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**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK**

FOR

REPUBLIC OF KOSOVO

FOR THE PERIOD FY17–FY21

April 25, 2017

**Western Balkans Country Management Unit
Europe and Central Asia**

**The International Finance Corporation
Europe and Central Asia**

The Multilateral Investment Guarantee Agency

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The date of the last Country Partnership Strategy was May 29, 2012

CURRENCY EQUIVALENTS

Exchange Rate Effective as of March 31, 2017

Currency Unit = Euro (€)

€1.00 = US\$1.07

SDR 1.00 = US\$1.36

GOVERNMENT'S FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing	KEK	Kosovo Energy Corporation (Korporata Energjetike e Kosovës)
ARDP	Agriculture and Rural Development Project	KfW	Kreditanstalt für Wiederaufbau
ASA	Advisory Services and Analytics	KRPP	Kosova e Re Power Plant (New Kosovo Power Plant)
BEEPS	Business Environment and Enterprise Performance Survey	LFS	Labor Force Survey
CAD	Current Account Deficit	MAFRD	Ministry of Agriculture, Forestry and Rural Development
CBK	Central Bank of Kosovo	MEST	Ministry of Education, Science, and Technology
CEA	Country Environmental Analysis	MFI	Microfinance Institution
CLR	Completion and Learning Review	MIGA	Multilateral Investment Guarantee Agency
CLRP	Cleanup and Land Reclamation Project	MoF	Ministry of Finance
CPF	Country Partnership Framework	MSMEs	Micro, Small, and Medium Enterprises
CPS	Country Partnership Strategy	NDS	National Development Strategy
CSO	Civil Society Organization	NEET	Neither in Education, Employment, or Training
DANIDA	Danish International Development Agency	NPL	Non-performing Loan
DPL	Development Policy Loan	NQI	National Quality Infrastructure
DPO	Development Policy Operation	OECD	Organisation for Economic Co-operation and Development
EBRD	European Bank for Reconstruction and Development	PEFA	Public Expenditures and Financial Accountability
EC	European Commission	PFM	Public Financial Management
ECD	Early Childhood Development	PFR	Public Financial Review
EMIS	Education Management Information System	PISA	Program for International Student Assessment
ERA	European Reform Agenda	PRG	Partial Risk Guarantee
ERP	Economic Reform Program	PPP	Public-Private Partnership
ESIA	Environmental and Social Impact Assessment	PSIA	Poverty and Social Impact Assessment
EU	European Union	PSW	Private Sector Window
FCS	Fragile and Conflict-affected Situations	RAE	Roma, Ashkali, and Egyptians
FDI	Foreign Direct Investment	RDGP	Rural Development Grant Program
FSAP	Financial Sector Assessment Program	RECAP	Real Estate and Cadaster Project
FSSMIP	Financial Sector Strengthening and Market Infrastructure Project	ROSC	Report on the Observance of Standards and Codes
FY	Fiscal Year	SAA	Stabilization and Association Agreement

GDP	Gross Domestic Product	SCD	Systematic Country Diagnostic
GHG	Greenhouse Gas	SDG	Sustainable Development Goal
IBRD	International Bank for Reconstruction and Development	SMEs	Small and Medium Enterprises
ICT	Information and Communication Technology	STEP	Skills Toward Employment and Productivity
IDA	International Development Association	TA	Technical Assistance
IEG	Independent Evaluation Group	TF	Trust Fund
IFC	International Finance Corporation	UN	United Nations
IFI	International Financial Institution	UNDP	United Nations Development Programme
IMF	International Monetary Fund	USAID	United States Agency for International Development
IPA	Instrument for Pre-accession	VAT	Value Added Tax
KEDS	Kosovo Electricity Distribution Company (Shërbimet e Shpërndarjës së Energjisë Elektrike në Kosovë)		

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**FY17–21 COUNTRY PARTNERSHIP FRAMEWORK
FOR REPUBLIC OF KOSOVO**

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FY17–21 COUNTRY PARTNERSHIP FRAMEWORK FOR REPUBLIC OF KOSOVO

I. INTRODUCTION

1. **This Country Partnership Framework (CPF) for Kosovo covers the period from July 1, 2016 to June 30, 2021 (fiscal years 2017–21).** The CPF builds on the results and lessons of the previous World Bank Group Country Partnership Strategy (CPS) which originally covered the period July 1, 2011–June 30, 2015, and was subsequently extended by one year. The new CPF seeks to address the top priorities identified by the recently completed Systematic Country Diagnostic (SCD) for Kosovo.
2. **The CPF will selectively support Kosovo’s development agenda as outlined in the National Development Strategy (NDS) 2016–2021 and the 2016 Economic Reform Program (ERP).** The NDS is divided into four thematic pillars: human capital, good governance and rule of law, development of competitive industries, and development of infrastructure. The CPF will support activities outlined in the NDS that will most effectively contribute to eradicating poverty and improving shared prosperity, the twin goals of the World Bank Group.
3. **The strategic objective of the FY17–21 CPF is to assist Kosovo in moving on a path toward more sustainable, export-oriented, and inclusive growth, in order to provide its citizens more opportunities for a better life.** The CPF has nine objectives grouped under three Focus Areas: (a) Enhancing Conditions for Accelerated Private Sector Growth and Employment, (b) Strengthening Public Service Delivery and Macro-Fiscal Management, and (c) Promoting Reliable Energy and Stewardship of the Environment. The World Bank Group strategy will continue to support and be aligned with Kosovo’s European Union (EU) accession and integration process.
4. **Kosovo is eligible for International Development Association (IDA) financing (on blend terms).** This CPF will encompass the last year of IDA17 (FY17), the three years of IDA18 (FY18-20), and the first year of IDA19 (FY21). This would ensure that the next CPF cycle will be prepared when clarity exists on IDA19 allocations. On average, during IDA17, the Kosovo annual IDA allocation amounted to about US\$24 million. For FY18-20, the CPF envisions an annual allocation equivalent to US\$35 - 53 million per year, subject to the final outcome of the IDA18 replenishment and modalities of the resource allocation process, reflecting IDA’s renewed emphasis on fragility, conflict, and violence. For CPF planning purposes, Kosovo’s allocation for FY21 under IDA19 is assumed to at least match the IDA18 annual average. In addition, the International Finance Corporation (IFC) expects to invest up to US\$60 million (own account) in the country during the CPF FY17-21 cycle. Kosovo is also expected to be eligible for the IDA18 Private Sector Window (PSW) products.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Social and Political Context

5. **Kosovo is the youngest country in Europe—both based on its new statehood and the average age of its population—with all the accompanying opportunities and challenges.** Kosovo unilaterally declared its independence from Serbia on February 17, 2008. Since the end of the war in June 1999, when it was placed under provisional United Nations (UN) administration, Kosovo has made considerable progress in overcoming legacies of socialism, ethnic discrimination, neglect, and war. Kosovo’s population of about 1.8 million is the youngest in Europe, with an average age of 26 years.
6. **Kosovo is a potential candidate for membership in the European Union.** The EU accession process serves as an important anchor for democratization and market economy reforms. Despite some

progress, culminating in the entry into force of the Stabilization and Association Agreement (SAA) between the EU and Kosovo in April 2016, full EU membership is a more distant goal, requiring faster implementation of reforms. In addition, 5 out of the 28 EU member states do not recognize Kosovo's statehood. Kosovo is engaged in an EU facilitated dialogue with Serbia for the normalization of bilateral relations, which aims to help both countries achieve progress on the path to EU.

7. **Some aspects of post-conflict fragility, including lack of full international recognition, continue to challenge the path to prosperity for this young country.** As of January 2017, Kosovo's independence was recognized by 114 countries out of 193 UN members. Only three of the five permanent members of the UN Security Council have accepted Kosovo's statehood to date. This is a serious impediment to foreign direct investments (FDI) and is holding back modernization of key sectors of Kosovo's economy. Security of Kosovo's borders is still guaranteed by a contingent of NATO-led troops, authorized by the UN. The legacy of interethnic tensions has resulted in limited economic integration of ethnic Serbian communities in Kosovo and political self-exclusion of Serbian enclaves, particularly pronounced in the four Serb-majority municipalities in Northern Kosovo, where citizens rely heavily on Serbian-funded public sector employment.

8. **Despite progress in building a legal framework to safeguard the rights of minorities, ethnic drivers of fragility continue to bear weight in Kosovo.** Kosovo has consolidated the functioning of its democratic institutions over the years, including in regards to the rights of different ethnic and religious communities. The legal framework in Kosovo provides a range of obligations on Kosovo institutions to safeguard and promote communities' equal participation in governance. EU-facilitated dialogue between Kosovo and Serbia has led to several agreements—on movement of people, energy, telecom, community rights—but implementation remains difficult. It has also led to a degree of normalization in ethnic relations with some parallel institutions of the northern part integrating into Kosovo's institutions. However, lack of an agreement at the higher political level continues to affect not only Kosovo's membership in regional and international organizations but also further integration of the Serbian minority community into Kosovo's political and economic system. While violent episodes are rare, interethnic tensions between the ethnic Albanian majority and ethnic Serbian minority flare up occasionally, adding to national and regional development challenges.

Recent Economic Developments

9. **Kosovo's gross domestic product (GDP) grew by an estimated 3.4 percent in 2016, supported by strong domestic demand.** Robust domestic consumption drove growth, aided by investment, mostly private and including FDI from the diaspora. The negative contribution from net exports has been a feature of growth but was lower than in previous years due to lower oil prices. Consistent with strong consumption and the need to rebalance towards more export- and industry-driven growth, services were the key driver of growth, followed by agriculture, with lower growth of industry.

10. **Macroeconomic stability has been supported by conservative fiscal management, but macro fiscal challenges related to the quality of fiscal spending and domestic resources mobilization remain.** Given the lack of independent monetary policy, fiscal policy plays the dominant role in stabilizing the economy. Prudent fiscal management has placed Kosovo on a relatively stable footing, with the fiscal deficit significantly below the 2 percent of GDP ceiling in 2016. At 28.1 percent of GDP in 2016, the share of public spending in Kosovo is below the regional average and public investment stands at 7.4 percent of GDP. A number of challenges remain on the fiscal policy side that are crucial for supporting growth in the longer term: improving the efficiency of public spending; prioritizing public projects; avoiding election-driven payroll and pension increases (in 2016, the public wage bill and spending on pensions stood at 9.1 percent and 7.8 percent of GDP, respectively); and grappling with recently adopted benefits for war veterans, which are projected to permanently cost about 0.7 percent of GDP annually. Recent policy

measures aimed at addressing these challenges include amendments to the Law on Public Financial Management and Accountability that introduces legal limits to the growth of the public wage bill, and the establishment of a National Investment Council to improve the selection and monitoring of public investment projects. On the revenue side, considering that customs tariffs (about 9 percent of total revenues) will continue to decline following the application of the SAA with the EU, a key challenge relates to mobilizing tax revenues, particularly direct taxes, as well as improving the efficiency of tax administration and improving tax compliance.

11. **The stock of public debt is low, although rapidly increasing in recent years.** Public and publicly guaranteed debt is estimated at 14.6 percent of GDP in 2016,¹ the lowest debt level in the Western Balkans, offering room to borrow on concessional terms for productive investments with high rates of return. Yet, public debt has more than doubled since 2011, and as the stock of debt expands, stronger debt management capacity is needed to safeguard sustainability. Half of the public debt is external, mainly from international financial institutions (IFIs). The law limits debt to 40 percent of GDP, preserving a 10 percent buffer.² External public debt and interest payments are projected to increase in line with the increase in the overall stock of public debt. The Government is taking measures to strengthen its debt management functions, including through the preparation of a medium-term Debt Management Strategy in 2017. The Government's plans for contracting new debt for investments have been incorporated in the medium-term macro-fiscal framework.

12. **Reflecting the heavy reliance on imports for consumption and—more recently—investment, the current account deficit (CAD) is significant, and exports remain low and concentrated both in terms of markets and products.** The CAD has been gradually widening since 2012 as imports grew strongly to meet domestic consumption and investment demand, while growth in exports of base metals and mineral products (comprising about half of goods exports) stagnated. Exports of services have been increasing rapidly since 2012 but this increase has not been able to offset the rise in imports. The CAD is estimated at 9.2 percent of GDP at end-2016 and is partly financed by FDI. In Kosovo, FDI is heavily concentrated in low-productivity sectors—including real estate and financial services—and is vulnerable to shocks. Notably, FDI inflows are estimated to have fallen by 28 percent in 2016 in a context of heightened political uncertainty.

13. **The financial sector in Kosovo is largely healthy and sound.** The banking sector is well capitalized and profitable, with high capital adequacy ratios (18.2 percent compared to 12 percent minimum regulatory requirement) and low levels of non-performing loans (NPLs) at 4.9 percent (down from 6.2 a year ago). Solid credit growth at 10.4 percent in 2016 was accompanied by growth of deposits by 8.4 percent (currently at 60 percent of banking sector liabilities) and a stable loan-to-deposit ratio that is currently at 77 percent. Banking supervision capacity and compliance with international standards is improving, and the nonbanking financial sector is also developing.

14. **Kosovo's growth outlook is expected to remain positive over the medium term.** Growth is expected to accelerate to an average of 4.2 percent during 2017–2021, supported by consumption, investment, and a pick-up in exports (including travel services for the Kosovar diaspora). Private investments are expected to be boosted by FDI in the energy sector and other greenfield investment, including a new large power plant. Net exports will continue to make a negative contribution in the first years but are projected to turn positive in later years driven by higher exports and import substitution driven

¹ This does not include potential London Club and Paris Club debt that is currently served by Serbia. With it included, the guaranteed debt is around 22 percent of GDP.

² The 30 percent of GDP debt limit in the LPFMA amendment of the fiscal rule applies explicitly to borrowing from IFIs in excess of 2 percent regular deficit, a rule valid for 10 years. A 10 percent buffer is implied as the debt ceiling is set at 40 percent of GDP in the Law on Debt approved in 2010.

by new public investments in agricultural processing.

Table 1: Key Macroeconomic Indicators and Projections, 2011–2021

Selected Indicators	2011	2012	2013	2014	2015	2016E	2017F	2018F	2019F	2020F	2021F
Income and economic growth											
GDP growth (annual %)	4.4	2.8	3.4	1.2	4.1	3.4	4.0	4.1	4.3	4.3	4.4
GDP per capita growth (annual %)	3.5	1.9	2.4	1.3	5.2	2.6	3.2	3.3	3.4	3.5	3.6
GDP per capita (US\$)	3739	3601	3877	4055	3581	3653	3754	3853	3962	4073	4193
Private Consumption growth (annual %)	3.6	7.1	6.7	7.0	4.3	4.0	2.6	2.8	2.9	2.2	2.4
Gross Investment (% of GDP)	30.9	26.1	24.8	23.1	24.6	25.1	26.7	27.8	29.0	29.4	29.9
Gross Investment - Public (% of GDP)	10.9	10.7	10.0	7.4	6.9	7.4	8.6	9.4	10.0	10.3	10.7
Gross Investment - Private (% of GDP)	20.0	15.4	14.8	15.7	17.6	17.6	18.1	18.4	19.0	19.1	19.3
Money and Prices											
Inflation, consumer prices (annual %, end of period)	3.6	3.7	0.5	-0.4	-0.1	1.3	0.9	1.4	1.8	2.0	2.0
Inflation, consumer prices (annual %, period average)	7.3	2.5	1.8	0.4	-0.5	0.3	0.7	1.2	1.7	1.9	2.0
Fiscal											
Revenue (% of GDP)	27.1	25.9	25.2	24.4	25.4	26.8	27.0	27.6	28.2	28.5	28.7
Expenditure (% of GDP)	28.8	28.5	28.1	27.0	27.0	28.1	29.6	30.5	31.1	31.3	31.5
Current (% of GDP)	17.9	17.8	18.1	19.7	20.1	20.7	21.0	21.1	21.1	20.9	20.8
Capital (% of GDP)	10.9	10.7	10.0	7.4	6.9	7.4	8.6	9.4	10.0	10.3	10.7
Overall Fiscal Balance (% of GDP) /1	-1.7	-2.6	-2.9	-2.6	-1.6	-1.3	-2.6	-2.9	-2.9	-2.8	-2.8
Primary Fiscal Balance (% of GDP) /1	-1.7	-2.4	-2.7	-2.4	-1.4	-0.9	-2.1	-2.4	-2.4	-2.4	-2.3
Total Public and Publicly guaranteed Debt (% of GDP)	5.9	8.1	8.9	10.6	12.8	14.6	17.6	20.4	22.0	23.2	24.2
Total Public Debt (% of GDP)	5.9	8.1	8.9	10.4	12.6	14.3	16.8	19.6	21.3	22.5	23.5
External Public Debt (% of GDP)	5.9	6.7	6.1	5.8	6.1	6.3	7.5	8.8	9.2	9.3	9.2
External Accounts											
Export growth, f.o.b (nominal US\$, % yoy)	36.6	-4.3	2.5	7.3	-15.0	5.8	2.8	4.7	7.1	8.5	8.7
Import growth, c.i.f (nominal US\$, % yoy)	20.0	-9.6	0.1	7.8	-14.2	5.1	4.1	3.8	2.9	3.3	3.3
Remittances (% of GDP)	10.3	10.2	10.8	11.2	11.4	11.6	11.7	12.0	12.4	12.8	13.3
Current account balance (BoP, % of GDP)	-12.8	-5.8	-3.4	-6.9	-8.5	-9.2	-10.3	-11.0	-10.9	-10.5	-9.9
Foreign Direct Investment (net, % of GDP)	7.9	4.2	4.7	2.2	4.7	3.4	3.8	4.0	5.1	5.9	6.3
Foreign Direct Investment (inflows, % of GDP)	8.0	4.5	5.3	2.7	5.3	4.0	4.4	4.6	5.7	6.5	6.8
External debt, total (% of GDP)	29.9	30.1	30.2	31.2	33.1	33.6	35.1	36.8	37.6	38.1	38.4
Multilateral debt (% of total external debt)	17.7	22.2	20.2	17.9	16.8	16.0	18.3	20.8	21.1	20.6	20.1
Debt service ratio (% exports goods and nfs)	1.1	1.0	1.2	0.9	1.0	1.2	1.3	1.3	1.3	1.2	1.2
Population, Employment and Poverty											
Population, total (millions)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9
Unemployment Rate	..	30.9	30.0	35.3	32.9	..	..	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	29.7	..	..	..	..	..	..	..	..	..	..
Poverty headcount ratio at US\$1.25 a day (PPP) (% of population)	10.2	..	..	..	..	..	..	..	..	..	..
Population Growth (annual %)	0.8	0.8	1.0	-0.1	-1.1	0.8	0.8	0.8	0.8	0.8	0.8
Other											
GDP (current LCU, billions)	4.8	5.0	5.3	5.6	5.8	6.0	6.2	6.4	6.6	6.9	7.1
GDP (current US\$, billions)	6.6	6.5	7.1	7.4	6.5	6.6	6.9	7.1	7.4	7.6	7.9
GDP per capita LCU (real)	2422.9	2469.9	2528.4	2562.4	2696.6	2766.1	2854.1	2948.9	3050.4	3155.9	3268.8
CPIA (overall rating)	3.5	3.5	3.6	3.6	3.5	3.6	..	..	..	..	..

Notes: ".." indicates not available, E = estimate, F = forecast.

1/ Fiscal balance includes the regular fiscal deficit within the 2 percent fiscal rule (lower than 2 percent projections here) and the deficit due to investment clause

Sources: Ministry of Finance, Central Bank of Republic of Kosovo, Agency of Statistics of Kosovo, WB staff calculations

15. **Anchored by the fiscal rule and its complementary investment clause, a fiscal deficit below 3 percent of GDP is projected to boost growth without jeopardizing macroeconomic stability.** The fiscal rule was amended in 2015 to provide room for productive public investment (that is, beyond the 2 percent deficit ceiling) while at the same time minding the ceiling on public debt.³ The projected increase in public investment will be predominantly financed by IFIs. Going forward, priority should be given to reducing the growth in current spending to create space for investment in priority areas such as infrastructure but also education and health, as well as improving the targeting of social spending.

16. **Kosovo's positive economic outlook is clouded by domestic, regional, and global risks.** Domestically, the political coalition remains fragile, and the country will enter a pre-electoral period soon, with municipal and parliamentary elections scheduled in 2017 and 2018, respectively. Regionally, disputes,

³ Refer to footnote 2.

such as those associated with the border demarcation with Montenegro and tensions with Serbia, are a source of uncertainty internally and a risk to the materialization of FDI. At the global level, risks related to the increase in interest rates, or slower European growth, reinforce the need to accelerate structural reforms to make Kosovo's economy more productive, more open and export-oriented, and more resilient to shocks.

Poverty Profile

17. **Despite significant progress in reducing poverty, Kosovo remains one of the poorest countries in Europe, with almost a third of the population living below the national poverty line in 2011.**⁴ Half of the population lived below the national poverty line in 2000, falling to 30 percent in 2011. Preliminary poverty estimates indicate that poverty fell significantly between 2012 and 2013. With nearly a third of Kosovo's population below the national poverty line, considerable overlap exists in the goals of eliminating extreme poverty and promoting the income growth of the poorest 40 percent of the population ('the bottom 40').

18. **Poorer households tend to live in rural areas, but urban areas are also afflicted with deep poverty.** In 2011, the rural and urban poverty headcounts were 31.5 percent and 26.7 percent, respectively. As approximately 62 percent of Kosovo's population lives in rural areas, this implies that two-thirds of poor households are rural dwellers, a proportion that is observed for the bottom 40 as well. Among poor households, urban households tend to be slightly further from the poverty line, with mean consumption that is only 73 percent of the poverty line, compared with 75 percent for rural households.⁵ Child dependency rates are very high, especially among the poor: among the bottom 40 percent, one household member in every three is a child below 15 years, compared with one in five among the top 60 percent.

19. **The Kosovar poor tend to be less educated and have less secure attachment to the labor market.** As of 2011, more than one-third of people age 15 or older who did not complete primary education were poor, with the poverty rate falling for each successive level of education completed, reaching only 12 percent among individuals with university degrees. Employment status, type of employment, and returns to employment are heavily influenced by a person's educational level, as those with higher levels of education are typically more likely to find employment and to have access to higher paying jobs. Salaried workers are less likely to live in poverty than farmers, per diem workers and those without paid employment such as pensioners and housewives. The highest poverty rates are generally found among the unemployed and per diem workers. Subsistence farmers, housekeepers, and those who are retired or disabled also show above-average rates of poverty.

20. **Poverty and social exclusion are particularly acute for several vulnerable groups, especially for youth.** Women, youth, the elderly, minority groups, disabled, and internally displaced people are particularly vulnerable to poverty. Since 2012, an increasing number of young people from Kosovo have emigrated because of a lack of opportunities at home. The young who stay in Kosovo experience high unemployment (61 percent) and related risks of poverty and social exclusion. Nearly one-third of young Kosovars (31.4 percent) are neither in education, employment, nor training (NEET). Social mobility is almost nonexistent among marginalized groups such as the Roma, Askhali, and Egyptians (RAE), who continue to face major challenges in socioeconomic circumstances, lacking education and facing

⁴ This estimate comes from the World Bank's first poverty assessment for Kosovo. The national poverty line was set in 2002/03 and has been updated over time for inflation using the consumer price index (CPI). The poverty line is €1.72 per adult equivalent per day in 2011 prices. The specific poverty estimates from year to year are not strictly comparable because of frequent changes in survey methodology, but extensive sensitivity analysis confirms the downward trend from 2000 to 2011. The years 2009 through 2011 offer the most robust comparisons and indicate a decline in poverty from 34 percent in 2009 to 30 percent in 2011.

⁵ The poverty gap measures the depth of poverty, reflecting both the proportion of the population living below the poverty line and the average distance of the poor to the poverty line. The extreme poverty line also illustrates the depth of urban poverty because both the extreme poverty headcount and the gap measures have been almost equal in rural and urban areas in recent years.

discrimination from the general public.

