Effective Municipalities Initiative (DEMI) project’s citizen service centers, which are very popular.

(Citizen service centers are now apparently incorporating the business registration centers, and BEEP claims some credit for advocating this merger.)

At the same time, there is a widespread consensus that the Municipal Partnerships and Municipal Coordinator system have had an important role in implementing the MCI system, and that the MCI is an important tool of communications and public-private dialog and a source of leverage for the private sector and progressive local officials as well.

BEEP seems to now be of the opinion that piecemeal work with municipalities on administrative reform may need to be supplemented by other forms of municipal work, and is looking towards a project with the Association of Municipalities to produce draft model regulations for localities in 14 of their 25 competencies delegated under the laws on local self-government. There may be some questions about whether a “top down” set of model regulations on administrative procedure will have any greater uptake than the one-on-one mentoring implemented under the Municipal Partnership program.

It appears also that the Partnership program has focused on mentoring individuals or small groups of local officials and has not sought to institutionalize reform at the municipal level by, say, creating local doing business task force similar to the national effort. There is some question about the sustainability of progress under the municipal mentoring program, such as it is, once BEEP ends. Apparently, the mayors’ main source of assistance for management and administrative matters at this time is the EC, by its support of the Regional Development Agencies, which do not emphasize business climate reform. Consequently, without BEEP’s assistance any further progress may be slow.

A question that may arise is whether, given the experience of the municipal partnership program in the initial eight cities, an extension of the program to an additional 17 cities by retaining municipal coordinators for a term of one year was justified in terms of allocation of project resources, or whether those cities could have been brought into the partnership in another way. Evaluation of the results of this significant extension of the project will have to await close of the project.

#### **5.2.10 Finding 10. BEEP activities in formal and informal training appear to emphasize transfer of information but not skills.**

As reported by BEEP, the project has done a number of skills-based trainings on several topics, including customs valuation, municipal public financial management, and reform methodology for partners in connection with the MCI and Municipal Partners programs. However, it appears to the evaluation team that BEEP’s activities in regulatory reform have been aimed primarily at imparting technical information and not necessarily developing technical skills. Trainings and mentoring have focused primarily on specific substantive topics (e.g., best practices in trade safeguard mechanisms), which are important, and not on the skills and process of policy analysis and development (e.g. regulatory or cost-benefit models). BEEP management acknowledges that skills training in policy analysis and development has not been a significant focus of the program, and that other donors have included such training in their programs. The World Bank implemented a study on regulatory impact analysis several years ago, and the EU has assisted the Office of the Prime Minister to develop an internal manual for government on regulatory impact analysis obligations of ministries and departments.

This sort of training may be particularly useful at the local level, where training opportunities are generally less available, and the skills of local officials may be lower than in the national government. Arguably, leaving behind a well trained cadre of policy analysts may have more of a lasting impact than providing fully developed policy memorandum or legislative acts. BEEP’s initiative of enlisting students as research interns on topics of business climate reform is a creative approach to this issue that could perhaps be taken further.

### **5.3 Component 2**

As described in its Annual Report, BEEP’s Component 2 objectives are to assist the GoK to reduce barriers to trade, facilitate increased commerce and international cooperation, and implement regional and multilateral

trade agreements. Illustrative activities have included assisting the MTI and Kosovo Customs with institutional reforms and streamlining some trade-related activities. BEEP aims to accomplish its trade objectives “through broad-based consultative mechanisms – involving private and government stakeholders in formulating, implementing, assessing, and fine-tuning trade policy and customs procedures.”<sup>5</sup>

**5.3.1 Finding 11: Only a limited evaluation of Component 2 activity is possible.**

The objectives and activities under Component 2 are not suited to a high-level impact evaluation, and to only a limited impact evaluation of any sort in the short term. The BEEP PBRP recognizes this and therefore, the only indicator of Component 2’s success is a higher ranking on the WBDBI “Trading Across Borders” indicator that might arise from a reduction in the amount of paperwork and time required of businesses to import and export. A better evaluation might have been possible if baseline surveys of key stakeholder attitudes and levels of knowledge of the trade sector were done in the early stages of the project, but they were not.

Impact analyses of higher-level objectives, such as increases in trade, are not possible in this time frame or with the level of resources devoted to this evaluation study, and would be difficult in any case given the complexity of the sector and the many other variables affecting trade that cannot be measured. The upshot is that Component 2 has to be evaluated on its own terms – primarily whether it has succeeded in implementing its approved work plan objectives – and on the basis of the opinions of the key stakeholders who were the beneficiaries of its activities.

**5.3.2 Finding 12: BEEP has made progress in implementing its activities under Component 2.**

Considering BEEP’s results in terms of the initial project work plan, it is fair to say that it has achieved a significant amount of what it set out to do. Table 2 below, summarizes the status of work plan activities at this time based on project reporting and interviews with BEEP management and key stakeholders in GoK. (Table 2 relies primarily on the initial, year one project workplan as it was determined that the adjustments made in year 2 were not extensive.)

Work Plan Activity (Year One Work Plan)	Status
<b>Improve Doing Business Trading Across Borders</b>	
Conduct validation of World Bank Doing Business Indicators	Completed.
Conduct and present scenario analysis of selected indicators demonstrating reform foci	Completed. The scenario analysis served as the foundation for discussions with Kosovo Customs on administrative simplification
Provide support to WBDB Oct 2010 mission to Kosovo and agree on collaborative strategy for 2011	Completed. The World Bank acknowledges valuable support and assistance from BEEP in implementing the WBDBI program in Kosovo.
Provide drafting, consultative and advocacy support to develop, adopt and implement DB reforms	BEEP is credited with significant contributions towards accelerating modernization of the legislative framework for trade, including the Law On External Trade and Customs Code.  BEEP is credited by government officials and other stakeholders with significant contributions to reducing documentary requirements for import and export transactions and licensing/registration requirements for firms engaging in import-export transactions.

<sup>5</sup> BEEP Annual Report

**Table 2  
Component 2 Work Plan Results to Date**

Work Plan Activity (Year One Work Plan)	Status
	<p>Work continuing in the final project year include procedural simplification for food and livestock imports; licensing of Spediteurs; and further procedural simplification with the MAS-Q departments of MTI.</p> <p>BEEP has supported and continues to take an active role in the Trade Policy Working Group under the NEDC, but that forum may be experiencing some sustainability challenges.</p>
<b>Identify and Eliminate Barriers to Trade and Transport at the National Level</b>	
Review import and export procedures	Completed.
Support reform of technical regulation and conformity assessment within MTI (Standardization Agency, Accreditation Directorate, and Metrology Department)	<p>This work was begun relatively recently and there are to date only a few results, including for example training modules for MTI's MAS-Q departments and an assessment of the FVA departments capabilities and needs. BEEP states that work with technical departments of MTI will continue in the third project year. Assessment of this work should probably be left to final project evaluation</p>
Support development of Customs Brokers Association and other business service providers necessary for effective trade	<p>The customs brokers (Spediteurs) association acknowledges some limited assistance from BEEP and hopes for more in the way of training and advocacy on its behalf. Key remaining issues from the association's perspective are resolution of licensing issues; promotion of use of insurance company rather than bank guarantees in trade transactions; training on the AYSCUDA system; and further assistance with professional development.</p> <p>There is no indication that BEEP has worked directly with other professional groups in the trade sector, though it has made an effort to include private sector firms in the trade sector in forums, roundtable discussions and trainings. For example, it assisted the MTI with mounting a special event for dairymen to air their concerns and provide an avenue for input into development of policy.</p>
Facilitate Commercial Transportation in the Region; Conduct transport analysis and promote reforms to increase transportation access and lower costs	There is no indication that this activity was pursued or produced any results.
<b>Develop Trade Policy Roadmap</b>	
Conduct review of and update Aug 2009 Kosovo Trade Policy and related laws	BEEP prepared a proposed update to the Trade Policy of Kosovo 2009 and then conducted a one week training course for MTI and other stakeholders explaining the update.
Assist GOK in the process of acceding to the WTO	<p>BEEP prepared for the MTI/Deputy Prime Minister a cost-benefit analysis of WTO observer status for Kosovo and a draft the legal instrument for formal application. The Government has the matter of observer status under review.</p> <p>BEEP conducted a Workshop on International Trade for Members of Parliament to familiarize members on the various aspects of the WTO, what Observer Status would mean for</p>

**Table 2  
Component 2 Work Plan Results to Date**

Work Plan Activity (Year One Work Plan)	Status
	Kosovo, and on the related rights and obligations Kosovo has under the Central European Free Trade Agreement (CEFTA).
<b>Conduct Human Resource Needs Assessment and Implement Supporting Initiatives in Trade Regulating Bodies and Private Sector Organizations</b>	
Conduct operational and human resource needs assessment in Customs, Ministry of Trade and Industry, and the Ministry of Transport and Communications	This work has not been done. MTI and BEEP management have discussed performing an HICD analysis for MTI's trade department over the remaining term of the BEEP project.
Design and implement the training program for trade regulating bodies	<p>There have been a number of training programs for trade regulating bodies including:</p> <ul style="list-style-type: none"> <li>• an introductory training course on international trade for officers from the MTI Trade Department and Legal Department, Investment Promotion Agency of Kosovo (IPAK), Industry Department, Small and Medium Enterprise (SME) Agency, Intellectual Property Office, Customs, Agriculture, Health, Finance, Environment, and Food and Veterinary Agency in early February.</li> <li>• a workshop on trade contingency measures under the new Law on Anti-dumping and Countervailing Measures .</li> <li>• An agreement with MTI on training component 2 would deliver to the MTI Trade Department in the final year of the project, including training on Standard Operating Procedures on anti-dumping and countervailing and safeguard measures for case officers. Training will include case officers from Customs, the MTI, and the Ministry of Agriculture, Forestry and Rural Development.</li> </ul>
Conduct operational and human resource needs assessment in private sector representative bodies	This work has not begun. BEEP management states that training and other work with private firms and institutions in the trade sector is apriority for project year three.
<b>Support Government Groups related to Trade Policy and Encourage Public-Private Dialogue on Trade Issues</b>	
Review structure and activities of current Inter-ministerial Council for Trade Policy and the Trade Policy Working Group and support operational improvements	BEEP has worked closely with the Trade Policy Working Group as an advisor and a facilitator of its meetings and events. BEEP presently provides secretariat services to the TPWG through the NEDC by providing a full time advisor resident in MTI.
Expand existing public-private dialogue opportunities and consultative trade processes	BEEP is credited by many stakeholders with making useful efforts to expand public-private dialog in the trade sector through its support for the <i>Economic Vision 2014</i> , TPWG, AmCham and its inclusion of private sector firms in various trainings and round table events. BEEP acknowledges that the TPWG is facing some sustainability challenges today because of perceived unresponsiveness to private sector concerns and delays in producing concrete reforms.
<b>Promote Development of International Trade Guide and Integrated Tariff</b>	

Table 2  
Component 2 Work Plan Results to Date

Work Plan Activity (Year One Work Plan)	Status
<p>The International Trade Guide has encountered obstacles in obtaining the cooperation of some ministries of government and in finding a suitable sponsor to commit to long term responsibility for maintaining and publishing the guide. If a long term sponsor is not found the guide could become quickly outdated and much of the work invested in its development considered a loss. BEEP management believes these issues will be overcome and the guide will be published and a new home found for it before the project closes.</p>	

**5.3.3 Finding 13: Based on the opinions of beneficiaries, BEEP has had a significant impact on the level of understanding and competence on trade policy within the MTI.**

Representatives of both MTI and the Customs Agency believe that BEEP contributed significantly to the level of understanding of trade policy and best practices within MTI’s trade department, which, by their own estimation, was low when cooperation with BEEP began. Knowledge was transferred through a process of basic research, consultation with respect to the development of legislative and regulatory acts, responsiveness to specific requests for commentary and analytical work, and a number of training events. For a good part of the first two project years, advice was delivered by a long-term foreign technical advisor who was highly regarded by the client organizations for knowledge and professionalism.

Examples of BEEP efforts to raise the level of knowledge and competence within the key trade agencies of the GoK include:

- Worked alongside MTI staff to update legislative and regulatory acts (See 5.3.4)
- Conducted an introductory training course on international trade for officers from the MTI Trade Department and Legal Department, Investment Promotion Agency of Kosovo (IPAK), Industry Department, Small and Medium Enterprise (SME) Agency, Intellectual Property Office, Customs, Agriculture, Health, Finance, Environment, and Food and Veterinary Agency in early February
- Conducted a workshop on trade contingency measures under the new Law on Anti-dumping and Countervailing Measures
- Prepared a proposed update to the 2009 Trade Policy of Kosovo and conducted a one week training course for MTI and other stakeholders explaining the provisions of the update
- Agreed with MTI that training component 2 would be delivered to the MTI Trade Department in the final year of the project, including a training on Standard Operating Procedures on anti-dumping and countervailing and safeguarding measures for case officers. Training will include case officers from Customs, the MTI, and the Ministry of Agriculture, Forestry and Rural Development
- Provided ongoing technical advice on tariff policy to ministerial advisors and the Trade Department at the MTI, the Legal Director at the MoFA
- Conducted a Workshop on International Trade for Members of Parliament to familiarize them on the various aspects of the WTO, what observer status would mean for Kosovo, and on the related rights and obligations

These activities were generally well received by the beneficiaries. However, there is some sense among GoK stakeholders that the ongoing advice and guidance of a foreign long-term technical assistant (LTTA), who was virtually resident in the MTI offices, was a particularly effective approach to training and elevating the knowledge and abilities of the MTI staff. That level of assistance has ended for the time being, and BEEP’s project management states that in the final project year more emphasis will be placed on training the private sector stakeholders in the trade sector.

**5.3.4 Finding 14: Updating of the legislative and regulatory framework in the Trade Sector is one of the main accomplishments under Component 2.**

Most trade legislation pre-existed BEEP in all cases but was generally inadequate and outdated. BEEP worked alongside counterparts at the MTI and Ministry of Finance (MoF) to improve government drafts and conform them to best international practices. BEEP's contributions to this process are widely acknowledged by the key stakeholders in government, some referring to BEEP's contribution as "crucial" to the legislative modernization effort.

Examples of BEEP's work on legislative and regulatory acts in the trade sector include:

- Preparation of the Gap Analysis of the Kosovo Legal Framework for External Trade, a comprehensive review of the trade legislation completed in the first project year, which was highly regarded by government counterparts and whose recommendations served as a framework for legislative development
- Assistance to the MTI with drafting updates of the legislative framework for the trade sector, including the Law On External Trade, a Law on Safeguard Measures, and the Law on Anti-dumping and Countervailing Measures
- Analysis and commentary on the laws of Integrated Management and Control of the State Borders and the Law on Economic Zones
- BEEP staff provided advice and consultation directly to the Parliamentary Commission for Economic Development, Transport, Infrastructure, Trade and Industry on the Law on External Trade and Law On Safeguard Measures
- Produced for the MTI the Standard Operating Procedures (SOPs) for the application of trade remedies under the Law on Anti-dumping and Countervailing Measures
- Provided the MTI with a critical review of the draft Law on General Product Safety
- Developed recommendations to amend the Customs Code and bring it closer to international best practices; provided technical advice and support on the draft law to the Parliamentary Commission on Economic Development, Infrastructure and Trade & Industry when it reached the Kosovo Assembly
- With GoK counterparts, developed draft regulations on safeguard measure in accordance with international best practices. These regulations have not been adopted by the MTI as of this publication
- Produced Standard Operating Procedures (SOPs) for the application of trade remedies under the Safeguards Law
- Prepared a cost-benefit analysis of WTO observer status for Kosovo and a draft of the legal instrument for formal application

### **5.3.5 Finding 15: BEEP has contributed to encouraging and facilitating public-private dialog on trade policy.**

BEEP has provided support to the public-private dialog on trade policy through a number of means, not the least of which is by opening up its work in the development of trade legislation to private sector input, and its trainings and roundtable events to private sector participants. BEEP's main vehicle for this objective has been its work with the Trade Policy Working Group (TPWG) to address trade-related issues. The working group is made up of five sector-specific sub-groups on Agriculture, Manufacturers, Trade Agreements, Trade Facilitation, and Services. The TPWG includes members from the public and private sector, including the MTI, MoF, Kosovo Customs, Ministry of Agriculture, the Kosovo Chamber of Commerce, AmCham, Tax Administration of Kosovo (TAK), and the World Bank. The TPWG is the focal point of all trade issues as Kosovo moves towards membership in the European Union.

BEEP has provided both secretarial support and technical guidance to the TPWG, organizing meetings and providing research and background documents on topics under consideration. The TPWG has been an important forum for coordination among development partners and for promoting BEEP objectives. BEEP management credits the TPWG with establishing the consensus and momentum for the successful revision of the Customs Code.

Initially begun as an independent entity convened and sponsored by the MTI, the TPWG has now been brought under the NECD. BEEP management acknowledges that the TPWG is the focus of some dissatisfaction from private sector participants because of perceived lack of response to private sector concerns and lack of progress on issues. Elsewhere in this evaluation questions are raised about the sustainability of the TPWG post-BEEP.

**5.3.6 Finding 16: BEEP has made some progress on technical issues in the trade sector, particularly in cooperation with the Customs Bureau on updating the Customs Code, and further cooperation on technical aspects of trade are continuing.**

BEEP has:

- Carried out interviews and fact-finding visits with the Kosovo Metrology Department (KMD), Kosovo Accreditation Directorate (DAK), and Kosovo Standardization Agency (KSA) units at the MTI to identify preliminary issues affecting trade
- Developed an action program on MAS-Q (Metrology, Accreditation, Standards & Quality) for the MTI and held a workshop on MAS-Q for relevant officials from the Ministry of Health, the Ministry of Agriculture, Kosovo Customs, the MTI, the Food and Veterinary Agency (FVA), and several private sector laboratories
- Provided technical assistance, based on its findings, to MTI for the development of training modules on MAS-Q issues
- Worked with the FVA on approaches to reducing import and export certifications and streamlining cargo examination procedures

Most work with MTI's technical departments will be continuing in the final project year.

**5.3.7 Finding 16: It is likely that BEEP's assistance with the import/export process has contributed directly to reducing paperwork and the time invested by the private sector in trade-related administrative procedures, and may result in an increase in Kosovo's ranking under the World Bank's "Trading Across Borders" indicator.**

Early in the project, Component 2 developed, in cooperation with Kosovo Customs, the Trading Across Borders Scenario Analysis, which made recommendations to reduce the time, costs, and documents required for import and export. Kosovo Customs adopted an administrative instruction (No. 01/2011 on October 25, 2011) that eliminated six of the eight documents required for export and five of the eight documents required for import. This change can immediately affect Kosovo's rankings on the World Bank's "Trading Across Borders" indicator, which includes sub-indicators of number of documents and time of procedures. Whether this will result in an actual improvement in last year's Doing Business study rankings remains to be seen as the development was too late to be captured in the 2012 Doing Business study. To monitor compliance with the new instructions, BEEP mounted a communications campaign to inform businesses about the reduced documentary requirements, which was generally considered to be effective, initiated discussions with the Spediteurs Association, and conducted field visits to Customs border points.

In addition, based on its scenario analysis, BEEP recommended to the Director General of Kosovo Customs that registration of import/export businesses with Customs for international trade transactions be eliminated, and this recommendation was also adopted. While not directly affecting the WBDBI, this step could simplify the transactions of import/export for companies and lessen the expense of compliance.

However, none of these changes were set up for the evaluation in terms of their effects on time and costs and there is no baseline data available to do so.

**5.3.8 Finding 17: BEEP activity in the trade sector slowed down with the termination of the Component 2 foreign LTTA.**

There are indications that BEEP's activity in the trade sector has slowed since the departure of the foreign LTTA who had been the key advisor to the MTI and Kosovo Customs. Some key stakeholders expressed the view that his presence has been missed and that certain initiatives are lagging at this point, however this may

possibly be the result of high expectations or the fact that many of the main tasks have been completed or are well underway. BEEP management advises that it is able to complete ongoing work and be responsive to new requests with the combination of a foreign short-term technical assistant (STTA) and a project staff member in the Kosovo office. BEEP management also takes the position that the slowdown in BEEP's Component 2 activity is directly related to the increases in EU/EC work in the sector, and that the renewed interest of the EU in trade sector work is confirmed by various stakeholders in Kosovo. Ultimately, Kosovo will fall under EU guidance in the trade sector and there is a rationale for reducing LOE under Component 2. In addition, the World Bank has stated to the evaluation team that, in 2013, it hopes to pick up some trade sector work, mostly undefined at this point. BEEP's management has been sharing with the World Bank details on its own trade work.

The question may arise whether, in light of the inevitable close association between Kosovo and the EU on trade matters, including a component on trade and particularly trade regulation, if a US-sponsored project was a useful investment, or whether the field should have been ceded to the EU from the start and the resources allocated to other business climate activities. Some stakeholders anticipated this question and a widely held belief is that prior to the start of BEEP activity projects, the EU and the World Bank were slow and unresponsive, and that BEEP was noteworthy for its responsiveness to local wishes and the rapidity with which it deployed resources. Moreover, there seems to be agreement that most of the legislative and regulatory work of Component 2 relied on best international practices, including primarily EU models. For example, the work on the Customs Code by the LTTA followed the EU's "Customs Blueprint." Finally, there is some opinion that current EU practices may be inappropriate for Kosovo at this time because of standards and practices that cannot be accomplished in Kosovo in the short run, making a more tailored approach necessary.

**5.3.9 Finding 18: There are some sustainability challenges posed regarding the component's work in promoting public-private dialog and intra-government cooperation on trade policy, but fewer sustainability concerns regarding continuing technical development of the sector.**

Regarding the sustainability of Component 2 work, the level of knowledge and competence of GoK trade agencies has been upgraded to the extent that they can be positive contributors to the unfinished work in the trade sector, and both the EU and World Bank have suggested that they may assume responsibility for some aspects of trade policy in the near future. Moreover, there is general consensus that BEEP's technical work in the sector was grounded in international best practices and did not preclude or interfere with the gradual movement towards EU standards and practices.

The main question of sustainability relates to the encouragement of public-private dialog and intra-government cooperation and coordination on trade policy, which BEEP had been managing through its support for the Trade Policy Working Group, now under the NEDC. As noted previously, there is some opinion that the NECD, while an official government body, is personality driven to the extent that it is led by the current MTI Minister/Deputy Prime Minister, and supported significantly by BEEP. The TPWG is roughly in the same situation. BEEP has provided most secretariat services for the TPWG through an advisor resident at MTI, and it is safe to say that without BEEP's support, recent meetings of the TPWG would not have occurred. Moreover, BEEP management acknowledged, in its most recent annual report, that there is some dissatisfaction of private sector participants in TPWG regarding its responsiveness to private sector concerns as well as its results, and that there is a risk that private sector participation may decline.

Further institutionalizing the work of the TPWG (and presumably the NECD) is a task identified by BEEP in the most recent annual project report for the remaining time of the project. The evaluation team was advised upon presentation of the draft evaluation report that an EU project has committed to continuing BEEP's work with the TPWG, and that BEEP is consequently reducing its engagement with this activity, but coming after the completion of the field work we were unable to pursue this information further.

The issue of sustainability may also apply to the International Trade Manual, which, while substantially complete at this time, has not yet found a permanent home with a public or private agency in the trade sector.

## 5.4 Component 3

BEEP has undertaken an assessment of the Kosovo credit registry, provided recommendations on process and system upgrades for the CBK, provided assistance in revising the applicable regulations, and assisted the CBK to improve and upgrade the operation of the credit registry. Component 3 was less based upon a quantitative analysis of the financial sector in Kosovo and more on a view of the impact of a credit registry on the costs and risks of extending credit. Nonetheless, the financial sector is dominated by three banks with a combined market share of about 80%. Therefore, the Credit Registry of Kosovo (CRK) initiative, if properly executed, can have a significant impact.

**5.4.1 Finding 19: BEEP's work with the credit registry of the CBK is viewed as a significant contribution by the CBK and other stakeholders. The credit registry work under Component 3 has proceeded on a competent and logical basis, first focusing on the legal environment and broad international industry standards, then on issues of registry operations.**

Interviews and meetings confirmed that the progression of assistance under this aspect of Component 3 has been a balance of legal and regulatory work on one hand, and work giving attention to the technical aspects of registry operation on the other.

The sense of project counterparts in the CBK is that while a credit registry existed prior to the inception of the BEEP project, BEEP's participation significantly upgraded its capabilities on a schedule that would not have been achievable without BEEP's assistance. Moreover, BEEP advisers added value by raising issues and making suggestions for further development of the system, which had not been within the contemplation of the CBK at the time and which were positive additions. For example, BEEP advisers are credited with expanding the scope of information that would be captured in the register and for emphasizing use of the EU framework for credit registry best practices. BEEP advisers are credited generally by the CBK with a high degree of professionalism and extensive knowledge of international best practices.

On the issues of legal reform, BEEP assisted the CBK to revise its credit registry regulation to reflect current international best practices and to design of the new system. Importantly, the work on these issues was guided by the EU's standards and guidelines for credit registries and data protection, a sound strategic decision given Kosovo's possible future as an EU member. On the technical side, BEEP assisted CBK to conceptualize the new system and its content, prepare technical specifications for system upgrades, and identify and negotiate with a sole source contractor for the design and implementation of the new system. The system is currently undergoing testing and there is a high level of confidence that it will be fully installed and operational by the close of the BEEP project.

**5.4.2 Finding: BEEP-assisted efforts to educate the public about the role of the credit registry, their rights to credit information and the importance of maintaining good credit relationships have been substantial and generally believed by stakeholders to be useful and effective, but evidence of that conclusion could only be demonstrated by surveying the target audience before and after the communications effort.**

In connection with the credit registry work, BEEP assisted the CBK with designing and implementing a public education program that the CBK management believes to have been effective in educating citizens and businesses about the importance of credit information and their rights under the credit registry system. This activity was essential to the logical framework of Component 2, which proposed that a main function of an effective credit registry is to make borrowers aware that loan defaults will have an adverse effect on their ability to borrow, increasing their attention to their own credit standing and resulting in a more secure financial system. The corollary of this proposition is that citizens and business are aware that they are entitled to inspect their credit information and make corrections as necessary, thereby also moving the quality of credit information and facilitating lending.