21. **Youth disenfranchisement poses a considerable risk.** A recent Risk and Resilience Assessment for Kosovo (Annex 6), emphasizes the higher vulnerability of youth from economic and political exclusion which, when mixed with the ethnic and political dimensions of risk, creates fertile grounds for social instability. Youth disenfranchisement is partly driven by exclusion from the labor market in the context of a ‘youth bulge’ and has strong gender and ethnic dimensions. Decreased trust in institutions, resulting from citizens’ alienation from decision making, dissatisfaction with service delivery, and perceptions of corruption, is particularly acute among youth. While almost half of the youth (48 percent) prefer the security of public sector employment,⁶ personality-centered political parties, weak government institutions, and fragile rule of law alienate Kosovar youth from state institutions, including at the local level. A 2012 study showed that every second young person in Kosovo wished to relocate abroad.⁷ In Northern Kosovo, 90 percent of ethnic Serbian youth said they were actively pursuing leaving their place of residence.⁸

22. **As in other Western Balkan countries, recruitment of youth by organized crime and violent extremist groups is a growing problem for Kosovo.** This vulnerability is heightened by having a large share of the population that is young and unemployed. While extremist groups, mostly foreign based, remain marginal and widely rejected by mainstream society, most recruits are reported to come from some of the poorest, rural municipalities in Kosovo. This suggests that a combination of social exclusion factors fosters youth cooptation by violent extremist groups. Research indicates that the propensity for radicalization is related not only to economic exclusion but also to social and political aspects of identity. Like other Western Balkan countries, Kosovo has been mobilizing its police forces and pursuing recruits through the judicial system. At the same time, it is beginning to focus more systematically on prevention and socioeconomic integration.

Drivers of Poverty and Development Challenges

23. **In the post-global financial crisis period, the Kosovar economy grew consistently above the Western Balkans’ average, albeit from a low base and reaching only 11 percent of EU average per capita income in 2015.** Kosovo’s GDP per capita grew from US\$1,088 in 2000 to US\$3,562 in 2015. Nonetheless, Kosovo remains the third poorest country in Europe. During 2008–2015 real GDP grew on average by 3.4 percent per annum, driven primarily by household and government consumption (2.6 percentage points), in turn buoyed by sizeable remittances inflows. While short-term growth has been high by regional standards, the sustainability of this model in the long term is highly questionable.

24. **As a small economy that is heavily dependent on foreign inflows including remittances, the non-tradable sectors dominate output and employment in Kosovo.** Services represented the largest sector in the economy, with a share of value added at 54 percent of GDP during 2008–2015. Industry is relatively small by regional standards, at 16 percent of GDP, of which manufacturing is about 10 percent of GDP. Agriculture remains relatively large, at 11 percent of GDP. Services contributed to economic growth more than any other sector throughout the period, with a key role played by construction and real estate (15 percent of GDP), followed by wholesale and retail trade (12 percent of GDP). The contribution of manufacturing, including agro-processing activities, peaked in 2012 at a time when imports were declining, suggesting some degree of import substitution. Agriculture, on the other hand, has exhibited low growth and has been affected by weather conditions and climate change.

⁶ Friedrich Ebert Foundation, and IDRA Research & Consulting. 2012. *Kosovo Youth Study: Forward Looking and Grounded in Tradition*. Available at: http://www.idracompany.com/files/reports/Kosovo_Youth_Study_ENGLISH.pdf.

⁷ Friedrich Ebert Foundation, and IDRA Research & Consulting. 2012. *Kosovo Youth Study: Forward Looking and Grounded in Tradition*. Available at: http://www.idracompany.com/files/reports/Kosovo_Youth_Study_ENGLISH.pdf.

⁸ Mitrovica North, Leposavić, Zubin Potok, and Zvečan. Forthcoming. *Socio-Economic Assessment of 5 Northern Municipalities in Kosovo*. 2017. The World Bank Group.

25. **Economic growth in Kosovo has been more inclusive than in other countries in the Western Balkans, helping reduce poverty and raise incomes of ‘the bottom 40 percent’** (Figure 1). Income growth of the bottom 40 percent during 2006–2011 (averaging 4 percent per year) outpaced growth of the top 60 group (2.4 percent per year). More generally, the growth incidence curve for this period is downward sloping, consumption growth having been strongest at the bottom of the consumption distribution (Figure 2). The high growth rates of consumption expenditures in the bottom 40 group and in the top 60 group in Kosovo compare favorably with other countries in the Western Balkans (World Bank 2015). The shifts of employment—especially among the bottom 40—from agriculture to construction and other sectors have been a key driver of poverty reduction.

Figure 1: Shared Prosperity in the Western Balkans

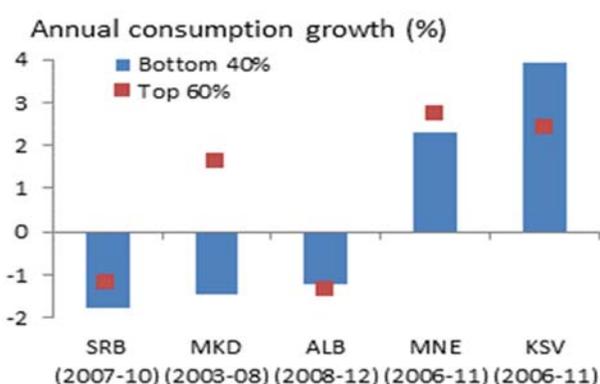
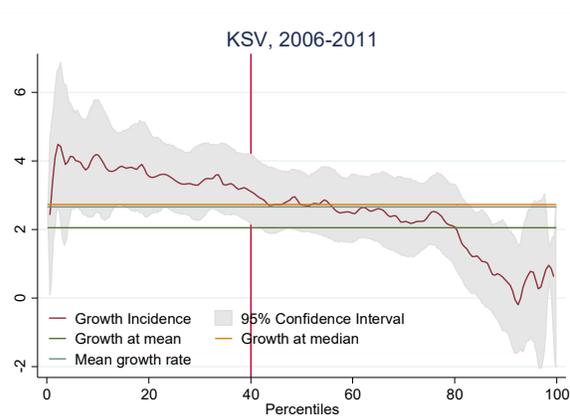


Figure 2: Growth Incidence Curve, 2006–2011



Source: Statistics Agency of Kosovo and World Bank staff calculations.

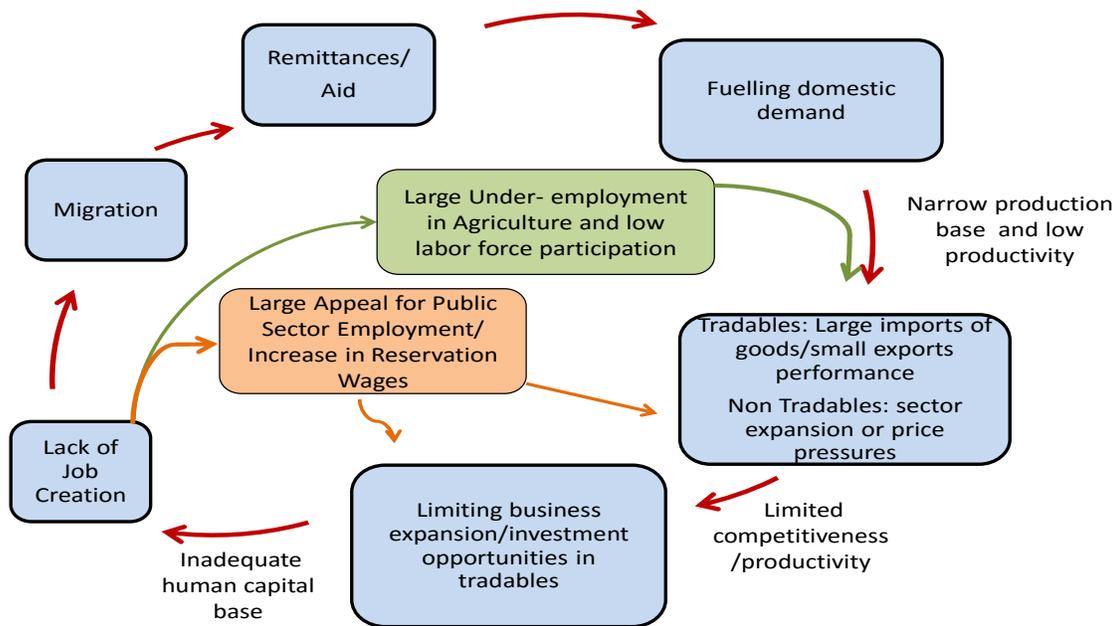
26. **Growth did not engender significant broadening of employment, and Kosovo’s labor absorption remains among the worst in the world, notwithstanding some recent job creation.** Income growth in the bottom 40 group was driven primarily by increases in earnings. However, this mainly reflects higher wages of those who work, as employment (at 25.2 percent in 2015) and labor force participation (37.6 percent) have remained extremely low and stagnant, although preliminary data for 2016 show improvements in most labor market outcomes. Household income from remittances is poorly captured in household surveys but is relatively stable at around 15 percent of GDP, representing an important part of the social safety net. Despite economic growth, Kosovo’s private sector has been unable to generate sufficient high-quality jobs to sustainably reduce unemployment, particularly in the tradable sectors. Aggregate employment growth, while stable, has been only keeping pace with population growth. Accelerating job creation is thus key for future poverty reduction.

27. **Reductions in poverty without improvements in employment are based on an economic model where growth is driven by consumption fueled by foreign aid and remittances.** Because domestic savings is negative, the current growth model relies heavily on remittances and, to a lesser extent in recent years, aid. Although remittances reach some 20–25 percent of households and provide considerable income among poorer households, they have been mostly used for consumption. Because of the narrow, undiversified, and uncompetitive productive base (the agriculture and services sectors are large, manufacturing is small, and little is tradable), the steady consumption demand fueled by remittances has been met mainly by imports. The supply response has been limited to such non-tradable areas as construction, real estate, and retail and other services, where Kosovo has seen considerable growth and dynamism. Understanding these factors is central to the effort to reduce poverty and share prosperity sustainably.

28. **Domestic productivity that is too low to be competitive joins with an unfavorable business environment, weak governance, and infrastructure deficits.** As a result of the current economic model, wages have increased much faster than productivity, with public wages affected most, and rising to double the average private sector wage. As a result, public sector jobs are most desirable, and the shift of employment from agriculture to higher-productivity sectors has mostly been to construction and other non-tradable services. This loss of competitiveness hurts future growth prospects. Micro-data suggest that the largest productivity losses were in the manufacturing sector, reflecting a more challenging environment for exporters. Due to abundant remittances, the reservation wage is high, and considerable informality and underemployment persist. Migration has been the safety valve to release the labor market pressure. It is estimated that, since autumn 2014, tens of thousands of Kosovars have emigrated, mostly to EU member countries.

29. **Employment growth is further constrained by an inadequate human capital base.** An inadequately educated and low-skilled workforce limits employment growth, especially among large, rapidly growing firms. The current education system has not yet succeeded in equipping students with the specific skills and the soft skills necessary to thrive in the changing labor market. To benefit from the demographic dividend and generate more rapid and inclusive growth, the general education system needs to provide greater opportunities to acquire the skill sets demanded by employers. This is especially true for women, youth, and minorities, whose participation in the workforce has been marginalized. Public spending per student on education is low relative to comparator countries, and the quality of education remains poor and inequitable. The quality and coverage of health services are similarly poor and characterized by inefficient public spending, high out-of-pocket costs, and wide discrepancies across income groups, ethnic lines, and regions.

Figure 3: The Self-Perpetuating Cycle, Kosovo



30. **It is unlikely that the current growth model can sustainably support Kosovo's future development and ambitions.** While, conceivably, a small economy such as Kosovo could continue to grow in the short and medium term, the marginal benefits of some growth drivers are expected to decline.

Official development assistance (ODA) has already begun shrinking in recent years and the pace of public investment in physical infrastructure is now slowing following progress with damaged and obsolete infrastructure replacement. The small size of the internal market is expected to suppress the growth and dynamism of non-tradable services. Above all, the challenge of creating conditions for a more dynamic private sector will intensify. The social and economic costs of protracted low job creation are amplified by the absence of an independent monetary policy and limited fiscal capacity for countercyclical responses to smooth the impact of shocks. Kosovo will require structural transformation and heightened productivity to establish a market economy that can both cope with competitive market forces and provide income and job opportunities to reduce migration.

31. **To maintain fast and steady growth, a gradual rebalancing of growth is needed toward higher productivity at home and greater competitiveness abroad.** The current self-perpetuating cycle of low employment and low labor participation coupled with consumption demand met with imports and fueled by remittances and foreign aid, leads to a narrow and noncompetitive productive base mainly in non-tradable sectors (Figure 3). Moreover, Kosovo is so far missing the opportunity of its demographic dividend offered by its large proportion of young people, who remain as long-term unemployed or inactive in the labor market. The lack of job creation at home leads to migration and remittances that finance large imports and dis-incentivize work, while exports remain small, limiting business expansion and starting over a new cycle. The Kosovo economy needs to break this cycle to unleash its growth potential and sustainable job creation; otherwise the demographic ‘dividend’ could easily turn into a demographic ‘curse’ with danger of social unrest.

32. **Refocusing Kosovo’s growth agenda requires retaining several features of the economy as a foundation while tapping into the underused production factors such as natural and human resources.** This will expand the opportunities for the poor to improve their welfare sustainably, reduce poverty, and promote shared prosperity. To broaden the economy’s narrow production base, boost job creation, and reduce the heavy dependence on imports, Kosovo’s current growth strategy needs to be amended to increase domestic productivity and expand its export base, improve the business environment, strengthen the relevance of labor force skills through improved access and quality of the education and training system, and attract much-needed export-oriented FDI. This will promote employment creation, particularly for youth and women.

33. **Creating more and better jobs, particularly for the bottom 40 percent, requires a complex policy agenda.** The analysis in the Jobs Diagnostic⁹ reinforces the priorities of the SCD (see Box 1). Policy recommendations fall into two categories: (a) improving the regulatory and business environment to aid job creation and firm growth and to facilitate exports, and (b) addressing skill shortages and mismatches that hamper both Kosovo’s ability to harness its competitive advantages and the ability of the unemployed and inactive to transition into employment. With a young population, Kosovo can benefit by investing in skills. Educational attainment remains low. According to Labor Force Survey (LFS) data, in 2014, almost 30 percent of males had no education beyond primary; among women, 8.3 percent had no education, and more than half had no education beyond primary. Lack of skilled professionals and a mismatch of skills with labor demands, are among the main constraints to attracting investment. Improving education and training will help workers find employment and give firms access to skills they seek. It will boost labor productivity and help Kosovo move into modern economic sectors. If this is not done, the risk is that Kosovo’s young population could be a lost generation.

⁹ World Bank. Forthcoming. *Kosovo Jobs Diagnostic Report 2017*.

Box 1: Job creation in Kosovo: some findings from the jobs diagnostic

Kosovo is a young country with an increasing share of working age population; it is important to take full advantage of this temporary demographic bonus. One of the youngest countries in Europe, Kosovo's ratio of working age population to dependents is projected to increase from 1.88 in 2011 to 2.24 in 2021 and will not dip below the 2011 level before 2046. Only 8 percent of Kosovo's population today are elderly, compared to 19 percent in the EU-28 and 22 percent in Italy.

Against this background, it is worrisome that economic growth in Kosovo over the past decade has not been associated with robust job creation. Data from the registry of all formal sector firms over 2005–2014 reveal that the rate of net job creation by formal firms has declined from roughly 7,000 net jobs created at the beginning of this period, to less than 700 net jobs in 2014. Commerce and services sectors are the only two sectors to have performed consistently well in terms of net job creation over the past decade; the contribution of the manufacturing sector has been negative since 2012 and the capacity of the construction sector to add new jobs has also been in decline.

The greatest source of (formal) job creation in Kosovo has been start-up firms (incumbent firms have been shedding more jobs than creating), but the rate of new firm entry remains relatively low. Most start-ups are micro firms with 1–9 employees (in fact, most firms in Kosovo are micro firms), but micro firms in Kosovo do not grow (among firms that are micro at birth, only 4 percent grow beyond 9 employees 5 years later).

The lack of employment opportunities is reflected in the high inactivity rates (58 percent of the working age population in 2015, 78 percent among women); high unemployment rates; and slim chances of transitioning from unemployment to employment. Women are also constrained by family responsibilities—over half of inactive women cite the latter as the main reason for inactivity. Education helps—most inactive men and women have less than secondary education.

What prevents firms from expanding? In addition to the important infrastructure bottlenecks (energy, connectivity), firm growth is also constrained by (a) weak business/regulatory environment and (b) lack of skilled workers. In particular, multiple and uncoordinated inspections (tax authorities inspected more than 90 percent of formal firms according to Business Environment and Enterprise Performance Survey [BEEPS] data, the highest level in the region) are expensive for firms and create incentives to stay small and informal. One-third of workers in Kosovo are estimated to be in the informal sector—one of the largest in Europe. The informal sector provides a source of income, but these jobs are insecure and exclude workers from many benefits.

Skill mismatches are an important growth constraint for formal firms. Many firms report problems hiring new employees, largely because of insufficient experience or skills. Lack of qualified specialists in marketing, sales, and design make it harder to compete in export markets, where new product development and placement are vital. Firms also distrust the education and Vocational Education and Training systems to produce people with the required skills. Hence, hiring mostly remains informal and connections based—close to two-thirds of firms in the Skills Toward Employment and Productivity (STEP) survey reported recruiting from informal channels (personal contacts, people recommended by others), for professional/technical jobs (60 percent for other jobs). The second most popular hiring channel is making job offers to experienced people from other firms. Only 17 percent of firms reported being in regular contact with educational/technical institutions for purposes of hiring professional/technical staff (7 percent in the case of nontechnical staff). Informality in hiring disadvantages those who may lack the necessary personal connections, particularly the bottom 40.

As new—and larger—cohorts join the labor force, reforms aimed at ensuring that the right set of rules, and skills, are in place to promote job creation will be essential to prevent youth disenfranchisement and ensure that the demographic dividend is not wasted.

Source: World Bank. Forthcoming. *Kosovo Jobs Diagnostic Report 2017*.

34. **Major differences persist in employment opportunities for men and women, creating disadvantages for women that have important social and economic costs.** Only 11.5 percent of women are employed, compared to 38.7 percent of men. The gender gap in employment is highest for those ages 35–44, or those in their prime reproductive years.¹⁰ The low employment rates are driven both by low

¹⁰ Kosovo Agency of Statistics, LFS 2015.

female labor force participation and high female unemployment compared to men.¹¹ For women who work, the relatively low gender wage gap masks gender disparities as men receive higher labor market returns to their characteristics, such as education. Still, gender gaps remain in educational achievement, particularly in rural areas.¹² Similarly, women—despite their propensity to work in health and education—are underrepresented in the public administration where only one in five jobs are occupied by women. Elected women’s representation is also low both at national and local level.¹³ Differences in labor market activity rates between men and women amount to potential economic losses of around 28 percent of the gross national income (GNI), the highest among the countries of the Western Balkans.¹⁴ Increasing women’s economic opportunities calls for removing the barriers and disincentives to employment that women face. In particular, (a) improving access to assets and productive inputs (for example, finance and land);¹⁵ (b) shifting the traditionally led social norms that limit women’s opportunities¹⁶ and providing access to affordable and quality child and elder care; and (c) removing disincentives and barriers embedded in labor taxation and regulations.

35. The high degree of informality creates disadvantages for formal firms and has important implications for growth, employment, and fiscal stability. While the definition of informality can vary, 15 percent of waged workers in Kosovo are employed without a contract, and more broadly, 35 percent of workers are in low productivity employment (self-employed nonprofessional, unpaid family workers, employees in small firms, and employers of small firms). Preliminary analysis of firm-level data reveals that the percentage of firms that are perceived to be severely affected by the competition of informal firms is one of the highest in the world. The belief among firms in Kosovo that other firms evade taxes is widespread, and BEEPS data point to informal sector practices identified by firms as the single biggest constraint affecting competition.¹⁷ Informality also contributes to a significant tax gap—a Value Added Tax (VAT) gap of 34 percent, a Personal Income Tax (PIT) gap equal to three times the current collections, and the Corporate Income Tax (CIT) gap of 17 percent, as estimated recently by a World Bank research on Kosovo tax gap.¹⁸ Bringing a greater proportion of the economy into the formal sector would contribute to broadening the tax revenues and to improving the quality of work.¹⁹

36. Access, quality, and affordability of public services also have an important impact on poverty. For instance, overall waste collection coverage is only 57 percent and lower in rural areas. Sanitation has similar coverage. Moreover, quality is poor and environmental compliance with transposed EU legislation is weak. Furthermore, health spending pulls more households into poverty, and nonpoor households are increasingly vulnerable to impoverishment from health spending. At close to 40 percent of total health spending, household out-of-pocket health care spending is high. The high payments create financial barriers

¹¹ In fact, the female to male ratio of employment and labor force participation is one of the lowest compared to both the region and other lower-middle-income countries, with a gender gap of 40 percent.

¹² World Bank, Kosovo - Gender Gaps in Education, Health and Economic Opportunities, 2012.

¹³ Women’s representation is particularly low in minority municipalities, especially in senior positions. Advances to increase political participation of women have yielded some positive results in the central government, with one-third of Presidential advisers and one-third Members of Parliament being women. UNKT (United Nations Kosovo Team). 2011. *Social Inclusion: People Behind Figures*.

¹⁴ Cuberes, D., and M. Teignier. 2015. “How Costly Are Gender Gaps? Estimates for the Balkans and Turkey.” Policy Research Working Paper 7319, World Bank, Washington, DC.

¹⁵ For instance, only 16 percent of Kosovar women own land or property. World Bank, and FAO (Food and Agriculture Organization of the United Nations). “Land and Gender: Improving Data Availability and Use in the Western Balkans.” March 8, 2014.

¹⁶ UNDP (United Nations Development Programme). 2012. *Kosovo Human Development Report: Private Sector and Employment*.

¹⁷ World Bank. 2015. *Republic of Kosovo: Systematic Country Diagnostic*. Draft Report, Washington, DC.

¹⁸ World Bank. 2014. *Republic of Kosovo Public Sector Revenues, Tax Policies, Tax Evasion and Tax Gaps*. Report No: 89195-XK, Cited in World Bank (2015).

¹⁹ World Bank. 2014. *Republic of Kosovo Public Sector Revenues, Tax Policies, Tax Evasion and Tax Gaps*. Report No: 89195-XK, Cited in World Bank (2015).

for service among the already-poor, where the negative effects tend not to be manifested monetarily but in poorer health outcomes as they self-ration and under-consume health care. High out-of-pocket spending contributes to impoverishment in Kosovo, with an estimated 7 percent increase in the poverty headcount associated with out-of-pocket health care payments, mostly on medicines. The planned introduction of a mandatory health insurance scheme is an opportunity to address some of these issues. Education is also marked by inadequate and inequitable outcomes. The Program for International Student Assessment (PISA) survey (2015) results show that more than two-thirds of students perform below a basic level of proficiency in science (68 percent), math (78 percent), and reading (77 percent)—a share that is much higher than in neighboring Montenegro and Albania and significantly higher than the Organisation for Economic Co-operation and Development (OECD) average (21 percent).²⁰ In addition, students from rural areas are about 1 year of schooling behind their urban peers, and students from low-income households are about 1.5 years of schooling behind their well-off peers in science scores, suggesting inequities in the system. Children in poor and extremely poor households, including children from the RAE community, are less likely to be enrolled in education. Moreover, enrollment rates in early childhood education are particularly low (14 percent), with notable differences between children from the poorest quintile (7 percent) relative to the richest quintile (37 percent).

37. Since 1999, considerable progress has been made into building core state functions, but this process is still not complete. Kosovo has put in place basic public financial management (PFM), public procurement, tax administration, and human resource management systems. Sixteen functional ministries now cover the broad range of core state functions. These institutions are now grappling with the complex policy issues and institutional reforms required by the EU accession process. However, Kosovo’s state institutions are still in development and suffer from acute capacity constraints, particularly in policy analysis and senior management. This is partly because the public sector can only draw on a relatively shallow pool of officials with the necessary technical and managerial skills. It also reflects limited progress in professionalizing the civil service. Poor coordination within, between, and across institutions is also a significant constraint to policy making and implementation. Information is held in silos and all too often decisions are taken without consultation of internal and external stakeholders.