While there are positive opinions of this communications activity, it is not possible to say whether it achieved its purposes. Apparently, there were no baseline studies of the attitudes or level knowledge of the target audience

prior to start of the communications program that could be used to demonstrate its effects, and there do not appear to be any current plans for a consumer survey to study the current attitudes towards credit reporting. What is known, apparently, is that there has not yet been the expected increase in demand for credit reports.

**5.4.3 Finding: Whether upticks in the number of credit reports requested by citizens and businesses are causally related to improvements in the credit registry system and BEEP's public education efforts cannot be determined at this time, if ever.**

It is not possible to confidently determine whether the credit registry work satisfied the expectations of PR5 on the basis of current information. We are advised that there was a 15% uptick in searches of the system in calendar year 2011, and a total increase in requests of 50% since the project's inception. However, those increases were essentially prior to the implementation of Component 3 improvements and cannot be fairly attributed to them. In fact, the trend of the increase since 2010 clearly suggests that there are other important factors at play in demand for credit information that are unrelated to the improvements made under Component 3.

The evaluation team questions whether PR5, which proposes that an increase in requests for credit reports from citizens and businesses reflects improvements in the system and higher public awareness, is a useful indicator at this time. In the first instance, the new system is still paper-based and requires a moderate investment of time on the part of citizens and businesses. They must submit written applications to their local bank and then pick up the printed report that is returned by normal post. A web-based system for application and receipt of reports is under consideration only now and might not be implemented for another three years. In addition, there is considerable opinion that there is little current *effective* demand for personal or small business loans,<sup>6</sup> a conclusion reflected in bank lending activity, and that information-seeking behavior may be dependent on the perception of an actual need for the information and further expansion of credit and lending activity. That is, the improvement of access to credit information may be a necessary, but not sufficient, cause of increases in information-seeking behavior.

The evaluation team further suggests that connecting interest rate spreads and increased lending activity to improvements in the credit registry and credit education is not possible; use of such indicators can be misleading, and too much focus on such indicators could potentially undermine the credibility of an evaluation. There are too many other more important variables affecting such indicators that cannot be controlled or measured.

PR4 indicators have been satisfied to an extent. It is clear that the new system captures more useful information than the former system. An example is the revision of CBK's rules on the frequency of reporting changes in loan quality, which will now be reflected in the registry more quickly and which is a vital piece of information to creditors. BEEP also contributed to adding insurance companies to the list of authorized users of the system. Even greater expansion of the number of participants may have been contemplated at the start of the project, but that goal ran into issues with Kosovo's banking and data protection laws that limited expansion of access to the registry and those rules have yet to be modified.

The justification for work on a credit registry was arguably settled at the start of the project based on the large amount of international research done on these topics and the evaluation team does not think it is necessary to justify the work at this time.<sup>7</sup> It is possible that better impact indicators could have been devised at the start of

---

<sup>6</sup> By effective demand is meant here demand recognizable by regulated financial institutions, including for example personal loans supported by reliable incomes and collateral and small business loans supported by proven markets and viable business plans; there is no doubt that there is a general demand for credit.

<sup>7</sup> See for example Luoto, J., Craig McIntosh and Bruce Wydick. Credit Information Systems in Less-Developed Countries: A Test with Microfinance in Guatemala. <http://irps.ucsd.edu/assets/003/5266.pdf>; Jappelli, Tulle and Marco Pagano. Role and Effects of Credit Information Sharing. Center for Studies in Economics and Finance. Working Paper No. 136. April

the project, or more sophisticated evaluation techniques built into the project, but there is some question as to whether the cost of such efforts would have been justified given the existing consensus of the benefits of good credit registries for both credit consumers and lenders. Other similar indicators may include the percentage of adults covered by the credit registry (this indicator is used also in the WBDBR), degree of connectivity and exchange of information between the system and other related information technology (IT) solutions (cadastral system, personal data database, immovable/movable pledge registry, tax administration system etc.), and the degree of customization by customer segments (individuals/SME/corporations/industries etc.) which would provide more synergetic added value for Kosovo.

It is possible that an opportunity was missed to measure some important aspects of the credit registry work. A simple baseline study of consumer attitudes and levels of knowledge of the use of credit and credit information could perhaps have made it possible to get a sense of whether the public education component of the work was effective. Or, an “encouragement design” study could have been implemented whereby on a pilot basis, separate treatment and control groups received different amounts of information on the new credit registry system and the importance of credit information, to see if there was a differential effect on information seeking behavior. BEEP’s PBRP did not provide for this level of sophistication in evaluating project results.

The BEEP Component 3 team is presently collecting data on the perceptions and experiences of the banks in reporting under the new system, including estimates of time savings. This information could be useful in identifying direct impacts of the new system on one subset of users, but tying these results to increases in lending or access to credit would require a great deal more structuring and data gathering.

#### **5.4.4 Finding: Beyond the work on the credit registry, additional work on the overall objective of Component 3 has been minor.**

An overall objective of Component 3 was a more efficient and secure financial system for creditors, which would induce further lending. The work with the credit registry was always intended to be the main effort under the BEEP project and there have been few other significant initiatives in pursuit of the overall Component 3 objective.

The credit registry work was able to identify and address a potential conflict between the regular bank reporting requirements of the CBK and the reporting expected for the new credit registry system which might have undermined the effectiveness of both bank regulation and the credit registry, and a fix for that problem was incorporated into the CBK’s reporting rules. In cooperation with the MoF and the Legal office of the Prime Minister, BEEP is presently looking at the lack of modern legislation on bills of exchange and negotiable instruments in Kosovo - financial instruments considered to be crucial to modern economies - but has not yet determined whether further work will be done.

It is possible to carry under Component 3 BEEP’s foray into development of the legislation on secured transactions and the pledge registry. That work was begun in year 1 opportunistically with USAID’s agreement and was not a part of the initial project work plan. BEEP’s management concedes that the work did not have a clearly positive impact and may have conflicted with similar work undertaken by the World Bank at the time. Apparently the level of conflict was such that it required intervention at the level of the World Bank Country Director for resolution, and the ultimate outcome was BEEP’s withdrawal from the field. BEEP’s management argues that it was requested to provide comments on the proposed law to the MoF, and the debate between BEEP and World Bank proposals in this topic served to highlight alternative approaches to the issues presented and provided Kosovo stakeholders with choices. Whether the benefit of such choices outweighs the potential of conflict with a development partner in a field in which it has demonstrated significant success internationally is

---

2005. //www.csef.it/WP/wp136.pdf; Love, Issessa and Natalya Mylenko. Credit Reporting and Financing Constraints. World Bank Policy Research Working Paper 3142. October 2003.

an open question, as is the amount of time and resources spent on duplicating the efforts of a development partner. Overall this incident does not appear to have absorbed significant project resources and it was resolved.

## 6.0 CONCLUSIONS

The evaluation team has determined that conclusions of the evaluation should be organized around the priority questions.

### 6.1 Priority Question 1a.

**How have the relevant Kosovo institutions and other beneficiaries been strengthened in their ability to simplify and streamline the regulatory framework in Kosovo?**

As discussed under Findings 5.2.1 - 5.2.10 above, in the area of regulatory simplification, the level of knowledge and understanding of the GoK generally, and some specific agencies within it such as the MTI and its various departments, Kosovo Customs and the Office of the Prime Minister, as well as a number of municipalities throughout Kosovo, have been enhanced by BEEP. We believe that this enhancement may be partly due to analytical support provided by BEEP advisors, trainings in the business climate methodologies, and concepts developed under the WBDBI and MCI, but primarily due to BEEP's successes in raising the profile of business climate reform as an issue to be addressed at the national and local levels and increasing communications among stakeholders within and outside of government.

BEEP's ability to raise the profile of doing business issues has likely also increased the sensitivity of the national and local governments to the concerns of businesses, while at the same time providing those businesses with the leverage to influence policy. BEEP has also provided vital support to the forums at both the national and local levels in which the concerns of businesses can be expressed to public officials. These include, for example, the DBTF and TPWG at the national level, the AmCham series of local roundtables, and the MCI presentations roundtables at the municipal level. The latter, in particular, has apparently become a good opportunity for public private dialog on matters of concern to business.

As noted in Finding 5.2.10, evidence that BEEP's activity has strengthened the technical and analytical capabilities of stakeholders to perform their own sophisticated regulatory and policy analysis, or to mount sophisticated public relations campaigns to influence public policy or public perceptions, is lacking.

### 6.2 Priority Question 1b.

**How have the relevant Kosovo institutions and other beneficiaries been strengthened in their ability to lower trade barriers?**

As discussed under Findings 5.3.1 – 5.3.9 above, the capabilities of several key government institutions – in particular the MTI, Kosovo Customs and MoFA - in the trade sector have been enhanced by BEEP's work. BEEP's research and policy papers have enhanced understanding of the system in Kosovo and how it compares with international best practices, providing a standard against which officials can measure their own practices and proposals. BEEP's training has upgraded the capabilities of some agency staff. BEEP's contribution to the development of the legal framework in the trade sector has facilitated the work of regulators. BEEP's efforts to foster dialog among key stakeholders through forums such as the TPWG has, to some extent, enhanced the capacity of the private sector to influence policy. Ongoing work on technical matters in standards of food and livestock imports may raise the technical competence of governmental actors in those spheres and further reduce administrative barriers to trade and that question should be investigated during the final evaluation.

There is not much evidence now that BEEP has raised the capabilities of non-governmental stakeholders. Other than interactions with the private sector stakeholders through forums such as the TPWG, and occasional participation in trainings, BEEP's civil society counterpart in this sector appears to be the Association of Spediteurs (customs agents), and that work appears to have only recently begun. BEEP's management specifically states that work with the private side of the trade sector is the emphasis for the final project year, so evaluation of that work remains to be done.

Linking any of this work directly to increases in trade is not possible as there are too many variables affecting trade that cannot be measured and the time frame is far too short to detect results. As noted earlier, an improvement in Kosovo's ranking under the "Trading Across Borders" indicator of the WBDB program may reflect positive improvements to administrative procedures and reduced burdens on trading companies, but not causal linkages to changes in trade volumes. It may be possible at this time for BEEP to plan for a more extensive evaluation of the effects of Component 2 work through survey research of key stakeholder groups. In the short run, it is possible to say only that the opinions of key stakeholders in the trade sector assisted by BEEP are generally favorable.

### **6.3 Priority Question 1c.**

**How have the relevant Kosovo institutions and other beneficiaries been strengthened in their ability to increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information?**

As discussed under Findings 5.4.1 – 5.4.4 above, the evaluation team believes that the quality and capacities of the Central Credit Registry have been improved significantly in accordance with modern concepts of best practices and the specific guidance of the EU's best practices principles for credit registries. It is a better system in terms of the amount and types of information captured, ease of reporting and ease of accessing data. Everything else being equal, ultimately these improvements should also improve the credit quality of loans and the willingness of creditors to extend credit, secure in the knowledge that the system is current and accurate.

These conclusions are largely based on what we know from the implementation of good credit registries in other parts of the world. There is no information at this time on whether the work in Kosovo has actually increased credit quality and increased the level of lending to consumers and businesses. Indeed, it is highly doubtful that such outcomes would be visible in the short run. As discussed under Finding 5.4.3 above, we believe that the PRs and other indicators established by the project to evaluate results lack good proxy value for establishing a relationship between Component 3 work and increased security or lending. Some consideration might be given at this time to outline a more realistic and informative set of indicators for the Component 3 work, including time-motion studies of bank reporting, lender's perceptions and attitudes, and the attitudes and perceptions of businesses and citizens.

It is fair to say that the Central Bank would likely have ended up in the same place on its own over a longer, indeterminate period of time. The CBK's staff was aware of the current standards and guidances for credit registry systems promulgated by the EU, World Bank and others, and their main problem has been lack of resources. This is not to diminish the value of accelerating the process that did occur by providing technical resources and conceptual guidance. There will be more work to do over the coming years to further develop the system – conversion to a web-based application and issuance function is one that is presently under consideration – but we believe that the CBK is capable of conceptualizing and implementing that work itself through appropriate outsourcing.

### **6.4 Priority Question 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?**

The evaluation team is not able to answer this question primarily because there are no standards or benchmarks pertinent to the question of whether project results are being achieved at an “acceptable” level of costs, and any response would be speculative and purely a matter of opinion. Whether any result is cost effective depends on how the result is valued and by whom.

The same response applies to the question of whether the project is achieving its results at the desired cost level. Presumably, the approved project budget reflects the desired level of expenditure and the project appears to be on budget. If there were any other desired outcomes regarding financial performance discussed with the contractor they have not been disclosed to the evaluation team.

It is also not possible to comment on whether costs could have been reduced or resources used more effectively because it is not possible to say whether a reduction or reallocation of resources employed would have led to the same or different results. Any conclusions on what might have happened if resources were reduced or reallocated would be purely speculative.

Having said this, there are some comments that might be made with respect to these questions:

- If these questions are to arise it would be helpful if USAID were itself to initiate further study of how to evaluate the costs and benefits of project expenditures and provide guidance on the appropriate indicators, financial ratios, etc. USAID has access to comparative data across all of its projects, while when doing an evaluation, contractors are typically limited to one or a few local projects
- The evaluation team attempted to compare simultaneous projects in Kosovo, including BEEP, DEMI and GSFI, but comparisons are questionable given the different mandates and sectors of these projects and the lack of comparable data on project finances; no interesting or reliable conclusions were possible.
- The PR2 comes closest to providing a return on investment analysis for the project, but significantly, does not include much of the work under Components 2 and 3. As discussed above, the evaluation team believes that the PR2 model is flawed, but that all things considered, it does make a plausible case that there has been at least a positive return on investment of project funds in some areas of regulatory reform
- Many activities undertaken by BEEP arose after the project work plans and budgets were approved and often at the direct request of the client government or USAID
- Some development partners are of the opinion that BEEP may have spread itself too thin. Some of its unplanned initiatives were not successful. On the other hand, technical assistance work is, by its nature, broadly defined at the start and opportunistic, and BEEP seems to have taken advantage of opportunities as they arose
- Many of the projected benefits of the BEEP project are unmeasurable at this time, and even a partially satisfactory answer regarding the “value” of BEEP activities would require a level of econometric and cost-benefit analysis that this evaluation effort does not support and the project has not done

## 6.5 Priority Question 3

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

Most government institutions in the national government have reached a level that they can be expected to carry out their responsibilities to a basic level of competence if they have the necessary resources. Counterparts in this project, including the MTI, Kosovo Customs, CBK and Ministry of Environment and Spatial Planning appear to have a good sense of their mission and their work plan and good human resources. The picture at the municipal level is somewhat cloudier, but there are some municipalities with progressive and competent administrations. However, there is some question as to whether they will have the capacity or resources to carry out some activities that they have been carrying out in cooperation with the BEEP project to the high standard sought by BEEP.

Both qualitative and quantitative evidence collected by the evaluation team suggests that the beneficiaries of BEEP may face sustainability challenges in the future. Interviews and meetings suggest that this is in part attributable to some continuing weak human capacity in some GoK and local institutions. As noted herein, technical capacity building has not been a prominent BEEP activity. It is necessary to distinguish here between transfer of information and transfer of skills – giving a man a fish and teaching a man to fish. BEEP has been very good at transferring information, but it remains to be seen whether technical capacities have been enhanced for the long run.

Responses to Questions 4 and 6 of the Questionnaire (see Annex VI) indirectly suggest that, as a general matter, insufficient knowledge transfer has occurred in key areas, notwithstanding BEEP training and workshops. The evaluation team is of the opinion that BEEP technical documents are unlikely to serve as effective agents of capacity building and knowledge transfer because of problems with publicity and distribution but also because of the rapidity with which such documents become outdated by accumulating changes to the system.

Beyond these concerns regarding skills development, there is the question of resources. BEEP has provided the human and financial resources necessary to get certain initiatives over the top. Examples include the credit registry, the construction law and the legal information database. BEEP presently provides significant support to the NECD and TPWG. It is unclear whether the GoK will have these same priorities or provide the same level of resources for these activities once BEEP ends. Specific examples of sustainability challenges include:

- It is not clear whether BEEP has upgraded technical capabilities to perform sophisticated public policy and regulatory analysis at either the national or local levels for the long run. See Finding 5.2.10
- The futures of some of the key public-private forums for exchange of ideas such as the NECD and DBTF are in question for lack of institutionalization and uncertainty about future resources. (The evaluation team was advised after completion of the field work that the TPWG advisory activities of BEEP have been picked up by an EU project but was not able to pursue that information further)
- Other than the MCI meetings, there have been no local public-private forums created at the municipal level to carry on the promotion of business climate reforms – the local equivalents, for example, of the national DBTF. To be fair, however, the AmCham is doing such work on the national level and was enhanced in its ability to do this work by BEEP's support
- The future of the MCI is in question as no permanent home has been found and there is a question about resources needed for its continuation
- There are issues of sustainability regarding the Legal Information Database of the Office of the Prime Minister, as there are unresolved issues between the project and the likely home of the database, the Official Gazette
- There are sustainability issues with regard to the International Trade Guide, which, even before it is completed, has no permanent home or champion that can assure it will not become obsolete or inaccessible

## **6.6. Priority Question 4**

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

In general, development partners and beneficiaries of the program credit BEEP with an openness to other groups and sincere attempts to coordinate activities.

This does not mean that there have not been breakdowns in communications or conflicts regarding objectives and approaches to problems. Complaints about BEEP, such as they are, tend more toward a doggedness and lack of flexibility with respect to its own deeply held policy positions. Choosing strategic retreats in some cases might have resulted in a more efficient allocation of resources. Cases in point are BEEP's work on the pledge registry law and its strong position in favor of a single Tax Identification Number for business registration in the

context of the World Bank's program for business registration centers, neither of which are widely believed to have added much value to the ultimate outcomes.

Similar issues may have arisen with clients with respect to licensing, in which some believe BEEP may have pursued an agenda that is too aggressive for the context, and on which key government stakeholders disagree (e.g. licensing of tourism companies, MTI market regulation, licensing of Spediteurs (customs agents) and municipal licensing in general). In general, these appear to be aberrations from what is usually a communicative and cooperative approach with international development partners and other USAID projects.

## 6.7 Priority Question 5

**Based on a review of BEEP's implementation and results, what recommendations do you have for possible future USAID programming to improving the business environment in Kosovo?**

The BEEP project is wide ranging and entailed a significant number of business climate initiatives. There are not many areas of business climate reform that have not, at least, touched upon less than one of its three main components. In addition, other USAID and donor projects are involved in a number of other business climate issues, including secured transactions/pledge registration, contract law and enforcement, taxation, permits and inspections, business registration, and municipal governance. Both the World Bank and EU have expressed intentions to become further involved in trade issues. Because of this broad range of work already begun, a main recommendation is that the priority should be to complete the work that has already been started, and not to seek out new tasks at this time. Further recommendations are discussed under Section 7.0, Recommendations, below.

Having said this, some areas in which further work on business climate reform may be pursued include:

- **Procurement.** The procurement work envisioned for BEEP was not done. Part of the reason given was deferral to EU interests and the likelihood of other EU projects. We do not know if those EU projects ever actually materialized, and if not, there may yet be need for work on public procurement issues.
- **E-government.** Our understanding is that work on e-government at the local level was minor, consisting mostly of recommendations for what to include on municipal web sites and other transparency issues. Good e-government is arguably the wave of the future, which holds out the possibility of making other standard business climate initiatives such as business registration centers and one stop shops irrelevant as a practical matter. It is possible that further work with localities in the area of interactive electronic permit, licensing and data centers (e.g. land title search, civil status certificates, etc.) could be pursued.
- **Permit tracking systems.** As part of an e-government initiative, and a good support for the BEEP's work done in construction, might be to work with municipalities on implementing permit tracking and issuance software systems. Modern permit tracking systems are largely "off the shelf" and can greatly aid in simplifying and facilitating administrative procedures for a wide range of permitting functions, not only construction.
- **Land use planning.** Local land use plans are a key part of implementing the new construction law, as the plans will determine land use aspects of permit applications. Lack of local land use plans has been a major impediment to construction permitting in many countries, delaying processing and opening a door to abusive practice. The Ministry of Environment and Spatial Planning has expressed the intention to seek support for a nationwide program to assist localities with preparing land use plans.
- **Bankruptcy.** Insolvency/bankruptcy law is a key component of business climate improvement. We did not come across any work on this among donors in Kosovo and are not certain it is not being done.

- **Intellectual property.** Good intellectual property laws are also important to business climate. We did not come across any work in this area and are not certain it is not being done. It should be noted that intellectual property is also a cross-cutting concern for trade oriented business climate work.
- **Procedural mapping and simplification.** It appears that much of the work done by BEEP sought to eliminate specific fees and permits. Another approach might be to focus on improving those administrative procedures that will inevitably remain in place. An example of this type of work under the BEEP project is the work on simplifying the documentary requirements for import/export. For purposes of illustration, a recent IFC project in Azerbaijan sought to prepare detailed procedural maps of 25 administrative procedures identified by survey of the business community as the most burdensome, prepare cost models of the procedures and work on administrative simplification. This type of activity can be used to initiate new concepts of administrative procedure such as standardization of documents and dossiers; use of common file and document identifiers; simultaneous/parallel processing of applications; electronic permit tracking; customer service; time bound processing; and administrative M&E.
- **Citizens' charters and other customer service initiatives.** Citizens' charters have had some positive effects in a number of countries. The charters describe goals of customer service, set out the obligations of administrative agencies in dealing with the public, and clarify expectations, and can be used as an important tool for public monitoring and evaluation of agency performance.

## 6.8 Priority Question 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?**

For the sake of brevity, this question is addressed under the following Section 7.0, Recommendations.

## 7.0 RECOMMENDATIONS

This section responds to the priority questions regarding possible future USAID programming on business climate (Priority Question 5) and correction of BEEP's current course for the remainder of the project (Priority Question 6), as well as providing other recommendations arising from the Findings and Conclusions. We believe that our answers to these questions are expressed or implied in the recommendations.

### **7.1 Recommendation: Assess outstanding commitments and emphasize completion of work already underway.**

A number of interlocutors suggested that BEEP spread its net too wide, and spread its resources too thin. The evaluation team believes that flexibility and responsiveness to clients needs can be a positive aspect of a business climate program and that a good project will have a certain amount of opportunism, but nevertheless notes a great number of disparate activities under Components 1 and 2, and a large number of new activities under consideration.

Given the short time remaining, it is recommended that the project focus now on successfully completing what it has already started and limit new initiatives. This may require that the project review and assess outstanding commitments. The evaluation team had the sense that activities which BEEP views as potential or only under consideration may be viewed as firm commitments by some clients. We also concluded that the potential impact of some work underway – including, for example, the Legal Information Database and the Laws on Normative Acts, could be greater than many other activities under consideration now and failure to complete some of this work could devalue the investments already made in some areas. For example, failure to complete

the work on the whole complex of construction sector laws and regulations could diminish the success on the Law On Construction and have far more important effects than failing to complete a Human Institutional Capacity Development (HICD) assessment for MTI, or further work on the pledge registry law or negotiable instruments.

## **7.2 Recommendation: Address issues of sustainability.**

As discussed under various sections of this report (see for example Conclusion 6.5), sustainability issues affect several important BEEP activities, including the LID, International Trade Guide, MCI, the construction sector work and the NEDC/TPWG/DBTF complex. An effort should be made to resolve these issues sooner rather than later in the coming year to assure sufficient time for training and knowledge transfer as necessary to assure a successful transition.

## **7.3 Recommendation: Prepare a detailed audit of incomplete work, including detailed action programs for completing the work; describe fully the implications of leaving the work incomplete at the end of the project; and discuss options for transfer of responsibilities.**

A subset of the sustainability issue is the amount of incomplete work outstanding as the project enters its final year. In some cases, e.g. the construction legal framework, completion of planned work may greatly impact the work that has already been completed, and in others, e.g. the Law On Normative Acts, the work could be an important BEEP legacy. BEEP and USAID should realistically assess the likelihood of what will be completed and what resources are necessary to assure completion, as well as the implications of leaving the work incomplete at the end of the project, and what steps may be taken to address those implications. Ongoing, committed and pending tasks should be clearly prioritized.

## **7.4 Recommendation: Increase efforts to transfer knowledge and increase technical skills in policy and regulatory analysis and communications at national and local levels, particularly among private sector associations.**

As discussed under Finding 5.2.10, it does not appear that BEEP has placed emphasis on developing skills and capacity in some important areas, including for example policy, regulatory impact, cost-benefit analysis, and communications. BEEP's reporting acknowledges that its municipal partnership program could benefit from imparting skills in regulatory drafting, for example. This also may be a sustainability issue for Components 1 and 2. Some other donors (World Bank, EU, UNDP) apparently have attempted to develop these skills, but the results are not yet apparent. Most of BEEP's training and seminars have been to convey information, not develop skills. For example, in the MTI interlocutors stated that they admired and appreciated BEEP's efforts to develop a public relations campaign to publicize the advances that had been made in business climate reform, but it was highly doubtful that their own staff now had the skills to design and mount such a campaign.

BEEP could consider a series of training events targeted at raising the technical capabilities of both government and civil society to perform their own high level policy and regulatory analysis using the same tools, for example, that BEEP has trained its municipal coordinators in. This activity might be particularly useful at the municipal level, where high level analytical skills seem to be lacking. Or, BEEP could work with local educational institutions on designing courses in policy analysis. (In this regard, BEEP's efforts to promote "BEEP internships" in business climate analysis for university students are a creative effort in raising technical and analytical skills.) Arguably this effort might have more lasting impacts than performing the planned HICD for the MTI, which, in the absence of further BEEP resources, may sit on a shelf. Similarly, BEEP's plan to work with the Association of Municipalities to produce model local regulations in the core competencies of municipal governments may have less lasting impact than an effort to convey skills in regulatory analysis and drafting to local cadres.

## **7.5 Recommendation: BEEP should devote some time to better explaining and documenting actual achievements of the project, particularly at the municipal level.**

Presumably this project will get a final evaluation. We would urge BEEP to make additional efforts to document in a clear and consistent way its concrete achievements, particularly at the municipal level. The PR2 matrix comes as close as anything available to setting out concrete changes to policies and administrative procedures under Component 1, but that data is made more ambiguous by narrative reporting. In our opinion, the BEEP reporting tends to muddy the waters in terms of what is real and what is aspirational, what is a discussion of a BEEP policy position and what is an actual task or output, and what is a BEEP initiative and what should be credited to others. For example, the extensive discussion of property tax regimes in the reporting ultimately leads to the belief that BEEP is doing no more than promoting the argument that increased property taxes will offset losses from reductions in licensing fees. A more frank and self-critical discussion of BEEP's results would greatly aid in its final evaluation.