38. Kosovo is ranked as 95 out of 176 countries worldwide in Transparency International’s (TI) 2016 Corruption Perceptions Index, an improvement from last year’s 103rd position but still the worst score of the Western Balkans countries. Although Kosovo has established institutions and legal mechanisms to fight corruption, the lack of coordination among organizations involved has posed a serious obstacle to success. According to a report published by the European Commission (EC),²¹ the Kosovo Anti-Corruption Agency has improved its cooperation with the criminal investigation authorities but lacks the analytical capacity to assess risks in sectors vulnerable to corruption. The number of corruption-related cases brought to justice is small and on the decline, with corruption convictions falling by almost a half between 2009 and 2012, coinciding with the withdrawal of the international community and a gradual takeover by national authorities. Further work is needed on preventive measures. These include improvements in the transparency of decision making and public access to information across the public sector, particularly in high-risk areas such as public procurement and access to administrative services. Citizens often use informal networks and facilitation payments in their interactions with the state. Replacing these networks with an organizational culture of public service and rule-based administration poses a particular challenge.

39. Further actions are also needed for environmental sustainability, which includes the fulfillment of the EU environmental acquis. These include the significant impact of industrial polluters;

²⁰ For each of the three subjects, “below basic proficiency” is defined as scores below Level 2—the baseline level of proficiency that all students should be expected to attain when they leave compulsory education.

²¹ European Commission. 2016. Kosovo 2016. Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/pdf/key_documents/2016/20161109_report_kosovo.pdf

low air quality; and absence of waste, wastewater, and water infrastructure as well as a large amount of contaminated sites, which places a high environmental and health burden on the population and causes large areas of degraded land to be out of productive use. Kosovo has made insufficient progress beyond the initial stages of harmonization with the acquis in these areas. Modernization and compliance with international social and environmental standards are preconditions for the energy and mining sectors to be able to attract international financing or direct investments as one of the potential sources of growth. In mining, environmental legacies would also need to include remediation action at depleted mine sites to eliminate negative health impacts, bringing dilapidated and degraded land back into productive use and reducing public opposition to continuing/increasing production. Environment and climate need to become government priorities as one of the conditions of EU accession for Kosovo.

40. **In 2014, Kosovo adopted the Framework Strategy on Climate Change as a blueprint of actions/measures foreseen and required to create a country resilient to climate changes.**²² The strategy has been recently reviewed and a detailed action developed and is currently awaiting the Government's approval. While country-specific data and analysis are limited, regional climate variability is on the increase, and this is increasing risk of both heavy rains and associated floods and severe droughts.

41. **Kosovo is subject to both flash floods in the upper catchments as well as riverine flooding in the plains and lower areas in all of its basins and particularly in the Iber and Drini i Bardhe basins, which also pass on to downstream countries.** The country is highly vulnerable to these natural hazards, and this is exacerbated by unplanned urbanization (often with poorly constructed or illegal dwellings) and infrastructure development in flood zones. Lack of municipal planning or enforcement, both in the catchments as well as in the floodplains, and lack of maintenance of critical infrastructure and flood evacuation routes further increase exposure. While the legal and institutional framework is to some degree in place, the information base, the institutional capacity, and the infrastructure platform are not adequate to deliver on key issues such as forecasting, early warning, mitigation, adaptation, enforcement of flood zoning and building codes, land use management, and disaster response. Harmonization with the relevant EU directives as well as practical strengthening of the information base and institutional capacity should be key priorities, along with well-planned investments.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

A. Government Program and Medium-term Strategy

42. **The Government has identified the country's top priorities through the preparation of its NDS 2016–2021.**²³ The NDS aims at addressing the main obstacles to economic growth and social development of the country. It was developed at the time the country sharpened its focus on EU integration, after passing through the emergency and stabilization phase of 1999–2007, and the initial state-building phase of the post-independence period (2008–2015). NDS priorities and activities aim to ensure (a) the highest annual economic growth rates for the employment and welfare of the citizens of Kosovo, and (b) social cohesion and inclusion, in parallel with economic growth, which means greater access of marginalized social groups to the benefits deriving from economic growth. Structurally, the NDS is divided into four thematic pillars: human capital, good governance and rule of law, development of competitive industries, and development of infrastructure. Through the activities under these pillars, the strategy aims to support *Employment*, the *Rule of Law*, *Business Development and Competitiveness*, and *Infrastructure Development* (in Albanian, PLAN).

43. **In addition to the NDS, which serves as an umbrella for all national strategies, the Government has prepared the 2016 Economic Reform Program (ERP) which will be updated**

²² Available at http://mmph-rks.org/repository/docs/Climate_Change_Framework_Strategy_19022014_FINAL_717626.pdf

²³ Available at: http://www.kryeministri-ks.net/repository/docs/National_Development_Strategy_2016-2021_ENG.pdf.

annually.²⁴ The ERP harmonizes all ongoing sectoral strategies under one common budgetary framework. While the NDS is a higher-level strategic document dealing with national policies, the annual ERP focuses on a subset of policies—consistent with the NDS—that fit into the agenda of enhancing competitiveness, within a clear and sustainable macro-fiscal framework.

44. **With the aim of maximizing the economic and political benefits of the SAA, which entered into force in April 2016, the Government and EU agreed to launch the ‘European Reform Agenda’ (ERA).**²⁵ It is recognized that for Kosovo to make full use of the SAA and the opportunities it offers, it needs to be accompanied by urgent economic reforms (as set out in the ERP) and underpinned by the rule of law. The ERA provides an action plan for reforms with a short-term focus (fourth quarter of 2016 and the whole year 2017). The agenda’s key areas are (a) good governance and the rule of law, (b) competitiveness and investment climate, and (c) education and employment.

B. Proposed World Bank Group Country Partnership Framework

3.B.1 Lessons from CPS Completion Report, Independent Evaluation Group Evaluation, and Stakeholder Consultations

45. **The FY12–FY16 Country Partnership Strategy was the first full strategy since Kosovo declared independence in February 2008, and it yielded largely positive results.** Experience of this CPS, which is summarized in the Completion and Learning Review (CLR) (Annex 2), demonstrated that the World Bank Group program was effective in delivering positive outcomes to accelerate broad-based growth and employment generation and improve environmental management. In particular, the World Bank Group program made strides in reducing licensing and regulatory barriers for businesses, reestablishing a functioning cadaster system, and strengthening agriculture by helping over 400 agricultural enterprises improve their products and processes. The program significantly reduced health hazards by ending a 50-year practice of open, uncontrolled dry-ash dumping at the Kosovo A power plant; removing hazardous wastes; and supporting public air quality monitoring. As the lead adviser to the Government of Kosovo, IFC played a significant role in successful privatization of the Kosovo Electricity Distribution Company (KEDS) in May 2013. Also, through its Sustainable Energy Finance Project, IFC helped commercial banks build internal capacity to roll out energy efficiency credit lines for the residential and industrial sectors. The World Bank Group program was less effective in helping Kosovo increase its energy supply through construction of a new thermal power plant. A new timeline and next steps for investment in power generation were clarified during the last year of the CPS. Overall, two-thirds of the program goals were fully achieved and one-third were partially achieved. The main obstacles to fully achieving results were related to the prolonged political-constitutional crisis after inconclusive general elections in June 2014, weak implementation capacity, evolution in regional energy opportunities, and an increasingly complex authorizing environment for implementation of the energy strategy.

46. **Institutional capacity constraints which are typical for a young and fragile democracy should be addressed across the whole program and taken into consideration during preparation of new operations.** Weak institutional capacity and poor inter-institutional cooperation affected performance at the early stages of operations in sectors such as health, education, and energy efficiency where engagement by several ministries and public agencies was required. Markedly better performance was observed in sectors such as agriculture and land management, where projects had clearer institutional arrangements and were based on strong commitment by the recipient ministries and agencies. Going forward, the CPF program should aim to address institutional weaknesses horizontally across the program. Special attention should be paid to readiness for implementation to ensure that operations design responds to clear

²⁴ Available at: <http://mf.rks-gov.net/desk/inc/media/4FBE610B-4247-4F93-A08D-7B571C5FB96B.pdf>.

²⁵ Available at: https://www.mei-ks.net/repository/docs/era_final.pdf

commitment and readiness for reforms while avoiding complex institutional implementation arrangements. Complex project design should also be avoided and Additional Financing (AF) or repeat projects pursued in areas where there is clear demand, commitment, and capacity for implementation. Efforts to strengthen fiduciary capacity of implementation agencies should continue throughout project implementation and through tailor-made clinics. Finally, regular portfolio reviews should continue to be used to verify progress in addressing cross-cutting portfolio issues and to propose additional corrective actions.

47. **Independent Evaluation Group (IEG) project evaluations also emphasize the importance of client ownership and proper assessment of institutional capacities during project design.** IEG reviews concluded that close attention during preparation and supervision are needed when designing and implementing projects in contexts with limited capacity. IEG suggests that in post-conflict settings, project supervision would benefit from staff who understand the local institutional context well. In addition, less complexity in project design and improved project readiness at approval are crucial. In post-conflict countries, development policy operations can be effective instruments when accompanied by a critical mass of technical assistance (TA) to provide transfer of knowledge as well as advisory services.

48. **The CLR reiterates the need to reach agreement on possible further engagement in power generation early in the CPF cycle.** The last CPS implementation was characterized by high uncertainty surrounding the dominant World Bank Group engagement in the energy sector. This was perhaps not surprising given the need to ensure that the proposed lignite-fired power plant would be economically viable and meet the highest environmental and social standards within a changing global and regional context. A clear and aligned strategic view and continuous communication within the World Bank Group and among Kosovo's key development partners are pivotal in complex transactions such as this, with economy-wide impacts. At the start of a new CPF, reliable energy remains the most important bottleneck to economic development in Kosovo. For this reason, the new CPF will also need to take into account uncertain timing of power generation investments, requiring a similar level of flexibility in the programming of IDA resources throughout the three-year IDA cycles.

49. **Lessons of IFC engagement showed that IFC needs to consider innovative approaches to be more relevant in fragile and conflict-affected states.** Despite its efforts, IFC could not grow its portfolio in Kosovo and expand small and medium enterprise (SME) finance in a substantial way. Weak corporate governance and accounting and integrity issues have impeded IFC in financing SMEs in Kosovo. Subsidized financing offered by other development partners also crowded out IFC financing, particularly in the financial sector.

50. **Multilateral Investment Guarantee Agency (MIGA) engagement has been very limited.** During the CPS period, MIGA issued one new political risk insurance guarantee in the financial service sector with the objective of expanding domestic lending activities in the country, specifically to SMEs.

51. **Another important lesson is that the World Bank Group's program in Kosovo should ensure a strategic approach to promote gender equality in access to economic opportunities across the portfolio.** This is specifically relevant now that a more solid knowledge base has been established in this area. The extremely large gender gap in employment highlights the need for both targeted interventions and a horizontal approach in ensuring gender equality across the program, as overall growth has not resulted in gender-equal gains in employment.

52. **The new CPF should adopt a more selective approach to setting outcomes in the Results Framework.** With 26 outcomes and 31 outcome indicators, the previous CPS Results Framework was too complex. It is critical to develop stronger links between outcomes and indicators, as the status of related indicators provide the support and evidence needed for outcome assessments. Ensuring effective mid-course correction is important not just to reconfirm program relevance but also to recalibrate the Results

Framework to better capture progress of the program through relevant and measurable outcomes and indicators.

53. **The FY16 Country Opinion Survey also informs the preparation of the CPF.** According to the survey, the World Bank Group is seen as a respected, honest, long-term partner in Kosovo. The institution's collaboration with the Government and development partners in the country is rated particularly high. Stakeholders see a greater need for the World Bank Group to reach out to groups outside of government. Respondents would like to see the World Bank Group focusing primarily on economic growth and education in Kosovo. When asked about development areas that would benefit most from the World Bank Group playing a leading role among development partners in Kosovo, stakeholders name PFM, jobs, and capacity of state institutions as the top three priorities.

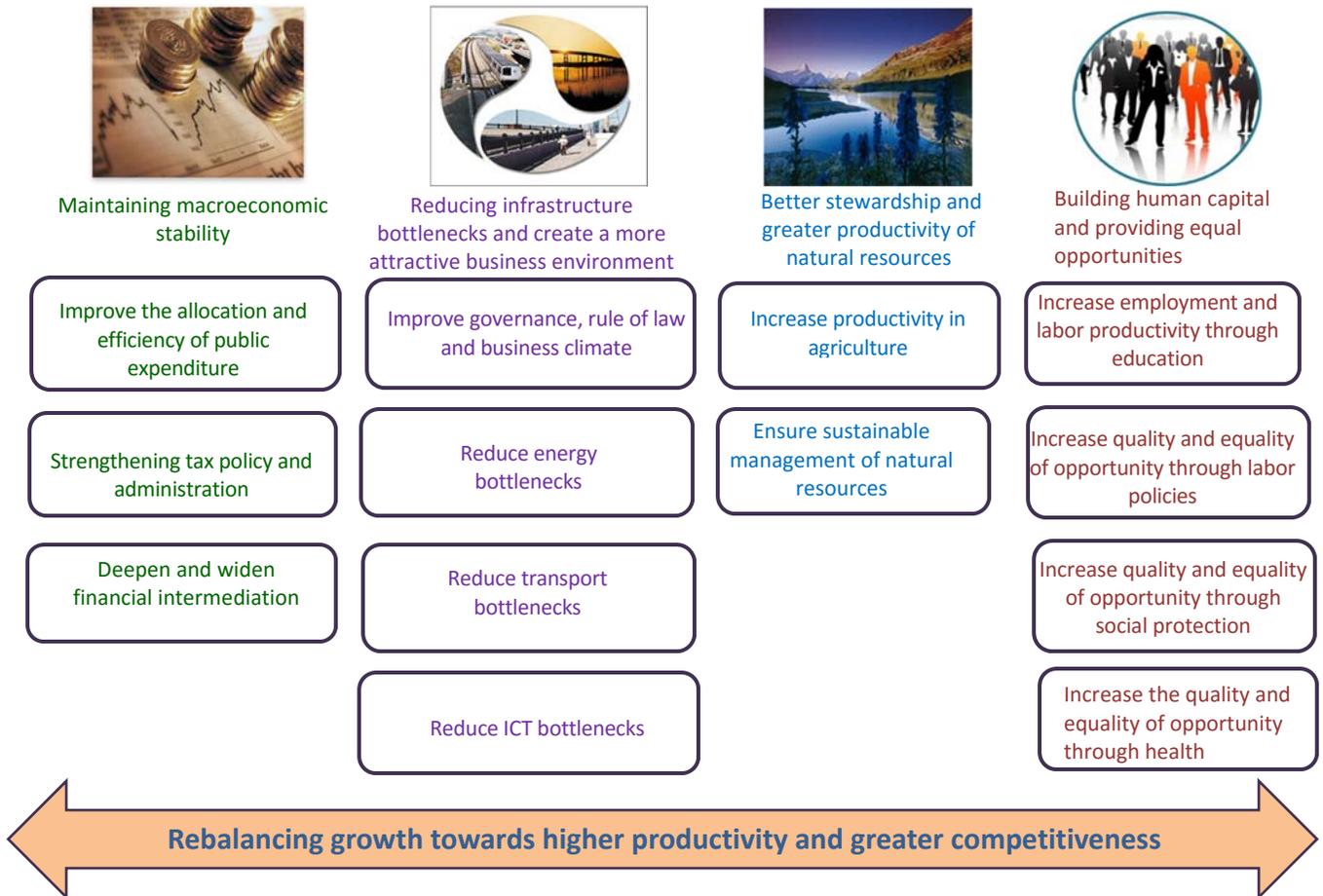
54. **The design of the proposed CPF program was informed by a series of consultations with a broad spectrum of stakeholders—government, parliament, civil society (including in the Serb-majority North Mitrovica), think-tanks and academia, private sector, and international development partners.** Stakeholders have a widely shared recognition of the key challenges the country is facing with high unemployment and unsustainable growth, with the need for increasing domestic productivity and boosting exports. Investments in energy, agriculture, natural resources, and access to finance as drivers of growth and productivity came out as strong recommendations for the World Bank Group. The issue of high youth unemployment was highlighted and the imperative of investing in education and skills came out strongly from the consultations. Another priority frequently underlined by stakeholders was engagement at the municipal level, as well as integration of Northern Kosovo through creation of economic opportunities in this part of the country. The World Bank Group was encouraged to continue engaging in reform of the public sector and in strengthening the capacity of Kosovar institutions to absorb the EU's Instrument of Pre-Accession (IPA) funds. Finally, the World Bank Group was urged to target its investments in creating economic opportunities for women, in light of the high unemployment among women in Kosovo.

3.B.2 Overview of World Bank Group Strategy

55. **The strategic objective of the FY17–21 CPF is to support Kosovo in moving along a path toward more sustainable, export-oriented, and inclusive growth, in order to provide its citizens greater opportunities for a better life.** This CPF is consistent with both the Kosovo SCD and Kosovo's NDS. The central finding of the SCD is the need to gradually rebalance growth to make it more reliant on higher productivity at home and greater competitiveness abroad. The NDS presents a vision of accelerated economic growth with better employment opportunity, social cohesion and inclusion for the citizens of Kosovo, as well as an analysis of bottlenecks to be removed that is consistent with the SCD.

56. **A number of priority areas for accelerating growth, reducing poverty, and boosting shared prosperity emerged from the SCD analysis** (see Figure 4). One set of SCD priorities underscores the need to reprioritize public expenditure and reorient taxation to support inclusive and sustainable growth while preserving fiscal discipline and deepening financial intermediation. The SCD also underscores the central role of soft (governance and the rule of law) and hard infrastructure to provide an attractive business environment and enhance competitiveness in the tradable sector. Another set of priorities focuses on the role that natural resources and fertile land (in particular agriculture and mining) can play in boosting export performance and growth, generating resources for development, and raising incomes, if managed in a sustainable way. Finally, the SCD recognizes that building skills and human capital would not only be crucial for productivity and competitiveness but also for ensuring that a larger part of the population, including youth, women and low-income households, participate in—and benefit from—economic growth and poverty reduction.

Figure 4: Summary of SCD Priorities



57. **The CPF applied several selectivity criteria to define CPF objectives and the proposed World Bank Group program:** (a) alignment with the SCD development priorities to eliminate poverty and boost shared prosperity in Kosovo; (b) the Government’s development agenda, demand for World Bank Group support, and capacity; (c) partnerships with and programs of other development partners; and (d) likely impact and capacity of the World Bank Group to deliver, based on the track record of engagement and availability of local champions in specific sectors. The CPF has nine objectives grouped under three Focus Areas: (a) Enhancing Conditions for Accelerated Private Sector Growth, (b) Strengthening Public Service Delivery and Macro-Fiscal Management, and (c) Promoting Reliable Energy and Stewardship of the Environment (see Figure 5). The selection of these Focus Areas reflects that a more sustainable, export-oriented, and inclusive growth, will require Kosovo to (a) develop a more attractive environment for private sector investment and business expansion in tradable sectors; (b) foster greater inclusion, by building human capital and providing equal opportunities and by better aligning public budgets to development needs within a sustainable fiscal framework; and (c) remove key infrastructure bottlenecks, like energy, and strengthen the sustainable management of natural resources and legacy environmental issues, to facilitate private sector participation and boost competitiveness.

58. **Under Focus Area 1—Enhancing Conditions for Accelerated Private Sector Growth and Employment—the CPF aims to help Kosovo (a) improve the business environment and access to finance, (b) improve productivity of the agriculture sector, and (c) enhance social inclusion and employment opportunities for youth and women.** Under the first objective, the World Bank Group aims

to support the development of a more effective legal, regulatory, and administrative framework to govern trade and investment and to enhance the capacity of businesses to withstand competitive pressures and connect with global value chains. By building on the positive result under the previous CPS, this CPF will continue to improve productivity in the horticulture and livestock subsectors and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development (MAFRD). The CPF will complement a program-wide approach that is expected to improve conditions for job creation, with targeted interventions aimed at strengthening employment opportunities and social inclusion of youth and women. Finally, accelerated and equitable private sector growth will also require a focus on increased connectivity. The CPF plans to help Kosovo expand its broadband access in underserved areas, to improve international competitiveness, open new job opportunities for young people, and promote social inclusion and territorial cohesion. Kosovo will also be invited to participate in regional operations aimed at promoting trade and transit facilitation and equality of economic opportunity within the Western Balkans.

59. **Under Focus Area 2—Strengthening Public Service Delivery and Macro-Fiscal Management—the CPF objectives are to (d) strengthen selected systems to improve quality, accountability, and efficiency in the delivery of education; (e) broaden the coverage and improve equity of health services; and (f) improve the sustainability of public finances and public sector management.** The SCD makes a clear case for the need for greater inclusion by building human capital and providing equal opportunities. Through ongoing operations, the CPF aims to support Kosovo in (a) strengthening selected systems and institutions that are expected to contribute to the quality, accountability, and efficiency of education services and (b) broaden coverage and improve equity of health service delivery as an essential input to strengthen human capital, reduce poverty, and enhance social inclusion. In the outer years, the CPF program may also provide additional financing or technical support to continue the implementation of a second stage of reforms supported through the ongoing education operation, with a higher focus on strengthening relevant skills provided by the education and training system and improving opportunities for Early Childhood Development (ECD).

60. **The World Bank Group will also support the authorities in improving financial management and public administration, through several instruments.** This includes a possible Public Administration Reform and PFM Development Policy Operation (DPO) to support the implementation of the reform agenda. This would be the first development policy lending in Kosovo. Alternatively, a Program for Results (PforR) operation could focus on building institutional capacity through the sector agencies in PFM, procurement, human resource management, and administrative services. While the current Government has been reluctant to borrow—even on IDA terms—for TA, the CPF program offers technical support for the strengthening of a modern and efficient public administration in the event that grant funding is not available. This reflects the high priority accorded to institutional capacity development to underpin development of the young state.

Figure 5: Selected SCD Priorities and CPF Focus Areas and Objectives



61. **Focus Area 3—Promoting Reliable Energy and Stewardship of the Environment—aims to support Kosovo to (g) create the foundations for reliable, cleaner, and more efficient energy supply; (h) enhance energy efficiency and renewable energy; and (i) improve management of natural resources and address environmental contamination.** The main goal is to help Kosovo remove key infrastructure bottlenecks preventing the country from shifting to a more sustainable growth model based on internal productivity and external competitiveness gains. The rationale is fully consistent with, and a

continuation of, the approach of the previous CPS, which has been reinforced by the findings of the SCD and current Government priorities. Reliable energy is the top development constraint emerging from the SCD. It is also the top priority for the Government's development agenda, and the World Bank has been the lead agency in this sector in Kosovo for many years, promoting a comprehensive energy strategy that includes additional power generation, renewable energy development, energy efficiency, regional integration, and responsible mining and energy sector institutional development. The CPF also envisages supporting Kosovo to improve the reliability, capacity, and efficiency of its water supply infrastructure, which is a precondition to sustainable growth in the face of climate change and an associated aspect of energy sector development. Finally, the World Bank will consider supporting further environmental restoration activities to reverse the impact of industrial polluters and strengthen institutional capacity to minimize the social impact of investments in natural resource development, particularly in mining.

62. **This CPF provides continuity in approach with the previous strategy.** Both objectives of the previous strategy—accelerate broad-based economic growth and employment generation and improve environmental management—remain relevant and are incorporated in the new CPF through the ongoing portfolio and new operations. In particular, ongoing and relatively new operations in energy efficiency, education, health, and water and a continuation of IFC advisory investment policy support and investments in financial institutions that focus on SME lending will contribute to the results expected under the proposed CPF. Also, follow-up operations in the area of agriculture and cadaster are expected to build on and consolidate results where the World Bank's engagement was successful under the previous strategy and where champions exist to maintain momentum.