Along these lines, if the project is serious about PR2 as an indicator of performance and return on project investment, much can be done, perhaps with the assistance of a qualified econometrician, to improve the model in anticipation of final project evaluation.

**7.6. Recommendation: Devise a set of supplemental indicators that would help to more accurately evaluate the project.**

In general, the evaluation team believes that the BEEP project has been in the first two project years, on the whole, and within its terms of reference, a successful project that has made significant contributions in each of its areas of work. Some of its work was, or promises to be if successfully completed, very good. However, it is unlikely that the standards established for evaluating the project, in particular the PRs, will provide much insight into the project's accomplishments. For example, the prospect of relying on changes in the WBDBI and the MCI as indicators of project accomplishments, given the vagaries of those instruments as has already been demonstrated in the second round of MCI data, is not very useful. The problems with some of the chosen indicators are discussed elsewhere herein. We would recommend that for the final evaluation, BEEP and USAID discuss formalizing a supplemental set of indicators, to be discussed. For example, time-cost studies of reporting under the new credit registry and changed perceptions and attitudes of lenders and consumers toward credit registration, limited as they are, are probably more useful indicators of the contribution of the Component 3 work than the number of credit reports requested or the movement of interest rates.

## **ANNEX I: EVALUATION STATEMENT OF WORK**

## SECTION C – DESCRIPTION / SPECIFICATIONS/STATEMENT OF WORK

### C.1 Business Enabling Environment Program Mid-Term Performance Evaluation

#### I. SUMMARY

USAID/Kosovo seeks to carry out a Mid-term Performance Evaluation of the implementation of the Business Enabling Environment Program (BEEP) – (Contract Number: EEM-I-00-07-00008-00). The program began in July 2010 and will end in July 2013. The program is intended to improve the business environment in Kosovo by improving rules and regulations, lowering trade barriers, improving and expanding the credit information systems and making tenders more transparent.

#### II. BACKGROUND

BEEP is an innovative three-year initiative leveraging the successful methodology applied in other countries to use third party measures of performance to drive cross-cutting reforms. The program uses holistic strategies taking into account all aspects of the legal environment for economic activity and collaboration with other donors and projects.

BEEP aims to improve the environment for business through effective implementation of reformed laws and regulations, and enhanced publication and accessibility of legal, economic, and financial information by national and local governments.

The overall objective of the project is a business enabling rather than a business controlling environment in Kosovo through which government impartially administers a simple, justified, and transparent framework in which current and future individual entrepreneurs can freely operate to pursue and realize their maximum economic potential.

Specifically, BEEP has four (4) objectives:

- 1. Improved Rules and Regulations:** This is the largest component in terms of resource allocation and technical scope, and works at both the national and municipal levels to remove barriers to business by simplifying and streamlining the regulatory framework — statutes, regulations, rules, procedures, and other legal requirements that are applied to businesses operating in Kosovo. Current practice of regulatory bodies is generally to impose requirements on private economic activity, which constitute a serious, system-wide constraint on business. BEEP works closely with the Government of Kosovo (GOK) – primarily with the Office of the Prime Minister (OPM) and the Ministry of Trade and Industry (MTI) – to carry out legal reforms that address impediments to business identified in the World Bank Doing Business (DB) reports on Kosovo. Additionally, it supports reforms in complementary areas to DB reform, including in permissive system improvement, consolidation and publication of laws and regulations.
- 2. Lower Trade Barriers:** BEEP focuses on reducing barriers to trade to facilitate increased commerce and international cooperation as well as implementing regional and multilateral trade agreements. Activities include assisting MTI and Kosovo Customs with institutional reforms on activities involving private sector partners. The aim is to streamline trade-related activities through broad-based consultative mechanisms –

involving private and government stakeholders in the formulating, implementing, assessing, and fine-tuning trade policy and customs procedures.

3. **A More Efficient Financial Sector:** BEEP, through this component, aims to increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information. Assistance includes work with the Central Bank of Kosovo (CBK) to ensure that more credit data is captured, that it is stored securely, that it is provided in a timely manner to authorized users, and that it is accurate. Furthermore, the project explores ways to expand the scope of the credit information system by working to add new data providers and to incentivize subjects of credit reports to check and update their own credit information.
4. **Improved Government Procurement:** BEEP is tasked to help make a more transparent tendering process for goods and services conducted by Kosovo municipalities; more specifically, to assist at least two of its partner municipalities to introduce electronic tenders for procurement of local goods and/or services consistent with international best practices on a pilot basis.

### III. PURPOSE OF THE EVALUATION

The main purpose of this evaluation is to provide Development Objective (DO) team and the Mission Senior Management with an objective external assessment of the efficiency and effectiveness of the implementation of the Business Enabling Environment Program to date. The evaluation will explore as an output how the activities under each component contributed to the achievement of goals.

The evaluation will moreover help the Mission Senior Management: (a) understand whether the project is meeting its objectives; (b) the efficiency of BEEP's implementation (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 (d) use lessons learned to inform the decision for possible future USAID programming in the business enabling environment area. Finally, the evaluation is expected to provide the Mission with recommendations for possible future USAID programming in the business enabling environment, trade facilitation and credit sector.

### IV. STATEMENT OF WORK

The Contractor will provide a two person team to conduct BEEP's Mid-term Performance Evaluation. The team will develop and adopt an approach that elicits and analyzes information, and provides key findings, conclusions, recommendations and lessons learned which, based on identified deficiencies in the program's current target areas can be remedied in the remaining life of the program.

#### **Priority Questions:**

1. **How have the relevant Kosovo institutions and other beneficiaries been strengthened in its ability to a) simplify and streamline the regulatory framework in Kosovo; b) lower trade barriers; c) increase access to finance and enable Kosovo lenders to make more informed decisions based on reliable credit information; and d) improve government's procurement processes?**

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 BEEP have the capacity to continue carrying out, as desired and expected, their duties and responsibilities 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 BEEP's implementation and results, what recommendations do you have for possible future USAID programming to improving business environment in Kosovo**
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 will collect information from direct beneficiaries of assistance by BEEP, other donor projects and USAID Economic Growth Office staff.

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 C1.

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, applicable USAID design and project documentation, and be familiar with the business enabling environment, trade policy and facilitation and efficient financial sector.

### **B. Task Two: Conduct Fieldwork**

The Contractor shall meet with the Mission M&E Specialist /COR and with the USAID/Kosovo Economic Growth Office to review evaluation objectives. The contractor shall collect data from a broad range of stakeholders familiar with BEEP following the approved evaluation design.

These stakeholders may include: MTI, CBK, municipal governments, OPM/Office of Legal Support and Services, World Bank, DFID, Kosovo Customs, Ministry of Environment and Spatial Planning.

### **C. Task Three: 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.

### **D. 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 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/M&E Specialist /Program and Project 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 business days (two calendar weeks) 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 PERFORMANCE TIMELINE

This evaluation is expected to last up to 90 days (including 30 LOE days). The exact dates of beginning and of ending are TBD. Total level of effort (LOE) will be for two expatriate advisors for 30 work-days each, while the total period of performance should not exceed 90 days (including 30 LOE days).

### Proposed Timeline:

Tasks	Time (work days)
Preparation and Research (prior to arrival in country, includes draft of an initial work plan and evaluation design)	4 days
Round trip travel (US-Kosovo-US)	3 days
Meet with USAID/Washington's Office of Economic Growth and Trade (EGAT)	1 day
On-site research and data collection in Kosovo. Meeting with USAID/Kosovo Mission's M&E Specialist and with EGO Office; project stakeholders; Draft Report and Out-brief (Full draft report, including executive summary, and presentation to USAID/Kosovo Mission)	12 days
Final Report due	10 days
<b>Total LOE</b>	<b>30 days</b>

## ANNEX A

### BUSINESS ENABLING ENVIRONMENT PROGRAM IN KOSOVO

#### LIST OF INDICATORS

Reference Number	Performance Indicator
	Indicator
PR1	Average percentage improvement in underlying variables in Doing Business indicators which receive project assistance based on annual activities agreed in the work plan
PR 2	The economic impact of reforms adopted and implemented a result of project assistance.

PR 3	Percentage improvement in Municipal Competitiveness Index scores in areas receiving project assistance (including e-procurement)
PR 4	Number of types of users of the Credit Information System
PR 5	Number of requests by businesses and citizens for their own credit reports

## **ANNEX II: EVALUATION DESIGN AND WORKPLAN**

# EVALUATION DESIGN AND WORKPLAN

## Mid-term Evaluation Design Business Enabling Environment Program (BEEP) in Kosovo

### I. Evaluation Design

#### A. Methodology

The Evaluation Team intends to use the following evaluation tools:

##### *Self-Evaluation Exercise*

This refers to the structured and active engagement of BEEP, prior to, during and subsequent to the field exercise. The Evaluation Team has already commenced BEEP and Contractor Chemonics on this path through requests for: (1) identification of key BEEP events in contract compliance and advancement in each of the three project components; and (2) presentation of key BEEP technical documents supporting same. Thereby, the immediate focus of the evaluation is on verifiable, document accomplishment.

Once this initial stage of self-evaluation is established, the Evaluation Team will present BEEP and Chemonics with a series of very specific requests relating to BEEP internal organization, the efforts of other donors, nationally established benchmarks and the like. This will keep the focus on critical self-assessment. There will be interchange with BEEP at this stage. In execution, the Self-Evaluation Exercise will:

- compress the time frame for response and provide BEEP and Chemonics to see interrelationships among the four aspects of BEEP, identification of opportunities new and “lost” and a reconsideration of priorities
- use the Evaluation Team to function as a contributing unit of BEEP on issues of self-measurement, thereby making the Evaluation Team a critical sounding board for the examination of costs and benefits of BEEP undertakings performed and to be performed
- facilitate discussion of key comparisons, among them the differentiation of effects of BEEP activities on the beneficiary community versus institutions, and the differences between BEEP management and technical consultants
- Again, the teleconference with Chemonics and BEEP on July 12 suggested openness to the Self-Evaluation Exercise, if for no other reason than that the two internal audits of BEEP by Chemonics have focused on conformity to Chemonics house requirements.
- In short, the Self-Evaluation Exercise will be a first step of BEEP toward constructive self-correction and will help to identify those parts of the project that are most sustainable.

##### *Data Collection*

Parallel to the Self-Evaluation Exercise, the Evaluation Team will be involved in gathering and analyzing information produced apart from the field exercise. Such information is of two types:

##### Static information

This is information developed entirely independent of the existence and activities of BEEP. It includes statistical analyses of economic and business activity at national and regional level, donor reports and projections, sector studies and the like.

Advantage: credibility in verification for being independent of BEEP

Disadvantage: lack of specificity, need to isolate and eliminate presented variables outside BEEP that might obscure a reasonable assessment of BEEP impact on the business enabling environment and policy environment

A further disadvantage might be noted. This is lack of trust in locally derived economic statistics for lack of conformity to professional standards and suspected manipulation of economic data for political purposes.

### Dynamic Information

This is information largely developed by the Evaluation Team through the sorts of initiatives noted in the Technical Proposal. Needs will define techniques.

Need: in depth understanding of most precise causal relation between BEEP assistance and a reform initiative.  
Solution: likely one on one interview balancing need to secure response to basic questions as per a model in Appendix II, and the need to follow up with unscripted questions based on interviewee response.  
Advantage: if conducted frequently enough, permits a real understanding of effect, and how local data may or may not contribute.  
Need: a group dynamic in assessing BEEP's past performance or projected future initiative; spontaneous group reaction to issues of economic policy reform.  
Solution: focus group using the Appendix II format.  
Advantage: the dynamic of group interaction in considering questions.  
Need: responses from a targeted audience of professionals as to very specific questions.  
Solution: survey  
Advantage: securing a mass participation from a targeted audience.

The Evaluation Team will most certainly actively engage in one-on-one interviews and in focus groups. As to surveys, **if** the Evaluation Team perceives a need here, they will likely negotiate an acceptable format of questions with BEEP and then utilize BEEP resources for data collection and the inevitable follow up, as surveys tend to be to a wider audience and involve a slower response time. In short, if there is a survey, it will likely be an addition to the Self-Evaluation Exercise.

As the Technical Proposal suggests, verification of BEEP claims by the means above, and others, will occur. Such verification may occur as to different interviewees or respondents in the same focus group. However, the Evaluation Team sees exercise dynamic information most importantly verifying static information, in the interests of developing the self-correcting measures BEEP needs to justify the project. This matching of exercise dynamic information and static information is important for three reasons:

- the exercise dynamic information, typically from interviews and focus groups, will be of its nature anecdotal; it needs to match the objective information provided in static information
- it is most unlikely that the field exercise will produce a statistically significant conclusion from interviews and focus groups; as such information should to “stand alone” and is best supplemented by static information
- roughly understood, static and exercise dynamic information difference parallels the familiar strategic versus implementation concerns of any project

Therefore, a properly synchronized blend of static and exercise dynamic information will inform Evaluation Team recommendations in the Final Report.

Execution through the mode of intervention above noted entails several steps. The Methodology must verify claims made by BEEP in the course of the collaborative/proactive exercise. The Evaluation Team intends to take the intervention beyond verification and to promote BEEP sustainability and self-correction using the following steps:

## II. Workplan

### **Task 1: Team Introduction**

Subtasks: Conference call with USAID COTR, ME&A Representative

Task Leader: ME&A's President

Inputs: USAID COTR, ME&A's Project Manager, Team Leader, Team Members

Start/Finish Date: July 9, 2012

Milestone: Team is introduced and has received corporate direction

Output: Guidance from USAID on areas to be addressed in the evaluation

### **Task 2: Initial Preparation**

Subtasks: Initial review of the documents; preparation of Evaluation Design and Work Plan; Team Leader teleconference with Contractor Chemonics and representatives of BEEP

Task Leader: Team Leader

Inputs: Team members, ME&A, BEEP COP

Start/Finish Date: July 10 - July 13

Milestones: 1) Documents Reviewed; 2) Draft Evaluation Design, Work Plan.

Output: A draft Evaluation Design and Work Plan with proposed methodology, list of questions, site visits and interviewees submitted to USAID for review and approval (July 13).

### **Task 3: Initial Meetings**

Subtasks: Meetings with USAID staff in Kosovo

Task Leader: Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: July 16-20, 2012

Milestones: Final Evaluation Design submitted (July 18); submit to BEEP written instructions as to Self-Evaluation Exercise (July 19).

Output: Evaluation Design with final methodology, questions, site visits and interviewees. Work Plan approved by USAID.

### **Task 4: Data Gathering Activities**

Subtasks: Continue with the review of any documents deemed to be important for the evaluation.

Meetings with key informants, stakeholders, beneficiaries; weekly briefings with USAID.

Task Leader: Team Leader

Inputs: Team members, USAID staff, stakeholders, partners, beneficiaries

Start/Finish Date: July 16-27, 2012

Milestones: Raw data collected

Output: Unanalyzed data in organized format.

### **Task 4: Data Analysis**

Task Leader: Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: July 23-August 5, 2012

Challenges: Look for biases and preconceptions in the notes taken and work to minimize their impact.

Milestones: 1) Data analyzed. 2) Tentative Findings and recommendations presented to USAID (July 27)

Output: Analysis of data and presentation of findings and recommendations for USAID review

### **Task 5: Report Preparation**

Subtasks: Prepare draft report; Submit draft report; Incorporate USAID's comments; Submit final report

Task Leader: Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: September 14, 2012

Milestones: 1) First Draft Report (August 10); 2) Final Report (September 7)

## **C. Supplemental Workplan**

September 10, 2012  
Mid-term Evaluation Design  
Business Enabling Environment Program (BEEP) in Kosovo

### **I. Introduction**

Mendez, England & Associates (ME&A) is pleased to submit this supplemental work plan for the mid-term evaluation of the USAID/Kosovo Mid-Term Evaluation of the Business Enabling Environment Program (BEEP) in Kosovo. This work plan is a supplement to the initial workplan submitted to USAID. It outlines additional work that will be carried out by the ME&A evaluation team over the course of a second mission to Kosovo by Stephen B. Butler, Supplemental Mission Team Leader, in the period September 16-September 22, 2012 .

### **II. Supplemental Evaluation Design**

Evaluation design considerations underlying this supplemental work plan include further refining the evaluation's focus on (1) quantitative and qualitative accomplishments directly related to project activities, (2) project logical and results frameworks and performance indicators as described in approved PBMPs, and (3) the specific evaluation questions posed in the RFP SOW.

### **III. Supplemental Workplan**

#### **Task 1: Team Introduction and Discussion of Draft Evaluation Report**

Subtasks: Conference calls with USAID COTR, USAID Washington staff (as necessary), ME&A Representative, BEEP representatives, Supplemental Mission Team Leader

Task Leader: ME&A, Supplemental Mission Team Leader

Inputs: USAID COTR, ME&A's Project Manager, Team Leader, BEEP project team

Start/Finish Date: September 11, 2012

Output: Guidance from USAID on additional areas to be addressed in the final evaluation report.

#### **Task 2: Initial Preparation for Supplemental Mission**

Subtasks: Review of the BEEP history and documents; review and reorganization of draft evaluation report and supporting documents and evidence; review of comments on the draft evaluation report.

Task Leader: Supplemental Mission Team Leader

Inputs: Team members, ME&A, representatives of BEEP project

Start/Finish Date: September 12-15, 2012

Output: Formulation of key unanswered questions for evaluation; initial editorial revisions and reorganization of the draft evaluation report; of list of additional/supplemental site visits and interviewees submitted to USAID for review and approval.

#### **Task 3: Field Work**

Subtasks: Meetings with USAID and BEEP staff in Kosovo; Meetings with key informants, stakeholders, project beneficiaries; continue to collect and review documents deemed to be important for the evaluation; exit briefing with USAID.

Task Leader: Supplemental Mission Team Leader

Inputs: USAID and BEEP staff; key stakeholders;

Start/Finish Date: September 15-22, 2012

Output: Additional data to support evaluation findings, conclusions and recommendations; revised evaluation findings, conclusions and recommendations, as necessary.

### **Task 5: Data Analysis and Synthesis of Data from First and Supplemental Missions**

Subtasks: Collate and classify sources of project data; evaluate data quality and reliability; organize data and prepare presentation aids as necessary.

Task Leader: Supplemental Mission Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: September 24-26, 2012.

Output: Verification and cleaning of data underlying the final evaluation report.

### **Task 5: Preparation of Revised Draft of Evaluation Report**

Subtasks: Prepare revised draft report; submit revised draft report for USAID comments.

Task Leader: Supplemental Mission Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: September 24-28, 2012

### **Task 6: Preparation of Final Evaluation Report**

Subtasks: Revise draft report to reflect USAID's comments; prepare final report.

Task Leader: ME&A, Supplemental Mission Team Leader

Inputs: Team members, USAID staff

Start/Finish Date: September 28 -October 5, 2012

### **Preliminary List of Supplemental Interviews (in person or telephone):**

- USAID (TBD)
- BEEP/Chemonics COP and staff (TBD; include several municipal coordinators)
- US-Kosovo Chamber of Commerce (Arian Zeka)
- Kosovo Chamber of Commerce
- Alliance of Kosovo Businesses
- Minister and Secretary General of Trade and Economy
- Bruce Reid and Alex Aleksishvili (GFSI)
- Kosovo Association of Municipalities
- Shpresa Kastrati, Blerta Qerimi, World Bank Operations Officers, Pristina
- Director General, Kosovo Customs (Ministry of Finance)
- Head of Credit Registry Division, Central Bank of the Republic of Kosovo
- Director of Legal Office, Office of Prime Minister

## **ANNEX III: DATA COLLECTION INSTRUMENTS**

## DATA COLLECTION INSTRUMENTS

The Evaluation Team used the following instruments for data collection:

- Analysis of available data, projections and reports provided by national and local authorities, international organizations, statistical office, and various internet publications.
- Access to BEEP reports, analysis, data and projections, available at BEEP office in Pristina.
- Interviews with a broad spectrum of stakeholders representatives.
- Interviews with BEEP staff and experts.
- Questionnaires with the stakeholders used to obtain more specific and less influenced opinion.
- Self evaluation exercise with BEEP/Chemonics staff.

## **ANNEX IV: LIST OF PERSONS INTERVIEWED**

## LIST OF PERSONS INTERVIEWED

Name	Position	Organization
Steve Farkas	BEEP project manager	Chemonics
Ardian Kryeziu	BEEP Deputy Chief of Party	BEEP
Ardian Spahiu	Development Assistance Specialist	USAID
Dardane Peja	BEEP Supervisor	USAID
Francis Conway	Team leader, GFSI evaluation	ME&A
Elisabeth Santucci	Private Enterprise Officer	USAID
Terence Slywka	BEEP Chief of Party	BEEP
Chris Hill	BEEP Legal Reform Associate	BEEP
Shkumbin Saneja	BEEP Component 3 Advisor	BEEP
Deborah Kimble	Unit Head	DEMI Project
Brian Kemple	BEEP Component 1 Leader	BEEP
Brian Fahey		USAID
Bernard Nikaj	Senior Political Adviser	Ministry of Trade and Industry
Valdrin Lluka	Chief Executive Officer, Investment Promotion Agency	Ministry of Trade and Industry
Granit Berisha	Chief Executive Officer, Small to Medium Enterprise (SME) Support Agency	Ministry of Trade and Industry
Arben Citaku	General Secretary	Ministry of Environment and Spatial Planning
Lumir Abdixhiku	Executive Director	RIINVEST Institute
Blerta Qerimi	Finance and Private Sector Development Specialist	World Bank
Natasha Hanshaw	MCI Consultant	BEEP
Naim Huruglica	Director General	Kosovo Customs
Arian Zeka and, and	Executive Director	AmCham Kosovo
Visar Hapciu	Policy and Project Officer	AmCham Kosovo
Shaha Zylfiu	Head of Credit Registry Division	Kosovo Central Bank
Naim Ismajl	Mayor	Municipality of Shtime
Agim Aliu	Mayor	Municipality of Ferizaj
Rufki Suma	Mayor	Municipality of Hani i Elezit
Sokol Ukaj	Director of Economical Development	Municipality of Peje
Mehmet Bytyqi	Director of Economy and Finance	Municipality of Prizren
Refki Hoxha	Executive Director Vice-president	Renelual Tahiri Sh.p.k, Municipality of Prizren Kosovo Chamber of Commerce
Florent Kabashi	Executive Director, Prizren Commerce	Municipality of Prizren
Sefer Susuri	Executive Director, Vellezerit e Bashkuar Shpk	Municipality of Prizren
Bojan Stojanovic	Mayor	Municipality of Gračanica
Besim M. Kajtazi	Director of Legal Office	Office of Prime Minister

Name	Position	Organization
Fitim Mucaj	Board Member	Kosovo Association of Architects
Agim Dibrani	Director, Directorate for Economy and Local Development	Municipality of Prishtina
Michael Gold	Managing Director	Crimson Capital
Alimir Jakupi	Communications and Public Outreach Specialist	BEEP
Aleksi Aleksishvili	BEEP Consultant	PMC Group
Bruce Reid	Chief of Party	USAID Growth and Fiscal Stability Initiative (GFSI)
Arjan Shabani	Head, Local Development Economic Unit	USAID DEMI Project
Uliks Osmani	Director	UBO Consulting
Valbona Bogujevci	Deputy Programme Manager	DFID Kosovo
Isa Krasniqi	Executive Chief	Statistical Agency of Kosovo
Riza Harini	Vice Mayor	Municipality of Mitrovica
Rrustrum Abiti	Director of the Department of Finance and Economic Affairs,	Municipality of Mitrovica
Abdullah Bejtullahu	Director of the Department of Administration	Municipality of Mitrovica
Shkumbin Hasani	Mitrovica Municipal Coordinator	BEEP
Elez Sylaj	Board member	Kosovo Association of Customs Agents
Florent Bakija	Advisor to the Minister of MTI	MTI
Shpresa Kastrati	Operations Analyst	International Finance Corp.
Gani Gerguri	Governor	Central Bank of Kosovo

## **ANNEX V: BIBLIOGRAPHY**

## BIBLIOGRAPHY

The following documents will be consulted by the Evaluation Team for BEEP, an initiative sponsored by the USAID and dedicated to economic reform in Kosovo.

The Evaluation Team requested several documents of BEEP and BEEP Contractor Chemonics International, Inc., prior to commencement of field exercises in July, 2011.

On occasion, as to both local and international authority, information provided did not reveal the author, or the date of publication or effectiveness. In such cases, the best description is rendered given available information. In addition, in the interests of brevity, full titles of certain legal authority are omitted.

### **BEEP Documents Incidental to Self-Evaluation Exercise**

Response to Self-Evaluation Exercise, August, 2012 (submitted by USAID for Chemonics International, Inc. and BEEP)

### **BEEP Administrative Documents (to/with USAID)**

Amendment of Solicitation/Modification of Contract between the Chemonics International, Inc. and USAID, September, 2011

Contract No. EEM-I\_00-07-00008-00 between the Chemonics International, Inc. and USAID, July, 2010

USAID Business Enabling Environment Program, Annual Report #1, July, 2010-July 2011, August, 2011

USAID Business Enabling Environment Program, Project Year One Performance Based Monitoring Plan, undated

USAID Business Enabling Environment Program, Quarterly Report, February-April 2012

USAID Business Enabling Environment Program, Quarterly Report, February-April 2011

USAID Business Enabling Environment Program, Quarterly Report, November 2011-January 2012

USAID Business Enabling Environment Program, Quarterly Report, November 2010-January 2011

USAID Business Enabling Environment Program, Year Two Work Plan, July, 2011-July 2012

USAID Business Enabling Environment Program, Year One Work Plan, CHECK July, 2011-July 2012

USAID Business Enabling Environment Program, Index Of Project Documents, undated

## **BEEP Technical Documents**

These are memoranda, economic analyses, local statistical surveys and similar documents identified as BEEP technical work product.