63. **The main shifts from the previous strategy are a stronger focus on sustainable management of water resources and irrigation, increased attention to fiscal and financial management, and greater efforts at youth inclusion.** The CPF will focus both on improving water security in a country with limited water resources and on modernizing and expanding sustainable irrigation for more productivity in agriculture. It will also explore the use of DPOs to improve the efficiency and prioritization of public spending for fiscal sustainability and more inclusive growth. The new strategy will also focus more explicitly on inclusion and job opportunities for youth, women, and vulnerable groups and will underline the importance of citizen engagement across the entire program.

64. **The CPF will maintain flexibility.** Given the country's political economy, vulnerability to economic and natural shocks, uncertain timing of power generation investments, extreme energy fragility, and level of risk to CPF implementation, flexibility will be needed to allow the World Bank Group to respond to changing internal and external circumstances. The proposed program adopts a flexible approach under all three focus areas, allowing for a shift of investment priorities as needed while still contributing to the overall objectives of the CPF.

65. **The CPF will not engage in sectors where championship is unclear or other partners are taking the lead.** Improvements in labor policies and social protection emerge as priorities under the SCD, but the current government has shown reluctance to borrow on IDA terms for these goals. Thus the World Bank will stay engaged with analytical work and technical assistance supporting other partners in taking the lead, at least until clearer championship emerges on these issues and/or clearer demand exists for World Bank services. Removing transport bottlenecks is also one of the SCD priorities. The European Bank for Reconstruction and Development (EBRD) is actively supporting this with the construction of new road corridors and upgrading of the rail network. The World Bank plans to engage only in a potential regional operation on Trade and Transport Facilitation and does not foresee Government demand for the World Bank's services in the transport sector in the early years of the CPF. Analytical work may focus on road maintenance and rehabilitation. Governance and the rule of law are also key priorities under the SCD, but the EU will continue taking the leading role in these areas, with support from IPA financing. The World Bank Group will focus selectively on efforts to strengthen PFM and modernize public administration.

Table 2: Specific Examples of Cross-cutting Themes Addressed across the Focus Areas

	Focus Area 1 Enhancing Conditions for Accelerated Private Sector Led Growth and Employment	Focus Area 2 Strengthening Public Service Delivery and Macro-Fiscal Management	Focus Area 3 Promoting Reliable Energy and Stewardship of the Environment
Gender	<p><i>The current portfolio operations are largely gender-informed and the aim is for the future lending to be even more gender-responsive and include gender aspects at the design stage. In this respect, the WBG's work in Kosovo will include gender filters to analyze the impact of each operation on gender. This analysis will be conducted during projects preparation. Progress in this area will be assessed at PLR and adjustments will be made if necessary to ensure due adjustment to promote gender equality across the program.</i></p> <p>Agriculture and Rural Development Screening/evaluation criteria under the Grant Program include additional points for women applicants. The AF will continue the same practice and moreover will give priority to women aggregators by assigning additional points in the business plan screening process.</p>	<p>Kosovo Health Project includes a goal to improve maternal and reproductive health services for women, and the project has gender disaggregated results indicators.</p>	<p>Electricity Tariff Reform assessment aims at identifying female-headed households, and provide recommendations on improving the subsidy targeting for the vulnerable ones.</p>
Climate Change	<p><i>Several of the current operations, but also the future lending and ASAs seek to address the climate change challenges and promote climate change resilience.</i></p> <p>A future Irrigation project helps through modern techniques and analysis in minimizing the water losses and maximizing the impact of water usage.</p>	<p>Energy Efficiency and Renewables Project: by investing and promoting EE in public schools and clinics, the project addresses the environmental impact through the energy savings and through averting the CO2 emissions.</p>	<p>Kosovo Power Project PRG: through the replacement of the highly-polluting Kosovo A power plant with a modern thermal power plant in compliance with the EU environmental standards, the environmental impacts from the fossil-fueled power plants can be minimized. Additionally, Energy Efficiency and Renewables Project is foreseen to address the adverse environmental impact stemming from Kosovo's high reliance on firewood and lignite, through the energy savings and avoiding CO2 emissions and local pollution. The District Heating Sector Assessment will look at ways the rehabilitation and/or expansion of the district heating system would lead to improved efficiencies, which in turn would reduce Greenhouse Gas emissions.</p>
Fragility	<p><i>Several of key fragility drivers are addressed through the current and pipeline projects and the Risk and Resilience Assessment provides recommendations on how to address the fragility issues in future programming.</i></p> <p>A targeted intervention on enhancing employment opportunities for youth, women and vulnerable groups is planned for the second part of the CPF.</p>	<p>The Trust Funds linked to the Health and Electricity Energy Reforms are expected to contribute to developing mechanisms for targeting the poor for the mandatory health insurance and energy reforms.</p>	<p>The Kosovo Electricity Tariff Reform will do an analysis of the electricity tariff structure and impact on poor households and provide recommendations on necessary changes to the current tariff structure in order to improve the subsidy targeting for the poor.</p>
Citizen Engagement	<p><i>CPF will further strengthen citizen engagement by: (i) operationalizing citizen engagement across the World Bank portfolio in line with corporate requirements; (ii) deepening citizen engagement in key reforms and sectors; (iii) strengthening the quality of design and implementation.</i></p> <p>Competitiveness and Export Readiness. During implementation, beneficiary feedback/grievance mechanisms will be an integral part of the SME grant scheme operation, in order to allow applicants to inquire about the selection procedure and to submit comments and complaints.</p>	<p>Education System Improvement Project promotes citizen engagement through the participation of teachers, parents and communities in planning, implementing, and monitoring school activities.</p>	<p>Water Security and Canal Protection foresees the establishment of a grievance mechanism to be channeled through a community-grievance approach and which will facilitate inputs from the individuals and communities.</p>

66. **The World Bank Group will continue efforts to strengthen citizen engagement and demand for good governance in Kosovo.** Citizen engagement results to date are presented in the CLR. Complementing supply-side governance activity, the CPF will further strengthen citizen engagement by (a) operationalizing citizen engagement across the World Bank portfolio in line with corporate requirements;

(b) deepening citizen engagement in key reforms and sectors; (c) strengthening the quality of design and implementation; and (d) exploring opportunities for TA and Advisory Services and Analytics (ASA) geared toward strengthening local- and national-level trust-building mechanisms for citizen feedback and state-non-state dialogue. CPF activities will be aligned with the objectives of the 2014 Strategic Framework for Mainstreaming Citizen Engagement in World Bank Group Operations, that is, engagement with citizens to improve development results and contribute to building effective national mechanisms for engagement—with governments and the private sector. The strategic approach to citizen engagement in Kosovo has been operationalized through the development of a Citizen Engagement Country Roadmap (see Annex 8).

Box 2: Integrating Gender in the World Bank’s Engagement

Gender gaps in access to economic opportunities remain one of the main challenges for Kosovo. Only 12.5 percent of women are employed, compared to 41.3 percent of men. This is driven both by low female labor force participation and high female unemployment, compared to men. The female-to-male ratio of employment and labor force participation is low compared to both the region and other lower-middle-income countries. The gender gap in employment is highest for those ages 25–34, or those in their prime reproductive years (Kosovo Agency of Statistics with LFS 2014). For women who work, the relatively low gender wage gap masks gender disparities as men receive higher labor market returns to their skills than women. Among those employed, 13 percent of women and 26 percent of men were self-employed in 2013 (Kosovo Agency of Statistics). The gender assessment prepared for Kosovo’s FY12–FY15 CPF identified gender inequalities in labor markets as the most important concern for Kosovo. As such, significant efforts have been made since then to carry out more in-depth diagnostic work to understand the barriers to work for women, including a labor market assessment with a gender focus (Winkler, Hernan (2014) “Kosovo – A Note on Recent Labor Market Developments” Mimeo, World Bank, Washington, DC.), a mapping of all interventions on women’s access to economic opportunities in Kosovo, and just-in-time support around family care provisions. Further analysis estimated that gender gaps in the labor market result in a 28 percent loss in gross national income in Kosovo, the highest among countries in the Western Balkans (Teignier and Cuberes 2015).

The World Bank will continue working toward better understanding as well as addressing gender inequalities in Kosovo. Follow-up activities and dialogue building on the body of knowledge mentioned will be carried out. In addition, the forthcoming Kosovo Jobs Diagnostic will be gender informed, with the overall objective of identifying the demand-side and supply-side constraints to job creation. On the operational side, examples include the gender incentives that will be included in the criteria for the allocation of SME grants under the Competitiveness and Export Readiness and Agriculture AF Projects. Furthermore, the World Bank-financed Real Estate and Cadaster and Project is working with government counterparts to update the legal/regulatory framework and information and communication technology (ICT) systems to facilitate automatic registration of marital property in the wife’s name.

Finally, Kosovo may be part of a regional lending operation on Gender and Equality of Economic Opportunity focused on strengthening the legal and regulatory framework around gender equality, to promote women’s access to assets and labor market participation.

3.B.3 Objectives supported by the World Bank Group Program

Focus Area 1 - Enhancing Conditions for Accelerated Private Sector Growth and Employment

Objective 1: Improve the business environment and access to finance

Indicator 1: Number of products with export potential tested and certified by domestic organizations that are accredited by an internationally recognized accreditation agency

Indicator 2: Percentage of annual cost reduction of inspection compliance per business

Indicator 3: Number of people and micro, small, and medium enterprises (MSMEs) reached by participating financial institutions with a focus on female-owned MSMEs

Indicator 4: Value of additional foreign investment attracted due to Advisory Services on investment policy

Indicator 5: Number of properties updated and registered in the digital cadaster register (Kosovo Cadaster Land Information System)

Indicator 6: Percentage of population with access to broadband Internet in underserved areas (number of subscribers per 100 people)

67. **A more effective legal, regulatory, and administrative framework to govern trade and investment is needed to help enhance the capacity of businesses to withstand competitive pressures and connect with global value chains.** Low competitiveness has led to a weak private sector and poor economic vitality, in particular among SMEs. The productive base of the economy is narrow and undiversified. Despite some notable progress in recent years, as reflected in improvements in Doing Business indicators, an unfavorable business environment, a deficit in quality infrastructure, and the poor access of firms, especially SMEs, to skills, technology, and finance, stifle the growth prospects of Kosovo's private sector. In the absence of a strong indigenous private sector equipped with sufficient capital resources, attracting international investment becomes important to the achievement of Kosovo's economic growth and diversification objectives. Despite the country's potential for exports, Kosovo remains highly reliant on imports, and its export base is small. With little export-orientated manufacturing or services, the non-tradable sectors dominate output and employment. Administrative barriers make it more difficult than necessary for Kosovo firms to take advantage of its proximity to the EU.

68. **To address some of these constraints that limit greater private sector contribution to growth, IFC and the World Bank will join efforts to build capacity in the country, both of government and the private sector, and address market failures in close coordination with the International Monetary Fund (IMF), the EU, and other IFIs.** IFC and the World Bank will continue to support reduction of administrative burden for businesses, tax transparency, improved corporate governance and financial reporting, and simplification of trade logistics as well as, overall, the investment policy reforms to attract private investments and higher quality FDI to the country.

69. **The World Bank aims to help Kosovo enhance the business environment, namely through supporting the national quality infrastructure, strengthening export readiness of SMEs, and reforming the business inspection system.** The objective is to support product certification for export markets, by creating the conditions for international recognition of the national quality infrastructure (NQI)—identified as a key weakness for Kosovo. Also, the goal is to support SMEs to mitigate information asymmetries and overcome the high fixed cost of export entry by helping them improve the quality of their products, tap into regional value chains, and improve the relevant skills of their employees. The World Bank would also help strengthen the capacity of export-oriented firms and reduce the cost of business inspections. Finally, Kosovo firms face the highest number of individual inspections among all neighboring countries, and the World Bank aims to contribute to the reduction of the administrative burden on businesses and improvements in the efficiency and effectiveness of inspection services.

70. **Access to finance remains a serious impediment particularly to the MSME sector.** While the financial sector has solid liquidity, low level of NPLs compared to the region, and strong provisioning requirements, the sector is rather new with unsophisticated products offered to the market and it is exposed to a number of potential vulnerabilities. Main banks are subsidiaries of international banks with ongoing deleveraging activities. Deposits of very short maturity are the main source of financing and long-term financing is scarce. Locally owned banks need support in improving their corporate governance, risk management, and product offer. As a result, access to finance in Kosovo remains low; outstanding credit is estimated at only 36 percent of GDP. The informality is very high, the collateral required is significant, and

many SMEs do not have a credit history. The SCD identified as a priority the need to deepen and widen financial intermediation not only to spur growth but also to increase the level of financial access and inclusion, as the large majority of companies, which are family-owned SMEs, face constraints due to the high cost of capital and lack of long-term finance.

71. **Increased access to finance will remain at the core of IFC's strategy in Kosovo.** Since the banking sector is liquid, IFC will target its support to facilitate access to credit for MSMEs, particularly for the most vulnerable and underserved segments of MSMEs such as women-owned companies and agribusiness companies as well as energy efficiency and renewable energy projects. To achieve that objective, IFC will continue to provide long-term financing to the financial institutions that share the same objectives as IFC's with the aim of increasing their outreach to underserved segments of SMEs. IFC will continue to support microfinance institutions (MFIs) in Kosovo that provide lending to microenterprises, rural businesses, and agribusiness sector. Through its portfolio in banks and MFIs, IFC will support financing of SMEs, microenterprises, rural businesses, agribusinesses, and small companies ordinarily unable to obtain finance from traditional banks.

72. **IFC will consider financing competitive local companies in a broad range of sectors, including power; manufacturing; SMEs with a focus on agribusiness; and services sectors, including retail supply chain, distribution, logistics, and hotels.** IFC will support Kosovo's integration in the regional market through financing competitive and export-oriented companies. IFC will promote inclusive growth by supporting women-owned companies, MSMEs, and the agribusiness sector. IFC will continue to seek opportunities for employment growth with sizable FDI companies in the manufacturing, mining, and services sectors. Kosovo is one of only three countries in Europe and Central Asia (ECA) which will be eligible for the IDA18 PSW fund. IFC will use the PSW to open new markets and improve risk profiles of projects which would encourage well-known foreign companies to invest in Kosovo. IFC will also consider the use of the PSW for the deployment of credit enhancement into the energy sector, including the new thermal power plant, or to encourage investment into renewable energy. The PSW would create more opportunities for IFC to support competitive and financially sustainable start-ups which create jobs especially for the youth. In addition, IFC may consider using the PSW to provide incentives to banks and MFIs to kick-start credit activity and support underserved segments, including women-owned businesses and small-scale agricultural and housing finance.

73. **MIGA remains open to providing political risk insurance to IFIs to support lending operations in the country, specifically targeting SMEs.** Similar to IFC, access to finance is expected to remain the core area for MIGA in Kosovo, with the potential to grow further and to build on the agency's existing operations in the sector through its expropriation of funds coverage.

74. **The World Bank Group will support the country in improving its financial infrastructure and deepening financial intermediation.** Through its advisory services, IFC will help financial institutions in improving corporate governance practices, strengthening risk management systems, and improving SME banking capabilities. IFC will continue its work with financial sector regulators, credit bureau, collateral registry, and financial institutions, to improve the credit information sharing environment and secured transaction with the ultimate goal of reducing information asymmetry in the financial sector and improving access to finance. Particularly, the program will aim to support an increased level of finance to MSMEs through strengthening credit reporting and the legal, regulatory, and institutional framework for secure transactions creating awareness among various stakeholders on the utilization of the registry. Also, IFC's dedicated advisory services will help financial institutions in introducing new products and strengthen their capacity to finance MSMEs, renewable energy, energy efficiency in both residential and small business, and agribusiness projects. The World Bank is exploring a follow-up operation in cooperation with the Central Bank of Kosovo (CBK) to contribute to strengthening of the financial sector intermediation and financial sector infrastructure. Key potential activities would include (a) supporting the newly established

Kosovo Credit Guarantee Fund, and (b) advancing further the payment system infrastructure through establishment of an interbank card processing center which would contribute to the reduction of the transactions cost for citizens and reduction of cash payments in the system. In addition to this lending project, the World Bank also aims to support the policy makers' goal of channeling remittances into investments through partial credit guarantees.

75. **To fight informality and boost financial inclusion, IFC will continue to support strengthening corporate governance.** IFC will continue its work to support building local institutional capacity for the promotion and implementation of good corporate governance practices, assist companies to implement good corporate governance practices, and assist in the development of the corporate governance framework.

76. **Despite significant reforms, as demonstrated by Kosovo's improvement in the global Doing Business ranking, more can be done on securing property rights and developing a well-functioning land market, particularly given its implications on agriculture, finance, and households' assets.** Under the ongoing World Bank-financed Real Estate and Cadaster Project (RECAP), the Kosovo Cadastral Agency (KCA) has made considerable progress in introducing a modernized land administration system, securing property rights, and improving business environment. Most notably, Kosovo's position for registering property in the World Bank Doing Business Report rose dramatically from 73 (DB 2012) to 33 (DB 2017). The time to register a transaction has fallen by 65 percent from 30 days before the project to 10 days, as of December 2016. However, significant challenges remain in land administration and management. Less than 30 percent of cadastral zones have completed the reconstruction process and are formally registered in the system, in part because of the lack of access to historical cadastral documentation.

77. **Building on the progress achieved, the CPF plans to support Kosovo in implementing the next set of reforms to achieve a complete cadaster and develop national spatial data infrastructure (NSDI), an EU accession requirement.** These would focus on improving public sector service delivery and strengthening private sector competitiveness through (a) policy and legal reforms that enhance land tenure security, support land market functionality, and ensure sustainability of land administration services; (b) technical land and geospatial work to complement Kosovo's e-governance program and meet EU accession requirements; (c) economic and financial activities to support jobs growth through geospatial information and improve fiscal sustainability; and (d) capacity-building initiatives to improve decision making through the use of geospatial information for both public and private sector.

78. **Overall, the ICT infrastructure in Kosovo is comparatively good and competitive on a regional level.** Internet connectivity and penetration are above the regional average. The demographic in Kosovo, in combination with rising interest in IT studies, represents an important competitive factor for Kosovo's IT industry. Kosovo IT companies reveal specific capabilities in the areas of custom software development, web development/web design, mobile applications, and software testing. Wages and cost structures in the Kosovo IT industry are competitive on a regional as well as international scale. There is also substantial market potential for Kosovo IT exports (software and IT services) due to increasing demand for outsourcing/nearshoring. The Kosovo IT industry can draw on a strong and well-organized diaspora abroad, particularly in Germany, Switzerland, the United Kingdom, and the United States.

79. **The World Bank Group will respond to the Government's interest to anchor an integrated Kosovo Digital Economy (KODE) program through an IDA Credit.** The 2016 World Development Report details that economic development can be accelerated when countries adopt digital technologies, but those digital technologies alone cannot guarantee development. Rather, for digital technologies to provide a much greater boost to development, countries need to close the remaining digital divide and make the Internet universally accessible, affordable, open, and safe. The ICT team has been assisting the Government of Kosovo over the last three years on a range of topics related to digital economy development, a priority under Kosovo's NDS and ERP. The CPF will support the rollout of broadband

networks in underserved areas of rural Kosovo, contributing to close the digital divide, and will support improved market linkages, improved management capacity, and demand-oriented IT skills training, critical to ICT exports by digital businesses and IT job creation. A successful pilot initiative in 2015–2016 to train young women on technical and soft skills, to find and perform work on global online platforms, demonstrated the employment and income potential for young women of online jobs out of Kosovo.

Objective 2: Improve productivity of the agriculture sector

Indicator 7: Number of farmers adopting improved agricultural technologies, disaggregated by gender

Indicator 8: Hectares of area provided with improved irrigation services under Radoniqi and Dukagjini Irrigation Scheme

Indicator 9: Pipeline of irrigation investments prioritized and financed according to investment plan

80. **Agriculture is a critical sector of Kosovo’s economy with strong potential for contributing to the achievement of the country’s socioeconomic agenda.** Over 62 percent of the country’s population lives in rural areas and depends, directly or indirectly, on agriculture for its livelihood. The sector is an important source of employment, although primarily on an informal basis. Poverty in rural areas is especially high and over 40 percent of the rural population is unemployed. The lack of job perspective, especially among the rural young population is putting a strain on social cohesion and encouraging out-migration. The SCD identifies agriculture as the engine of growth in the short to medium term. It is one of the few tradable sectors that can contribute to achieving the country’s overall socioeconomic reform program of promoting self-sustained growth founded on increased domestic productivity and export competitiveness as well as stimulating employment, reaching women and youth, and reducing poverty.

81. **The Government, with assistance from several donors, is supporting the sector through a mix of technical assistance and investment support.** The Government is undertaking critical measures to revitalize the sector. With EU assistance, it developed the National Agricultural and Rural Development Plan 2014–2020, whose objectives are to undertake actions to overcome bottlenecks holding back sustainable rural development in the country and align Kosovo’s rural sector with the three axes of the EU Instrument for Pre-accession for Rural Development (IPARD). The Government has introduced several reforms and investment initiatives to increase agricultural growth and competitiveness and its efforts are being complemented by several donors including the EU; Danish International Development Agency (DANIDA); Swiss cooperation; United States Agency for International Development (USAID); Austrian Development Agency; German Agency for International Cooperation (*Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ*); and the World Bank (through the ongoing IDA-financed Agriculture and Rural Development Project).

82. **The CPF seeks to promote competitiveness and growth in the livestock and horticulture subsectors—two areas in which the country enjoys competitive potential.** World Bank support will build on the positive results achieved during the last strategy period and aims to increase the productivity of farmers and agro-processors as well as leverage private investments in the livestock and horticulture subsectors. Sectoral analyses indicate that the horticulture and livestock subsectors offer particularly good opportunities for increasing exports, import substitution, employment, and rural incomes, including for women and youth.

83. **Additionally, the CPF will respond to Government demand and help Kosovo rehabilitate and expand irrigation systems.** In Kosovo, irrigation is considered essential on three accounts: (a) to minimize climatic risks affecting water resources, (b) to ensure quality of products essential to commercial agriculture, and (c) to provide adequate incomes and living standards in the rural areas. An aging irrigation infrastructure and lack of maintenance are reducing the level of irrigation use and affecting development of

agriculture, in particular the horticulture subsector. It is expected that with adequate, modern irrigation, small farmers would move to more high-value crops and more specialized markets and away from near-subsistence agriculture. Irrigation modernization features prominently in both the National Water Strategy as well as the Agricultural and Rural Development Program (2014–2020). The CPF will support the modernization, expansion, and sustainability of the irrigation network in Kosovo and the capacity of the authorities to plan and manage investments in the sector through a comprehensive countrywide feasibility analysis.

84. **Given the importance of the agribusiness sector in enhancing jobs and livelihoods of a large segment of the population and its exports potential, IFC will deploy an integrated investments and advisory strategy to increase its support to the sector as well as banks’ ability to finance agribusiness projects.** While the agriculture sector, including the food industry, contributes to 20 percent of GDP, banking sector loans to the sector account for only 4 percent of total gross loan portfolio. Agricultural insurance that could support banks and MFI lending to the agriculture sector is nonexistent in the country. IFC aims to increase its direct agriculture value chain investments and at the same time create conditions for improved access to finance for agribusiness SMEs. IFC will offer a set of products, tools, institution building services, and senior expertise to enhance lending capacity of the financial institutions, including to MFIs, to finance MSME agribusinesses and rural businesses and agribusinesses. Also, IFC will help the country launch agricultural insurance products designed particularly for financial institution, to increase their lending to the sector by using instruments to mitigate external weather-related risks.

Objective 3: Enhance employment opportunities and inclusion for youth and women

Indicator 10: Number of youth who are neither in education, employment, or training (NEET) activated

Indicator 11: Share of youth and women who are benefiting from evidence-based effective active labor market programs

85. **Kosovo has the youngest population in Europe, but social tensions and excessive emigration may emerge if demographic pressures are not absorbed by the labor market and if youth are not provided with opportunities to contribute to public discourse.** The Risk and Resilience Assessment carried out in preparation of the CPF (Annex 6) identifies youth disenfranchisement as the greatest and most relevant internal risk for Kosovo’s future, with considerable potential to have an impact on the country’s stability.

86. **The CPF will contribute to creating better economic opportunities for youth and women and will address some of the drivers of exclusion.** The CPF will focus on these issues horizontally, across the whole program. But the CPF will also complement this with targeted intervention aimed at strengthening employment opportunities of youth and women and address multiple drivers of youth exclusion and vulnerability. This intervention will build on the success of the youth entrepreneurship and business development activities under the closed Kosovo Youth Development Project, with targeted nonfinancial and financial entrepreneurship development services, tailored to disadvantaged young people and delivered through tailored local approaches. Also, by working with local stakeholders, including community and religious leaders and local governments, and by providing arenas for young people to work on community action projects and participate in leadership development, the CPF will improve local governance and service delivery targeted at excluded young men and women. In addition to these country-specific interventions, Kosovo will be considered for a regional operation on equitable opportunities focused on strengthening the legal and regulatory framework around gender equality and other forms of nondiscrimination, so as to promote access to assets and jobs for women and minorities.

Box 3: CPF Contribution to Employment Creation in Kosovo

Demand-side Employment Creation. The CPF will help Kosovo (a) remove some key infrastructure bottlenecks (like in energy and irrigation) that limit private sector development and job creation; (b) support the improvement of the business environment (including facilitating access to finance for MSMEs and improving security and management of land titling); (c) strengthen the NQI to facilitate exports, provide direct support to SMEs with export potential, and support the reform of the inspections systems to reduce the administrative burden on businesses; (d) develop broadband infrastructure and support ICT job creation; and (e) expand support to agriculture firms, with a focus on export potential and job creation.

Supply-side Employment Creation. The CPF will fill knowledge gaps on the supply side of job creation with a jobs diagnostic study and an analysis of economic growth-employment links, taking advantage of both data collections on informality in the services sector and new and detailed data (European Union Statistics on Income and Living Conditions [EU-SILC]) on various sources of incomes across the population, both of which are components of the Trust Fund (TF) Statistic Capacity Building Grant with the Kosovo Agency for Statistics. The lending program will (a) support improvement of maternal health care services, important to ensure that youth foundational skills are built early in life; (b) strengthen the efficiency/effectiveness of education services critical to skill formation including, possibly, by improving opportunities for ECD; (c) expand broadband infrastructure and build on a successful pilot for women’s employment in ICT; (d) expand access to finance and entrepreneurship training for young Kosovars, who are NEET; and (e) strengthen the legal and regulatory framework and land management to promote access to assets and jobs for women.

Focus Area 2 - Strengthening Public Service Delivery and Macro-Fiscal Management

Objective 4 Strengthen selected systems to improve quality, accountability, and efficiency in delivery of education

Indicator 12: Percentage of municipalities that allocate resources to schools in accordance with revised formula and percentage of school report cards distributed and publicly displayed at schools.

87. **In recent years Kosovo has made considerable progress in improving access to education and in building institutions and capacities for improved education delivery.** But the quality of education remains poor and inequitable, with significant regional, income, and gender disparities; the education spending is relatively low and has been driven by wage costs in the sector; the access to ECD opportunities is low; and the system for monitoring sector performance is inadequate. Kosovo’s first participation in 2015 in OECD’s PISA survey indicates that the country’s overall performance in science, math, and reading significantly lags behind averages of the OECD countries, EU, and the Europe and Central Asia Region, including neighboring countries. In addition, students from low-income households are about 1.5 years of schooling behind their well-off peers in science scores, suggesting inequities in the system. PISA results show that the majority of Kosovo’s 15-year-olds are not equipped with the foundational skills needed for productive employment and participation in life. This trend has implications for their later outcomes in life, as well as for the country’s economic growth and competitiveness.

88. **The low and unequal access to early childhood development and stimulation opportunities means that most children in Kosovo do not have the opportunity to gain a set of emotional, behavioral, and cognitive skills that lead to better school preparedness.** The social and economic returns for investing in ECD are highest at young ages. In addition, investment in ECD is particularly beneficial for children from poorer families because they are less likely to receive sufficient support in the home with respect to social, communication, and cognitive development. Expanding ECD and preprimary education would lead to society-wide benefits in the medium to long term in terms of higher employment and worker productivity and would contribute to a positive fiscal dynamic.

89. **The Government is placing priority on strengthening the education system.** The Ministry of Education, Science, and Technology (MEST) has developed the Kosovo Education Strategic Plan (KESP). Education is the first essential step as part of Kosovo's efforts to increase productivity, build the critical human capital, and reduce the unacceptably high rates of unemployment. Education could benefit from both more resources to increase enrollment in preprimary education and ECD and improved efficiency of existing resources to create savings and the right incentives for quality. To attract private sector investments and foster business expansion and fully reap the benefits of European integration, the workforce needs to be equipped with both the specific skills and the soft skills that private sector employers are seeking. Strengthening the quality and the relevance of the skills offered by all levels of education is essential to strengthen human capital, reduce poverty, and enhance social inclusion.

90. **The World Bank will support the implementation of the Government strategy by building the capacities for improved and effective system management at the central and municipal levels, as well as for an effective management of schools and universities.** The World Bank will strengthen selected systems that are expected to contribute to quality, accountability, and efficiency improvements. For example, the availability of a modern Education Management Information System (EMIS) is expected to improve planning and decision making and ultimately efficiency of spending, and the introduction of school report cards is expected to strengthen accountability of education outcomes. Other gaps remain, including for access to ECD and improving the relevance of vocational education and training to private sector demands. These could be addressed in later years of the CPF through additional financing or technical support to continue reform implementation with a stronger focus on strengthening relevant skills provided by the education and training system and improving opportunities for ECD.

Objective 5: Broaden the coverage and improve equity of health services

Indicator 13: Percentage of the poor enrolled in mandatory health insurance

91. **Health outcomes in Kosovo have improved over time but remain poor.** Private health expenditure, almost entirely in the form of out-of-pocket payments at the point of service, is high and impoverishes households. Health outcomes could be enhanced by shifting the focus from hospitals to primary care to meet basic needs. It is particularly important to control the share of out-of-pocket payments in total health care spending for the poor and vulnerable. Building up institutions that will manage health insurance and making public spending in health care more efficient will promote equal opportunity and protection against income shocks so that the less well-off can accumulate assets, participate in economic growth, and improve their livelihoods. The mandatory health insurance scheme soon to be implemented should also enhance risk pooling and create opportunities to broaden efficiency by prioritizing spending on primary care and boosting the quality of care across the board.

92. **In the health sector, the CPF will support strengthening of financial protection from health spending for the poor and the quality of care for priority maternal and child health and noncommunicable disease services.** The World Bank will support the introduction of performance-based financing for primary care in municipalities and the government's introduction of mandatory health insurance, including the expansion of subsidized health insurance for the poor. Drawing on lessons from health sector reforms elsewhere, World Bank support will continue to recommend that the public is informed and platforms are provided for feedback on the health insurance scheme and other aspects of the health financing reforms.

Objective 6: Improve sustainability of public finances and public sector management

Indicator 14: At least three-year medium-term expenditure framework applied across all budget users

93. **Kosovo has managed to maintain macro-fiscal stability and to weather the global financial crisis and the euro area crisis.** However, in a euro-denominated economy, the capacity for maintaining healthy public finances by successfully implementing fiscal rules, avoiding spending pressures from nonpriority areas, and generating alternative revenues is vital to creating sufficient resources for public investments to improve competitiveness and crowd-in the private sector while protecting the poor and vulnerable from unforeseen shocks. In the area of public finances, reorienting taxation to account from decreasing revenues at the border following the implementation of the SAA and reprioritizing public expenditures to address critical development challenges, while preserving fiscal discipline, is key to a gradual rebalancing of growth toward greater reliance on increased productivity and improved competitiveness.

94. **Kosovo benefited from a number of detailed reviews of its PFM system during the last several years that have paved the way to a number of reforms in this area.** The last Public Expenditures and Financial Accountability (PEFA) assessment, conducted in 2016, recognizes significant progress in strengthening PFM performance, particularly in terms of aggregate fiscal discipline, the strategic allocation of resources, and efficient service delivery. Substantial improvements are nonetheless required in certain areas where gaps in implementation still limit the quality of budget planning and preparation, internal financial control, audits, debt management, and capital investment management. The Government adopted, in late 2016, a PFM reform strategy built upon the PEFA findings and recommendations. Support to implement the reform action plans would be provided by the EU, IMF, and the World Bank.

95. **The World Bank Group will support the authorities in their efforts to improve financial management and public administration.** The authorities expressed interest in a Public Administration Reform and PFM DPO (or alternatively a Program for Results) to support the reforms in PFM, public procurement, human resource management, and administrative services.²⁶ With overall public spending and public investment relatively small (at 28.1 and 7.4 percent of GDP, respectively), the DPO will seek to promote efficiency and prioritization of public spending to improve competitiveness and crowd-in the private sector while protecting the poor and vulnerable.

96. **Depending on available IDA resources and country demand, the CPF program may also expand its support to strengthen public administration.** Building on ongoing efforts, the World Bank would extend its support for the ongoing civil service reforms, focusing on the development of a Human Resource Management Information System which consolidates information on HR transactions, facilitates implementation of HR policies, and improves access to information. Similarly, the World Bank will continue to support the development of the e-procurement system to promote competition, increase efficiency, and improve access to information. The World Bank would also support the development of the e-Government architecture, through improvements in the interoperability of Government ICT systems. This will generate savings through consolidation of fragmented ICT systems, promote cross-ministerial collaboration, and facilitate access to information. The next step is to apply this capability systematically to the delivery of administrative services, shifting administrative services online, consolidating databases across government, and streamlining business processes. This will help reduce transaction costs for citizens, reduce opportunities for corruption from bureaucratic gatekeepers, and allow stakeholders to monitor the quality of service against standards through e-feedback mechanisms.

²⁶ The specific content of the DPO has not yet been agreed.

Focus Area 3 - Promoting Reliable Energy and Stewardship of the Environment

Objective 7: Create the foundations for reliable, cleaner, and more efficient energy supply

Indicator 15: Percentage completion of construction of a new, modern, and efficient coal-fired plant that meets EU emission standards

97. **Reliable (and cleaner) energy is the top bottleneck emerging from the SCD to help the country shift to a more sustainable growth model based on internal productivity and external competitiveness gains.** Kosovo relies on just two aging power plants for the bulk of its energy supply. The existing facilities are obsolete, carbon intensive, and highly polluting. Moving toward more efficient and cleaner supply of energy, in conformity with EU environmental standards, is imperative for Kosovo. Additionally, electricity supply in Kosovo is insufficient to meet present demand, especially during peak demand, and its unreliability imposes significant costs on both large and small businesses, which is a deterrent to investment and job creation. Unreliability of electricity supply represents the single largest obstacle to attracting high-quality FDI to Kosovo. The frequent power outages are considered among the most important impediments to private companies and a major obstacle to day-to-day operations and a constraint both to investment in new equipment and business expansion, in turn affecting job and employment creation and investments. Unreliable energy also forces households, particularly the poor, to rely heavily on lignite and firewood as a source of heating contributing to air pollution, which reaches unhealthy levels during the winter in urban centers. The obsolete lignite-fired power plants currently in operation are also a significant source of air pollution.

98. **The Kosovo power system was designed in different circumstances, when power generation, transmission, and distribution elements were part of a larger integrated Yugoslav power system.** The ability to fully cover local demand, regulate output in accordance with demand, and provide self-sufficient ancillary services of that subsystem were not considered relevant criteria in its initial design. Kosovo continues to rely on two Yugoslav-era power plants (Kosovo A and B) and imports, which are not able to provide reliable power supply. Kosovo has not built new generation facilities in many decades and needs to establish new sources of electricity before it can decommission the aging, inefficient, and polluting Kosovo A power station.

99. **World Bank Group support will be in the context of the Government's comprehensive approach to placing the energy sector on a sustainable path in the medium term.** Achieving energy security in a sustainable way would require developing better integration in regional markets, enhancing renewable energy, and decreasing demand for energy through energy efficiency measures and reduction of distribution losses. These measures would contribute to a cleaner supply of energy and a lower demand, but this alone will not eliminate the supply-demand energy gap. New, modern, and efficient thermal generation will also be needed to ensure energy reliability and security. The Government is pursuing a comprehensive approach to meeting energy demand, with an energy strategy that includes (a) developing a modern and highly efficient thermal generation facility, using best available techniques and meeting EU environmental standards; (b) decommissioning the 50-year old Kosovo A power plant; (c) rehabilitating the Kosovo B power plant to meet the requirements of the EU's Industrial Emissions Directive; (d) developing renewable energy sources including small hydro, wind and biogas; (e) improving energy efficiency in public buildings and incentivizing efficiency in the private sector; (f) promoting integration of regional markets; (g) enhancing efficiency of electricity distribution; and (h) building institutional capacity within the energy sector.

100. **The CPF will promote a high level of donor coordination around this agenda, whereby the IFIs, EU, and U.S. Government would support specific elements of Kosovo’s comprehensive energy agenda.** The CPF envisages a strong alignment between IDA, IFC, and MIGA in supporting the Kosovo energy strategy and also with other donor partners involved in different, but mutually reinforcing, aspects of the strategy while simultaneously also enhancing the capacity of domestic institutions involved in Kosovo’s energy sector.

Box 4: Key Donor Engagement in the Energy Sector

EU:

- Planned support for Kosovo A decommissioning and rehabilitation of Kosovo B (if it is not privatized)
- Grant funding for rehabilitation and expansion of district heating system in Pristina
- Grant funding for construction of a new biomass-based combined heat and power plant in the municipality of Gjakova
- Technical assistance for implementing EU directives on renewable energy and energy efficiency
- Support for establishment of an Energy Efficiency Fund in partnership with the World Bank

EBRD:

- Potential consideration for financing of the new power plant
- Financing for the Transmission, System and Market Operator KOSTT to strengthen the internal transmission grid
- Financing for residential, industrial, and commercial energy efficiency
- Financing support for selected renewable energy projects in the power sector

Kreditanstalt für Wiederaufbau (KfW):

- Financing and grants for district heating rehabilitation in Pristina
- Financing for municipalities for energy efficiency in public buildings
- Supported the development of Albania-Kosovo transmission line

USAID:

- Support for renewable energy in the power sector
- Unbundling of Kosovo Energy Corporation (KEK) Generation and KEK Mining
- Financing strategy for Kosovo B
- Support for transactions for the development of electricity generation (including new power plant)

101. **Within this comprehensive approach, the World Bank Group will consider supporting the construction of a modern thermal power plant that meets the environmental standards of relevant EU directives.** This will be complemented by World Bank Group support to stimulate investments in renewable energy projects and energy efficiency under Objective 8. This is a continuation of the approach taken under the previous CPS with the aim of supporting the Government in substituting the old Kosovo A power plant with a new state-of-the-art thermal power plant which is to be largely financed by private sector investors, to address Kosovo’s energy constraints in a more efficient, less polluting way, meeting EU environmental standards. After several attempts over the last six years to prepare a project, the Government announced the selection of a preferred bidder in November 2015 to construct a 450 MW supercritical power plant, and entered into negotiations with IFC serving as transaction advisor. To support the project, the World Bank Group will consider providing IDA and MIGA guarantees and, subject to legal and financial structuring, IFC financing. The project will need to meet all relevant environmental and social standards as required under World Bank Group policies, including appropriate safeguards instruments for mining-related resettlement. This will also include regular public consultation and functioning grievance redress mechanisms, through which citizens can provide feedback on issues related to the project. Institutional capacity constraints in Kosovo and the complex and risky nature of investments in thermal (coal) power generation make this a high-risk operation. If the planned investment in a new power plant does not

materialize in the anticipated time frame, the World Bank Group will adjust the CPF program and the Results Framework during the Performance and Learning Review planned for late 2018–early 2019.

102. **The CPF program will also aim to address the equity dimension of energy security through tariff reform analytical work and advisory services.** The large investments that are expected in the energy sector will inevitably increase energy tariffs. The World Bank is currently analyzing the impacts of tariff increases on the poor and will then advise the Government on mitigating measures in the context of tariff and subsidy reforms that would protect the poor.

Objective 8: Enhance energy efficiency and renewable energy

Indicator 16: MWh of lifetime energy savings and metric tons of reduced fossil fuel use for heating in public buildings

Indicator 17: Greenhouse gas (GHG) emission savings (in CO₂eqv per year)

103. **Kosovo’s energy intensity, in terms of energy use per unit of GDP, is more than three times higher than that of OECD countries and more than two and a half higher than the average European countries, showing substantial potential for energy efficiency improvement.** Further, Kosovo’s energy use per capita is about one-third that of OECD countries, so its energy intensity is likely to increase further as incomes rise.

104. **Promoting energy efficiency in the public, residential, and commercial sectors could help save money, reduce energy demand, and narrow the electricity deficit.** Energy efficiency can help address issues related to energy security while reducing public expenditures on energy and the environmental impacts of energy use.

105. **A moderate renewable energy potential can help reduce power supply gap and replace electric heating.** Kosovo has a moderate potential to expand renewable energy generation, mostly from hydro and wind that will not, however, be able to meet the full growth in demand and, in particular, will not be able to meet seasonal variation and peak demand. It could nonetheless increase overall energy supply and displace coal power generation, but more needs to be done to streamline the application process for feed-in tariffs and improve the investment climate in the sector. At the residential level, which is dependent on electricity for heating (or wood/lignite burning), more sustainable energy solutions such as district heating; sustainable biomass (for example, wood pellets); heat pumps; and solar water heating could provide a cost-competitive alternative and reduce the environmental effects of domestic heating.

106. **The World Bank Group will continue to support Kosovo in reaching its energy efficiency and renewable energy goals.** The World Bank—in line with the previous CPS—will promote actions to reduce energy consumption and fossil fuel use in public buildings through energy efficiency and renewable energy investments and enhance the policy and regulatory environment for renewable energy and energy efficiency. The World Bank will ensure effort is made to raise awareness, hold public consultations, and strengthen and broaden the scope of beneficiary feedback mechanisms to build citizen support for energy efficiency and renewable energy. Energy use in public buildings could be reduced by over 40 percent without loss of comfort because of the current large energy wastage. Investments in energy-saving measures in municipal and central public buildings would save substantial amounts from the public sector energy bill. IFC will consider a cross-sector involvement to support energy efficiency projects as well as new renewable energy capacities. In addition to direct financing of viable renewable energy projects, IFC will consider providing long-term finance to the banking sector to support energy efficiency and renewable energy projects. In addition to financing, IFC will use its regional advisory services platforms to promote renewable energy and energy efficiency in the country. IFC has already provided sustainable energy finance

advisory on energy efficiency to two banks in Kosovo (Banka Private e Biznesit (BPB) and NLB Pristina). IFC will continue to use its advisory products to increase banks' abilities to finance renewable energy projects and energy efficiency projects in both residential and small business.

Objective 9: Improve management of natural resources and address environmental contamination

Indicator 18: Percentage reduction of water losses and increase of emergency back-up water storage capacity in Central Kosovo

Indicator 19: Hectares of reclaimed industrially polluted land

107. **Given the country's abundance of natural resources and its fertile land, the SCD concludes that greater productivity and sustainability in the use of natural resources are critical to exports and to import substitution because they can generate resources for development.** This is particularly true for fertile land (agriculture) and minerals (mining)—where Kosovo benefits from comparative advantages. There is also wide recognition that environmentally sensitive use of Kosovo's major natural resources, such as water, and better management/clean-up of environmental hazards (air and soil pollution, solid waste, and wastewater in particular) are critical elements of the effort to improve the population's health and living standards. The Government is also committed to strengthening its capacity to mitigate any adverse social impact on citizens from the exploitation of natural resources, such as from mining.

108. **Kosovo's limited water resources are increasingly under threat.** While the SCD does not single out the water sector as one of the SCD top priorities, it concludes that supporting structural and nonstructural measures for the water sector is necessary to broadly achieve Kosovo's socioeconomic development objectives linked to availability of adequate and quality water. This CPF recognizes that water availability and the treatment of wastewater are major bottlenecks to shared prosperity and poverty reduction in Kosovo, that are likely to worsen in the future under pressure from economic development and climate change. This is reinforced by the urgent demand by the Government for World Bank support in this sector (including in irrigation) and limited donor support. If the planned investment in a new power plant does not materialize, the World Bank Group will adjust the CPF program and the Results Framework during the PLR and consider the scale-up of activities in the water sector as a suitable alternative to help address an important infrastructure bottleneck.

109. **This CPF—in continuation of the last CPS—aims to improve water resource management for the benefit of various water users in Central Kosovo.** The central/northern high-lying plateau that covers about half of the country's territory holds the country's largest development potential as most of the mining, agricultural, and industrial activities are located here. The region depends almost entirely on the Ibër-Lepenc canal, which is an aging multipurpose water conveyance system, supplying water for energy production, mining, industrial, agricultural, and household uses. The CPF will support rehabilitation of this important waterway and contribute to (a) reduction of drinking water production costs, (b) water loss prevention because of extreme natural events, (c) reduction of industrial production costs, (d) increase of hydroelectricity production, and (e) irrigation benefits.

110. **The CPF will also help the Government mitigate and reverse adverse environmental and social impacts from the exploitation of natural resources.** The CPF will consider supporting further environmental clean-up and restoration activities to reverse the impact of industrial polluters. An ASA on air pollution will be included in the CPF and will assess options for investments. The CPF also aims to support Kosovo to develop capacity to minimize the social impact of investments and activities exploiting the economic potential of natural resources, such as mining. This will require, among other interventions, a robust platform for citizen engagement, at both the national level, in policy making, and the local level, where the impact is directly felt by the population. To this end, the CPF citizen engagement roadmap will

prioritize the need for citizen engagement mechanisms that increase social accountability in the management of natural resources.

C. Implementing the Country Partnership Framework

111. **Kosovo’s allocation of IDA financing during the CPF period is estimated in the range of US\$207-277 million.** The lending program for the first year of the CPF (FY17, the last year of IDA17) is approximately US\$62 million and consists of three projects (see Table 3 for a detailed breakdown). For the CPF planning, the lending envelope for FY18–FY20, which will depend on the conclusion of IDA18 negotiations and country allocations, is calculated to be about US\$130 million. Kosovo’s allocation for FY21 under IDA19 is assumed to at least match the IDA18 annual average.

Table 3: IDA FY17–21 Indicative Lending

	Focus Area 1 - Enhancing the Conditions for Accelerated Private Sector Growth and Employment	Focus Area 2 - Strengthening Public Service Delivery and Macro- Fiscal Management	Focus Area 3 - Promoting Reliable Energy and Stewardship of the Environment	Total
IDA17 - Portfolio from CPS FY12-FY16		<ul style="list-style-type: none"> • Education System Improvement Project - US\$11 million • Kosovo Health Project US\$25.5 million 	<ul style="list-style-type: none"> • Energy Efficiency and Renewable Energy Project US\$31 million 	US\$67.5 m of which about 98 percent is yet to be disbursed
IDA17 FY17	<ul style="list-style-type: none"> • Competitiveness and Export Readiness - US\$15.3 million • Agriculture and Rural Development AF - US\$22 million 		<ul style="list-style-type: none"> • Water Security and Canal Protection - US\$24.5 million 	US\$62 million
IDA18 FY18–FY20 Lending program will be confirmed depending on IDA availability and country demand. The current list of operations, may exceed actual absorption capacity in an effort to build a solid IDA pipeline.	<ul style="list-style-type: none"> • ICT/Kosovo Digital Economy • Real Estate and Cadaster II • Youth Entrepreneurship and Inclusion • Irrigation Project • Financial Sector Strengthening Project 	<ul style="list-style-type: none"> • Public Administration Reform and PFM DPO or • Public Sector Strengthening Project 	<ul style="list-style-type: none"> • Kosovo Power Project – Partial Risk Guarantee • Environmentally and Socially Sustainable Development 	About US\$130 million
IDA19 FY21		ECD or Skills for Employment Education Project		About US\$48 million
Total				About US\$240 million

112. **IFC expects to invest up to US\$60 million (own account) in the country during the next CPF cycle.** IFC stands ready to further increase its investment program depending on the financing of the new Kosovo power generation project as well as the Government's progress with the privatization agenda and more private sector participation through public-private partnerships (PPPs). IFC operations in Kosovo will continue to be constrained by both financial and nonfinancial risks, including relatively greater financial risk and difficulty with equity exit; small and undeveloped private sector, market, and supply chain; informality and overall business climate; government capacity; sponsors' integrity risk issues, and limited FDIs. Despite the constraints, Kosovo has a few important advantages such as: the economy's proximity to a large EU market and significant presence of the EU, an entrepreneurial business class, and world-class resources (lignite, metals, fertile land). MIGA does not have a planned envelope for guarantees in Kosovo over the new CPF period but remains open to support private sector investments in the country through its political risk insurance products.