### General

Farkas, Stephen. Key Project Counterparts, July, 2012

Farkas, Stephen. Local Measures and Benchmarks of Project Performance, July, 2012

Farkas, Stephen. Supporting Memorandum for Significant Project Documents, July, 2012

USAID Business Enabling Environment Program, BEEP Reform Methodology, March 2012 (presented under Component 3)

USAID Business Enabling Environment Program, Special Studies and Projects Field Manual, September, 2010 (presented under Component 3)

USAID Business Enabling Environment Program, The Communications Strategy for the Prime Minister's Office, February, 2011 (in Albanian only)

### Component 1

Hanshaw, Natasha. Kosovo Municipal Competitiveness Index 2012. USAID Business Enabling Environment Program, June 2011

Hanshaw, Natasha. Kosovo Municipal Competitiveness Index 2011. USAID Business Enabling Environment Program, July 2011

Kemple, Brian. World Bank Doing Business Reform Indicators Draft 2, undated

Sanjela, Shkumbin. Component 3 Reducing the Risks of Lending. USAID Business Enabling Environment Program, undated, presented to Evaluation Team July, 2012

USAID Business Enabling Environment Program, Normative Legal Act, Office of the Prime Minister, February, 2012

USAID Business Enabling Environment Program, Draft "Permissive System," undated

### Component 2

Kosovo Customs Code, Proposed 2011 Amendments Related to "Doing Business," undated

Kosovo International Trade Guide, undated

The Law on Safeguard Measures on Imported Goods, Ministry on Trade and Industry, undated

Nemeroff, Edward. USAID Business Enabling Environment Program, Report on Metrology, Standards and Conformity Assessment Tools to Facilitate Trade (MSA-Q), August, 2011

Slywka, Terence, Douglas Cruickshank, Stephen Creskoff. Briefing Note, Analysis of the advantages/disadvantages of the application for WTO observer status by Kosovo; draft application for observer status, USAID Business Enabling Environment Program, November, 2011

USAID Business Enabling Environment Program, Antidumping Operations Manual, Ministry of Trade and Industry, February 2012

USAID Business Enabling Environment Program, Countervailing Duty Operations Manual, Ministry of Trade and Industry, February, 2012

USAID Business Enabling Environment Program, Draft Law on Anti-Dumping and Countervailing Measures, Ministry of Trade and Industry, January, 2012

USAID Business Enabling Environment Program, Glossary of Customs and Trade Terms, Ministry of Trade and Industry, undated

USAID Business Enabling Environment Program, Issue Statement (as to Law on Border Management), undated

USAID Business Enabling Environment Program, Recommendation on the Law on External Trade, Ministry of Trade and Industry, September, 2011

USAID Business Enabling Environment Program, Review of the Kosovo Legal Framework for External Trade, November, 2010

USAID Business Enabling Environment Program, Safeguards Operations Manual, Ministry of Trade and Industry, February 2012

USAID Business Enabling Environment Program, Scenario Analysis for Trading Across Borders, September, 2011

USAID Business Enabling Environment Program, Update of Trade Policy of Kosovo 2009, January, 2012

### Component 3

Aziz, Jim. Report on Credit Registry of Kosovo for Central Bank, December, 2010

Gashi, Dielleza, PRO-04-IMP 1204 CRD 1.0, Kosova “Ngritjeteknike e Software, Asseco See, undated

Mortina, Visar. Comprehensive Assessment of the Permissible Legality of Exchange of Personal Data and its Potential Implications for Privacy rights Under Kosovo’s Legislative Context, date open to question (labeled February 30, 2011)

USAID Business Enabling Environment Program, Benchmarking the Credit Registry of Kosovo with

the World Bank's Standards, July, 2011

USAID Business Enabling Environment Program, Analysis and Recommendations on Proposed Law on Pledge Registry, November, 2011

USAID Business Enabling Environment Program, Analysis and Recommendations on Proposed Regulation of the Credit Registry, December, 2011

Central Bank of the Republic of Kosovo, and United States Agency for International Development, Memorandum of Understanding, November, 2011

Central Bank of Kosovo, Statistical Publication, April, 2012

Investment Promotion Agency of Kosovo, Investing in Kosovo, May, 2011

Investment Promotion Agency of Kosovo, Investment Promotion Strategy, 2011-13

Organization of Economic Cooperation and Development. . Trade-Related Assistance: What Do Recent Evaluations Tell Us? Available at <http://www.oecd.org/>, 2006

SEGURA Consulting LLC. Evaluation of Trade and Investment Reforms Support Program (TIRSP), November, 2010

Statistical Agency of Kosovo, Census Questions

Statistical Agency of Kosovo, Publication Calendar 2012 Series 4: General Statistics

UNDP Regional Bureau for Europe and the Commonwealth of Independent States. Bringing Down Barriers: Regional Cooperation for Human Development and Human Security. Central Asia Human Development Report. Bratislava, 2005

United States Agency for International Development (USAID). Rigorous Impact Evaluation. Performance Monitoring & Evaluation TIPS. Number 19.1<sup>st</sup> Edition. Available at <http://www.usaid.gov/>, 2010

----- Evaluation: Learning from Experience. USAID Evaluation Policy. Available at <http://www.usaid.gov/>, 2011

----- USAID Evaluation Policy: Answers to Frequently Asked Questions. Available at <http://www.usaid.gov/>, 2011

USAID, Alternative Business Enabling Environment Rankings – Business Growth Initiative, <http://egateg.usaid.gov/sites/default/files/BEE%20paper%20with%20Intro%20FINAL%202.pdf>

USAID Kosovo Economic Performance Assessment - pdf.usaid.gov/pdf\_docs/PNADL767.pdf

USAID Project for Municipal Competitiveness, El Salvador, <http://www.municipalindexelsalvador.com/>

USAID Request for Technical Proposal No. SOL-167-12-000002, April, 2012

USAID Strategic Plan 2010-2014, undated

World Bank Doing Business Report, Closing a Business, 2012

World Bank Doing Business Report, Dealing with Construction Permits, 2012

World Bank Doing Business Report, Employing Workers Methodology, 2012

World Bank Doing Business Report, Getting Credit Private Credit Bureau Survey, 2012

World Bank Doing Business Report, Getting Credit Public Credit Rating, 2012

World Bank Doing Business Report, Paying Taxes Methodology, 2012

World Bank Doing Business Report, Protecting Investors Survey, 2012

World Bank Doing Business Report, Registering Property Survey, 2012

World Bank Doing Business Report, Starting a Business, 2012

World Bank. Impact Evaluation: The Experience of the Independent Evaluation Group of the World Bank. Available at <http://www.worldbank.org/>, 2003

-----, Assessing World Bank Support for Trade, 1987–2004. An IEG Evaluation. Available at <http://www.worldbank.org/>, 2006

World Trade Organization. Evaluation of the Revamped Integrated Framework For Trade-Related Technical Assistance to the Least-Developed Countries. Available at <http://www.oecd.org/>, 2009

Zeka, Arian and VisarHapiciu, American Chamber of Commerce in Kosovo (and Chemonics International, Inc.) , Kosovo Business Agenda, September, 2011

## **ANNEX VI: QUESTIONNAIRES RESULTS SUMMARY**

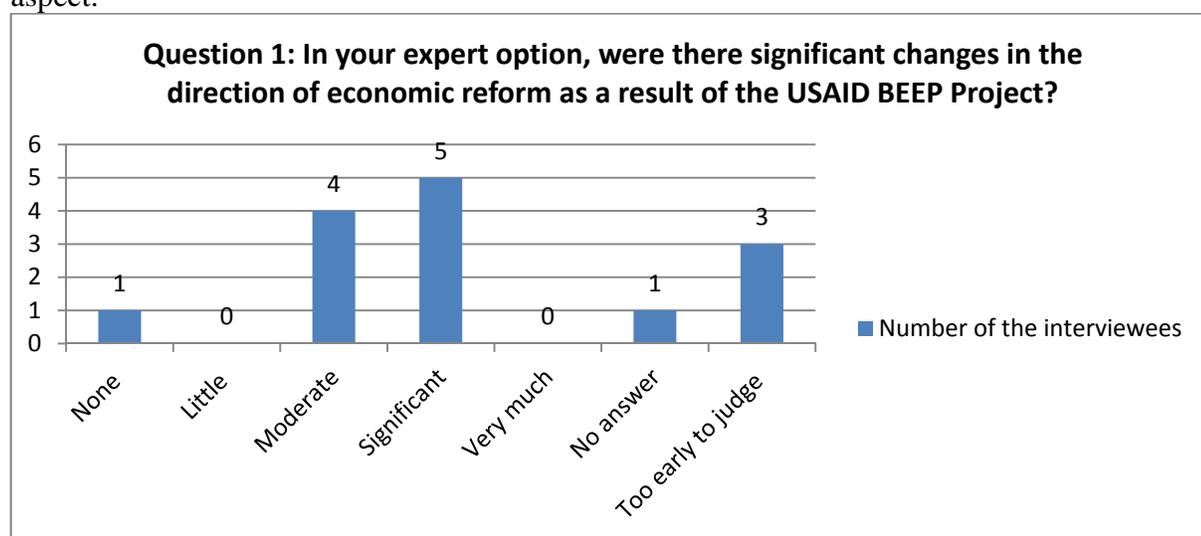
The following questionnaire was used to obtain feedback by the interviewees. A summary of the responses follows each question. 30 questionnaires were sent and 14 were received.

### TEMPLATE FOR KEY INFORMANT INTERVIEWS AND FOCUS GROUPS

The questions below ask you for your views on the USAID BEEP initiative. All responses are confidential; your answers will not be attributed to you or the institution which you represent. Thank you for your participation.

**1. In your expert option, were there significant changes in the direction of economic reform as a result to the USAID BEEP Project?**

Most responses acknowledge progress in business climate improvements, to an extent attributed to BEEP efforts. Some responses suggest more time is required to properly estimate the impact in this aspect.



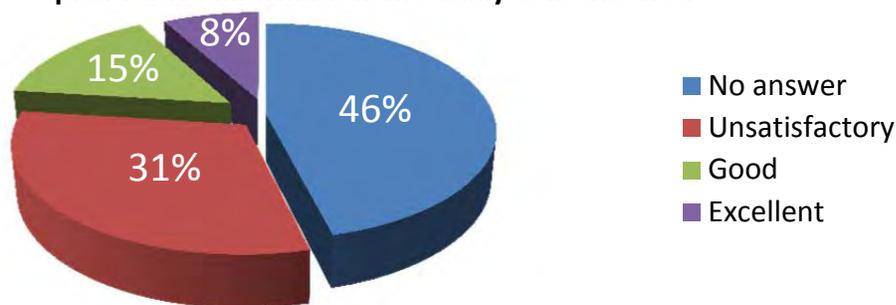
**2. Please provide two or three important causes for the changes in business growth that you have identified in Question 1.**

Other important factors include GoK’s reform and municipalities’ efforts in improving business climate (construction law, reduction of local taxes, better procurement procedures, IT solutions), USAID support, business registration procedures, improvement in accountability of government and local administrations, transparency of local governments.

**3. In your opinion, how is business growth best measured, best quantified? Are you satisfied with the current state of statistical quantitative information and analysis in this area? Please elaborate.**

Statistics are generally not reliable; government should seek alternative solutions to collect information from businesses (e.g. moving from data collected through construction license toward property tax). Gross annual sales is the best indicator for business growth. Direct surveys, increase in number of businesses, periodic surveys with businesses, promotion of business associations, annual sales by businesses, purchasing power of consumers, quantitative and qualitative analysis, evaluation projects measuring performance before and after the impact are some the methods which should be followed.

**Question 3: Are you satisfied with the current state of statistical quantitative information and analysis in this area?**



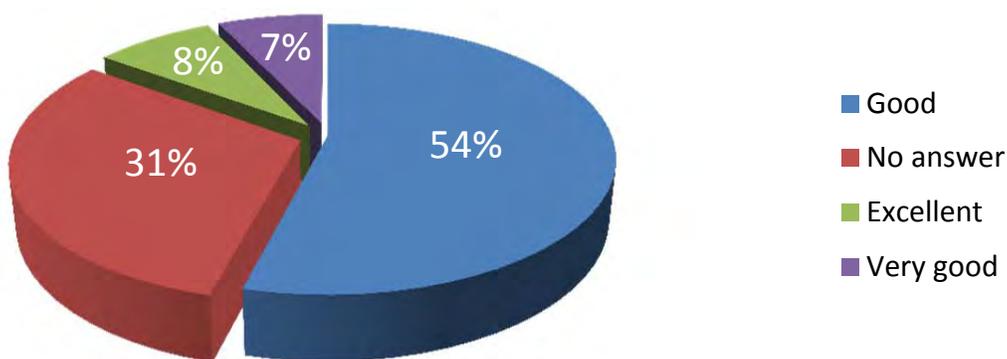
**4. What do you know of the USAID BEEP Project and from what perspective?**

BEEP is known through components implementation (MCI, meetings with municipalities), media, and relations with central office staff. The role of municipality coordinators is very important for linkages with municipalities. USAID has promoted the BEEP image. BEEP should be part of a broader support for the SMEs.

**5. Provide a brief assessment of the effectiveness of the BEEP and its efficiency in getting results. We invite both positive and critical comments.**

There is overall satisfaction from BEEP performance. Some cases are cautious about specific results which take time. It is necessary to associate legal reform assistance with financial aid for municipalities. One case indicates that BEEP was very active with the launch of MCI in 2011 but is not much involved in 2012.

**Question 5: Provide a brief assessment of the effectiveness of the BEEP and its efficiency in getting results**



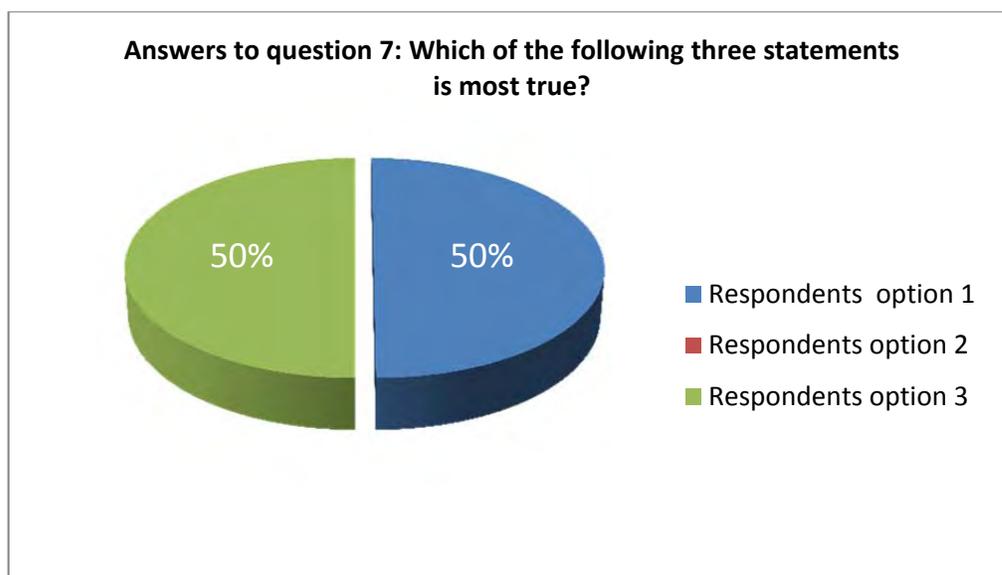
**6. Were you to design a donor project to advance business sector growth what would you emphasize and what would the profile of the project be?**

A new donor project should provide support to: prolong existing BEEP mandate, extend business registration service in other municipalities, direct support to SMEs, access to finance for SMEs,

business info services, in-house coaching aiming competitiveness improvements, fiscal policy support, specific sectors support (agriculture/tourism/energy/environment).

**7. Which of the following three statements is most true? (Check the line for most true. Choose only one.)**

1. Option 1: it is worth developing objective standards based on quantitative and qualitative data in Kosovo to assess the value of a project like BEEP
2. Option 2: statistical information on the state of the Kosovo economy is unreliable and assessment of the impact of a project like BEEP using data is not worth the time
3. Option 3: the best way to assess the performance of a project like BEEP is not quantitative, but rather from interviews from local parties with experience with BEEP



**8. Would you like to say anything else?**

Most did not respond. Some expressed courtesy appreciation for BEEP, USAID and this evaluation. One case points to the need of support to local governments and business in building capacities on doing business issues.

## **ANNEX VII: SELF-EVALUATION EXERCISE MEMO**

# SELF-EVALUATION EXERCISE MEMO

## Self-Evaluation Exercise Memo

To: Terence Slywka - USAID Business Enabling Environment Program (BEEP), Chief of Party  
Ardian Kryeziu - BEEP, Deputy Chief of Party  
Steve Farkas - Chemonics, BEEP Director  
Charlene Seligman- Chemonics, BEEP Manager  
From: BEEP Evaluation Team Leader  
Re: Self-Evaluation Exercise  
Date: July 20, 2012

### Introduction

The Self- Evaluation Exercise has been approved by USAID as an integral aspect of the evaluation of BEEP in July-August, 2012. While interviews and meetings with BEEP and Contractor Chemonics, the administrator of BEEP, confirm that there have been critical audits of the BEEP effort from the standpoint of conformity to in house contractor requirements, a detached third party with a holistic view of the BEEP endeavor has not examined this initiative. The Evaluation Team understands very well that a recent USAID initiative, targeting monitoring and measurement, looked at BEEP initiatives at national and local level. But, here again, this examination was less than complete, focused as it was on monitoring and measurement, and perhaps giving less than concentrated attention to BEEP from the viewpoint of project organization, direction, sense of priority, “end user” satisfaction, and related matters. Hence, this mid-term evaluation of BEEP can make an original and positive contribution to BEEP.

From July 16-27, the Evaluation Team is scheduled to investigate these and other issues on a sustained basis. However, USAID approval of a Self-Evaluation Exercise, to be undertaken jointly by BEEP and Chemonics, clearly means there is a place for BEEP effort that parallels that of the Evaluation Team. BEEP is in a unique position to contribute to the evaluation exercise accordingly. The Self-Evaluation Exercise is advantageous to BEEP and Chemonics as:

- A valuable follow up supplement to the Evaluation Team field exercise interviews and meetings at BEEP from July 16-19, and an opportunity to modify or elaborate on points made by BEEP on these occasions;
- An opportunity for BEEP and Chemonics to coalesce resources in responding to inquiries;
- A likely efficiency tool, reducing the lag time between digesting the contents of an evaluation Final Report and implementation of its recommendations.

All the above were advantages as the Evaluation Team prepared its Evaluation Design the week of July 9. However, various factors since the Evaluation Team commenced field exercises now make the Self-Evaluation Exercise even more valuable. One factor is the absence of the BEEP Chief of Party from the BEEP offices for the very great portion of the Evaluation Team field exercises. The Chief of Party, on return in early August, will have an opportunity to participate through the Self-Evaluation Exercise. The other fresh factor is the recent USAID effort at examining, monitoring and measurement of BEEP. Proximate in time as that exercise is, Chemonics and BEEP will have yet another opportunity to consider those complex issues here, with its perspectives fresh in mind.

Finally, this type of Self-Evaluation Exercise was conducted at least once for a Chemonics project in the last year and a half, and all participating had a high regard for this effort, which improved the quality of the evaluation significantly.

## **Response Guidelines**

1. Responses to the questions and observations posed below are due in writing by close of business Washington, DC time on Monday, August 6.
2. Collaboration and “back and forth” between Chemonics Home Office and BEEP is assumed – and encouraged.
3. Please answer each question posed. In this regard, several of the questions below have components or aspects. All have a preface based on the Evaluation Team field exercise. These features are for your guidance. The various aspects or components of a question should be addressed specifically. In fact, as an exercise toward ensuring direct responses, the Evaluation Team requests that Chemonics and BEEP first repeat verbatim a question and its components, then answer.
4. Be as specific as possible, referencing BEEP activities and project and technical documents. In the interests of time, when supporting documents are noted, please cite by page and section. Brief, to the point, quotations are in order. Lengthy quotations are probably not. Attachments are welcome so long as they contribute to a direct answer to the question.
5. If you believe a simple reference to a BEEP activity or document suffices to answer a question, you are probably on the wrong track. In referencing BEEP activities, the Evaluation Team is interested in Chemonics/BEEP current views on overall strategic significance, sustainability and, of course, measurable impact.
6. If you think that you have answered a given question before, please think again. The Self-Evaluation Exercise just follows three days of focused engagement between BEEP representatives and the Evaluation Team. Your responses should thus reflect the de novo character of this engagement. Fresh perspectives are welcomed, if accompanied by thought and detail.
7. In assessing BEEP presence and legacy, it is highly desirable to think in terms of two time frames looking at BEEP impact going forward: (i) from July, 2012 until July, 2013 when BEEP closes; and (ii) a three to five year time horizon post-July, 2013.
8. As a rough guide, each of the eight Questions below should probably consist of a response between two and approximately five pages, excluding attachments and your repetition of the question as above requested.
9. Please do not spend time arguing with the question, or objecting to its preface. The Evaluation Team is looking for responses, not arguments. If you have an observation as to a statement or a question, briefly state it in one or two sentences at the very end of your response.
10. Please complete the Self-Evaluation Exercise using the above **Response Guidelines** no later than August 6. You may assume that Chemonics/BEEP responses will be reflected in one form or another in the Evaluation Team’s Final Report, a draft of which must be submitted the week of August 6. Therefore, aside from negative inferences to be drawn from a late submission, a late submission represents a lost opportunity. **Look at the Self-Evaluation Exercise as the inaugural flashpoint for taking BEEP forward into its final year.**

## **GENERAL MATTERS**

**Question #1:** The Contract of July, 2010 between Chemonics and USAID for the establishment of BEEP largely calls for a collection of specific activities aimed at promotion of the business enabling environment. Evaluation Team interviews to date confirm that this is predominantly how BEEP is

known. Yet, interviews and meetings also suggest that BEEP's most significant contribution is in the manner of raising essential questions as to overall national regulatory philosophy and direction and national versus local government functions in advancing the environment for business. This, therefore, makes BEEP activities a means rather than end in themselves. Following this line of thinking, how might Chemonics/BEEP redesign a BEEP effort taking this into account? In such a redesign, please specifically address:

- project internal organization
- project staffing
- project outreach efforts to civil society, government and coalition-building
- ways of considering project priorities
- project reporting dynamics with USAID and local counterparts
- project sustainability

**Question #2:** The coincidence of BEEP with the development of significant public institutions and civil society in Kosovo presents interesting opportunities for both institution- and coalition-building. In such an environment person-to-person relations are obviously a key to success. This said, and in regard to the BEEP issues of market liberalization and business expansion, please assess the policy – making and analytical capabilities at institutional level of:

- executive bodies of national government – differentiating among ministerial, deputy ministerial and department levels
- at municipal government level - differentiating among the office of the mayor, town supervisor and municipal service departments
- in the for profit private sector
- in civil society organizations (NGOs, think tanks)

After this brief assessment, characterize the achievement of and challenges of BEEP in dealing with each of the types of institutions and offices listed above.

Finally, provide an assessment of the likely optimal combination of the above for continuing BEEP activities, assuming some modicum of donor funding. References to such means as joint ventures, private-public partnerships, academic –business coalitions, etc. are entirely appropriate. Reference to the two time frames noted in the **Response Guidelines** is appreciated.

## **MEASURES**

**Question #3:** Interviews and BEEP project documents confirm that the World Bank Doing Business indicators are, in the first instance, a benchmark for Chemonics/BEEP contractual compliance in assessing progress as to the enabling environment for business. Yet, interviews with different parties suggest that the indicators are at a “tipping point” in terms of their influence on economic policy-making in Kosovo. On one hand, the international visibility of the indicators and the ranking system makes them a focus of attention to a government lacking resources for broad and technically correct economic analysis. On the other hand, the indicators might be viewed as one of a mix of criteria that might assess movement to market liberalization and business expansion. From the standpoint of BEEP impact on the Kosovo economy: What have been the chief advantages and disadvantages of focusing on the indicators -as a matter of allocation of BEEP resources?

- What has been the “opportunity cost,” if any, of a focus on the indicators? And, on the other hand, has a focus on the indicators led BEEP in a positive *and unexpected* direction in promoting market reform?
- Assuming the consensus that the indicators represent a “tipping point” between being ends in themselves on one hand and a part of a large quantitatively based narrative on the Kosovo economy on the other, how would BEEP propose to create a USAID project, or government or civil society institution, to “capture the best of both worlds” (visibility and technical accuracy)
  - Profile such an institution (USAID project, government body, NGO, etc.) and justify the profile;
  - Frame the organization of the institution to accommodate the best of both aspects;
  - Describe how such an institution would make full use of the indicators;
  - Provide your best estimate of when Kosovo public institutions or civil society are likely to begin developing reliable economic data to complement the indicators.

**Question #4:** BEEP focus on the improvement of World Bank Doing Business indicators for Kosovo has been endorsed as a key priority by Kosovo’s Government in the domestic reform agenda. However, efforts to advance in the international ratings as to fulfilling these indicators has a spillover effect. These efforts also supported progress in other areas of economic reform. These are not fully captured by the World Bank Doing Business Report. Among these other areas are: transparency in administrative regulations, reducing corruption potential, improving efficiency of public utilities and services, degree of supporting clustering activities etc. Considering the relevance of these and other factors for the Kosovo economy:

- How would BEEP consider World Bank Doing Business indicators as a building block for designing Kosovo’s economic policy reform?
- How would other models considering the local features of the economy better reflect progress achieved (or not) in areas not encompassed by the Doing Business Report?
- How would the Government create and support a comprehensive economic model including the World Bank Doing Business indicators and the other areas of economic reform specifically identified above?

**Question #5:** The PR2 data seem largely a quantitative measurement of progress in certain areas of Kosovo’s business enabling environment, as influenced by BEEP. PR2 is largely dependent on the leadership of the Government not only to undertake legal reforms, but also to implement them properly. The results of the reforms are also affected by Government ownership of the process, coordination with other reforming processes, and support provided by other donors and programs. From this perspective:

- What improvements in data collection and recording are needed?
- How is PR2 affected in cases in which the Government contributes substantially to a business environment enabling reform independently of BEEP? (Please respond in technical methodological terms).
- The Evaluation Team understands that PR2 has a contract compliance function. That is, it largely appears to be an internal exercise for legitimization of BEEP. What managerial tools have Chemonics/BEEP used to ensure the containment of the PR2 exercise so that that BEEP expends resources “outward” - to directly offer greater assistance to local counterparts?

- In what ways can PR2 be the successful introduction to expanded efforts to regulatory impact assessment by the Government of Kosovo? What, if any, specific measures have BEEP and Chemonics taken to ensure this?

## CONSEQUENCES OF BEEP EXECUTION

**Question # 6:** Since the field exercise, the Evaluation Team has learned that BEEP underwent two internal examinations, largely for purposes of conforming to contractor practices. Thus, such exercises seem largely pointed to BEEP contract compliance. On the other hand, BEEP also recently underwent an exercise at the behest of USAID focused largely on monitoring and measurement of BEEP effects. The Evaluation Team to date has learned that Kosovo’s progress as to the World Bank Doing Business indicators has not yet been published to account for any contributions made during the tenure of BEEP. This is so despite the repeated characterization of indicators as a “time and motion” exercise. Further, the Contract between Chemonics and USAID of July, 2010 indicates that Kosovo cannot “afford to wait” and must act “now.” (4). Similar paradox might be said to characterize the Municipal Competitiveness Index developed by BEEP. Among other things, the index apparently is targeted as a political leveraging tool to effect regulatory reform at municipal level. However, discussions suggest that expanding a sample size to venture outside a municipal area would actually dilute the political effectiveness of the index. Given the need to balance considerations of contract compliance and maximize the technical worth of the indicators and the index:

- What organizational, institutional and reporting mechanisms have Chemonics/BEEP undertaken to ensure that the indicators, apparently a lagging and retrospective measure as published, sustains momentum for reform in the Government of Kosovo?
- What organizational, institutional and reporting mechanisms have Chemonics/BEEP undertaken to ensure that progress on the indicators and the index, if any, is then integrated into the development of larger economic reform narrative for Kosovo?
- To what extent is the sustainability of the indicator and index initiatives dependent on integration into such a larger economic reform narrative? Do Chemonics/BEEP see such an integration as part of an implicit contractual obligation to USAID?
- As a matter of fact, what percentage of BEEP Level of Effort and Chemonics time has been spent on the indicator and index exercises: (i) in the context of benchmarks for BEEP progress; as opposed to (ii) use of the indicators and index as bases for economic policy-making in Kosovo. A rough percentage totaling 100% for (i) and (ii) is what we are seeking. Please apportion.

**Question # 7:** Interviews focused on BEEP Component 3 and the credit registry tend to suggest that the connection between this activity and the remainder of the project is as regards a World Bank Doing Business indicator on private sector credit availability. Yet, this seems a one-sided approach to a significant financial sector reform initiative. Even the Contract of July, 2010 between Chemonics and USAID sees broader financial reform implications to a credit registry, such as those concerning the cost of money, bank liquidity and risk allocation, to name but a few varied aspects (10-11, 14-15). Despite this, interviews have focused on the Doing Business indicator in this regard as a justification for the credit registry initiative. Given this:

- Please critically assess the qualitative costs and benefits of retaining the credit registry project in BEEP (or a project like BEEP) versus a Component 3 presence in a project broadly

concerned with financial sector reform, where full voice might be given to the credit registry and its connection to such varied themes as lender risk control, safety and soundness of banks, financial literacy as to consumers, and the like.

- Comment generally as to whether a near exclusive approach to quantification through the World Bank indicators might yield distortions in the distribution of both donor resources and project profiles - and whether BEEP Component 3 might be a case in point.

**Question #8 (probably mostly for Chemonics):** Interviews in the field to date confirm that BEEP, with its timely message of enabling environment reform, backed by objective measures placed on an international platform by the World Bank, has moved reform significantly, if for no other reason than elevating enabling environment in the consciousness of the Government and the private sector. This said, in terms of the Home Office having to administer and justify project initiatives:

- Is the BEEP model among the top four or five models for USAID economic reform projects that you would most prefer to administer? Why or why not?
- Rank in terms of most to least influential the following environmental factors likely to impact on a quantitatively driven impact oriented project such as BEEP over the next five years:
  - improvements in national statistical bodies in countries hosting such projects
  - increased contractor familiarity with this type of project
  - continued insistence by USAID and Policy, Planning and Learning on more rigorous evaluation of project efforts
  - changes in the skill sets of expat and local project personnel
  - other factor not mentioned above

Kindly use a paragraph or two to explain your ranking. Then, at perhaps greater length, explain how this view has influenced your administration of BEEP.

**ANNEX VIII:**  
**SELF-EVALUATION EXERCISE RESPONSES**



August 9, 2012

Mr. Gary Kelly  
Mendez English

Dear Mr. Kelly,

Enclosed please find USAID BEEP's responses to the Self-Evaluation questionnaire. I am sending to you on behalf of Terry Slywka, the Chief of Party of BEEP, with full approval of Ardian Spahiu, the Evaluation COR of USAID, and Dardane Peja, the BEEP COR of the USAID Mission in Kosovo.

Thank you for your thoughts and contributions to the BEEP team.

Sincerely,

A handwritten signature in black ink, appearing to read "S. Farkas", written in a cursive style.

Stephen Farkas, Director  
Central and Eastern European Region  
Chemonics International Inc.

---

## GENERAL MATTERS

### QUESTION #1

The Contract of July, 2010 between Chemonics and USAID for the establishment of BEEP largely calls for a collection of specific activities aimed at promotion of the business enabling environment. Evaluation Team interviews to date confirm that this is predominantly how BEEP is known. Yet, interviews and meetings also suggest that BEEP's most significant contribution is in the manner of raising essential questions as to overall national regulatory philosophy and direction and national versus local government functions in advancing the environment for business. This, therefore, makes BEEP activities means rather than ends in themselves.

Following this line of thinking, how might Chemonics/BEEP redesign a BEEP effort taking this into account? In such a redesign, please specifically address:

- \*project internal organization and project staffing;
- \*project outreach efforts to civil society, government and coalition-building;
- \*ways of considering project priorities;
- \*project reporting dynamics with USAID and local counterparts; and,
- \*project sustainability

### ANSWER #1

As the Task Order requires, BEEP is a results-focused project producing measurable change in the environment as captured in the PBMP at Project Results 1 – 5. To accomplish this, BEEP uses a number of measures and deploys resources in an optimal way.

Through execution of the project, we have found the USAID design of BEEP to be very appropriate and properly focused on fundamental, and in some cases, long-standing issues that need to be addressed for optimum economic growth, for sustained growth in the future.

In the following answer we will discuss the activities we have carried out since 2010 and will address the specific factors that you have mentioned above in the context of any advice regarding future project designs.

#### A. 2010 - Current

What follows is a discussion of how project initiatives and activities reflect the purpose and objectives of the Task Order, accompanied by a summary of BEEP activities and results from July 2010 to the present that provides context and background for answers to this question.

#### I. PROJECT OBJECTIVES

*A. Project implementation to date is strongly in line with the purpose, objectives, and spirit of the USAID Task Order*

Implementation of project objectives, tasks, and activities to date have reflected in substance and essence the purpose and objectives envisioned in the Business Enabling Environment Program (BEEP) Task Order. The purpose of the Task Order was to (a) create awareness and understanding of the legal framework, (b) introduce streamlined rules and regulations, and (c) increase accessibility of business environment information to improve the business environment in growth-friendly ways. See Task Order at A.3 Purpose, ¶¶ 1 and 2. USAID envisioned four program objectives to accomplish Task Order goals; (1) Improved rules and regulations; (2) Reduced barriers to trade; (3) More efficient financial sector; and (4) More transparent tenders<sup>1</sup>. *Id.* at A.4 Objective.

As the question suggests, when USAID BEEP commenced its work, we encountered the situation that neither international donors nor Kosovo policymakers had previously devoted much attention to the issues that we are tasked with addressing – principally, improving the legal and regulatory regime in Kosovo governing private economic activity in order to make it easier to conduct business. Indeed, as we discovered, many policies and practices in place were having a negative impact on the business environment. It is our understanding that in the aftermath of the conflict of 1999 the international community’s top priority – and this is understandable – was to create a stable and secure environment in Kosovo for all of its population. But, as we have often expressed in the course of our Project’s activities, we believe that the time has now come to advance reform further and emphasize the need for good governance, and that this should be understood as, among other things, governance that imposes no unnecessary burdens or obstacles to private economic activity.

The first specific reform initiatives that we pursued were those identified in the *World Bank Doing Business* reports. But that was only the beginning of a thread that led to many other issues. This was a natural development, since the individual indicators reflect factors that arise from the larger network of laws, procedures and institutional authority and practice. When addressing the issues related to a specific *Doing Business* indicator, we inevitably encountered other problems very similar to, but not covered by, the *Doing Business* indicators that were equally important for the effort to make a better business environment in Kosovo.

The threads emanating from Doing Business indicators took us in a variety of directions, all of which led to the discovery of some fundamental issues and practices having a direct bearing on the business environment in Kosovo:

- (1) citizens’ lack of easy access to reliable legal information;
- (2) government institutions’ failure to recognize the situation described in (1) as a problem;

---

<sup>1</sup> Although originally envisioned to be one of BEEP’s primary four components, USAID has agreed to delay work in the area of e-procurement as other donors are working in this area. We are in the process of completing a contract modification to remove e-procurement work from our project’s scope, and will instead focus on construction implementation, which has evolved as a priority reform over the course of the project.

(3) a tendency among policymakers to impose requirements on business without considering the longer-term impact of these policies on, and the consequent costs to, society, whether from higher prices for goods and less employment or from increased costs of government.

(4) government bodies' arrogation to themselves of authorities and powers not arising from governing statutes – or, to put it another way, government institutions' often encountered practice of issuing regulations that impose requirements (permits/licenses; inspections; reporting) in a manner that was not authorized by any law. Typically, in issuing such requirements the government body is putting its own institutional interests above the interests of the society that it is supposed to serve.

Such practices also violate principles of good governance and the rule of law, in that they are carried out in a non-transparent manner and without effective notice and comment. The absence of an effective, reliable and efficient judicial system is very significant here --the citizen/ business person is left with few courses of action when confronted with such practices. In our view, the excessively onerous regulatory environment is a major factor that drives or keeps businesses in the informal sector and also creates conditions conducive to corruption. The large informal sector and reportedly widespread corrupt practices are two of the most important and difficult problems confronting Kosovo today.

(5) the lack of information-sharing among government bodies, which find it easier to require the citizen to file and re-file the same information in various departments than to share information with each other;

(6) municipalities' use of regulatory mechanisms (licenses) to collect revenue; and municipal policies that create inappropriate divisions and barriers to business within the country. Most municipalities have adopted general policies of requiring all business to purchase licenses regardless of what type of activity the business is conducting. As such, these licenses constitute permissions from the government to engage in economic activity. This is bad policy; and a departure from the accepted principle that government may limit a person's freedom to engage in economic activity only for a legitimate public interest such as protecting public health and safety, but not for purposes of collecting revenue. (It should be noted, however, that the Project has had some success in getting municipalities to depart from or limit such practices.)

The reforms described below go to the heart of a very fundamental question – the relation between the citizen and state – i.e., whether government is to serve its citizens, or citizens are to serve their government. USAID BEEP's work to date has revealed that while democratic values are cited by Kosovo policymakers and institutions, their actual practices are much more consistent with the proposition that citizens exist to serve their government. And this pattern is found in all areas of government policymaking and practice. In the Project's view, this needs to change.

i. Creating awareness and understanding of the legal framework has been a crucial part of the project's approach to business environment reform

Our project has undertaken several initiatives to improve understanding of the legal framework in Kosovo. One our first program tasks was to establish the BEEP information network as a mechanism for

hosting and distributing information on project activities and the overall business environment generally, including distribution to universities, business, business associations, and public sector counterparts. See USAID BEEP Year One Work Plan Component One Task C1-2: 3.

Incorporating public comment on proposed laws and regulations is a primary method of creating awareness and understanding of the legal framework. Our project has been a catalyst for change in this area, recommending and facilitating public comment on a number of project-supported normative acts, including the recently adopted Law on Construction<sup>2</sup> and the new Regulation on the Credit Registry<sup>3</sup>.

Transparency and inclusiveness are similarly primary tenets of our upcoming work on the Legal Information Database (LID) and Law on Normative Acts (LNA). See USAID BEEP Year Three Work Plan Component One Task C1-4: 1 Through close cooperation with the Office of the Prime Minister (OPM), the LNA is expected to require all proposed normative acts to be published on the LID for a public comment period. The LID will similarly act as a hub for receiving and responding to public comments.

ii. Streamlining commercial rules and regulations requires transformational activity to establish a more efficient and less burdensome regulatory framework

“The policies and processes that shape the business enabling environment (BEE) are considered to be the largest impediment to economic growth and job creation in Kosovo today.” See Task Order at A.5 Statement of Work, 1. Background, ¶ 2. The restrictive and overly burdensome nature of the regulatory environment in Kosovo dis-incentivizes legalization, economies of scale, and long-term investment. Our project has aimed to rationalize, harmonize, and streamline this environment to erode these dis-incentives and unleash the economic potential of the country.

Our work with the OPM and the ministries to inventory and review all regulations in force represented one of the first steps in this direction. Two project-sponsored working sessions resulted in the elimination of over 440 illegal, unnecessary, obsolete, and overly burdensome regulations, representing an almost 30% of all regulations then in force and further illustrating the need to deregulate. This established the first-ever regulatory baseline in Kosovo.

“The extraordinarily large informal sector – estimated at anywhere between 35 and 90 percent of the economy – is further evidence of the need to reform the policies, laws, regulations and administrative procedures that raise the costs and risks of doing business.” *Id.* at ¶ 5. Early in the project we identified the need to erode the use of regulatory mechanisms that inhibit free trade and properly focus them on the protection of public health and safety. Our work in the area of Permissive System and Inspections reform seeks to rationalize the policy and processes for government permits, licenses, registration, and prohibitions and the follow-on compliance assessment (inspections) to create predictability and transparency in the system and reduce arbitrary enforcement. See USAID BEEP Year Three Work Plan at Component One Task C1-3: 1. The OPM and the National Council for Economic Development (NCED) have committed to carry out a permissive system guillotine to reduce drastically the number of

---

<sup>2</sup> Law No. 04/L—100 on Construction (2012).

<sup>3</sup> Central Bank of Kosovo Regulation on the Credit Registry (2012).

government permissions that are not related to the protection of public health and safety; both the OPM and the NCED have recognized USAID BEEP as leaders in this initiative.

iii. Growth-friendly business environment improvement required us to look beyond Kosovo's neighboring countries

Kosovo's extremely high unemployment, large informal sector, and poor performance in the World Bank's Doing Business report all suggest that it must not only meet the regional bar in business environment improvement, but must undergo transformational change championed by local institutions. "Given its natural disadvantages, Kosovo must not just improve its business environment; it must offer a better environment for business than its larger and better-situated neighbors." See Task Order at A.5 Statement of Work, 1. Background, ¶ 6.

Our project's approach has been to leverage lesson learned from around the world to advocate for transformational change in Kosovo. In our efforts to assist development and adoption of construction reform, we utilized experts from Georgia who achieved incredible reform success in the early 2000's (recognized on multiple occasions as a Doing Business top-reformer during that period). We similarly sponsored a study tour to Georgia so that Kosovo officials could observe the construction permitting process as it has been reformed (ranked 4<sup>th</sup> out of 183 economies studied in construction permitting by the Doing Business report<sup>4</sup>) and share in reform challenges.

We have also capitalized on opportunities to visit and learn from international experience in Turkey, the United States, Macedonia, and Italy, in areas including finance (credit information, risk, Islamic Finance), Human and Institutional Capacity Development (HICD), and construction. What works best for Kosovo is not necessarily determined by neighboring countries, but what best expresses the desires of local citizens, facilitates free economic activity, and reflects good governance.

*B. Transformational business environment reform required quick and decisive action, recognizing the need to reduce drastically regulatory and procedural barriers to trade*

Early in the project, we worked with the government and helped achieve their commitment to a transformational reform agenda through 2014, which included ambitious goals of reaching the Top-40 in Doing Business, reducing 50% of permits and licenses, and implementing a comprehensive Information Systems/Information Technology (IS/IT) strategy. With so much international assistance already provided and with much still to be done, it was clear that decisive action was required. "With such high unemployment, Kosovo can't afford to wait for long term efforts to bear fruit. *It must do more now...*" See Task Order at A.5 Statement of Work, 1. Background, ¶13, *our emphasis added*.

i. Experience in the country rebutted the presumption that Kosovo laws in place reflected a good regulatory environment for business

Further exacerbating the need to take decisive action, we found that the regulatory environment was highly restrictive of economic activity and needed significant and transformational change. Coming into the country, however the assumption was that "Virtually all of [Kosovo's commercial] laws benefited

---

<sup>4</sup> <http://www.doingbusiness.org/data/exploreeconomies/georgia/>

from international advice” and that they were “...generally sound and conducive to a liberal, open economic regime.” *Id.* at ¶ 11. Many of the laws in Kosovo were drafted or amended by international consultants separately from each other, and harmonization was limited in these efforts.

Therefore, it was absolutely necessary to take quick and decisive action to put the regulatory regime on better footing and provide a much-improved business environment. BEEP has been very active in making recommendations to eliminate unnecessary barriers to free trade activity to first begin to rationalize the regulatory environment, while simultaneously assisting development of improved commercial laws and regulations. Any less action would not have met the required immediacy of transformational change.

ii. Many pressing issues take time, reinforcing the need to take decisive action

With so many *ad hoc* initiatives throughout the country, little progress was being made to truly transform the business environment. Among other things, this might have been attributed to a stronger focus on short-term results with less regard for long-term goals. “Other impediments are being addressed but improvements will take time to affect growth and employment.” *Id.* at ¶ 2.

Our project instead embraced a holistic approach to business environment reform, engaging in areas including construction, the permissive and inspections systems, municipal own-source revenue (MOSR), property tax, trade policy, finance, and many others. By coordinating and harmonizing these and other critical functional areas of the business environment, true change can be realized and impacts felt.

We have a real sense of urgency about all of the reforms we are advocating. Kosovo’s young population will be entering the work force in large numbers over the next several years. Those people will need to find work that enables them to support themselves and start a family. If they are successful, the economy will grow rapidly; if they are not, the country will very likely experience a social crisis that will make itself through large-scale exodus from the country, social unrest, or both. This could easily exacerbate the internal and external tensions arising from the conflict that remain unresolved.

USAID BEEP has succeeded in making business environment reform a part of policy dialog in Kosovo, and in changing some policymakers’ and business persons’ understanding of its importance. The question is now accorded more weight than before. Some mayors have completely embraced these ideas (e.g., in Viti, Ferizaj and Shtimje) as have some national officials. But much more must be done for the principles discussed here and reflected in the Project’s work to become integrated in the policies and practices of government institutions in Kosovo.

## II. PROGRAM ACTIVITIES

The Task Order envisions four (4) components with specific guidance aimed to achieve USAID desired assistance objectives. *See* Task Order A.5 Statement of Work, 2. Program Activities, §§ 1, 2, 3, 4. Our Results Framework is strategically designed to facilitate work in these components, including

components on improved rules and regulations, reduced barriers to trade, and reduced risks to lending<sup>5</sup>. See USAID BEEP Year One Work Plan.

#### *A. Improved rules and regulations*

Improving the business environment through improved rules and regulations as described in the Task Order requires, among other things, streamlined normative acts at both the national and municipal level, improved construction permitting, improved regime for permitting and inspections, and improved performance in project-supported indicators of the Doing Business report.

##### *i. Streamlined normative acts and their publication at the national and municipal levels*

BEEP has assisted the government to make significant strides to streamline and publicize normative acts, including establishment of the first-ever inventory of regulations through substantive reviews of all regulations and recent adoption of the Law on Construction. The project-sponsored Laws on Construction, Cadastre<sup>6</sup>, and the Immovable Property Rights Register<sup>7</sup> further support program activities by legally requiring the establishment of fees on a cost-recovery basis and that they be publicized for review and comment. The Task Order states that the project will “assist both levels of government to assure that rules, procedures, fees and resources for businesses are well publicized and readily available.” See Task Order at A.5 Statement of Work, 2. Program Activities, § 1, ¶1.

While the initiatives mentioned above were carried out at the national level, at the municipal level, we have assisted in the elimination of the work permit<sup>8</sup>, establishment of transparency regulations requiring publication of municipal regulations, mayoral decisions to eliminate or suspending business license fees.

In addition, the Project has undertaken much broader reforms that address fundamental “building block” issues that will both improve significantly the business environment and greatly bolster the rule of law. These initiatives include the development of a comprehensive, easily accessible and searchable Legal Information Database and the related Law on Normative Acts; and the creation of framework laws on the permissive system and inspections.

The Law on Normative Acts will, among other things, require each government body to publish its proposed regulations for public notice and comment, and will provide that a regulation will not have legal force unless and until it is included in the Legal Information Database.

The effect of these larger reforms will be quite far-reaching, for they will (1) impose limits on government rule-making while introducing transparency into that process; (2) enable citizens to know their own legal rights and obligations as well as the limits of each government body’s authority bearing on them; (3) require government bodies to follow best international practice by restricting their regulatory action to its proper role of protecting public health and safety;(4)increase government

---

<sup>5</sup> See Footnote 1 for an explanation of why our project has not pursued work to create more transparent tenders.

<sup>6</sup> Law No. 04/L-013 on Cadastre

<sup>7</sup> Law No. 04/L-009 on Amending and Supplementing Law No. 2002/5 on the Establishment of the Immovable Property Rights Register

<sup>8</sup> Law No. 04/L-005 on Amending and Supplementing the Law No. 2004/18 on Internal Trade

bodies; effectiveness at protecting public health and safety; and (5) require government bodies to demonstrate that a regulatory action is justified before they may introduce it.

#### ii. Improved construction permitting

Referencing one of the poorest performing indicators for Kosovo in the Doing Business report, the Task Order makes note of the importance to make significant improvement in construction permitting – “It is important to emphasize that Kosovo ranked 176 (out of 183), just above Tajikistan, in the WB Doing Business 2010 Dealing with Construction Permits.” *Id.*

Recently, the Kosovo Assembly adopted the project-sponsored Law on Construction which streamlines the construction permitting process across the country, establishes the framework for construction inspections, and requires permit fees to be established on a cost recovery-basis. Upcoming implementation of the new law includes development and adoption of new Laws on Spatial Planning and the Legalization of Existing Constructions, implementing sub-normative acts, and a Unified Building Code, and development of municipal urban regulatory plans.

The Ministry of Environment and Spatial Planning (MESP) has designated our project as the primary leader in implementing construction reform. With proper implementation, we expect impressive reductions in time, costs, and steps required to obtain a construction permit.

#### iii. Improved regime for permitting and inspections

A major piece of rationalizing a regulatory system is development of framework laws governing government permissions and inspections. Through these framework laws and proper implementation, permissions will be guided only by the need to protect the public health and safety and inspections procedures will be transparent, focused solely on compliance assessment, and minimally intrusive.

We are in the process of developing draft Laws on the Permissive System and Inspections, which, through assistance to the OPM, will be the basis for a country-wide guillotine of all permissions and inspections. Further implementation will include training inspectors on new procedures and maintaining discussion with policy-makers to follow the law.

#### iv. Improved performance in project-supported indicators of the Doing Business report

An indicator of success for improved rules and regulations as described in the Task Order is “Kosovo’s scores improve in the World Bank’s Doing Business survey.” *Id.* at § 1, Indicators of Success, bullet 1. To date, our rules and regulations component has supported Doing Business improvement in primarily four (4) indicators, including “Starting a Business”, “Dealing with Construction Permits”, “Protecting Investors”, and “Registering Property.”

As previously mentioned, the Doing Business indicators provide a starting point for business environment reform, but because to the complexity of the Doing Business methodology owing to the required comparability across 183 economies on a multitude of data points, this acts as only a starting point. Other business environment impacts are captured in our Project Result (PR) 2 methodology for calculating economic impacts of reform.

## *B. Reduced barriers to trade*

Trade policy support, capacity building, and private sector outreach are all important priorities for reducing barriers to trade. *Id.* at § 2, ¶¶ 1 – 5. Our second project component has seen impressive results in these areas.

### *i. Trade policy support to the Ministry of Trade and Industry (MTI) and Kosovo Customs*

Working from an MTI-adopted trade policy from 2009, we reviewed and updated the trade policy to reflect the circumstances in Kosovo today. Among other things, we recommended a more sophisticated approach to tariff rates to reflect domestic policy. Currently, a tariff rate of 10% is assessed on all goods and services (excluding members and goods under the Central European Free Trade Agreement).

BEEP also assisted in the establishment of the Trade Policy Working Group (TPWG) that acts as both an inter-ministerial policy coordination body and a mechanism for addressing private sector trade issues. We support four (4) of the TPWG subgroups, including those one Industry, Trade Facilitation, Services, and Agriculture.

In line with World Trade Organization (WTO) recognized trade remedies, we have supported new laws and regulations for anti-dumping, countervailing, and safeguard measures in Kosovo. The Kosovo Assembly adopted a project-supported Law on Safeguard Measures on Imports<sup>9</sup> in September 2011. Our recommendations on the Law on Anti-dumping and Countervailing Measures are currently under consideration by the GoK.

To streamline import and export procedures, Customs adopted an Internal Administrative Instruction in October 2011 that drastically reduced the number of documents required for import and export based on our project's recommendations. In addition, Customs eliminated the registration requirement for import and export transactions, using instead the fiscal number for identification.

### *ii. Our reduced barriers to trade component has occupied a primary capacity building role in the MTI and Kosovo Customs*

Over the first two years of the project, our trade component has occupied a primary training role for trade related matters, collaborating primarily with the Training Department at the MTI. Trainings have included topics on international trade, WTO practices and benefits of accession, and standard operating procedures for trade remedies. Focus has been to "train to the trainers" to build local capacities for continued activities following completion of our project.

### *iii. Private sector outreach*

Our trade component team is in regular contact with importers, exporters, individual spediteurs, and the Spediteurs Association to, among other things, inform them of recent reforms. This proved especially useful when Customs reduced the documentary requirements for import and export. Our validation team found that spediteurs were still requested the same number of documents from businesses for trade transactions because they were not aware of the newly reduced requirements. We

---

<sup>9</sup> Law No. 04/L-047 on Safeguard Measures on Imports

worked with Customs on a comprehensive strategy to reach out to the private sector and inform them of reforms.