113. **Collaboration and coordination with development partners will remain significant, with the World Bank Group seeking to leverage other partners' assistance.** Kosovo still has many multilateral and bilateral donors that provide support to a range of sectors at the central and local levels. The EU and USAID are the largest donors providing assistance to Kosovo. The funding allocation under the EU's Instrument for Pre-Accession Assistance II (IPA II) for 2014–2020 is foreseen to total €645.5 million. IDA will work closely with UN agencies to promote and coordinate the support for the Sustainable Development Goals (SDGs).

114. **The good strategic integration of the TF portfolio with lending activities will continue and a robust program of knowledge products will support and provide the analytical basis for the lending program.** Currently, there are 12 active TFs focused on energy efficiency, agriculture, education, financial protection, and ICT, and Kosovo benefits from several regional grants. A set of important TFs is in the pipeline to support business climate and agriculture and strengthen the financial management functions, auditing capacities, and internal auditing in the public sector. In addition to the ongoing ASAs, the CPF aims also to fill some of the knowledge gaps identified in the SCD. A detailed overview of active ASAs and some of the knowledge products proposed for the lifetime of CPF are presented in Annex 10.

115. **Regular portfolio performance reviews have proved useful in maintaining an overall oversight of program performance and addressing the implementation bottlenecks.** The portfolio performance reviews will be conducted at two levels: (a) continuation of quarterly reviews led by the Ministry of Finance (MoF) with relevant ministries to seek resolution of emerging issues related to problem or high-risk projects, and (b) an annual results-oriented portfolio review.

116. **Based on the PEFA assessment, the use of country systems by the donors is limited.** However, the World Bank investment lending is relying on the country system in almost all areas of financial management of budgeting and planning, treasury, flow of funds, accounting and financial reporting, and internal control framework. Still, additional measures are required to strengthen those elements where the systems are lagging, such as project financial reporting by activity and additional control activities on project expenditure. Country systems in other areas are currently not used, due to either already existing heavy workload in some institutions (such as the State Audit Institution) or further improvements needed in the country systems (such as Public Internal Financial Control). The World Bank will continue to support system strengthening, with the scope to extend the use of other elements of country systems for World Bank investment lending.

117. **Kosovo has made progress in public procurement reform; yet significant challenges remain.** Public procurement legislation and the institutional framework in Kosovo are in place despite certain gaps in conformity with the acquis, particularly in the area of defense procurement. The World Bank has provided support in the procurement sector in Kosovo and will continue to support and analyze the quality

of the legal, institutional, and implementation aspects of public procurement and the institutional integrity. The World Bank's support in these areas fully complements the Government's efforts to gradually approximate the relevant EU norms and standards and meet international good practices. A significant aspect of the World Bank's assistance will focus on increasing the usage of the country's systems, by strengthening the capacities of line ministries responsible for implementing World Bank-financed operations. In this regard, the World Bank has so far provided (a) technical support to the State Audit Institution to build its capacity on procurement audit in the field of procurement; (b) assistance in developing an e-procurement platform (mandatory at the national level from 2016 and at the municipal level from 2017); (c) assistance to the Centralized Procurement Agency (CPA) in the development of centralized procurement of common used goods using framework contracts; and (d) assistance to the anti-corruption agency to enhance its capacity on investigating allegation of corruption and fraud in procurement. The CPF aims to assist the Government in adopting a strategy for further development of public procurement and an accompanying action plan for the implementation of the strategy, with a focus on conducting procurement audits and investigation of allegations.

IV. MANAGING RISKS TO THE CPF PROGRAM

118. **The overall risk to the CPF program is Substantial, despite progress in recent years in Kosovo** (see Table 4). The political and governance risk to the program is assessed as High, driving the overall risk assessment. Political, governance, and institutional fragilities may affect the implementation of the CPF program. Kosovo is a young and fragile democracy, with an uneasy ruling coalition. The country's international status is not fully resolved. This creates frequent political tensions, diverts public attention from the reform agenda, reduces trust in state viability, and undermines Kosovo's EU aspirations. National parliamentary elections will take place most lately by summer 2018, while municipal elections are scheduled to take place this autumn. The political fallout from expected war-crimes indictments from the Special Court may add to political tensions. Generally weak capacity of domestic institutions leads to inefficiency in public service delivery. Kosovo's governance systems still lack transparency and accountability. To mitigate these risks, the World Bank Group will conduct regular political economy analysis, implement the citizen engagement roadmap, maintain close collaboration with other development partners, and apply flexibility to adjust the program in line with the changing circumstances.

119. **The proposed engagement in the energy sector is high-risk, high-reward.** The proposed investment in a new lignite-fueled power generation plant is complex and involves multiple actors, including the Government, IFIs, development partners, and civil society. While the proposed project would enhance Kosovo's energy generation capacity and address the main bottleneck for growth, investments in lignite-fueled power plants carry high reputational risk as the World Bank works to reduce reliance on fossil fuels worldwide. Substantial stakeholder risk also exists, as several civil society organizations (CSOs) oppose the proposed investment. Significant social risk is also associated with energy production and mining, particularly in relation to the weak institutional framework and capacity to identify and mitigate adverse social impacts and enhance positive ones. One such risk is related to the impact of energy tariffs on the population, and the other is associated with the management of involuntary resettlement as a consequence of lignite mining activities. These risks will be mitigated through sound project design, continued strengthening of relevant Kosovo institutions, and strong communication efforts engaging citizens and CSOs to discuss the benefits of the proposed investment and the expected positive environmental, social, and economic impacts. If the required technical, financial, social, and environmental conditions for proceeding with this investment are not met, the World Bank Group will direct available IDA resources toward alternative priorities at the time of the Performance and Learning Review.

120. **Environmental and social risks to the CPF program are rated High, driven by the planned engagement in the energy sector and associated mining resettlement.** In addition, Kosovo is prone to a wide variety of natural hazards—including floods, landslides, droughts, earthquakes, and wildfires—that

could pose serious damages to the economy, fiscal balances, and well-being of vulnerable populations. Many of these climatic-related hazards are expected to magnify with future climate change. These climate and disaster risks can seriously affect productive sectors of the economy such as agriculture, infrastructure, energy, water resources, and communities and households. Lack of interethnic cohesion, social inclusion, persistent unemployment particularly among Kosovo’s youth, along with weak platforms for citizen engagement and accountability, pose social risks. The CPF includes an Environmentally and Socially Sustainable Development project to further restoration activities aimed at reversing the impact of industrial polluters. The project also aims to provide technical assistance to strengthen Kosovo’s capacity to minimize the social impact of potential resettlement associated with coal mining development. These activities will complement ongoing technical assistance provided by other donors, including by US Government agencies to support Kosovo’s management of the recently tendered new (lignite) mining development plan, associated feasibility study and ESIA for the new mine. In case of natural disasters, the World Bank Group would work with the Government to restructure the program in response to new challenges. The proposed engagement to promote youth employment and to strengthen mechanisms for effective citizen engagement across the whole program would be key to address remaining social risks.

121. **Institutional capacity for implementation is limited, which represents substantial risk.** The SCD recognizes that limited institutional capacity for implementing reforms, and the tendency to overinvest in physical infrastructure without corresponding reforms in the regulatory environment, increase the risk of effectiveness and absorption. Limited fiscal resources could hinder the full execution and rollout of strategies. Statistical capacity and accuracy of data also limit the ability to monitor progress and undertake timely and effective course adjustments. The CPF program will mitigate this risk through continued strengthening of the capacity of domestic institutions in all areas of engagement and through careful sequencing of operations considering institutional capacity constraints. On the project level, overly complex implementation arrangements will be avoided.

122. **The fiduciary environment represents substantial risk to the achievement of CPF objectives.** Some weaknesses are identified in the overall fiduciary environment, characterized by low and moderate scores in key diagnostic indicators. Despite improvements, lagging areas, as identified in the 2015 PEFA assessment, include (a) multiyear perspective in fiscal planning and policy formulation, (b) internal audit, and (c) internal control system, including commitment controls. Significant efforts are under way with support from the EU, IMF, and the World Bank Group for strengthening PFM. The MoF has recently approved a comprehensive PFM strategy which provides the basis for further support. The fiduciary and governance risk is systemwide, with potential impact on CPF objectives supported by investment lending and development policy operation. Mitigation measures include systemic improvements while benefiting from the ongoing support being provided by the World Bank Group and other partners.

Table 4: Systematic Operations Risk-rating Tool (SORT) Matrix

Risk Categories	Rating
Political and governance	H
Macroeconomic	M
Sector strategies and policies	M
Technical design of project or program	M
Institutional capacity for implementation and sustainability	S
Fiduciary	S
Environment and social	H
Stakeholders	S
Overall risk	S

Note: H = High; M = Moderate; S = Substantial.

Annex 1: Kosovo CPF Results Framework

FOCUS AREA I: ENHANCING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH AND EMPLOYMENT

The World Bank Group intervention in this Focus Area will aim to improve some of the key elements (such as various aspects of the business environment; the productivity of agriculture; and employment opportunities for youth, women, and vulnerable groups) that the SCD and the NDS identify as necessary for a gradual shift of the economic growth model toward higher levels of domestic productivity and international competitiveness.

Productivity growth is at the forefront of the growth agenda in the country. Unfavorable business environment, a deficit in quality infrastructure, and the poor access of firms to technology and finance reduce growth prospects, profitability, and competitiveness, shifting the attractiveness of investments in favor of non-tradable sectors. Furthermore, Kosovo remains highly reliant on imports, and its export base is extremely small. With little export-oriented manufacturing or services, the non-tradable sectors dominate output and employment in Kosovo.

Access to finance remains one of the single biggest constraints for firms. The SCD identified the need to deepen and widen financial intermediation not only to spur growth but also to increase the level of financial access and inclusion, as the large majority of companies, which are family-owned SMEs, face constraints due to the high cost of capital and lack of long-term finance.

Secure property rights are critical for private sector development and competitiveness as well as public service delivery and state asset management. Despite significant investment, less than 30 percent of properties in Kosovo are formally registered. Adequate land allocation, completion of formal registration, protection of land rights among those displaced during the war, and a well-functioning land market are priorities.

Furthermore, in a small and landlocked economy, connectivity, broadband, and access to IT services are critical to successful integration with regional and global markets. Broadband can contribute significantly to improving international competitiveness and also contributes to the fight against poverty and unemployment, to social inclusion and territorial cohesion, and to stimulating infrastructure investments.

Finally, while Kosovo has the youngest population in Europe, Kosovo's youth are affected by economic, political, and social dimensions of exclusion. Nearly one-third of young Kosovars (31.4 percent) are neither in education, employment or training (NEET), and youth unemployment is 57.7 percent, one of the highest in the region. Labor participation of young Kosovar women is particularly low. Compared to the Western Balkan average gap of 20 percentage points for labor activity rates between young men and women, the gender gap for labor participation in Kosovo is at 40 percent. Moreover, youth from minority communities, including (RAE), as well as ethnic Serbs, typically face additional obstacles in accessing employment opportunities, such as discrimination or lack of knowledge of the Albanian language. RAE experience the additional burden of having limited access to government services. Limited employment opportunities continue to compel youth to emigrate. A 2012 study showed that every second young person in Kosovo had the desire to relocate abroad. Gender gaps in access to economic opportunities remain a key challenge for Kosovo. Only 12.5 percent of women are employed, compared to 41.3 percent of men. This is driven both by low female labor force participation and high female unemployment compared to men.

CPF OBJECTIVE 1. Improve the business environment and access to finance

Intervention logic: A more effective legal, regulatory, and administrative framework to govern trade and investment is needed to help enhance the capacity of businesses to withstand competitive pressures and connect with global value chains. IFC will continue providing Advisory Services on Improving Investment Climate to promote economywide reforms that underpin a favorable business environment, FDI attraction, and address key bottlenecks to attracting more and

higher-quality FDI to the country. IDA will support product certification for export markets and strengthen the capacity of export-oriented firms, with a focus on SMEs, and improve efficiency and reduce cost of inspection services.

Besides reducing lending costs and improving the overall quality of borrowing requests and supporting documentation, the diversification of financial sector products is necessary to enable better access to finance for less credited sectors of the economy (including agribusiness and MSMEs) and unserved segments of society (including youth and women). IFC will continue investing in financial institutions that focus on SME lending, with the aim of increasing their outreach to underserved segments of SMEs. The World Bank plans to support the deepening of financial integration through strengthening of the financial sector intermediation and financial sector infrastructure. Key potential activities include (a) supporting the newly established Kosovo Credit Guarantee Fund and (b) advancing further the payment system infrastructure through establishment of an interbank card processing center which would contribute to the reduction of the transactions cost for citizens and reduction of cash payments in the system. In addition to this lending project, the World Bank also aims to support the policy makers' goal of channeling remittances into investments through partial credit guarantees.

An expanded and inclusive land registration system and a more comprehensive land management framework would support significant improvements of public service delivery and contribute to providing a more solid framework for private sector-led economic development. Considerable progress has been made under the RECAP, reflected in progress with Doing Business indicators, and this has laid the foundation for the next set of reforms: (a) policy and legal reforms that enhance land tenure security, support land market functionality, and ensure sustainability of land administration services; (b) technical land and geospatial work to complement Kosovo's e-governance program and meet EU accession requirements; (c) economic and financial activities to support jobs growth through geospatial information and improve fiscal sustainability; and (d) capacity-building initiatives to improve decision making through the use of geospatial information for both public and private sector.

Accelerated and equitable private sector growth will require a focus on increased connectivity. By improving broadband and access to IT services, the CPF program will pave the way to some income growth and job creation, especially for youth and women.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 1:</i> Number of products with export potential tested and certified by domestic organizations that are accredited by an internationally recognized accreditation agency</p> <p>Baseline: 0 (2016)</p> <p>Target: 200 (2020)</p>	<p><i>Indicator 1:</i> Kosovo Metrology Agency (KMA) becomes a signatory to Mutual Recognition Arrangement (CIPM MRA) of the international metrology system.</p> <p>Baseline: No</p> <p>Target: Yes</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Real Estate and Cadaster Project • IFC - Long term financing (LTF) to Turkish Economic Bank (TEB) with focus on MSMEs • IFC - LTF to Kreditimi Rural i Kosoves KRK-(MFI) for onlending to microenterprises, rural businesses, agribusinesses, and small companies • IFC - trade finance to TEB Bank Kosovo through Global Trade Finance Program (GTFFP) • TFSCB Recipient-executed Trust Fund grant (including a survey of the informal sector)
<p><i>Indicator 2:</i> Percentage of annual cost reduction of inspection compliance per business</p> <p>Baseline: 0 percent (2016)</p> <p>Target: 30 percent (2020)</p>	<p><i>Indicator 2:</i> Reduction of number of inspectorates within ministries.</p> <p>Baseline: 36</p> <p>Target: 15</p>	

<p><i>Indicator 3:</i> Number of people and MSMEs reached by participating financial institutions with a focus on female-owned MSMEs</p> <p>Baseline: 16,000, of which female-owned MSMEs - 0 (2016)</p> <p>Target: 59,000, of which female-owned enterprises - 400 (2021)</p>	<p><i>Indicator 3:</i> Volume of lending to MSMEs</p> <p>Baseline: US\$150 million, 5,300 loans (2016)</p> <p>Target: US\$190 million, 6,600 loans (2020)</p>	<p>MIGA guarantees:</p> <ul style="list-style-type: none"> • Ongoing capital optimization operations <p>Proposed Lending:</p> <ul style="list-style-type: none"> • Competitiveness and Export Readiness Project • Real Estate and Cadaster II • ICT/Kosovo Digital Economy Project • Regional Trade and Transport Facilitation Project • IFC - access to finance - LTF to banking and MFIs to support agribusinesses, women entrepreneurs • IFC financing for competitive local companies • IFC support for FDIs • IFC engagement through PPPs to attract private sector in infrastructure sectors • Financial Sector Strengthening Project <p>Ongoing ASA:</p> <ul style="list-style-type: none"> • Jobs Diagnostic • IFC Investment Climate Project (e-registry of business permits and licenses) • IFC Corporate Governance Project • IFC Financial Infrastructure Project • IFC Trade Logistics • IFC Infrastructure PPPs <p>Proposed ASA:</p> <ul style="list-style-type: none"> • Country Economic Memorandum on Growth and Productivity • Trends in women’s employment and barriers to labor market participation • Informality assessment • IFC Advisory on Access to Finance (ECA SME Banking, Agri Insurance, BAFI II Secured Transactions) • IFC Advisory on Investment Climate
<p><i>Indicator 4:</i> Value of additional foreign investment attracted due to Advisory Services on investment policy</p> <p>Baseline: US\$0 (2016)</p> <p>Target: US\$5 million (2021)</p>	<p><i>Indicator 4:</i> Number of investor/private partnership leads</p> <p>Baseline: 780 (2016)</p> <p>Target: 900 (2020)</p>	
<p><i>Indicator 5:</i> Number of properties updated and registered in the digital cadaster register (Kosovo Cadaster Land Information System)</p> <p>Baseline: 0 (2016)</p> <p>Target: 100,000 (disaggregated by gender - 2021)</p>	<p><i>Indicator 5:</i> Number of datasets available through the geoportal, and number of registered users accessing and using data from the geoportal (public/private/research sectors)</p> <p>Baseline: 10 datasets, 0 users (2016)</p> <p>Target: 50 datasets, 100 users (2021)</p>	
<p><i>Indicator 6:</i> Percentage of population with access to broadband Internet in underserved areas (number of subscribers per 100 people)</p> <p>Baseline: 11.9 percent of population/73.1 percent of households (2016)</p> <p>Target: 16.12 percent of population/99 percent of households (2021)</p>	<p><i>Indicator 6:</i> PPP agreements on deployment of broadband Internet in identified underserved areas concluded (Yes/No)</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2021)</p>	

		<ul style="list-style-type: none"> • IFC Advisory on Trade and Transport Facilitation Support
CPF OBJECTIVE 2. Improve productivity of the agriculture sector		
<p>Intervention logic: Agriculture plays a significant role in Kosovo’s economy, accounting for 12 percent of GDP and being the largest employer (18–20 percent of total employment). Competitive potential Kosovo holds in the sector (fertile lands, competitive labor) could lead to further economic growth gains by ensuring better use of modern agricultural technologies and practices and increasing the cultivated area.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 7:</i> Number of farmers adopting improved agricultural technologies, disaggregated by gender.</p> <p>Baseline: 650, of which 12 percent female (2016)</p> <p>Target: 1,550, of which 15 percent female (2021)</p>	<p><i>Indicator 7:</i> Volume of investments by farmers in improved products and techniques</p> <p>Baseline: €12.0 million (2016)</p> <p>Target: €18.0 million (2021)</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Agriculture and Rural Development Project <p>Proposed Lending:</p> <ul style="list-style-type: none"> • Agriculture and Rural Development - Additional Financing • Irrigation Project
<p><i>Indicator 8:</i> Hectares of area provided with improved irrigation services under Radoniqi and Dukagjini Irrigation Scheme</p> <p>Baseline: 4,500 ha (2016)</p> <p>Target: 7,500 ha (2021)</p>	<p><i>Indicator 8:</i> Conduct a diagnostic study and scheme modernization plan and design to inform irrigation services provision.</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2018)</p>	<p>Proposed ASA:</p> <ul style="list-style-type: none"> • IFC Advisory on Agriculture, Agri-finance, Agribusiness insurance
<p><i>Indicator 9:</i> Pipeline of irrigation investments prioritized and financed according to investment plan.</p> <p>Baseline: No pipeline of prioritized projects (2016)</p> <p>Target: Pipeline of prioritized investments created, and priority investments ready for financing (2018)</p>	<p><i>Indicator 9:</i> Strategic Irrigation Investment Framework developed and adopted by the Ministry of Agriculture, Forestry and Rural Development (MARFD) and Ministry of Environment and Spatial Planning (MESP):</p> <p>Baseline: No strategic framework (2016)</p> <p>Target: Strategic Irrigation Investment Framework developed (2018)</p>	

CPF OBJECTIVE 3. Enhance social inclusion and employment opportunities for youth and women

Intervention logic: Kosovo has the youngest population in Europe, but social tensions and emigration may reemerge if demographic pressures are not absorbed by the labor market and youth is not provided with opportunities to contribute to public discourse. Nearly one-third of young Kosovars (31.4 percent) are neither in education, employment or training (NEET), and youth unemployment is 57.7 percent. Increasing women’s economic opportunities calls for removing the barriers and disincentives to employment that women face, in particular, (a) improving access to assets and productive inputs (for example, finance and land); (b) shifting the traditionally led social norms that limit women’s opportunities and providing access to affordable and quality child and elder care; and (c) removing disincentives and barriers embedded in labor taxation and regulations. The CPF will focus on providing economic opportunities for inactive youth and women.

The CPF will focus on these issues horizontally, across the portfolio, in particular with operations in education, competitiveness and export readiness of SMEs, and agriculture development. But the CPF will also aim to address multiple drivers of youth exclusion and vulnerability at the municipal level by building on the success of the youth entrepreneurship and business development activities under the closed Kosovo Youth Development Project, with targeted nonfinancial and financial entrepreneurship development services, tailored to disadvantaged young people and delivered through tailored local approaches. Also, by working with local stakeholders including community and religious leaders and local governments and by providing arenas for young people to exercise voice and agency, the CPF will improve local governance and service delivery targeted at excluded young men and women. Proposed CPF interventions contributing to this objective are cross-cutting and will contribute to other objectives as well. Targeted interventions in this area will be prepared during the first half of this CPF cycle, confirmed at the Performance and Learning Review in late 2018–early 2019, and implemented in the second half of the CPF cycle.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 10:</i> Number of youth who are neither in education, employment, or training (NEET) activated</p> <p>Baseline: 0 - no programs aimed at reducing NEET (2016)</p> <p>Target: 7,500 individuals activated (2021)</p>	<p><i>Indicator 10:</i> Number of women and youth with improved access to finance</p> <p>Baseline: Number of women and youth who have accessed matching grants and loans - 0 (2016)</p> <p>Target: Number of women and youth who have accessed matching grants and loans - 5,000 (2021)</p>	<p>Ongoing Lending</p> <ul style="list-style-type: none"> • TFSCB RETF grant (including support for the instruction of the EU Statistics on Income and Living Conditions survey) <p>Proposed Lending:</p> <ul style="list-style-type: none"> • Youth Entrepreneurship and Inclusion Project • ICT/Kosovo Digital Economy Project • Competitiveness and Export Readiness Project

<p><i>Indicator 11:</i> Share of youth and women who are benefiting from evidence-based effective active labor market programs.</p> <p>Baseline: Women - 33%, Youth - 35% (2015) Target: Women - 40%, Youth - 45% (2021)</p>	<p><i>Indicator 11:</i> Management information system reports regularly on job placement and active labor market programs by gender, youth, and disadvantaged groups</p> <p>Baseline: Not available (2016) Target: Operational (2021)</p>	<ul style="list-style-type: none"> • Gender/Equity DPO (regional) • IFC Post-Telecom - if privatized, IFC may consider financing <p>Ongoing ASA</p> <ul style="list-style-type: none"> • Programmatic Poverty Assessment • Gender in the Western Balkans task • Exploring gender gaps in skills (STEP) <p>Proposed ASA</p> <ul style="list-style-type: none"> • Let's Work - Women Online Work pilot program (regional)
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FOCUS AREA 2: STRENGTHENING PUBLIC SERVICE DELIVERY AND MACRO-FISCAL MANAGEMENT

The World Bank intervention in this Focus Area will aim to strengthen selected systems that will contribute to quality, accountability, and efficiency in education and health sectors and to improve public sector management and the sustainability of public finances. Activities under this focus area will contribute to Kosovo's NDS goal of developing human capital and the overarching goal of maintaining a macro-fiscal framework conducive to sustainable growth.