### *C. Reduced Risk of Lending in Financial Sector*

Creating a more efficient and robust financial sector, reducing risks to lending, and facilitating increased access to finance is at the very heart of facilitating entrepreneurial activity. Businesses need financing to grow, increase quality and competitiveness, and create jobs. Under the Task Order, work in this area is important “...so that the costs and risks of extending credit are reduced...” A key approach for BEEP to achieve this is through “...improved registry systems...” *Id.* at § 3, ¶ 1. Improving the timeliness, accuracy, integrity, and scope of available credit information are of the utmost importance to achieve these strategic objectives.

#### *i. Improved registry system*

A primary activity of our credit component is to upgrade the software of the Credit Registry of Kosovo (CRK) to meet the needs of the CBK, all of the financial institutions, and both individuals and businesses. Our project facilitated the signing of a Memorandum of Understanding (MoU) between USAID and the Central Bank of Kosovo (CBK) to clearly define the responsibilities of each as it relates to the upgrade. BEEP facilitated the development of the comprehensive technical specifications and user requirements for the CRK software, working closely with the CBK, banks, microfinance institutions, non-bank financial institutions, Bankers Association and Association of Microfinance Institutions, and organizing stakeholder workshops and training sessions. The software vendor has completed the design phase and is now undergoing internal testing and reporting generation. The upgrade is on track to complete August 31, 2012, with migration of the data and training of CRK, CBK and financial institution personnel to follow.

The CRK software upgrade will meet international best practices and the needs of the Kosovo financial, business and consumer sectors with additional information and clearer, more comprehensive reports.

#### *ii. Increased number of users of the credit information system*

“The program will increase use of the credit registry by credit providers other than banks and expand the sources of credit-worthiness information included in the registry to a variety of non-bank institutions.” *Id.* at ¶ 3. Progress in this regard has been outstanding, with our Project Result 4 already being achieved. PR 4 requires five (5) types of users of the credit information system. With the recently adopted, project-supported Regulation on the Credit Registry, insurance companies have been permitted access to the credit information system, bringing the total number to five. Now, banks, non-bank lending institutions, leasing companies, microfinance institutions, and insurance companies are permitted access.

#### *iii. Increased number of credit reports requested by business and citizens*

Also under the new Regulation on the Credit Registry, new borrowers’ rights are established, including improved data protections, streamlined procedures for obtaining and disputing credit information, and

the ability to request and access credit reports from financial institutions around the country<sup>10</sup>. Previously unaddressed, these were identified as significant impediments to participation in the credit information system and therefore to access to finance.

Additionally, our credit component undertook a comprehensive public outreach campaign to inform citizens about the CRK generally, what a credit rating is and the importance of a good credit rating, and the new process for obtaining a credit report, requesting clarifications and disputing information. Over ten thousand (10,000) information brochures were originally printed and circulated.

The finance component has also been involved in the development of broader laws and regulations, including input to the new Law on Banks, Microfinance Institutions and Non-Bank Financial Institutions and secondary legislation for the law including regulations on credit risk management/asset classifications, reporting of banks, and implementation of joint stock company microfinance institutions. BEEP has developed draft laws on bills of exchange and negotiable instruments and will be undertaking stakeholder consultation on these laws this year. BEEP will also work with financial institutions to encourage the use of arbitration clauses in loan agreements to reduce the time it takes to obtain judgments, thereby reducing a major component of risk in contract enforcement.

The finance component also works with the other components of BEEP, other donor projects such as USAID SEAD, and with other counterparts, such as the Ministry of Trade and Industry. BEEP provided recommendations on upgrading the Pledge Registry and the Law on the Pledge Registry to the Ministry of Trade and Industry and the Bankers Association. And the finance component works with other components in addressing issues raised by businesses in the municipalities regarding credit and access to finance.

In the area of finance, BEEP has undertaken and facilitated important specific activities and initiatives such as the upgrade of the Credit Registry, while at the same time fostering greater awareness and consensus across a much broader spectrum of issues and counterparts impacting the capacity of the financial ecosystem, reducing risk and increasing access to finance. BEEP has worked closely with all key personnel and departments of the Central Bank, as well as with the Bankers Association, Association of Microfinance Institutions, Association of Insurance Companies, USAID projects such as SEAD, and citizens and businesses through its public outreach program.

## **B. 2013 Plus, Building for the Future**

The following addresses the key points mentioned in the question regarding future project designs based on BEEP lessons learned and, in addition, considers specific technical recommendations for future activities.

### **I. 2013 Plus, Building for the future – *administrative recommendations***

#### **a. Internal organization and project staffing**

---

<sup>10</sup> Previously, credit report requests had to be made in person at the CBK in Pristina, which could take a full day including travel. Additionally, it was unclear how to request clarifications on the credit reports or dispute information and obtain resolution.

Because the work described above will need to be carried out at both the national and municipal levels, and because the national government is not interact with municipalities effectively on policy matters, it would be advisable for the project to have a central office in Pristina and also regional representation in the form of municipal coordinators in the principal municipalities. The Project would require an expatriate COP and local DCOP, and perhaps 1-2 expatriate legal experts, along with 4 local experts and 25 municipal coordinators. Should HICD activities take off, an expatriate to lead those initiatives for a briefer assignment should also be experienced. The Project should also have IT expertise and a strong public relations capacity, as well as the standard administrative and financial staff to ensure compliance and smooth operations/logistics. International short-term technical assistance, specific to areas of opportunity and focus for reform, should also be included in any future work.

b. outreach efforts to civil society, government and coalition-building

In Kosovo there is a dearth of reliable information available to the citizenry on legal reforms, other than what BEEP and other donor projects provide. Further BEEP activities should build on contacts with local business communities, associations and officials in every municipality to gather and disseminate information, foster understanding of reforms and facilitate their implementation throughout the country. This should be accompanied this with a robust public information outreach through the national and local media.

c. considering project priorities

Project priorities would reflect areas described in Section II below concerning technical recommendations.

d. project reporting dynamics with USAID and local counterparts

Maintaining a strong focus on results is crucial for measuring the success of future business environment projects. In addition to the use of supply-driven mechanisms to measures success (e.g. Doing Business reports), other measures including economic impacts of reform...

e. project sustainability

The activities outlined above would continue to increase Kosovo's ability to institutionalize the reforms described. Since the reforms would both focus existing capacity within government bodies and reduce the amount of funding required for by government bodies to exercise the regulatory functions addressed, the issues of sustainability – as it is related to resources -- would not arise. The continued performance of government bodies in a way that conforms to best international practice, however, requires sustained political will and commitment by Kosovo authorities.

II. 2013 Plus, Building for the future – *technical recommendations*

Although not specifically requested, please see below our suggestions below concerning technical recommendations for future activities that supplement the administrative activities above. Following

the conclusion of the Project's three-year contract, further activities in a number of directions will be necessary in order to consolidate and institutionalize the reforms that the Project accomplished.

We recommend the following activities and initiatives for consideration:

- a. Implementation of permissive system and construction reforms at the national and municipal levels

We expect the Project to have made significant accomplishments in the area of permissive system/inspections and construction reform, but much will remain to be done to ensure that (1) national government bodies and municipalities adopt internal policies and practices that are consistent with those reforms; and (2) that they build the institutional capacity necessary to implement the applicable law effectively.

- b. E-governance/HICD reform

In our view Kosovo presents very favorable conditions for e-governance. It is a compact country of only 1.7 million inhabitants, with deep internet penetration and a primarily young, computer-literate population. The introduction of e-governance, coupled with a functional analysis and HICD-oriented review of government bodies, would expose unnecessary and redundant functions and departments and would require a complete overhaul and streamlining of government bodies' administrative structures, staffing and procedures. This would have a very beneficial impact on the business environment and civil society generally.

- c. Reforms related to Doing Business

The GoK could benefit from support to help it institutionalize the setting of national priorities and the coordination of the work to address problems identified by the *Doing Business* Report.

- d. Private Sector and Government Institution Incentive Reform

HICD reform and capacity building should be carried out in conjunction with changing incentives. While Kosovo has great potential, the current misallocation of resources and incentive sets that do not conform to the desired approach act as a critical barrier to the sustainability of reforms. This should be addressed in a holistic approach.

## Question #2

The coincidence of BEEP with the development of significant public institutions and civil society in Kosovo presents interesting opportunities for both institution- and coalition-building. In such an environment person-to-person relations are obviously a key to success. This said, and in regard to the BEEP issues of market liberalization and business expansion, please assess the policy –making and analytical capabilities *at institutional level* of:

\*executive bodies of national government – differentiating among ministerial, deputy ministerial and department levels

\*at municipal government level - differentiating among the office of the mayor, town supervisor and municipal service departments

\*in the for profit private sector

\*in civil society organizations (NGOs, think tanks)

After this brief assessment, characterize the achievement of and challenges of BEEP in dealing with each of the types of institutions and offices listed above.

Finally, provide an assessment of the likely optimal combination of the above for continuing BEEP activities, assuming some modicum of donor funding. References to such means as joint ventures, private-public partnerships, academic –business coalitions, etc. are entirely appropriate. Reference to the two time frames noted in the Response Guidelines is appreciated.

## ANSWER #2

For all of the types of institutions listed above, the issues are very similar. Kosovo has all of the necessary potential and capability. The challenge is to create appropriate incentives for institutions that respond to the needs of the country and to allocate resources accordingly.

### A. 2010 - Current

As a general proposition, it is fair to say that in Kosovo today reforms depend on individuals, and not institutions. As noted in our response to Question 1 above, the culture and incentives in national government institutions — in terms of their internal management and the values and attitudes of civil servants — continues to reflect the legacy of the former Yugoslavia, which places more emphasis on the prerogatives of government than on citizens' needs and supports the view that government is meant to control citizens, rather than assist and serve them. (However, it is important to note there are exceptions to this, such as the Central Bank). Civil servants are often selected based on relationships, not merit, and thus often lack capacity to develop sound policy. Further, civil servants and political officials lack incentives to diverge from the status quo by engaging in deep analysis of policy and developing

alternatives. This occurs for many reasons, including a lack of GOK transparency, which deters the public from understanding current laws and policies and from demanding reform.

Despite this, it has been possible to achieve reforms through the efforts of strong individual champions. These include Besim Kajtazi, the Head of the Office of Legal Services of the Office of Prime Minister; Arben Citaku, the Permanent Secretary of the Ministry of Environment and Spatial Planning; Naim Huruglica, the Head of the Customs Service; Gani Gerguri, Governor of the Central Bank, and several directors of departments at the Central Bank, along with certain mayors and municipal officials. BEEP has also found support for its initiatives among younger civil servants, particularly among legal officers, but they are not (yet) in a position to affect policy-making. In short, the Project's achievements to date were made possible by the active support of some well-placed officials — not the analytical and policy-making capacity of counterpart institutions.

At the same time, while there has been concerted resistance to some reforms from certain groups with vested interests, both within government institutions and in society, citizens and officials are often open to reform. The former, however, are commonly fatalistic about the likelihood of success, while officials often lack a complete understanding of the reforms, with discussion and debate often hampered by a lack of facts and statistics and an apparent unwillingness in some cases to examine an issue in detail.

As mentioned previously, this is compounded by a lack of incentives/political will to challenge the status quo. Our experience indicates that Kosovo has a good deal of capacity and, with properly structured incentives, the GOK could attract high-performing civil servants and develop sound approaches to reform the most politically challenging policies. To address this state of affairs, BEEP has conducted organizational assessments of several GOK counterparts and will be incorporating assistance as possible to improve operations as part of the overall reform strategy. While some of this assistance will focus specifically on analytical and policy-making capacity, BEEP will use a holistic approach to spur organizational change and align incentives. Furthermore, it is critical that this assistance be delivered within the framework of specific reforms so the Project's organizational improvement activities are used immediately and are causally linked to desired results. A legal database and other mechanisms for communicating GOK laws and regulations would allow the public to analyze laws and demand reform. This will ensure that policies are effectively realized, feedback systems are in place, accountability exists, and there is a common understanding of policies across government.

#### I. Private sector

Because our experience and findings described above apply across the board to all government institutions in so far as we have had dealings with them, we do not see any basis for differentiating within or between “**executive bodies of national government**” or bodies of “**municipal government**” as requested. However, it is important to note that a few GOK institutions such as the Central Bank, the Office of Legal Services of the Office of Prime Minister, and several municipalities are truly reform-minded. With BEEP assistance, some mayors are now discussing business environment reform issues with the public — creating incentives and public pressure for reform. Also, BEEP has seen that public recognition (either positive or negative) through such mechanisms as the MCI can be a powerful

motivating factor. At the same time, of course, issues of implementation and follow-through arise, since in the absence of the continued action by the champion the reforms may likely stall.

We have found that our proposed reforms are generally well received by both large and small businesses in Kosovo, and definitely by the financial institutions. In the case of construction reform, however, it appeared that large and successful construction companies, which had become so, we assume, by cultivating effective working relationships with the relevant government bodies and officials, were not anxious to change the status quo. That is not to say that they resisted such change, however. Local business is often concerned about foreign competition and seek a more level playing field, both domestically and in potential export markets. We have found that the banks are for the most part capable and interested in reforms that improve the financial sector infrastructure, reduce the risk of lending, and thereby increase their potential client base and profitability.

## II. Civil society organizations (NGOs, think tanks)

The Project has a well-funded grants program, and while we have awarded some grants and sub-contracts, we have received many fewer viable proposals than expected. Our impression is that – at least as concerns those civil society organizations who would be logical partners in the kind of work that we have been carrying out, i.e., business associations and consulting firms (think tanks) – there are few such organizations existing today with the necessary professional capacity and expertise to serve as full-fledged partners in such reform efforts. One exception is the firm UBO that has been conducting the surveys for the MCI.

(However, because the value of the MCI depends upon the robustness of the analysis, the correlation between the results of the survey and reform results, and its use as a reform tool, continued project assistance will be required for the full institutionalization of the MCI in the future.

As for the **private-sector**, our experience shows that although the major business associations such as the American Chamber of Commerce and the Alliance of Kosovo Business are active and able to work with the GOK, they are unable to engage their member businesses effectively and to represent their interests. This is partially because associations receive a significant amount of revenue from donor programs and, therefore have not needed the broad membership base and fees needed for long-term sustainability. Based on BEEP's experience, these associations need HICD assistance to better represent their members, develop revenue base for long-term sustainability and independence, and provide other member services.

In general, we have encountered many bright and capable people in Kosovo – particularly among the younger generation – who show promise in acquiring and using such skills, but thus far few organizations that we know have taken shape that effectively tap into and develop that potential.

### **B. 2013 Plus, Building for the Future**

The Project has always seized opportunities as they have arisen. We have also cast a wide net around our reform initiatives, seeking to include all stakeholders in the reform process and to disseminate information on reform initiatives throughout society.

## I. General Strategic Approach and Strategic Linkages

We recommend the same approach going forward — both in BEEP’s final year and in any continuation of USAID assistance — to inform Kosovo society as broadly as possible about the meaning and importance of the proposed reforms and the ideas and experience behind them; and to work with any group or organization that demonstrates good faith desires to further those reforms.

Kosovo has been the recipient of considerable external assistance that has created many reform initiatives. Often, however, this work has been carried in an uncoordinated fashion. Where possible reform initiatives should be linked with other efforts underway, to avoid duplication, confusion and to ensure that they do not work at cross-purposes. Additionally, where possible, BEEP recommends to build partnerships amongst existing domestic organizations, based on market incentives, to find opportunities for organizations such as think-tanks, associations, business service providers and the like to work together in the economic interest of each and avoid incentive distortions or creating new entities where unnecessary.

## II. Recognizing existing resources and addressing environmental incentives

As noted above, Kosovo possesses sufficient capacity and knowledge. The challenge is recognizing and reforming the incentives arising within the current system of governance and created by donors and by other actors within Kosovo. We recommend that assistance focus on changing the incentive structures within organizations so that they are responsive to their membership and within government structures so that they are responsive to and held accountable by citizens. Merely providing resources, training, and other initiatives without changing the incentives with which those assets are applied will not build the capacity in the long term. Thus the issue is not one of building capacity building issue, but of changing incentives and resource allocation.

## III. Governance issues

Short-term thinking and response to ad hoc initiatives stifles long-term progress -- for example, staffing decisions that are based, not on merit, but largely on favoritism and relationships. Lack of accountability and openness to the private sector leads to poor policy decisions that are inconsistent with democratic governance and economic growth.

Instead, there must be a holistic approach to government planning that is comprehensive, deeply internalized and clearly articulated. Efforts to increase transparency and accountability of the government to the citizens should be undertaken -- including, in particular, with respect to how tax revenue is collected and spent—with an understanding of policies and practices that increase or decrease the public trust in institutions

## IV. Non-government Organizations (NGOs)

While there are many NGOs in Kosovo, the strong incentives to receive donor funding can cause the NGOs to focus on short-term, donor-oriented goals rather than developing long-term strategies to meet the needs of society and the private sector. Assistance should be designed to avoid donor capture and to promote comprehensive improvement of the business environment.

Additionally, programs should not focus on a specific partner, but rather on the project's fundamental goals.

Donors are encouraged not to differentiate between for-profit and not-for-profit institutions. An NGO should apply the same business principles as any for-profit institution and should be approached and treated as an economic entity. If it is economically sustainable, it is responding to incentives outside of their domestic membership.

NGOs, think tanks, etc. have a very valuable role to play in providing ideas, research and analysis that inform policy options. Links with international organizations will increase the flow of relevant information into Kosovo.

#### V. Businesses

Business are a valuable source of information on the real situation in the environment and there experience and input should be sought. At the same time, it is not uncommon for businesses to seek regulatory advantage, and decision-makers should balance competing private interests against the larger national interest. Decision makers should be incentivized to do so.

## MEASURES

### QUESTION #3

Interviews and BEEP project documents confirm that the World Bank Doing Business indicators are, in the first instance, a benchmark for Chemonics/BEEP contractual compliance in assessing progress as to the enabling environment for business. Yet, interviews with different parties suggest that the indicators are at a “tipping point” in terms of their influence on economic policy-making in Kosovo. On one hand, the international visibility of the indicators and the ranking system makes them a focus of attention to a government lacking resources for broad and technically correct economic analysis. On the other hand, the indicators might be viewed as one of a mix of criteria that might assess movement to market liberalization and business expansion. From the standpoint of BEEP impact on the Kosovo economy:

**\*what have been the chief advantages and disadvantages of focusing on the indicators -as a matter of allocation of BEEP resources?**

### ANSWER #3

#### A. 2010 - Current

Doing Business measures were one tool that we used to identify issues and focus project resources; the Doing Business measures were used in combination with efforts to identify demand-driven issues and solutions as well as with other tools such as the MCI.

In our view, using the *Doing Business* indicators as part of our work made very good sense and offered real advantages. First, the *Doing Business* report served as a ready-made needs assessment for work within the Project’s mandate. The Doing Business indicators, while limited in scope, do provide guidance for action on genuine problems that should be addressed and are important in their own right. There is empirical evidence that links the performance on Doing Business indicators and the strength of the national economy. But, perhaps more importantly, the Doing Business indicators provided an entry point into the broader legal framework that allowed us to identify further problems and gain a “big-picture” view of the many inter-related factors affecting the business environment in Kosovo. (We have described this process in greater detail in our response to Question 1.) The specific problems identified in the *Doing Business* report gave us a foothold and starting point toward larger tasks. As noted elsewhere, as far as reforming the Kosovo business environment was concerned, we were operating in uncharted territory. The *Doing Business* report served as one of the very few sources of relevant information. As mentioned previously, the Doing Business indicators are limited in scope and thus do not always capture the particular impediments facing the business community and potential investors. This could have been a disadvantage to implementation, but BEEP did not solely focus on World Bank Doing Business indicators. Below, we discuss the other indicators BEEP used to augment Doing Business.

- I. what has been the “opportunity cost,” if any, of a focus on the indicators? And, on the other hand, has a focus on the indicators led BEEP in a positive *and unexpected* direction in promoting market reform?

If used exclusively, Doing Business measures can lead to a superficial reform effort owing to the assumptions used in the Doing Business methodology. However, as stated by the World Bank, it is necessary to go broader and deeper than what the indicators measure and identify root causes of problems and sustainable solutions. Therefore, BEEP has been very aware of the limitations of the measures and assiduous at encouraging our partners to take a broader view of the business environment.

We are not able to identify any specific “opportunity cost” *per se* because Doing Business provides a unique comparative analysis for Kosovo to evaluate its internal legal regime against best practice. Moreover, there is a causal link able to be demonstrated between project efforts and Doing Business reforms that does not exist in other international measures. Tools such as the World Economic Forum Global Competitiveness Report (1) do not include Kosovo and (2) because of their design, do not demonstrate the causal link between action and reported outcome. Furthermore, by using World Bank Doing Business indicators, BEEP has been able to leverage the successful reforms of other countries that previously used Doing Business as a framework for enacting ambitious economic reform agendas.

Perhaps most importantly, BEEP augmented Doing Business indicators by focusing on two other key indicators: (1) the economic impact of reforms adopted and implemented a result of project assistance and (2) percentage improvement in Municipal Competitiveness Index scores in areas receiving project assistance. The first indicator, PR2, monetizes the benefits of BEEP-supported reforms based on the cost-savings/efficiency-gains from each reform multiplied by the number of businesses expected to be affected. By using this as a supplemental key indicator of the project, BEEP established a mechanism for capturing issues of specific local importance beyond that which is measured by Doing Business; and provided a framework for the immediate and validated capture of reform impact. Likewise, the MCI scores are the result of a survey of businesses across Kosovo — ensuring that reforms positively impact businesses and that BEEP focus on municipal improvements with the greatest impact possible.

- II. assuming the consensus that the indicators represent a “tipping point” between being ends in themselves on one hand and a part of a large quantitatively based narrative on the Kosovo economy on the other, how would BEEP propose to create a USAID project, or government or civil society institution, to “capture the best of both worlds” (visibility and technical accuracy)

It is important that everybody recognize the scope of World Bank measures and the necessity to go beyond them.

As we have noted in our response to Question 1, we are undertaking some very large and fundamental “building block” reforms for improving the business environment and bolstering the rule of law and good governance in Kosovo. These reforms will require further work for them to be institutionalized at the national and municipal levels. That work continues to facilitate systemic and transformational change in Kosovo. We therefore believe strongly that that work must be carried out and given precedence. At the same time, work should also go forward to address specific issues identified by *Doing Business*. Now that Kosovo citizens and government institutions have some familiarity with the

*Doing Business* process, and links with the *Doing Business* department of the World Bank are in place, that work can progress relatively smoothly. As mentioned in our previous response, BEEP has used a methodology of monetizing benefits, along with the MCI, to ensure that *Doing Business* reforms and other BEEP-supported reforms are having the intended impact on Kosovo's private sector. Indeed, our experience (in Kosovo and elsewhere) has indicated that monetizing benefits is a powerful means of quantifying and communicating the positive impact of economic reform. To ensure the methodology is accurate, BEEP uses case studies of random businesses.

- III. profile such an institution (USAID project, government body, NGO, etc.) and justify the profile; -frame the organization of the institution to accommodate the best of both aspects; -describe how such an institution would make full use of the indicators

Because the indicators are related to disparate issues covered by different ministries, the institution should have cross-cutting authority. As BEEP has recommended, and as has to some extent been incorporated into the Economic Vision of Kosovo, the most appropriate form would be a Task Force led by the Government under the Prime Minister with the representation of selected ministries, municipal authorities, parliament and the private sector, and with selected donor projects as advisors.

The mechanics for doing this are not difficult in themselves. The GoK would set its priorities; and the Task Force would formulate the tasks, develop an action plan and oversee their implementation. Experience with the Banskó-inspired Economic Vision Action Plan, however, demonstrates that this is still a learning process for counterparts, and as discussed in Answers #1 and #2, realization of the full benefits of reform requires addressing deeply-rooted incentives throughout society.

From the Project's experience, it is our impression that the government still has incentive-related challenges in formulating, implementing, and monitoring comprehensive and broad policy as a body (the Cabinet of Ministers), and that individual ministers and subordinate administrative agencies enjoy broad leeway, at least commensurate with each minister's political capital, in running their ministries. There is very little evidence of concerted policymaking at the level of the Cabinet of Ministers. For example, Ministries often issue administrative instructions that are not tracked or coordinated, and that often conflict with those of other Ministries. As indicated in Answers #1 and #2, addressing the root cause of these issues is an important element of our reform strategy.

- IV. provide your best estimate of when Kosovo public institutions or civil society are likely to begin developing reliable economic data to complement the indicators

Developing reliable economic data in any system is a challenge and Kosovo is no exception. Data quality will be improved when that data has value to the people charged with managing it. Efforts to improve the data should go hand-in-hand with efforts to address the incentives to use reliable data in policy-making. As detailed above, because of the incentives prevailing in decision making in Kosovo today many decisions are based on narrow interests or respond to certain incentives. As a tool, *Doing Business* provides the advantage of a third party evaluation. Our efforts as part of the reform have been to focus on improving the data rather than challenging the data. Because the *Doing Business* data is widely seen

as not reflective of individual interpretation or interest, it is considered to be largely reliable as a tool to drive reform.

We have seen an increased importance of quality data for use for MCC consideration and other uses. However, this is an evolving area. Many of the issues that BEEP addressed were as a result of revisiting assumptions and looking at the actual data from the ground level, and not based on summaries, reports, or assumptions. Because BEEP as a project has focused on the facts and data that we have gathered ourselves, we have encouraged counterparts and others who have engaged with us in dialogue to do the same. These efforts should continue and in doing so encourage fact-based analysis.

## **B. 2013 Plus, Building for the Future**

### **I. Continuation of collecting and utilizing on-the-ground data, not relying on summaries or assessments**

A number of reports and evaluations have been done on Kosovo, but the data has often been regurgitated – applying external perceptions. As BEEP has done with our DB process validation and our collection of municipal financial data, as well as our research into the fundamental language of the laws, the grass-roots re-evaluation and re-visiting should continue.

### **II. Incentive reform**

As discussed above, data will be collected and processed when it has value merely beyond the collection of data. As such, those making policy in Kosovo should not only use robust information, but encourage partner organizations to do the same. At the same time, efforts to increase public advocacy should encourage attention to fact-driven advocacy, grass-roots issue identification and solutions informed by hard data. When confronted with advocates using this data, government counterparts will be incentivized to respond in kind. Similarly, Parliamentarians and others should be encouraged to utilize all available data and press upon those government institutions that are responsible for collecting and publishing data that is necessary for policy formulation and monitoring.

### **III. Intergovernmental information coordination and transparency**

In Kosovo, information is often collected for the sake of information collection. Often, duplicate information requests come from governmental agencies. This is a significant contributor to burdens and impositions on the private sector. This also leads to information hoarding on the part of government agencies and to disharmonious data within different government agencies. Future efforts at the highest levels of government should focus on (1) reducing overall information demands on the private sector to that which is relevant, (2) intra-governmental data sharing and consolidated database management such that information from one source is available across the government, and (3) public dissemination and availability of all data absent a compelling interest in confidentiality.

Not only will these efforts reduce bureaucratic burden from redundancy, but (1) facilitate efficiencies within the government by lowering the cost of governance; (2) empower fact-driven policy-making; and (3) empower private sector advocacy.

#### QUESTION #4

**BEEP focus on the improvement of World Bank Doing Business indicators for Kosovo has been endorsed as a key priority by Kosovo's Government in the domestic reform agenda. However, efforts to advance in the international ratings as to fulfilling these indicators has a spillover effect. These efforts also supported progress in other areas of economic reform. These are not fully captured by the World Bank Doing Business Report. Among these other areas are: transparency in administrative regulations, reducing corruption potential, improving efficiency of public utilities and services, degree of supporting clustering activities etc. Considering the relevance of these and other factors for the Kosovo economy:**

#### ANSWER #4

##### A. 2010 – Current

- I. how would BEEP consider World Bank Doing Business indicators as a building block for designing Kosovo's economic policy reform?

As noted above, the Project has used the *Doing Business* indicators to illuminate the underlying legal framework and institutional practices that also give rise to other, similar problems that are not captured by the *Doing Business* indicators. As described, this has led the Project to identify additional, specific issues to be addressed; and to undertake more comprehensive reforms that are aimed at the underlying causes of the problems identified. Examples of the latter include the initiatives to create a Legal Information Database; construction reform; and permissive system and inspections reform. The successes of Doing Business reforms can be a building block in two ways: (1) the visibility of improvements in Kosovo's ranking can be used to build political will for further reform and (2) Doing Business is a framework for facilitating dialogue among the GOK, public, and BEEP about why reform is important to stimulate growth.

When these reforms are implemented, the public and private-sector leaders will have mechanisms, such as the Legal Information Database, through which they can evaluate laws and regulations and propose alternatives. Also, most importantly, Doing Business reforms will help stimulate private-sector growth and to more people having a stake in Kosovo's private-sector performance. In turn, this more robust private sector will be able to identify legal and regulatory impediments and hold the GOK accountable for weak policy.

- II. how would other models considering the local features of the economy better reflect progress achieved (or not) in areas not encompassed by the Doing Business Report?

As discussed above, Doing Business is a useful tool for evaluating the legal environment, but it should be supplemented by other analyses. Because of the variability of issues, there is no one model that answers all questions. Each available model, diagnostic, or analysis should be critically analyzed for its value in understanding the Kosovo environment and its reform potential. Other models can supplement what is

produced by Doing Business, but special attention should be paid to causal linkages to policies, implementation, and third party modeling. The Project has utilized many models and data to inform and drive reform, such as determining the composition and size of municipal own-source revenue and property tax administration, in order to develop policy recommendations. In its research the Project has compiled information from many sources. Further, we believe the MCI serves as a model for considering the local features of the economy and encompasses key areas not covered by Doing Business. Ultimately, the positive impacts of GOK reforms should manifest in the performance of Kosovo's economy — measured by common economic indicators, such as employment, GDP, trade flows, etc. — to indicate the success of GOK policies and administration.

- III. how would the Government create and support a comprehensive economic model including the World Bank Doing Business indicators and the other areas of economic reform specifically identified above?

As stated, the government should pursue flexibility to respond to issues presented and avoid the formality and the rigid structure of any single model. Based on BEEP's experience, the GOK lacks reliable data and, given the lack of transparency, any GOK "model" would likely be inaccurate or subject to political influence — thus preventing it from becoming a legitimate tool for measuring the business environment. We believe that the most appropriate mechanism is a function of a flexible, transparent and dynamic policy-making approach that is representative of the people, but works in an ever-changing international economic landscape.

#### **B. 2013 Plus, Building for the Future**

The BEEP recommendation on how to support continued progress in the areas mentioned in Answer #4 are contained within our recommendations for the future in the previous responses. We think a coherent economic policy that is guided by and articulated for a clear vision for the future; is institutionalized throughout the administration; and is fully and consistently conveyed to the citizenry, combined with a robust policy making that is fully informed by data and ideas, is essential for Kosovo to continue reforms independently and navigate the unforeseen challenges in the future.

## QUESTION #5

**The PR2 data seem largely a quantitative measurement of progress in certain areas of Kosovo's business enabling environment, as influenced by BEEP. PR2 is largely dependent on the leadership of the Government not only to undertake legal reforms, but also to implement them properly. The results of the reforms are also affected by Government ownership of the process, coordination with other reforming processes, and support provided by other donors and programs. From this perspective:**

## ANSWER #5

All BEEP results are dependent upon real change in the environment, including Doing Business reforms, PR2, MCI, and the credit-related measures. As such, PR2 is not unique in requiring government action, ownership, and effective implementation. Therefore, our approach to PR2 applies equally to all of our activities.

### A. 2010 - current

- I. what improvements in data collection and recording are needed?

Our Project Result 2 (PR2) (economic impact of reform) is a quantitative measure that uses as its base the Standard Cost Model (SCM). This type of economic impact quantification is used around the world in Regulatory Impact Assessment (RIA) and by reform projects to estimate the expected economic impact of proposed regulation — both on business and the government.

As with all reform activities, results are dependent on the government to embrace recommendations and turn them into realizable impacts on the citizens of a given country. BEEP's reform methodology employs impact quantification that covers the entire process from issue identification and analysis to implementation and monitoring. It is critical that reform initiatives are not only adopted by government, but are felt by businesses and citizens.

In our experience, data from government sources are often unreliable and not reflective of the current reality. This is due to a number of limiting issues. First, because of the over-burdensome regulatory environment and time-consuming bureaucratic processes, businesses are often reluctant to interact with government entities, as is attested by the high level of informal business activity in Kosovo. In addition, this state of affairs dis-incentivizes formal businesses from reporting full information. The more assets are reported by companies, the greater is the potential for government attention. Second, even if government is well-intentioned in their data collection efforts, Kosovo institutions often lack the technical and operational capacities to conduct proper data collection and retention activities. The Central Bank of Kosovo (CBK) is probably the leading organization for data collection and analysis. However, there is no consistent classification of data across ministries and government agencies. As an initial improvement, the GOK should harmonize classifications of its various types of data.

As part of its operations, BEEP is committed to continuous improvement. We constantly engage in self-analysis and evaluation of our tools to ensure that they are as effective as possible in producing the results of the project. PR2 is no exception. To ensure accuracy of reported data, BEEP personnel spend significant efforts gathering data firsthand from original sources, consulting with local government bodies and businesses to quantify impacts. This ranges from preliminary reform validation through phone calls and emails to more robust validation through focus groups and surveys after a sufficient time following implementation. Throughout the project, BEEP has taken steps to strengthen data quality and validation efforts for future reporting, including more sophisticated document tracking.

Recognizing the SCM methodology, BEEP accompanies all calculations with impact assumptions that aim to account for confounding variables that may affect any particular reform result. This is important as PR2 calculations are not intended as statistical proofs of realized impacts, but are used to ensure that reform is implemented place and that economic impacts are reasonably estimated.

- II. how is PR2 affected in cases in which the Government contributes substantially to a business environment enabling reform independently of BEEP? (Please respond in technical methodological terms)

As stated, all reforms are dependent on the government taking action. Where that action has been facilitated, promoted, or assisted, we capture it as a result of our efforts. If the government undertakes a business environment reform with no BEEP assistance or does so without substantially relying on BEEP recommendations, the project does not record a quantified PR2 impact.

In cases where attribution is less clear, BEEP employs a widely used methodology for determining attribution of project activities to a specific realized outcome. This methodology largely requires two things: (1) there must be a demonstrable causal link between project activities and the desired result; and (2) alternative explanations of the result must be accounted for. The aim of this methodology is primarily to reduce uncertainty about the project's contribution, rather than to establish a scientific proof of causality (which is essentially impossible for a project like BEEP because there is no counterfactual).

In most cases, there is a very strong causal link between the project's reform initiatives and the desired reform outcome. For example, the project prepares very detailed legal reform packages (known in project speak as "BEEP Packages") that describe specific recommendations on additions, deletions, or changes to proposed provisions of the legal text. Through these documented recommendations, we can compare *output* (adopted legal act) and determine causality, easily explaining away alternative explanations.

Where demand-driven government initiatives are a substantial part of a business environment reform (which rarely occurs), the analysis (as described above) turns to first determining if there is a causal link between project activities and the government initiatives. In some cases, various government institutions will spark project activities by asking specifically for our assistance. After the desired outcome is achieved, we must determine the causal link between our project's activity and that

outcome. This again is usually very clear because our assistance is demonstrably necessary — otherwise the project resources would not be requested.

When a causal link is established, BEEP assesses alternative explanations of the achieved result. If alternative explanations can be refuted or sufficiently marginalized, BEEP will record the impact as a PR2, fully disclosing assumptions that attempt to account for confounding variables.

As discussed previously, however, project tasks flow from carefully considered work plan objectives and activities that contemplate achievement of contractual compliance and achievement of Performance Based Monitoring Plan (PBMP) goals. Assistance activities are largely initiated by our project and the attribution of results is usually very clear.

- III. the Evaluation Team understands that PR2 has a contract compliance function. That is, it largely appears to be an internal exercise for legitimization of BEEP. What managerial tools have Chemonics/BEEP used to ensure the containment of the PR2 exercise so that BEEP expends resources “outward” - to directly offer greater assistance to local counterparts?

Economic impact quantification is certainly an effective tool for evaluating the return on development investment, but it is also useful for prioritizing project resources as part of the analysis phase and supports advocacy to help counterparts see the positive economic benefits from what are often times very difficult reforms. For this reason, it is an important tool for both reform advocacy and management. We also have found that it can serve as a powerful communications tool for demonstrating the scale of BEEP’s impact. PR2 is also in line with USAID Forward and USAID’s new Evaluation Policy, which emphasizes the importance of impact evaluations (testing causality to the extent possible) and dedicating resources where they will have the greatest impact possible. The use of PR2 has not placed an undue burden on project financial and human resources, or detracted from BEEP technical assistance. Our work with counterparts is related to efforts to address specific identified issues through specific reforms or actions. We take great pains to explain to the counterpart why the reform is necessary, how it can be accomplished and what results it will yield.

Rather than focusing on project *outputs* (e.g., laws passed, trainings conducted, meetings held), PR2 is consistent with BEEP’s results-focused approach and allows the Project and its counterparts to demonstrate to USAID, the government, and the citizens the effectiveness of project activities through quantification of reform *outcomes* (impacts of reform). This shift more readily shows a return on U.S. tax dollars and provides better information to USAID for planning future business environment reform initiatives. The shift from output- to outcome-based reporting represents an important step forward in demonstrating the effectiveness of Economic Growth (EG) initiatives.

- IV. in what ways can PR2 be the successful introduction to expanded efforts to regulatory impact assessment by the Government of Kosovo? What, if any, specific measures have BEEP and Chemonics taken to ensure this?

This form of economic impact quantification is not new, and is in fact used around the world in Regulatory Impact Assessment (as mentioned previously). RIA is an important part of democratic governance and, as one of many of our recommendations for improving transparency and predictability in adoption of normative acts; we have suggested its incorporation in nearly all of the processes where we have been involved in the adoption of a normative act. This is usually paired with recommendations for the institutionalization of public notice and comment.

As we have noted elsewhere, Democratic Governance (DG) and Economic Growth (EG) issues are very closely inter-related, as demonstrated by our example here where business environment reform initiatives to achieve economic growth incorporate and reinforce basic democratic governance principles.

It is fair to say, however, that regulatory impact assessment is generally not yet employed by government institutions in Kosovo. (The proposed draft Law on Normative Acts will address this.)

As noted above, as part of our efforts to collect the information from government counterparts necessary for PR2 calculations, we have made substantial efforts to fully explain both the reason for data collection and the methodology behind it. In addition to providing a high level of clarity, we explain the methodology so that government counterparts have the opportunity to understand and embrace the methodology for themselves. Kosovo Customs, as an example, has voiced their desire to internalize this methodology as a way to demonstrate to the public their commitment to reform.

Economic impact quantification envisions not only benefits to business, but to government. A staple in our recommendations to streamline government operations to reduce the public burden is that fees for administrative services be established on a cost-recovery basis. It is often the case that government institutions improperly use regulatory mechanisms to raise revenue rather than to protect public health and safety. To this end, institutions must understand and embrace basic cost principles that are incorporated in the economic impact calculations. Concretely illustrated, the training of authorized permitting authorities on construction permitting will be a major activity of the project's final year Component One activities. Already we have included this fee calculation in the recently adopted, BEEP-sponsored Law on Construction. This represents a tremendous opportunity to continue advocating for internalization of the PR2 methodology.

At every turn, BEEP focuses on not only improving the regulatory environment for the free movement of goods and services, but also on the institutionalization of basic principles of democracy. The latter is also essential for sustained economic growth. As part of these efforts, we advocate for the internalization in government bodies of economic impact methodology to assess their current operations and seek ways to decrease the economic burden of regulation on business.

## **B. 2013 Plus, Building for the Future**

Consistent with our recommendations, we encourage the use of outcome-based tools, such as the evolving economic impact methodology because of its value as an advocacy tool and because it directly connects with the results that we are trying to achieve – economic growth, reduced administrations, streamlined operations, etc.

While impact assessment – forecasting the costs or benefits of a regulation -- is widely recognized as a valuable tool in drafting laws and regulations, advocating reform, it is also gaining acceptance among donor projects and organizations such as the IFC, WB, USAID as a monitoring tool. We hope that this tool will continue to evolve and be used by projects, project counterparts, and USAID because of benefits it brings, as described above.

## **CONSEQUENCES OF BEEP EXECUTION**

### **QUESTION #6**

Since the field exercise, the Evaluation Team has learned that BEEP underwent two internal examinations, largely for purposes of conforming to contractor practices. Thus, such exercises seem largely pointed to BEEP contract compliance. On the other hand, BEEP also recently underwent an exercise at the behest of USAID focused largely on monitoring and measurement of BEEP effects. The Evaluation Team to date has learned that Kosovo's progress as to the World Bank Doing Business indicators has not yet been published to account for any contributions made during the tenure of BEEP. This is so despite the repeated characterization of indicators as a "time and motion" exercise. Further, the Contract between Chemonics and USAID of July, 2010 indicates that Kosovo cannot "afford to wait" and must act "now." (4). Similar paradox might be said to characterize the Municipal Competitiveness Index developed by BEEP. Among other things, the index apparently is targeted as a political leveraging tool to effect regulatory reform at municipal level. However, discussions suggest that expanding a sample size to venture outside a municipal area would actually dilute the political effectiveness of the index. Given the need to balance considerations of contract compliance and maximize the technical worth of the indicators and the index:

### **ANSWER #6**

The World Bank Doing Business includes indicators that are based on both legal review of relevant laws and regulations and time and motion surveys of private and public sector representatives familiar with the process underlying the indicator. That data is collected and reviewed between January and May of each year and published in September or October. The ability of people to report on reforms depends on when the reform is implemented such that their time and motion responses change, but a reform must be fully implemented to be fully captured. The lagging nature of the World Bank methodology was well-understood by BEEP and USAID in advance of project launch and efforts detailed below show the steps taken to use the tool effectively.

At the same time, the reform lifecycle from issue identification to reform adoption to implementation to monitoring is very time-consuming by its nature. BEEP is aware of the challenges this creates and takes steps throughout the process to reinforce attention to issues and to the appropriate deliberate measures that are needed to address reforms effectively.

The MCI captures the perception of the business environment and the relationships between municipal governments and citizens. It is important to note that all territory of Kosovo is contained within a municipality such that the MCI captures the environment throughout the country, including both urban and rural areas.

As discussed above, BEEP uses a number of tools to supplement both Doing Business and the MCI report. Both tools allow for reforms to occur and be captured during the reporting periods.

#### **A. 2010 – current**

- I. what organizational, institutional and reporting mechanisms have Chemonics/BEEP undertaken to ensure that the indicators, apparently a lagging and retrospective measure as published, sustains momentum for reform in the Government of Kosovo?

As 3<sup>rd</sup> party measures, both Doing Business and the MCI are powerful validation tools in that they confirm that reforms have occurred and are being felt by the public. Nevertheless, *Doing Business* and the MCI are only two tools that BEEP has used to communicate and stimulate political will for reform. In order to sustain local momentum for reform when there are no immediate effects registered by *Doing Business*, the Project has worked hard to explain the *Doing Business* process to government authorities and manage expectations about the time it takes for reform to result in measureable improvements in *Doing Business*. BEEP has also leveraged the experience of other countries that have used *Doing Business* as a framework for reform. Furthermore, the Project has made the case that what really matters most is not improving Kosovo's *Doing Business* scores but rather improving Kosovo's business environment so as to create the conditions that foster economic growth, which will bring tangible, long-term benefits to the country.

Doing Business and MCI-related reforms are reassessed when each report is published, but publication is merely one step in the reform process. Both tools are used to construct diagnostics, i.e., scenario analyses of reforms, and to encourage necessary steps to achieve reforms throughout the time between published reports.

- II. what organizational, institutional and reporting mechanisms have Chemonics/BEEP undertaken to ensure that progress on the indicators and the index, if any, is then integrated into the development of larger economic reform narrative for Kosovo?

In addition to working with the Office of Legal Services of the Office of the Prime Minister and directly with individual ministries, municipalities, and the Central Bank on matters within their authority, the Project contributed to the creation of an Economic Vision Action Plan (described above) that integrates *Doing Business* into the GOK's broader economic reform agenda, which reflects reform priorities that go deeper and broader than *Doing Business* alone. For the reasons already stated, we believe the GoK-led task force is the most appropriate vehicle for accomplishing and monitoring these reforms, which, we believe, should be part of an integrated and comprehensive national policy. As discussed above, and consistent with the previous recommendations, this coordination effort can be strengthened by taking into account international practice.

- III. to what extent is the sustainability of the indicator and index initiatives dependent on integration into such a larger economic reform narrative? Do Chemonics/BEEP see such integration as part of an implicit contractual obligation to USAID?

Comprehensive economic reform requires a consistent holistic policy; the internalization of the policy narrative within all government bodies; and the explanation to the private sector. As such, all reforms should be consistent with an over-arching policy and all government actions should be tested against the common policy. To the extent possible, BEEP attempts to facilitate a comprehensive policy that incorporates and unifies all tools and actions.

However, especially at the outset, it is possible for initial *Doing Business* as well as MCI-driven reforms to proceed on parallel tracks. As counterparts come to realize the interconnected nature of the legal and economic environment and the interrelation of these tools, they will see that consolidation is possible and should be encouraged.

Of course, as *Doing Business* and the MCI generate significant national attention, all levels of government will have more incentive to enact reforms that attract businesses and the public will put more pressure on local and national officials to make those improvements. Both tools, but especially the MCI, are valuable for collecting and disseminating private-sector feedback in a country with little precedent for public-private dialogue. The MCI provides a framework for mayors to analyze policy, creates incentives for mayors to consider their policies' impact on businesses and stimulates healthy competition between municipalities.

The reforms that BEEP has been pursuing to date can be achieved and secured without there being in place a larger economic reform narrative, provided that champions are present to sustain those reforms. Ultimately, however, we want Kosovo to adopt a comprehensive national policy that (1) recognizes the importance of private sector activity for economic growth; (2) recognizes that unless government bodies are reconfigured along the lines described in these Responses, they will seriously impede the development of a dynamic private sector; and (3) embodies the political will necessary to reform governance accordingly.

BEEP proposed the PRs, and they go well beyond improving *Doing Business* scores (PR1). We see the need to address endemic, systemic sources of the problems, since improving the indicators alone would not be enough to improve the business environment to a significant degree.

- IV. what percentage of BEEP Level of Effort and Chemonics time has been spent on the indicator and index exercises: (i) in the context of benchmarks for BEEP progress; as opposed to (ii) use of the indicators and index as bases for economic policy-making in Kosovo. A rough percentage totaling 100% for (i) and (ii) is what we are seeking. Please apportion.

Both tools are inseparably used for both project reporting and as bases for economic policy-making and advocacy. This is one of their strengths in both areas.

The approximate percentage of BEEP LOE spent on the MCI is 25% through June 2012. Although the MCI is integrated with BEEP's Performance-Based Monitoring Plan, it is mainly designed to be a tool to collect feedback, identify issues for solution, encourage government-citizen dialogue, and promote sound economic policy in municipalities. This integrated approach has maximized BEEP resources by supporting technical activities in tandem with monitoring and evaluation. However, because this is an integrated approach, it is impossible to differentiate the Level of Effort dedicated to the MCI as requested above.

Likewise, the use of *Doing Business* indicators has been integrated into all of BEEP's activities and, therefore, it would be impossible to allocate a specific amount of Level of Effort based on the question

above, especially when considering issues that were illuminated by Doing Business analysis, but outside the actual Doing Business methodology (but captured by PR2). Overall, taking into account the degree to which BEEP has gone deeper and broader than just the Doing Business measures, total combined Level of Effort might be close to 50%. Because the data are collected by a third-party, the World Bank, BEEP doesn't expend Level of Effort to gather the data for the World Bank, but expends resources within the aforementioned percentage to analyze the World Bank data and advocate for specific improvements.

Because BEEP endeavors to be responsive to both counterparts and USAID's evolving needs, some portion of our LOE is driven by other factors. Therefore, the numbers above do not add up to 100%.

Given that USAID's new Evaluation Policy recommends at least 3 percent of programming funds be dedicated to monitoring and evaluation, we believe BEEP activities related to the MCI and *Doing Business* indicators have been an efficient use of project resources and critical activities to make sure the project is helping enact measureable improvements to the business environment in Kosovo.

## **B. 2013 Plus, Building for the Future**

### **I. Future use of Doing Business**

While many Doing Business reforms are expected to be captured and reported by the World Bank during BEEP's lifetime, future projects may consider attention to where indicators need significant additional time for implementation or where BEEP has not focused owing to other donors or projects operating in the area. Specifically, full implementation of construction-related reforms will take many years beyond BEEP, although the project has laid a significant positive foundation for future efforts. Also, additional attention to Enforcing Contractions and Resolving Insolvency, with the focus on judicial reform, may be appropriate to finalize Doing Business reforms.

### **II. Continued MCI support and broadened application**

The MCI is a robust tool for evaluating and driving reform in the municipal-citizen relationship. The value of the MCI is not just in conducting the survey, but in the analysis of the survey data, the correlations between survey results and municipal reforms, and incorporation of the tool in municipal dialogue.

While BEEP has undertaken significant efforts to institutionalize the MCI, the level of analysis required, and the broader understanding of its use in the reform context, suggests that future incorporation of support within a project may be appropriate to realize the full benefits. Also, its usefulness as a monitoring tool for other USAID efforts should be considered, for evaluating governance-citizen relationships.

## QUESTION #7

Interviews focused on BEEP component three and the credit registry tends to suggest that the connection between this activity and the remainder of the project is as regards a World Bank Doing Business indicator on private sector credit availability. Yet, this seems a one-sided approach to a significant financial sector reform initiative. Even the Contract of July, 2010 between Chemonics and USAID sees broader financial reform implications to a credit registry, such as those concerning the cost of money, bank liquidity and risk allocation, to name but a few varied aspects (10-11, 14-15). Despite this, interviews have focused on the Doing Business indicator in this regard as a justification for the credit registry initiative. Given this:

## ANSWER #7

### A. 2010 - current

- I. please critically assess the qualitative costs and benefits of retaining the credit registry project in BEEP (or a project like BEEP) versus a component three presence in a project broadly concerned with financial sector reform, where full voice might be given to the credit registry and its connection to such varied themes as lender risk control, safety and soundness of banks, financial literacy as to consumers, and the like:

The credit registry is a major focus of component three, but it is not the sole focus. Similarly, while Component three, like the other BEEP components, utilizes the World Bank Doing Business Indicators as one of its benchmarks, *Doing Business* is not the sole or exclusive focus (see PR 4 and 5). Component three works in the broader area of business enabling environment and legal, regulatory and policy reform for improving access to finance and increasing financial inclusion, both within the component and in cooperation and coordination with the other components of BEEP and outside counterparts.

One aspect of work in Kosovo is to avoid duplication with other donors and projects. The area of financial sector reform has a number of initiatives to provide support in various ways, so our activities in this area have been very focused. At the same time, we have found that many of the issues related to access to finance are a result of broader problems in the legal environment, such as those that are related to property rights, registering title, judicial enforcement, government information sharing, etc. Moreover, we can see that the work of the project's other components are having an impact on the financial system broadly.

Component three, as discussed in answers to other parts of this evaluation, is improving the credit registry as a major part of its broader effort to improve the financial infrastructure and enabling environment in Kosovo to reduce risk and increase access to finance to underserved businesses. Regarding the credit registry itself, the work involves a comprehensive upgrade of the software, policies, regulations and procedures to meet the needs of the CBK and financial institutions, and at the same time meet the needs of individuals and companies. The improved credit registry, with comprehensive data fields and clear reports, and improved associated policies, regulations, procedures and public outreach, will reduce risk to and costs of both lenders and insurance issuers; improve the supervision and examination of financial institutions by the CBK; improve financial sector and business sector data;

increase the readiness of lenders to extend credit to a wider spectrum of borrowers; increase the awareness and literacy of both individuals and companies with respect to credit; increase awareness of the importance of one's credit history; strengthen borrowers' rights and protections; and raise dramatically the efficiency of obtaining credit reports by the public and the reporting and resolution of disputes about credit information.