The SCD makes a clear case about the need to promote inclusion by building human capital and providing equal opportunities. To attract private sector investments and foster business expansion and fully reap the benefits of European integration, the workforce needs to be equipped with both the specific skills and the soft skills that private sector employers are seeking. Strengthening the quality, accountability, and efficiency of education and health services delivery is essential to strengthen human capital, reduce poverty, and enhance social inclusion. Paying greater attention to the quality of public services and equality of opportunities across wealth groups, ethnic lines, and regions is also important for greater social and economic inclusion and cohesion. The disappointing results from the 2015 Program for International Student Assessment (PISA) place Kosovo's students the equivalent of almost four years of schooling behind the OECD averages in science scores. The system is also marked with inequities between income groups, location, gender, and access—indicative of a system that has failed to reach those who need the most help. In the health sector, the system does not currently provide adequate protection to poor households from impoverishing out-of-pocket health spending, and health financing does not provide adequate incentives to address the growing burden of preventing and treating noncommunicable disease at the primary care level.

In the area of public finances, reprioritizing public expenditures and reorienting taxation to address critical development challenges, while preserving fiscal discipline, is key to a gradual rebalancing of growth toward increased productivity and improved competitiveness. Finally, Kosovo as a young country has scope to modernize its administration to respond to the needs of its citizens and of the private sector. This includes introducing and expanding e-governance/e-services and, by doing so, providing opportunities for youth employment with greater transparency and accountability.

CPF OBJECTIVE 4. Strengthen systems to improve quality, accountability, and efficiency in delivery of education

Intervention logic: Ongoing operations will support the achievement of this CPF objective, at least in the early part of the CPF. In the education sector, the World Bank will strengthen selected systems that contribute to quality, accountability, and efficiency improvements, including strengthening the EMIS data availability, and will use financing mechanisms to improve planning, monitoring, and decision making and ultimately efficiency of spending and strengthening

<p>accountability on education outcomes through introduction of school report cards. Other gaps remain, however, including for access to EC and improving the relevance of vocational education and training to private sector demands, which could be addressed in later years of the CPF.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 12:</i> Percentage of municipalities that allocate resources to schools in accordance with revised formula and percentage of school report cards distributed and publicly displayed at schools</p> <p>Baseline: 0 municipalities (2016) and 0 school report cards (2016)</p> <p>Target: 80 percent of municipalities (2021) and 90 percent of school report cards (2021)</p>	<p><i>Indicator 12:</i> Revision of national and municipal-to-school budget formula and Education Management Information System (EMIS) integration</p> <p>Baseline: National and municipal-to-school budget formula in place but requires revision to align it with new education reforms (2016). EMIS not integrated (2016).</p> <p>Target: Revised formula approved and in use in (2019). EMIS integrated and data exchange automated between databases (2021).</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> Education System Improvement Project (possible additional financing) <p>Proposed lending:</p> <ul style="list-style-type: none"> Education/Skills for Employment <p>Proposed ASA:</p> <ul style="list-style-type: none"> Early Childhood Development Expansion, or Skills and Inclusion ASA <p>Ongoing ASA:</p> <ul style="list-style-type: none"> Education and Skills Policy Support Exploring gender gaps in skills (STEP)
<p>CPF OBJECTIVE 5. Broaden the coverage and improve equity of health services</p>		
<p>Intervention logic: In the health sector, the World Bank will support the introduction of performance-based financing for primary care in municipalities and the expansion of health insurance coverage for the poor in the context of the Government’s introduction of mandatory health insurance.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 13:</i> Percentage of the poor enrolled in mandatory health insurance</p> <p>Baseline: 0 percent (2016)</p> <p>Target: 90 percent (2021)</p>	<p><i>Indicator 13:</i> Percentage of resident population enrolled in mandatory health insurance</p> <p>Baseline: 0 percent (2017)</p> <p>Target: 65 percent (2019)</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> Kosovo Health Project TFSCB RETF grant (supporting an enhanced health module in the Household Budget Survey) <p>Ongoing ASA:</p> <ul style="list-style-type: none"> Improve Financial Protection and Quality of Care in Kosovo.
<p>CPF OBJECTIVE 6. Improve sustainability of public finances and public sector management</p>		
<p>Intervention logic: Kosovo has managed to maintain macro-fiscal stability and weather the global financial crisis and the euro area crisis. However, in a euro-dominated economy, the capacity for maintaining healthy public finances by successfully implementing fiscal rules, improving the efficiency of spending by targeting it to priority areas, and mobilizing domestic revenues is vital to generate fiscal space for public investments to improve competitiveness and crowd-in</p>		

the private sector while protecting the poor and vulnerable from unforeseen shocks. The last PEFA assessment, conducted in 2016, recognizes that while there is significant progress in strengthening PFM performance, to the benefit of budgetary outcomes—aggregate fiscal discipline, the strategic allocation of resources, and efficient service delivery—substantial improvements are required in certain areas where gaps in implementation still limit the quality of budget planning and preparation, internal financial control, audits, debt management, and capital investment management.

The World Bank Group will support the authorities in their efforts to improve fiscal and financial management. The authorities expressed interest in a public administration reform and PFM DPO to support the implementation of the PFM reform agenda. With overall public spending and public investment relatively small (at 29 and 8 percent of GDP, respectively), the World Bank will also seek to promote the efficiency and prioritization of public spending to improve competitiveness and crowd-in the private sector while protecting the poor and vulnerable. Depending on available IDA resources and country demand, the CPF program may also support the strengthening of public administration. Improved public sector management through the development of e-governance and e-services and the enhancement of business regulations by making registration and other procedures Internet-based and by outsourcing some of these e-services to the private sector are expected to improve the productivity of the private sector.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 14:</i> At least three-year medium-term expenditure framework applied across all budget users</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2021)</p>	<p><i>Indicator 14:</i> (a) Percentage of border taxes to total revenues, (b) Percentage of public revenues to GDP, (c) Percentage of capital spending to total budget</p> <p>Baseline: (a) 70 percent (2016), (b) 27 percent (2016), (c) 26.4 percent (2016)</p> <p>Target: (a) 55 percent (2021), (b) 30 percent (2021), (c) 32 percent (2021)</p>	<p>Proposed Lending:</p> <ul style="list-style-type: none"> • Public Expenditure and PFM DPO and/or Public Sector Strengthening Project • Real Estate and Cadaster II (also contributes to Focus Area 1) <p>Proposed ASA:</p> <ul style="list-style-type: none"> • Kosovo Macro-Fiscal Structural Notes (including a review of the fiscal rule) • Public Finance Review • Building Core State Function TA • Improved poverty targeting mechanism

FOCUS AREA 3: PROMOTING RELIABLE ENERGY AND STEWARDSHIP OF THE ENVIRONMENT

The World Bank Group support in this Focus Area will be in the context of the Government’s comprehensive approach to put the energy sector on a sustainable path in the medium term. Achieving energy security in a sustainable way would require developing better integration in regional markets, enhancing renewable energy, and decreasing demand for energy through energy efficiency measures and reduction of distribution losses. These measures would contribute to a cleaner supply of energy and a lower demand, but this alone will not sufficiently reduce the supply-demand energy gap. New, modern, and efficient, thermal generation will also be needed to ensure energy reliability and security. The Government is pursuing a comprehensive approach to meeting energy demand, with an energy strategy that includes (a) developing a modern and highly efficient thermal generation facility, using best available techniques and meeting EU environmental standards; (b) decommissioning the 50-year old Kosovo A plant; (c) rehabilitating the Kosovo B power plant to meet the requirements of the EU’s Industrial Emissions Directive; (d) developing renewable energy sources including small hydro, wind, and biogas; (e) improving energy efficiency in public buildings and incentivizing efficiency in the private sector; (f) promoting integration of regional markets; (g) enhancing efficiency of electricity distribution; and (h) building institutional capacity within the energy sector.

Promoting energy efficiency in the public, residential, and commercial sectors could help save money, reduce energy demand, and narrow the electricity deficit. Energy efficiency can help address issues related to energy security while reducing public expenditures on energy and the environmental impacts of energy use. A moderate renewable energy potential can help reduce power supply gap and replace electric heating. Kosovo has a moderate potential to expand renewable energy generation, mostly from hydro and wind that will not, however, be able to meet the full growth in demand and, in particular, will not be able to meet seasonal variation and peak demand.

Given the country’s abundance of natural resources and its fertile land, the SCD concludes that greater productivity and sustainability in the use of natural resources are critical to exports and to import substitution because they can generate resources for development. This is particularly true for fertile land (agriculture) and minerals (mining)—where Kosovo benefits from comparative advantages. There is also wide recognition that environmentally sensitive use of Kosovo’s major natural resources, such as water, and better management/clean-up of environmental hazards (air and soil pollution, solid waste, and wastewater in particular) are critical elements of the effort to improve the population’s health and living standards. The Government is also committed to strengthening its capacity to mitigate any adverse social impact on citizens from the exploitation of natural resources, such as from mining.

CPF Objective 7: Create the foundations for reliable, cleaner, and more efficient energy supply

Intervention logic: Within the comprehensive approach to put the energy sector on a sustainable path, the World Bank Group will consider supporting the construction of a modern thermal power plant that meets the environmental standards of relevant EU directives. This will be complemented by World Bank Group support to stimulate investments in renewable energy projects and energy efficiency under Objective 8. This is a continuation of the approach taken under the previous CPS with the aim of supporting the Government in substituting the old Kosovo A power plant with a new state-of-the-art thermal power plant which is to be fully financed by private sector investors, to address Kosovo’s energy constraints in a more efficient, less polluting way, meeting EU environmental standards. The CPF envisages a strong alignment between the World Bank, IFC, and MIGA in supporting Kosovo’s energy strategy and also with other donor partners involved in different, but mutually reinforcing, aspects of the strategy while simultaneously also enhancing the capacity of domestic institutions.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 15:</i> Percentage completion of construction of a new, modern, and efficient coal-fired plant that meets EU emission standards</p> <p>Baseline: Development of Kosova e Re (New Kosovo) power plant (KRPP) in planning stage (2016)</p> <p>Target: Construction of the KRPP 60 percent completed (2021). Once completed—beyond the CPF period—the KRPP will add 450 MW to Kosovo’s installed capacity and will allow for the decommissioning of the old Kosovo A power plant</p>	<p><i>Indicator 15:</i> The tender for the KRPP successfully concluded with IFC as adviser and financing secured for the KRPP construction, including the approval of the World Bank PRG and IFC financing</p> <p>Baseline: Contract negotiations under way (2016)</p> <p>Target: Contract for construction of the KRPP signed, publicly announced, and financing secured (2018)</p>	<p>Proposed lending:</p> <ul style="list-style-type: none"> • Kosovo Power Project - IDA PRG • IFC participation in Kosovo Power Project and renewable energy projects • MIGA Guarantee for Kosovo Power Project <p>Ongoing ASA:</p> <ul style="list-style-type: none"> • Mining Strategy • Kosovo Electricity Tariff Reform • IFC - KRPP advisory services for the tendering of the new power plant • IFC - KEDS post-privatization advisory <p>Proposed ASA</p>

		<ul style="list-style-type: none"> • Energy Sector Modernization TA • Tariff and sector reform TA
CPF OBJECTIVE 8. Enhance energy efficiency and renewable energy		
<p>Intervention logic: The World Bank Group will continue to support Kosovo in reaching its energy efficiency and renewable energy goals. The World Bank—in line with the previous CPS—will promote actions to reduce energy consumption and fossil fuel use in public buildings through energy efficiency and renewable energy investments and enhance the policy and regulatory environment for renewable energy and energy efficiency. The World Bank will ensure effort is made to raise awareness, hold public consultations, and strengthen and broaden the scope of beneficiary feedback mechanisms to build citizen support for energy efficiency and renewable energy. Energy use in public buildings could be reduced by over 40 percent without loss of comfort because of the current large energy wastage. Investments in energy-saving measures in municipal and central public buildings would save substantial amounts from the public sector energy bill. IFC will consider a cross-sector involvement to support energy efficiency projects as well as new renewable energy capacities. In addition to direct financing of viable renewable energy projects, IFC will consider providing long-term finance to the banking sector to support energy efficiency and renewable energy projects. In addition to financing, IFC will use its regional advisory services platforms to promote renewable energy and energy efficiency in the country. IFC has already provided sustainable energy finance advisory on energy efficiency to two banks in Kosovo (BPB bank and NLB Pristina). IFC will continue to use its advisory products to increase banks’ abilities to finance renewable energy projects and energy efficiency projects in both residential and small business.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 16:</i> MWh of lifetime energy savings and metric tons of reduced fossil fuel use for heating in public buildings</p> <p>Baseline: Lifetime energy savings - 0 MWh (2016); Reduced fossil fuel use for heating - 0 metric ton (2016)</p> <p>Target: Lifetime energy savings 750,000 MWh (2021); Reduced fossil fuel use for heating - 1,500 metric tons (2021)</p>	<p><i>Indicator 16:</i> Number of subprojects and beneficiaries of energy efficiency investments in public buildings</p> <p>Baseline: 0 subprojects, 0 beneficiaries (2016)</p> <p>Target: 140 subprojects, 30,000 beneficiaries, of which at least 33 percent are women (2021)</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Energy Efficiency and Renewable Energy Project <p>Proposed lending:</p> <ul style="list-style-type: none"> • IFC - LTF to the banking sector to support renewable energy, energy efficiency, and transport and logistics projects • IFC direct financing of renewable energy projects <p>Ongoing ASA:</p> <ul style="list-style-type: none"> • Feasibility Study of Energy Efficiency in Public Buildings • District Heating Sector Assessment <p>Proposed ASA:</p> <ul style="list-style-type: none"> • Air Pollution ASA • IFC Advisory - ECA Energy Solutions • IFC Advisory - ECA Sustainable Energy Finance to support banking sector to finance energy efficiency and renewable energy projects
<p><i>Indicator 17:</i> GHG emission savings (in CO₂eqv per year)</p> <p>Baseline: No measured GHG emission savings (2016)</p> <p>Target: Estimated GHG emission savings should reach 35,000 CO₂eqv per year at the end of 2021</p>	<p><i>Indicator 17:</i> Number and annual volume of loans for energy efficiency projects facilitated through advisory support to two commercial banks</p> <p>Baseline: 0 (2016)</p> <p>Target: 600 loans and US\$1million per year (2021)</p>	

		<ul style="list-style-type: none"> • IFC Advisory – improve regulatory framework for PPPs (jointly with the Bank)
CPF OBJECTIVE 9. Improve management of natural resources and address environmental contamination		
<p>Intervention logic: This CPF—in continuation with the last CPS—aims to improve water resource management for the benefit of various water users in Central Kosovo. The central/northern high-lying plateau that covers about half of the country’s territory holds the country’s largest development potential as most of the mining, agricultural, and industrial activities are located here. The region depends almost entirely on the Ibër-Lepenc canal, which is an aging multipurpose water conveyance system, supplying water for energy production, mining, industrial, agricultural, and household uses. The CPF will support rehabilitation of this important waterway and contribute to (a) reduction of drinking water production costs, (b) water loss prevention because of extreme natural events, (c) reduction of industrial production costs, (d) increase of hydroelectricity production, and (e) irrigation benefits.</p> <p>The CPF will also help the Government mitigate and reverse adverse environmental and social impacts from the exploitation of natural resources. The CPF recognizes that environmentally sensitive use of Kosovo’s major natural resources, such as water, and better management of environmental hazards (air and soil pollution, solid waste, and wastewater in particular) are critical elements of the efforts to improve the population’s health and living standards and create a more supportive investment environment. The CPF will consider supporting further environmental clean-up and restoration activities to reverse the impact of industrial polluters. An ASA on air pollution will be included in the CPF and will assess options for investments. The CPF also aims to support Kosovo develop the capacity to minimize the social impact of investments and activities exploiting the economic potential of natural resources, such as in mining.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p><i>Indicator 18:</i> Percentage reduction of water losses and increase of emergency back-up water storage capacity (in days) in Central Kosovo</p> <p>Baseline: Water losses estimated at 55 percent, and back-up storage to maintain service during maintenance and emergency is 0 (2016).</p> <p>Target: Water losses reduced by 10 percent, and at least 8 days of emergency storage capacity along the Ibër-Lepenc Canal to have uninterrupted service (2021).</p>	<p><i>Indicator 18:</i> Length of the Ibër-Lepenc Canal sections with improved lining</p> <p>Baseline: 0 km (2016)</p> <p>Target: 4 km (2019), 9 km (2021)</p>	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Water Security and Canal Protection <p>Proposed lending:</p> <ul style="list-style-type: none"> • Irrigation project (also contributes to Focus Area 3) • Environmentally and Socially Sustainable Natural Resources
<p><i>Indicator 19:</i> Hectares of reclaimed industrially polluted land</p> <p>Baseline: 0 ha (2017)</p> <p>Target: 500 ha (2021)</p>	<p><i>Indicator 19:</i> Site investigation and reclamation land redevelopment plan for industrially polluted lands</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2019)</p>	

Annex 2: Kosovo FY12–FY16 Country Partnership Strategy Completion and Learning Review

Date of CPS (FY12–FY16): May 1, 2012 (Report No. 66877-XK)

Date of CPS Performance and Learning Review: May 19, 2015 (95397-XK)

Period Covered by the Completion and Learning Review: May 1, 2012 to June 30, 2016

I. SUMMARY OF KEY FINDINGS

1. **This Country Partnership Strategy (CPS) Completion and Learning Review draws out lessons, assesses the development impact, and the World Bank Group performance during implementation of Kosovo CPS FY12-FY16²⁷.** The CPS FY12-FY16 was the first full strategy since Kosovo declared independence in February 2008, and became a member of the World Bank Group (WBG) in 2009. The CPS was jointly prepared by the World Bank and IFC, and reflected the close cooperation in the selected areas where both the World Bank and IFC operated. The CPS was well-aligned with, and country goals derived from, the Government’s development strategy *Vision of Economic Development Priorities 2011-2014* and associated Action Plan, the Medium-Term Expenditure Framework (MTEF) for 2011-2014, and available sector strategies (for example Energy Sector Strategy). The main CPS objectives were to: i) accelerate broad-based growth and employment generation, and ii) improve environmental management. These objectives remained highly relevant throughout the CPS cycle, and were confirmed in the CPS Performance and Learning Review (PLR).

2. **The overall development outcome of the CPS program is rated *Moderately Satisfactory*.** About 65 percent (17 out of 26) of the CPS outcomes were achieved, 16 percent (4 out of 26) mostly achieved; and 19 percent (5 out of 26) partially achieved. Under *Pillar I - accelerating broad-based growth and employment generation*—the CPS program made strides in reducing licensing and regulatory barriers for businesses, re-establishing a functioning cadaster system, and strengthening agriculture by helping over 400 agricultural enterprises improve their products and processes. The program was less effective in helping Kosovo increase its energy supply through construction of a new power plant. Nonetheless, a new timeline and next steps for investment in power generation were clarified during the last year of the CPS period. All CPS objectives were achieved under the *Pillar II – improving environmental management*. In particular, the program significantly reduced health hazards by ending the 50-year practice of open uncontrolled dry-ash dumping at the Kosovo A power plant, removing hazardous wastes, and supporting public air quality monitoring. Overall, the main obstacles to fully achieving results were related to the politico-constitutional crisis after the inconclusive general elections in June 2014, weak implementation capacity, evolution in regional energy opportunities, and an increasingly complex authorizing environment for the implementation of Kosovo’s energy strategy.

3. **Kosovo had a steady growth averaging 3 percent between 2012 and 2016.** Consumption as the driving force contributed 3.2 percentage points on average to growth, as growth of remittances, pensions and public wages fueled private consumption, whereas public consumption had a slightly negative contribution. Investments averaged no contribution to growth over the period as their contribution fluctuated by deducting growth in earlier years and supporting it in the last years as FDIs, public and private investments improved. Kosovo’s low production base, weak competitiveness, and decline in commodity prices in later years kept exports at low levels. Rising imports emanating from stronger domestic demand negated the contribution of net exports to growth in the last three years. The larger trade deficit also widened the Current Account Deficit from 7.2 percent of GDP in 2013 to 11.5 percent in 2016. The services sector

²⁷ Kosovo CPS was originally designed for the period FY12–FY15. The CPS period was extended by one year as proposed in the Performance and Learning Review.

was a major contributor to growth over the period, followed by industry, while agriculture's contribution was neutral. The government's fiscal deficit fell from 2.9 percent of GDP in 2013 to 1.3 percent of GDP by 2016 on account of strong budget revenues, fiscal adjustment measures, and underspending of planned budget. However, the public debt grew from 8.1 percent of GDP in 2012 to 14.3 percent of GDP in 2016, and was equally divided between domestic and external sources of financing. Consumer prices increased by 0.9 percent over the period. Unemployment remained high at 32.9 percent in 2015 with some signs of improvements in 2016, while employment declined from 28.4 percent of working age population in 2013 to 25.2 percent in 2015.

4. **The performance of the WBG in designing and implementing the CPS Program is rated as Good.** The CPS was forward looking and responsive to the Client needs. The two-pillar design of the CPS was relevant and supported the key development priorities in the country. The complexity of the original CPS Result Framework was recognized and adjustments were introduced during the Performance and Learning Review (PLR) to better align it with realistically achievable results. Financial assistance largely met original projections as the WBG maintained flexibility and responsiveness to emerging needs by the client. In addition to the originally planned CPS lending program, a new project in the health sector was agreed during the PLR, and the CPS period was extended by one year. This extension allowed the WBG to establish a good working relation with the new government and carry out substantive consultations in preparation for a new Country Partnership Framework (CPF), including additional consultations on WBG engagement in the energy sector. A robust program of Advisory Services and Analytics (ASA) and technical assistance/capacity building strengthened the domestic institutions in Kosovo, and provided analytical underpinning for the CPS lending program. The first Systematic Country Diagnostic (SCD) for Kosovo was also conducted during this CPS cycle, and will provide analytical underpinning for policy making and the design of the new CPF. While IFC did not reach its targets in terms of own account financing, IFC mobilized US\$319 million from third parties for the privatization of the Kosovo Electricity Distribution Company, one of the largest private sector investments in the country. During the CPS period, MIGA held two active political risk insurance guarantees, one of which was issued in 2015, both in the financial service sector with the objective of expanding domestic lending activities in the country, specifically to SMEs. Finally, the FY16 Country Opinion Survey FY16 confirmed generally very positive views of the WBG engagement in Kosovo.

5. **Going forward, the WBG should strive to reach agreement with the authorities and other development partners concerning the engagement in key sectors early in the CPF cycle.** Delays with investments in the power generation sector that were experienced during this CPS cycle point to the need for better assessment of capacity and political economy constraints. Investments in coal-fueled power generation are complex, risky and controversial and require an integrated approach and commitment by all stakeholders including the WBG, the Government, and other development partners. The new CPF will need to take into account uncertain timing of power generation investments, requiring flexibility in the programming of IDA resources.

6. **Institutional capacity constraints, which are typical for a young and fragile democracy, should be addressed across the whole program, and taken into consideration during preparation of new operations.** Weak institutional capacity, and poor inter-institutional cooperation affected performance of operations in sectors such as health, education and energy efficiency where engagement by several ministries and Public Procurement Agency was required. Markedly better performance was observed in sectors such as agriculture and land management, where projects had clearer institutional arrangements and were based on strong commitment by the recipient ministries and agencies. Going forward, the CPF program should aim to address institutional weaknesses horizontally across the program. Special attention should be paid to readiness for implementation to ensure that operations design responds to clear commitment and readiness for reforms, while avoiding complex project design and complex institutional implementation arrangements.