The development of the credit registry, as an integral part of BEEP, is directly improving lender and insurer risk mitigation and the CBK's oversight of financial institutions and the financial sector overall;; increasing the safety and soundness of both banks and non-bank financial institutions; improving the financial literacy of individuals and businesses on credit and credit records; and increasing the efficiency of the entire credit information system. Increased efficiency and greater access to more comprehensive credit and borrower data reduces operational and loan loss costs and risks to financial institutions, which over time will contribute to reducing the cost of money. Improved information and lower risk will improve the quality of financial institutions' loan portfolios, requiring fewer reserves, and thereby increasing liquidity. BEEP is working intimately with CBK counterparts in the credit registry – the departments related to legal issues, operations, licensing, supervision, statistics, Governor's office, etc., - on issues directly related to the credit registry, as well on other broader financial sector reform issues, which include key laws and secondary regulations, policies and procedures for banks and also non-bank financial institutions and MFIs. In addition, BEEP component three is working directly with the banks, MFIs and NBFIs, their respective associations, other ministries and agencies and other economic reform projects; and is assisting in public outreach and education.

The development of the credit registry and both related and broader financial sector reform efforts of component three are progressing quite well under and within the BEEP umbrella, with the benefit of the market-driven, results-oriented reform approach of BEEP and its other components, and with the network of counterparts and project resources that it can draw on. So component three is quite at home within BEEP and will be able to complete its mandate within BEEP, as concerns both the credit registry per se and its broader financial reform agenda. A component three type program could also work well within a financial sector specific reform project, but it is not necessary to have a separate financial sector reform project to accomplish these goals.

In situations where a USAID Mission is able to have both a business enabling environment project and a separate financial sector reform project, it could choose to place the component three type activities in the financial sector reform project. In the case of Kosovo, there were previous programs to help develop the financial sector and the current efforts are distributed between various donors including USAID BEEP, the World Bank and the US Treasury. USAID BEEP coordinates its efforts quite closely with the CBK, which orchestrates the primary donor assistance to the financial sector. A program like component three of BEEP could function quite well within a financial sector reform project, but it can also function quite well in a broader business enabling environment project such as BEEP.

- II. comment generally as to whether a near exclusive approach to quantification through the World Bank indicators might yield distortions in the distribution of both donor

resources and project profiles - and whether BEEP component three might be a case in point

As mentioned above, component three contributes to four project results; PRs 1, 2, 4, and 5. In fact, while the World Bank does report on the percentage of people who participate in a public credit registry, this is not part of the Getting Credit score. The credit registry is being upgraded to improve management decisions. At the same time, component undertakes actions that improve the Doing Business score as related to certain information requirements. However, the component also engages in activities to support public input to improve the pledge registry and to help the Central Bank broaden understanding and use of credit.

#### **B. 2013 Plus, Building for the Future**

With the implementation of the upgraded credit registry and Doing Business-related regulatory reforms, and taking into account other donor and project activities, BEEP believes that efforts addressing access to finance may be most effective at confronting the root causes of issues that are impairing financial transactions, the use of credit and the enforcement of judgments, thus affecting the broader regulatory as well as judicial frameworks.

## QUESTION #8 (probably mostly for Chemonics)

Interviews in the field to date confirm that BEEP, with its timely message of enabling environment reform, backed by objective measures placed on an international platform by the World Bank, has moved reform significantly, if for no other reason than elevating enabling environment in the consciousness of the Government and the private sector. This said, in terms of Home Office having to administer and justify project initiatives:

### ANSWER #8

#### A. 2013 Plus, Building for the Future

- I. is the BEEP model among the top four or five models for USAID economic reform projects that you would most prefer to administer? Why or why not?

Chemonics has implemented business enabling environment programs for USAID in many countries across the world. For each, we design project proposals and work plans according to (1) the goals, objectives and expectations of the client and (2) the particular opportunities, constraints, and lessons learned in the local context. While project designs often draw on activities developed and proven within other successful projects, Chemonics does not have “project models.” Our rationale is that while a “project model” may work in Chile, it may not work in Mongolia because the cultures, histories, practices and ways of doing things are different.

However, we believe that BEEP is a well-designed program that allows flexibility to allocate resources where they will have the greatest impact and the highest chance of success. As discussed throughout this document, BEEP’s three components are tightly integrated, ensuring that project activities are not stove-piped and that successes under one component build off those in other components. In addition, the objectives and indicators are such that they help communicate the specific goals of BEEP and serve as a management tool for allocating resources to activities that have the greatest impact on those indicators.

- II. rank in terms of most to least influential the following environmental factors likely to impact on a quantitatively driven impact oriented project such as BEEP over the next five years. Kindly use a paragraph or two to explain your ranking. Then, at perhaps greater length, explain how this view has influenced your administration of BEEP.

- improvements in national statistical bodies in countries hosting such projects
- increased contractor familiarity with this type of project
- continued insistence by USAID and Policy, Planning and Learning on more rigorous evaluation of project efforts
- changes in the skill sets of expat and local project personnel
- other factor not mentioned above

Most influential to least influential:

1. **Changes in the skill sets of expat and local project personnel.** Our experience in Kosovo indicates that the capabilities, skills and experiences of the project staff must meet the project's needs and be in tune with the local environment. In particular, project personnel must have both (1) the technical expertise and clout when working with GOK counterparts and (2) proven communications skills and already established, trusting relationships with counterparts.

As circumstances change, whether through change in government priority, change in opportunities or needs, it is important for the project to adapt. Our project has certainly pursued a flexible approach to respond to the needs of USAID and the Kosovo environment. At the same time, the Project, because of its focus on incentivizing local ownership and leadership, has developed significant reform competencies among staff that is reflected in the ever-increasing economic impact of the project during its lifetime.

2. **Rigorous evaluation of project efforts.** BEEP is designed to rigorously evaluate itself to understand progress versus contract deliverables, the impact of project activities and changes to the local environment requiring project adjustments. For policy reform projects, it is difficult to determine the causal link between project activities and the results achieved and to quantify the impact of those reforms. Based on our experience, BEEP is at the leading edge of development methodology, applying tools developed in other countries that BEEP has adapted for the Kosovo context and leading inquiry into many fundamental issues that will inform future assistance to Kosovo. Whether through the MCI, application of the Standard Cost Model, use of Doing Business measures to drive reform, partnership approach or other activities, BEEP is innovating and addressing those challenges in the most effective way.
3. **Other factors.** Because the Project depends upon other people taking action and because we are evaluated on outcomes and not output, identifying champions and empowering them to take what are very difficult actions is essential to our success. Through the use of reform tools and the BEEP reform methodology, the project has successfully achieved the support and understanding with those people that truly want to undertake reform. It is by identifying and empowering these champions that the project and Kosovo will have future success.
4. **Improvements in national statistical bodies.** Having national statistical bodies that collect and publish reliable statistical information makes it easier for the project to measure changes to the economy. The GOK will need to improve its capability of gathering, coordinating, analyzing and publishing this data to understand and influence growth versus stagnation and inform the public on the health of the economy. However, national statistical data — namely economic data — are impacted by numerous factors and, thus, those data would have limited usefulness in terms of drawing a causal link between project-supported reforms and measureable impact. However, it would be valuable for the GOK to see measureable improvements as reforms take effect to motivate further reform. E-governance, as discussed in question 1, would bolster GOK data-gathering, also.

5. **Contractor familiarity with this type of project.** Because Chemonics has implemented several business enabling environment programs for USAID, BEEP has been able to leverage best practices and lessons learned across the world. For example, we have drawn on experience in Georgia and Central Asia to communicate the importance and positive impact of an ambitious reform agenda that uses *Doing Business* as a framework. Furthermore, our experience implementing these projects has provided us a deep network of leading experts — allowing us to quickly identify and field consultants who are most appropriate for the assignment at hand.



To: Dardane Peja, United States Agency for International Development, BEEP Contracting Officer's Representative

From: Stephen Farkas, Director, Central and Eastern Europe Region, Chemonics International, Inc.

Date: December 17, 2012

Re: Points of difference with BEEP Final Evaluation dated November 7, 2012

## **INTRODUCTION**

With this memorandum, Chemonics International, Inc. (hereafter "Chemonics") responds to the second iteration of the Mid-Term Evaluation (hereafter "Evaluation") of the United States Agency for International Development Kosovo Business Enabling Environment Program (USAID|BEEP) as conducted by Mendez England & Associates (hereafter "Mendez"). This memorandum supplements and references two earlier Chemonics responses dated August 22, 2012 and October 9, 2012.

A review of the second iteration of the Evaluation, along with the numerous interactions with Mendez evaluators, have made clear that the evaluators have a fundamental misunderstanding of several basic issues, including

- the role of government in a free market;
- the Kosovo context; and
- USAID|BEEP's role in facilitating good governance within this framework.

This memorandum does not address the points of difference raised in response to Mendez's first

Mid-Term Evaluation<sup>1</sup>. Because Chemonics provided points of difference with a draft second iteration of the Mid-Term Evaluation on October 9, 2012, and because Mendez did not materially change its findings or recommendations in the final Evaluation, this memorandum focuses on points of difference with the overall approach taken in the Mid-Term Evaluation submitted to USAID on November 7, 2012.

## **ASSISTANCE TO THE KOSOVO GOVERNMENT IN ITS TRANSITION TO A FREE MARKET**

“There is no kind of freedom and liberty other than the kind which the market economy brings about.” – *Ludwig von Mises*

Principles of a free market system require that the government play a very limited role, intruding in private activity only where such action is objectively justified by a compelling public interest. Any regulatory action should be clearly defined and be implemented using the least restrictive means possible.

This free market approach to the government’s role is supported by USAID in its 2010 – 2014 strategic plan for Kosovo and in the USAID|BEEP contract, and is wholly consistent with the ideals of individual freedom, respect and dignity. The USAID Kosovo Strategic Plan sets as a priority objective the need for “[i]ncreased focus on the private sector as the engine of growth...”<sup>2</sup> Further, the USAID|BEEP contract recognizes that the “extraordinarily large informal sector...is further evidence of the need to reform the policies, laws, regulations and administrative procedures that raise the costs and risks of doing business.”<sup>3</sup>

The Mendez evaluators, however, exhibit a frequent misunderstanding of this approach and appear to assess the USAID|BEEP approach to business environment reform through the lens of their personal

---

<sup>1</sup> USAID|BEEP responses to and points of difference with the first Mendez Mid-Term Evaluation can be found in the Chemonics response dated August 22, 2012.

<sup>2</sup> USAID Kosovo Strategic Plan 2010 – 2014, page 5.

<sup>3</sup> Kosovo BEEP Contract at A.5 Statement of Work, I. Background, ¶ 5.

presumptions, which are contrary to the express language and intent of the USAID|BEEP contract. On a number of occasions, for example, the Mendez evaluators questioned USAID|BEEP's advocacy for and approach to streamlining and rationalizing the permissive system<sup>4</sup> despite this agenda being supported personally by the United States Ambassador to Kosovo, representatives from the US Embassy, the USAID mission, and the Prime Minister. An evaluator once mentioned, in an attempt to justify certain licenses that businesses operated "at the privilege of the state." Further, an evaluator expressed strong support for regulatory restrictions in Kosovo that are not present in the vast majority of states in the United States, despite protective checks and balances mechanisms and institutions in the US that provide some value to regulation in achieving public policy objectives that are largely missing in Kosovo. This pro-government regulation disposition that manifests itself through the evaluation is not only inconsistent with the clear language of the BEEP contract, but also inconsistent with the universe of analyses on international development and governance systems that foster prosperity including reports such as *Doing Business*, *Global Competitiveness Index*, *Index of Economic Freedom*, *the Prosperity Index*, and books such as *Why Nations Fail*.

The Evaluation further demonstrated this fundamental misunderstanding of the government's role in a free market system. A primary finding was that "BEEP's emphasis on the reform of licensing and permits, and in particular on licensing fees, has had minor to moderate success."<sup>5</sup> This, however, is untrue, as demonstrated by validated economic impacts of reform and by the noticeable change in national and local governments in their approach to and use of such permissive mechanisms. This comment also ignores the fact that USAID|BEEP was the first to propose such reform, which marks a sea-change in the established practices and policies of most Kosovo governmental bodies.

The Evaluation further questioned USAID|BEEP's efforts to eliminate unnecessary licenses and to put fees on a rational basis, by making note of the associated reduction in municipal revenue collection. The Evaluation states, "One municipal official noted that since adopting BEEP's

---

<sup>4</sup> The permissive system generally refers to any government permission governing private activity. Common permissions are permits, licenses, registrations, and concessions.

recommendations on the reduction of licensing fees, municipal own source revenues are down 40%...<sup>6</sup>” In a USAID policy paper on municipal fiscal strategy, data indicate that on average municipal own source revenue (MOSR) has in fact increased over 43% since 2009 and has shown an increase in every year. Additionally, USAID|BEEP has been and continues to be a strong proponent of transitioning to property tax as the appropriate mechanism for revenue collection at the municipal level and away from municipalities’ use of regulatory mechanisms as de facto taxes.

Before Mendez began its Evaluation, USAID|BEEP provided Mendez with the USAID|BEEP, USAID|GFSI and USAID|DEMI co-developed policy paper on MOSR that clearly sets out the position that such municipal practices represent bad policy that should be discontinued and that expresses strong support for developing a transparent, predictable, and fair system of property tax.

In this connection the Evaluation completely disregards a number of basic and fundamental principles of good governance; namely, (1) limiting government activities to only those that are necessary and (2) assessing fees that do not exceed the costs of providing the associated services (the principle of cost recovery).

As noted previously, principles of good governance require that government first justify an intervention in private activity. The proposition that a major priority must be to secure municipal revenue, without regard for whether the municipalities’ activities to collect the revenue are justifiable, wholly contradicts principles of good governance in a free market system and contributes to unwise economic policy.

It is also common for government institutions in Kosovo to use regulatory mechanisms (e.g. permits and licenses) where such intervention is clearly unjustified; one such case is the municipal use of what is known as a “business license<sup>7</sup>”. The business license is a general license assessed against

---

<sup>5</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 3 (November 7, 2012).

<sup>6</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 15 (November 7, 2012).

<sup>7</sup> Business licenses under the Law No. 03/L-049 on Local Government Finance are often confused with the work permit recently eliminated under Law No. 04/L-005 on Amending and Supplementing Law No. 2004/18 on Internal Trade.

every business on an annual basis and has no connection whatsoever to any demonstrated, let alone justified, public interest. The USAID|BEEP contract makes clear reference to this as a business enabling environment issue, stating:

“...many of the rules and regulations for implementing the framework of commercial law reflect an attitude toward the private sector of *control* rather than facilitation<sup>8</sup>” and further that “*Statist* and *protectionist* tendencies must ultimately give way to the greater market orientation...<sup>9</sup>”

It bears noting that the regulatory practice of using “blanket” licensing and permitting practices to raise revenue was widespread and firmly entrenched at all levels of government when USAID|BEEP started. The USAID| BEEP contract clearly identifies this as a major impediment to economic activity, noting the ministries and local government exhibit:

“...a heritage of attitudes that don’t view firms as assets to be facilitated but as source of revenue to plunder.<sup>10</sup>”

We consider it a notable success that a number of municipalities have already abolished or curtailed such practices as a result of our direct recommendations to them. As a first order of business it was necessary to change officials’ and citizens’ views and understanding of this practice, to help them move away from their socialist legacy and embrace principles consistent with a free market approach. The United Nations Development Programme (UNDP) echoes this view, noting,

“The long legacy of socialist policies swelled public responsibilities and stifled private enterprise. This pattern has been slow to shift – but it is not sustainable in the long term. Over the coming years, Kosovo’s public sector

---

<sup>8</sup> Kosovo BEEP Contract at A.5 Statement of Work, I. Background, Section on Ineffective Policy Dialog on BEE Issues, ¶ 2. Our emphasis added.

<sup>9</sup> Kosovo BEEP Contract at A.5 Statement of Work, I. Background, Section on Ineffective Policy Dialog on BEE Issues, ¶ 4. Our emphasis added.

<sup>10</sup> Kosovo BEEP Contract at A.5 Statement of Work, I. Background, Section on The Problem with Rules and Regulations, ¶ 3.

will have to be gently scaled back until it is proportionate to its administrative responsibility of less than 2 million people. The private sector must therefore have room to breathe and be stimulated to grow - providing jobs, income and hope to the bulk of the population.<sup>11</sup>”

That is no small task, but we have seen clear evidence that the dialog around this issue has changed owing to the efforts of USAID|BEEP.

A main finding of the Evaluation goes on to note that “There are instances ... in which the strongly held policy positions of the BEEP team may have conflicted with the objectives of clients and other stakeholders.<sup>12</sup>” This invites a number of comments. First of all, the Evaluators are categorically incorrect in alleging that the policy positions of USAID|BEEP in any way differ from the contract or the positions of USAID as the client. Operationally, USAID|BEEP maintains an extremely close and open relationship with USAID to ensure that all positions are consistent with USAID goals. As concerns counterparts, the Evaluation fails to recognize that the Kosovo government’s approach is not always consistent with free market principles; and that at times the government’s policy may further the interests of the bureaucracy and entrenched interests at the expense of the market. Also, as is detailed below, individual officials’ or agencies’ actions may contradict the stated overall government policy of private-sector led economic growth for their own institutional or parochial reasons. In this situation it is virtually inevitable for a transformational business environment reform project such as USAID|BEEP to hold and advocate policy positions that conflict with the views of some host country stakeholders while being completely consistent with both USAID and the overall policy goals of the government.

USAID|BEEP has been tasked with furthering transformational reform. This means, “Action now!” The USAID|BEEP contract notes the urgent importance of taking difficult but decisive action, stating:

---

<sup>11</sup> Kosovo Human Development Report 2012, United Nations Development Program, Executive Summary, page 1.

<sup>12</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 3 (November 7, 2012).

“...Kosovo can't afford to wait for long term efforts to bear fruit. *It must do more now.*<sup>13</sup>”

This sense of urgency is reflected in the UNDP report, too, as it describes the challenges facing Kosovo:

“According to World Bank estimates in 2010, Kosovo's economy would need to grow at 10 percent annually for a decade to reach Albania's income level (assuming Albania's economy continues to grow by 5.5 percent annually during this period). Similarly, to reach Montenegro's current GDP per capita level of 5700 EUR, Kosovo's economy would have to grow at 12 percent annually an entire decade.<sup>14</sup>”

This staggering finding demonstrates the necessity for swift and decisive action -- Kosovo needs unprecedented sustained economic growth in order just to catch up with its regional neighbors, not to mention achieving European integration and the European living standards that so many Kosovo citizens seek.

It should also be noted that, in contrast to the assertion made in the Evaluation, Chemonics' client is USAID, and USAID's country strategy clearly calls for advocacy for democracy and the rule of law consistent with free market principles. “We envision several important shifts in focus over the life of the strategy...” including “[i]ncreased focus on the private sector, and on civil society as a means for enhanced government accountability.<sup>15</sup>”

## **THE KOSOVO CONTEXT**

While it is important, for business environment reform, to remain cognizant of the principles of governance that are consistent with a free market, it is equally important to understand the context of

---

<sup>13</sup> Kosovo BEEP Contract at A.5 Statement of Work, I. Background, ¶ 3.

<sup>14</sup> Kosovo Human Development Report 2012, United Nations Development Program, Executive Summary, Marketplace Analysis Through and Equity Lens, page 24.

the host country. In this regard, Kosovo faces a number of unique issues, including its state of transition as a post-socialist country, the symbiotic relationships between civil society organizations and the government, and the lack of public information dissemination by the government.

“...in Kosovo as in many developing contexts, the ‘rules of market operation’, including entry, operational and exit rules, are cumbersome, while the necessary legal and regulatory institutions function irregularly.<sup>16</sup>”

Just as a project must tailor its reform recommendations to the host country, an evaluation of the project, if it is to be credible, must consider the host-country context in which the project operates. In many cases, however, the Evaluation simply fails to do this and betrays a lack of understanding of the environment in which USAID|BEEP is operating. For example, the Evaluation finds that “BEEP’s activities in formal and informal training appear to emphasize the transfer of information not of skills.<sup>17</sup>” However, the Evaluation fails to recognize the importance of information in an environment with low transparency, such as Kosovo’s. In Kosovo knowledge may in many cases, be as important as skills for empowering citizens to resist arbitrary government intervention. USAID|BEEP has been well aware of the need for balancing both information transfer and skills development.

The USAID|BEEP contract emphasizes the importance of making businesses and citizens aware of existing rules and regulations as a fundamental pillar of the rule of law.

“Develop and implement a long term *informational program* to help government officials, the legal profession, and business better understand commercial law, regulations and procedures.”; “Work with the national government, selected municipalities and business groups to develop websites and other media to assure local rules, regulations and procedures: fees and

---

<sup>15</sup> USAID Kosovo Strategic Plan 2010 – 2014, pages 4 – 5.

<sup>16</sup> Kosovo Human Development Report 2012, United Nations Development Program, pages 18 – 19.

<sup>17</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 3 (November 7, 2012).

resources for business are clearly articulated and widely available.”; “The rules, regulations and procedures, fees and resources for business are readily available and accessible at the national and municipal government level.<sup>18</sup>”

Access to laws and regulations is crucial for citizens to be able to enforce their own rights and to resist arbitrary government action.

In this connection, transparency in governance assumes crucial importance -- the rules and procedures that both citizens and government agencies and officials must follow must be clear, straightforward, as simple as possible and made publicly known. For this reason, USAID|BEEP has strongly emphasized the need for improved transparency at both the national and municipal levels. Through the Project’s Municipal Coordinators (MCs) and expanded Municipal Partnership Program, significant and substantial business environment municipal reforms have been undertaken throughout the country.

The Evaluation, however, apparently fails to recognize the fundamental importance of such work in an environment such as Kosovo’s, finding that that “The results of the Municipal Partnerships subcomponent appear limited and, to date, arguably lay more in the realm of *transparency* and *communications* than concrete reforms of municipal business climates.<sup>19</sup>” We also find it quite strange that the Evaluation does not regard the improvement of transparency and communications as municipal business environment reforms.

The Evaluation further recommends knowledge transfer to “particularly...private sector associations.<sup>20</sup>” USAID|BEEP has consistently involved associations in its work, striving to help them to engage in effective dialogue with government counterparts and to extend their outreach to citizens and businesses. At the same time, our experience in Kosovo has revealed that many

---

<sup>18</sup> Kosovo BEEP Contract at A.5 Statement of Work, 2. Program Activities, Tasks and Expected Results for Improved Rules and Regulations. Our emphasis added.

<sup>19</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 3 (November 7, 2012). Our emphasis added.

<sup>20</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 4 (November 7, 2012).

associations do not operate as they do in the United States or other similar countries. Working with private sector associations in Kosovo is not synonymous with working with the private sector. At the same time, USAID|BEEP has consistently encouraged private sector dialogue and expanded outreach by associations to membership to inform and strengthen their advocacy.

Unfortunately, the Evaluation displays a fundamental lack of understanding of the context that Kosovo presents.

### **THE ROLE OF USAID|BEEP IN FACILITATING GOOD GOVERNANCE**

The role of USAID|BEEP in facilitating transformational business environment reform is to advocate without exception for ideals of freedom and good governance that unlock the economic potential of the country. To do this, it is not enough simply to satisfy the wants of particular public or private sector stakeholders; instead one must identify leaders of reform and work closely with those champions in advocating for limited, efficient, transparent, and accountable government. While stakeholder input is a critical component of reform, these larger principles serve as a filter for developing effective and sustainable recommendations.

As previously mentioned, good governance requires (1) that a government regulate private activity only where such regulation is objectively justified to further a compelling public interest; and (2) any regulation of private activity employ the least restrictive means necessary to protect the public interest implicated. It is common for both government institutions and the private sector to advocate for more government control of private activity. This often suits the desires of special interests to reduce competition in a particular area. Recommendations for regulation to improve the business environment should be made only after giving due consideration to all of these factors.

The Evaluation clearly misunderstands USAID|BEEP's role in facilitating good governance, advancing two points in an attempt to justify its finding: "...it appears that BEEP and MTI have conflicted over the role of MTI in market inspection and regulation, on which BEEP seems to have taken positions contrary to those of MTI..." and "Despite support for licensing of trade agents from

Kosovo Customs and the Association of Trade Agents, which BEEP has opposed, BEEP's current position is that its contribution to this issue will be to assist in the development of the pending law on Permissive Systems.<sup>21</sup>”

As noted above and as discussed in detail with the evaluation groups, USAID|BEEP is providing support in comprehensive and holistic permissive system reform, including inspections and licensing, consistent with the Government of Kosovo Economic Vision 2014 that was personally supported by the US Ambassador to Kosovo, representatives from the US Embassy, USAID, and the Prime Minister.

The Evaluators' references to specific institutions in connection with specific issues betray, once again, their fundamental misunderstanding. The Office of Prime Minister – the highest level of government – determines policies and reform objectives. It is commonplace, in any effort to implement fundamental, transformational reform in governance, to encounter situations where individual agencies or officials resist particular reforms out of disagreement with national policy or a desire to maintain the status quo. This happens in every country, and Kosovo is no exception. The two cases cited by the Evaluation concern the reform of inspections and the permissive system, which has been championed by the Office of the Prime Minister and effectively supported by USAID|BEEP. The OPM has frequently recognized USAID|BEEP support and expressed appreciation for assistance in licensing and inspections reform directly to USAID including in July 2012, of which the Evaluators were made aware.

As USAID|BEEP explained in detail to the Evaluator, such disagreements and resistance within government agencies are to be expected, and USAID|BEEP has taken a leading role in facilitating communication between various government counterparts to try to foster a common approach and the effective pursuit of reform. In the context of a national reform effort it is clearly erroneous to cite the disagreement of individual national or municipal officials or business persons as evidence that

---

<sup>21</sup> Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 10 (November 7, 2012).

somehow USAID|BEEP is failing to carry out its mandate<sup>22</sup>, especially in light of expressed support and appreciation from the highest, policy-making levels of government.

## CONCLUSION

The Evaluation provides very limited insight into USAID|BEEP activities and shows a fundamental lack of understanding of Kosovo, legal reform, economic development and the close connections between free markets, good governance and prosperity.

Sincerely,



Stephen Farkas  
Director, Central and Eastern Europe Region  
Chemonics International Inc.

---

<sup>22</sup> The Evaluation does cite USAID|BEEP's close and productive working relationship with the Legal Office of the Office of the Prime Minister (LO OPM): "BEEP's contribution to the development of the Law on Normative Acts is considered to be crucial by the responsible agency, the Legal Office of the Prime Minister." as noted in the Mid-Term Evaluation of the USAID|Kosovo Business Enabling Environment Program, page 14 (November 7, 2012).