7. **More realistic and simpler Results Framework should be designed for the new CPF.** The CPS Results Framework proved to be overly complex and not adjusted to the relatively small size of the portfolio in Kosovo. The CPS Results Framework covered 7 country goals, 26 outcomes and 31 outcome indicators. The design of the CPS program focused disproportionately more on Pillar I agenda. While this was understandable given the importance of stimulating broad based growth and employment, this Pillar was too broad and encompassed a range of outcomes in a fragmented manner. Going forward, the CPF design should reflect greater selectivity in the areas of engagement and clearer Result Framework with relevant and measurable outcomes and indicators.

II. HIGHLIGHTS OF ASSESSMENT

8. **The CPS Program's performance is rated *Moderately Satisfactory*.** The self-assessment of the performance of the program is based on the results framework as updated and revised in the PLR. The status of all outcomes and indicators at the end of the CPS period are detailed in Attachment 1. The following sections provide key highlights of results associated with the WBG financed activities.

PILLAR I: Accelerating broad-based growth and employment generation

Country Development Goal 1: Strengthening infrastructure, with a focus on energy – MOSTLY ACHIEVED

CPS Outcome 1: Preparations completed for replacement of the 50-year old, highly inefficient and pollutant Kosovo A power plant with a private sector-financed replacement power plant, in line with relevant Directives of the EU's environmental acquis communautaire.

9. **Although Kosovo A power plant was not replaced, significant progress was made in the preparation of the new Kosovo Power Project (KPP), with the Government announcing the selection of a preferred bidder in November 2015.** Kosovo suffers from frequent power outages, which come with significant costs to the economy. In order to respond to this challenge, Kosovo Government plans to decommission the half-century old Kosovo A power plant, once a replacement is connected to the power grid. After three failed bidding attempts, due to the complexity and very high investment cost of the project, the KPP tender package was simplified to exclude the development of the Sibovc South lignite mine and the rehabilitation of Kosovo B power plant, and to focus only on the construction of the new Kosova e Re (New Kosovo) power plant (KRPP). IFC has been the transaction advisor to the Government of Kosovo following its decision to enter into negotiations with the preferred bidder for the development of the new power plant. The bidding was completed in December 2014, and the preferred bidder was announced in November 2015 after a financial agreement was reached. This new development sets the basis for next steps of the investment process. A final agreement is being negotiated with the preferred bidder and expected to be signed by early spring 2017. The construction is expected to start in early 2018.

10. **The Environmental and Social Impact Assessment (ESIA) preparation, one of the preconditions for assessing the suitability of World Bank financial support to KRPP was revised, edited and submitted to the Bank.** As energy security remained the single most important bottleneck to socio-economic development in Kosovo, the WBG's support to Kosovo's energy strategy remained an important intervention under the CPS. The Energy Sector Cleanup and Land Reclamation Project (CLRP) supported the preparation of the ESIA and in particular helped to evaluate issues of resettlement in the context of mine expansion and of limited institutional capacity to comply with international resettlement standards. The ESIA and the Environmental and Social Scoping Report were delivered following public consultations. This draft ESIA is an important part of the Bank's due diligence to inform an eventual decision on the proposed KRPP. However, this is not the final ESIA for the proposed project. The Government and the private investor are currently discussing significant changes to the configuration of the

proposed project, which will require the draft ESIA to be significantly revised and updated. Should the Bank decide to finance the proposed KRPP project, the Bank would ensure that all relevant environmental and social issues are addressed as required under the Bank policies, including appropriate safeguards instruments for mining-related resettlement.

CPS Outcome 2: Improved quality of service, with secure supply to all paying customers, elimination of the need for subsidies from Government and donors to pay for electricity purchases and investment in the Distribution Company.

11. **The CPS outcome on improving quality and reliability of the energy distribution system was achieved.** IFC played a role of the lead advisor to the Government of Kosovo to unbundle and privatize the supply and distribution business of the Kosovo electricity company. Kosovo Electricity Distribution Company (KEDS) was successfully privatized in May 2013. The privatization has, so far, resulted in positive tariff impact of over EUR148 million²⁸, including reduction of distribution losses from 38.2 percent in 2011 to 33.2 percent in 2015. The private operator invested over EUR55 million in metering enhancements and network reinforcements. IFC continues its engagement with KEDS providing post-privatization support, which ensures that there is proper monitoring of implementation of the privatization contract.

CPS Outcome 3: Improvement in energy efficiency in the building sector, institutional strengthening of a to-be created Energy Efficiency Agency to promote energy efficiency.

12. **Delays in the implementation of the Kosovo Energy Efficiency and Renewable Energy Project (KEEREP) affected progress against this outcome.** KEEREP took longer to become effective, in part due to the constitutional crisis, thus creating implementation delays, which were exacerbated by slow procurement processes. Thus, during the CPS period, no public building was retrofitted. However, recent progress has been encouraging and contracts for energy efficiency renovations in 14 out of the targeted 15-20 public buildings are being finalized/tendered. Although construction will begin only in 2017 construction season, this activity is now on track to showcase the improvements in energy efficiency that can be delivered in public buildings. Efficiency improvements in public buildings will provide a demonstration effect and an impetus for energy efficiency improvements that can be achieved in all buildings in Kosovo. The KEEREP project also provided technical assistance to a newly created Energy Efficiency Agency to support creation of a fund to support energy efficiency rehabilitation in public buildings. In a complementary manner, IFC Sustainable Energy Finance project helped two commercial banks build internal capacity to roll out energy efficiency credit lines for the residential and industrial sectors, which will enable households to retrofit their houses and businesses to improve their resource efficiency.

CPS Outcome 4: Increased use of renewable resources for electricity generation.

13. **WBG interventions contributed to the development of alternative sources of renewable energy.** Through support provided by KEEREP, twenty-four renewable energy projects were prepared for

²⁸ Calculation of fiscal impact is based on: the impact from the cost of imported electricity - there was a decrease in cost of imported electricity after the privatization from EUR75 per kWh to EUR 52 per kWh. For a period of 3 years, total savings are estimated at EUR42 million. Reduction of commercial losses calculated at cost of import - the regulatory decrease of commercial and technical losses in the tariff was 3 percentage points per year for the first 3 years after privatization. This effect adds up to EUR 65 million for the 3-year period as tariff 'savings'. Increase of collection rate - regulatory allowed tariff collection losses in the year of privatization were 9 percent. The allowance which came into effect in the year of privatization was 5 percent. The net effect of 4 percent is a benefit to tariff customers. The 4 percent calculated as part of total sales of electricity in Kosovo results in tariff 'savings' of approximately EUR 29 million for the 3-year period. An additional amount added in this calculation is the collection of bad debt (created prior to privatization), which for the 3-year period was approximately EUR 12 million.

private sector investment. Five projects with a total capacity of 35.8 MW received final authorization for a regulatory license, a necessary step before signing power purchase agreements with Kosovo Energy Corporation (KEK)/KEDS and reaching financial close/starting construction. A capacity increase of 35.8 MW via small hydro and wind energy investments would be an important contribution to reducing power shortages in winter months and more generally to diversify energy away from lignite. Additionally, technical assistance is being provided to the Ministry of Economic Development to update tariffs and contract structures in the field of renewable energy. Renewable energy for heating has also been identified as an area for greater involvement, and KEEREP is financing solar water heating and biomass boilers to help reduce electricity loads due to heating. IFC's Balkans Renewable Energy Project (BREP) has provided advisory services to the Government on setting the feed-in tariffs for solar energy and improving the renewable energy regulatory framework. As a result, several private companies received the authorization from the Energy Regulatory Office (ERO) to construct solar power plants with the total capacity of 10 MW. With this, the Government of Kosovo will achieve the EU Energy Community quota of 10 MW for renewable energy from solar by 2020 thereby furthering the role of renewable energy in the Kosovo energy mix. IFC's Balkans Renewable Energy Advisory Program continued to build capacity within the banking sector to provide finance for energy efficiency and renewable energy projects. Specifically, it helps commercial banks to improve the internal capacities and knowledge of project financing and renewable energy and assist them in launching renewable energy credit lines. Up to now, five Small Hydro Power Plant were constructed with total capacity of 27 MW.

Country Development Goal 2: Promote private sector development and financial strengthening - ACHIEVED

CPS Outcome 5: Simplified processes for doing business introduced.

14. **The WBG program contributed to notable improvements in the business-enabling environment.** In the 2013 BEEPS, 31 percent of firms indicated that licenses and permits were a problem. This was a reduction compared to 38 percent in 2008. Due to the fact that BEEPS is conducted every 4 years, original benchmark data is not directly comparable and it was not possible to verify whether by 2015 the target of 28 percent was fully achieved. In addition, the business registration process has been streamlined and 28 one-stop-shops were established, issuing a single document with registration, fiscal, and VAT numbers. IFC's Investment Climate Project has supported improvements in the business-enabling environment. These improvements helped Kosovo move from 117th position in the Doing Business ranking in 2012 to 60th place in 2016. Kosovo continuously improved its Distance to Frontier position and achieved 68.79 percentage points as per the latest Doing Business report. IFC's *Investment Climate* also helped the Government of Kosovo to launch e-registry of all types of business permits and licenses, which will ultimately foster greater transparency and accountability. At the local level, the project contributed to lowering the compliance cost for businesses by 12 percent in the municipalities of Gjakova and Gjilan. Similar work in Pristina municipality is underway. The work was launched for the simplification of regulations in horticulture, improvements in investment policy for FDIs and Kosovo's accession to *The Hague Apostille Convention*. The results of these recently launched activities will be delivered in the next CPF cycle.

CPS Outcome 6: Property and cadastral services have improved as indicated by increase in registered real estate transactions and decrease in the average days to register a standard sale or purchase of a residential property.

15. **The Real Estate and Cadaster Project (RECAP) reestablished a functioning cadastral system in Kosovo, simplified property registration, and strengthened land tenure security.** The average number of days to register property decreased from 30 days in 2012 to 9.7 days in 2016. Land tenure improved as evidenced by the increased number of registered real estate transactions, estimated at 44,289

for 2016 compared to 27,500 in 2008. And 23 Municipal Cadastral Office (MCO) facilities were reengineered, surpassing the benchmark goal of 11 reengineered facilities. Additionally, the new IT system, Kosovo Cadaster and Land Information System (KCLIS), is now available in 35 MCOs. The Business Environment Technical Assistance (BETA) project paved the way for achieving results in the cadastral system through supporting a legal review to harmonize current property laws with the new law on cadaster, and by developing procedures and methodology for various aspects of cadastral work.

CPS Outcomes 7 and 8: Creation of new small and micro enterprises, and Increase entry of formalized small and medium enterprises (SMEs)

16. **New small and micro enterprises were created beyond the target level.** Given that outcomes 7 and 8 are closely related, this paragraph summarizes progress against both outcomes. According to the Kosovo Business Registration Agency (KBRA), 9,654 new micro and small enterprises (MSMEs) were registered in 2012, 9,484 in 2013, 9,629 in 2014, and 10,056 in 2015, far exceeding the target of 300 small and microenterprises created, and 15 percent increase of newly registered companies. The Kosovo Social Inclusion and Local Development (SILED) TF contributed to the creation and expansion of 256 SMEs, of which 163 were run by marginalized groups (including women, minorities and youth). IFC's Investment Climate project also contributed to MSME creation through a reduction of regulatory burdens and improvements in the economy's competitiveness, making it easier for enterprises to do business. Work under BETA reduced uncertainty of key regulatory processes through simplifying and streamlining the number of administrative procedures for licenses and permits, which benefitted prospective businesses since the registration processes had become faster and simpler. During the CPS period, IFC Regional Corporate Governance Program (Project ID 586209) in cooperation with partner institutions trained 200 individuals in corporate governance practices, including 95 women, from about 170 companies.

CPS Outcome 9: Stronger financial system through support of the regulatory and institutional reform of Kosovo's financial system.

17. **Kosovo's financial system was strengthened and demonstrated greater financial stability.** The Real Time Gross Settlement (RTGS) system was introduced in late 2016. RTGS implementation is expected to reduce operating costs for banks, increase the speed and shorten execution times for high value payments, and, above all, minimize the payment risk and increase confidence in the banking sector. The Financial Sector Strengthening and Market Infrastructure Project (FSSMIP) supported the Central Bank of Kosovo (CBK) in: (i) revising the banking sector legal and regulatory framework, and (ii) providing assistance to the insurance sector with regard to third-party liability on preparing a legal framework and providing a detailed functional, supervisory, and technical assessment of compulsory third-party liability tariff liberalization. In addition, the project supported the Banker's Association and Microfinance Association in strengthening their capacity as well as the capacity of the banking and microfinance industry as a whole. The FSSMIP also supported CBK in revising the microfinance sector law. Seed capital in the amount of US\$4 million was provided to the creation of the Deposit Insurance Fund of Kosovo (DIFK), which is now fully operational. Furthermore, a Report on the Observance of Standards and Codes (ROSC) was conducted in 2012 regarding the conformity of audit and accounting reforms with EU practices, and was followed by technical assistance by the Centre for Financial Reporting Reform (CFRR). The Bank engagement contributed to enhanced stability and development of the financial sector and strengthening of the financial sector's underlying market infrastructure. IFC/World Bank Balkan Financial Infrastructure Project worked with the regulator and financial intermediaries on credit reporting, secured transactions and financial literacy. IFC worked with the CBK on the diagnostic review of the Credit Registry and provided a set of recommendations with regards to improving its supervisory function, which are being implemented.

CPS Outcome 10: The sustainability of the CBK and its capacity to supervise banks and non-bank financial institutions have been strengthened²⁹.

18. **CBK's capacity and sustainability was strengthened to supervise banks and non-bank financial institutions.** The CBK developed plans to ensure access to long-term resources, including in the CBK strategies 2010–2014 and 2015–2019, and effectively supervised Kosovo's main banks and pension funds on a regular basis. The outcome achievement was due to FSSMIP support in the preparation of a development strategy based on market development trends and a review of the CBK's funding options, including: (i) a functional assessment, (ii) the development of a medium-term staffing plan as well as the revision of staff incentives, (iii) the design of a regulatory database that enables the CBK to better supervise financial institutions, and (iv) strengthening of the CBK staff capacity by participation in trainings financed by the FSSMIP.

Country Development Goal 3: Strengthening agricultural development - ACHIEVED

CPS Outcome 11: Promote competitiveness and growth in the livestock and horticulture sub-sectors through implementation of selected measures of agricultural strategy and institutional development.

19. **The Agricultural and Rural Development Project (ARDP) made substantial positive impact in agricultural development.** 642 agricultural enterprises adopted improved products and/or processes, 674 new agricultural enterprises were established in 2014, and 270 more were established in 2015. Value chains in select high priority sub-sectors (livestock and horticulture) were strengthened to promote agribusiness. The ARDP was critical in strengthening the capacity of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) to improve the overall performance of the agricultural sector. The project strengthened the capacity and effectiveness of the Managing Authority, the policy arm of the Ministry of Agriculture, Forestry and Rural Development, as a result successfully developing an EU-compliant National Agricultural and Rural Development Strategy 2014–2020, and designing the annual Rural Development Grant Program that serves to promote growth and competitiveness in select sub-sectors in the agri-rural space. The program reached 1,446 beneficiaries in the agricultural sector, especially in areas of livestock and horticulture development, irrigation, and economic diversification. Furthermore, the enhanced capacity enabled the Ministry to implement the program of direct payments in a timely manner. With support of this Bank intervention, a total of 2,012 new jobs were created (as per the Paying Agency Database, 2013 - 2014), EUR 1,158,117 in extra yearly production improved incomes, and productivity increased as 320 additional hectares of orchards were planted. Success of the project helped to leverage additional donor support. DANIDA, a Danish Government fund, provided US\$9.3 million to expand the reach and impact of the Rural Development Grant Program. This was supplemented by an additional US\$2 million in December 2015, in response to the successful impacts of the program.

CPS Outcome 12: Women farmers targeted through the awareness campaign. More women farmers engaged in agriculture and agribusiness in Kosovo. Strengthen capacity of the Ministry of Agriculture to include support to women farmers.

20. **Women farmers became more engaged in agriculture/agribusiness and the capacity of the Ministry of Agriculture to support women farmers was strengthened.** Training support was provided to women in grant preparation, and interest among women for participation in training raised from 6.32 percent (from total participants) in 2014 to 19.5 percent in 2015 and 2016. The ARDP provided support to the Ministry to ensure that women participated in training sessions to prepare investment/business plans for their farm operations. Screening/evaluation criteria under the Rural Development Grant Program included

²⁹ Outcomes 9 and 10, as formulated in the original CPS and confirmed in the PLR, are largely processes or outputs at best, and not the outcomes that can be measured by hard data. Thus, the assessment of progress against these outcomes refers to qualitative assessment.

additional points for women applicants, and women farmers were included in study visits to countries in the region to learn from experiences of peers. As a result, the percentage of women farmers awarded grants increased from 4.4 percent in 2011 (baseline) to 14.3 percent in December 2015.

Country Development Goal 4: Investing in education and skills – MOSTLY ACHIEVED

CPS Outcome 13: The central and local capacities to monitor financial and quality trends and plan and carry out investment is strengthened, as indicated by (i) the transfer of budgetary autonomy to municipalities, (ii) the adoption of a per-capita funding formula that directs resources to areas of need, (iii) the monitoring and publication of annual current expenditures of key parameters.

21. **Education sector reforms were largely successful despite the *Mostly Achieved* outcome, which was only due to the non-participation of Northern Kosovo municipalities³⁰ in the reform process.** The Institutional Development and Education Project (IDEP) helped create a link between education directorates of municipalities and the Ministry of Education, Science and Technology (MEST). The per-capita funding formula allocating resources from the state to municipal level was revised to introduce parameters for a more equitable allocation of resources across municipalities and schools. The formula is now part of the regular budgeting exercise for all levels of pre-university education that is carried out by the MEST and the Ministry of Finance in cooperation with the Municipal Education Directorates. Therefore, financing for pre-university education is now better aligned with education priorities. The Ministry of Finance publishes annual expenditure reports which contain information on education expenditures. The MEST published a report with detailed analysis on expenditures in 2015. Education data collection, reliability and reporting were significantly improved, with 80 percent of municipalities using Education Management Information System (EMIS) data to report on the status of drop-outs and retention, disaggregated by gender and community, although there is still need for improvements in reporting of current education expenditures. These reforms continue through the new Kosovo Education System Improvement Project, with a focus on strengthening selected systems that are pre-conditions for improvements in the quality, accountability and efficiency of the education system in Kosovo.

CPS Outcome 14: Improved opportunities for relevant training and life-long learning as indicated by the establishment of a National Qualifications Framework and continued accreditation of vocational training institutions.

22. **Opportunities for relevant training and life-long learning improved, indicating that the outcome was achieved.** The Sustainable Employment Development Policy Program helped the Government to strengthen quality assurance mechanisms through the introduction of the National Qualification Framework (NQF) consistent with the European Qualifications Framework, which set occupational standards and accreditation criteria for vocational training units. Additionally, accreditation decisions about training providers were made publicly available, and 11 vocational training institutions were accredited as of October 2012. As of 2016, the National Qualification Authority accredited 29 providers. In 2016, the Government finalized the referencing of the NQF with the European Qualification Framework, a long term process that is expected to lead to higher levels of recognition of qualifications and labor mobility in the long term.

³⁰ Northern Kosovo refers to four Serb-majority municipalities: North Mitrovica, Leposavic, Zvecan and Zubin Potok. Prior to the 2013 Brussels Agreement, the region refused to recognize Kosovo central authorities. Parallel (police, judicial and local government) structures were agreed to be abolished by the Brussels Agreement which also stipulates that an Association/Community of Serb majority municipalities in Kosovo will be created. This process has not been completed yet.

Country Development Goal 5: Promoting sustainable employment and social inclusion – MOSTLY ACHIEVED

CPS Outcome 15: Labor programs strengthened and employment opportunities enhanced.

23. **Short-term pilot employment opportunities were created through a targeted Public Works Program (PWP).** As part of the Employment Strategy and Monitoring Action Plan, the Government initiated the PWP to create immediate opportunities for employment and to encourage transition from unemployment or welfare to work. The PWP was a targeted program that provided labor-intensive work opportunities for the poor. Launched in the second half of 2011 with support of two Bank DPOs under the Sustainable Employment Development Policy Program, the PWP created temporary employment opportunities for around 1,800 people in 2011—about 36 percent being social assistance active and passive beneficiaries. According to the Ministry of Labor and Social Welfare reports on the implementation of measures foreseen in the Employment Strategy, the government continued the PWP in 2012, which created regular employment opportunities for 3,169 people—around 46 percent being social assistance category II beneficiaries. According to the Annuals Reports of the Ministry of Labor and Social Welfare, the PWP were continued in subsequent years and in 2013 there were 1,558 participants engaged in PWP, in 2014 – 2,330, and in 2015 – 1,865 beneficiaries. These annual reports do not provide information about the share of beneficiaries from social assistance scheme.

CPS Outcome 16: The capacity for monitoring strengthened, as indicated by improved statistical data collection and analysis.

24. **The capacity for monitoring labor outcomes was strengthened through the development of a Labor Market Information System.** Through efforts in the Employment Strategy to improve the functioning of Public Employment Services, the Government developed a Labor Market Information System (LMIS). The creation of the system, most importantly the Registry of Unemployed, was a step forward for labor market information collection as well as better functioning of the Public Employment Services. Transitioning from paper records to a fully digitized database of unemployed people helped the Government to distinguish between active and passive job seekers to better link them with job vacancies. The Employment Offices use LMIS to assess effectiveness of employment services and active labor market programs (ALMPs). For example, the 2015 Annual Report of the Ministry of Labor and Social Welfare contained an assessment of each individual ALMP. Furthermore, performance management framework for Employment Offices was incorporated into the LMIS which allowed Employment Offices to enter targets for employment services and ALMPs, and compare performance against these targets. Finally, the LMIS collects information from the Kosovo Agency of Statistics (about population census, Labor Force Survey), the Ministry of Labor and Social Welfare (registered unemployed, vacancies announced, social assistance beneficiaries, disabled), the Tax Authority (formal employment figures), and the Ministry of Trade and Industry (business registry) into one common platform. The process of integrating the datasets from the Ministry of Education, Science and Technology (education statistics) is underway.

CPS Outcome 17: The health insurance law is adopted as necessary condition to improve access to health care.

25. **The health insurance law was passed in April 2014, and the Ministry of Health is in the process of implementing mandatory health insurance.** The associated payroll tax-based premium for individuals employed in the formal sector is seven percent. In addition, individuals who are not exempted from paying premiums under the Health Insurance Law will pay a flat amount premium of EUR 2 per person. The poor and specific vulnerable categories of the population are exempted from paying premiums. The Bank provided technical assistance to the Ministry of Health on the Health Insurance Law through a Swiss Development Cooperation supported Externally Financed Operation. The new Kosovo Health

Project supports the Ministry of Health and future Health Insurance Fund to implement the proposed mandatory health insurance system. Ongoing implementation of the national health insurance law is a precursor for improved access to health care for the poor and the most vulnerable households.

CPS Outcome 18: Support social cohesion through the rehabilitation of small-scale social and economic infrastructure in the poorest villages and in mixed/minority communities as well as promoting Micro Small and Medium Enterprises (MSMEs) in a socially inclusive manner, and through youth centers, promoting interethnic collaboration among youth, especially from marginalized and vulnerable groups.

26. **Social cohesion and interethnic collaboration were promoted, yet the outcome was only partially achieved.** Communities throughout Kosovo were engaged in productive activities through employment generating community infrastructure activities and direct support to MSMEs. The Social Inclusion and Local Economic Development Fund project supported rehabilitation of 31 community infrastructure objects, exceeding the target of 20, and helped create or expand 256 MSMEs. Although the creation of 256 enterprises falls short of the original target of 300 enterprises, a total of 439 new jobs were created in MSMEs supported by the WBG funds. The primary focus for these activities were ethnically mixed communities with high community infrastructure needs. Municipalities matched 36 percent of Bank funds in this area of engagement, exceeding the minimum requirement of 15 percent for community-based projects. Implementation of activities in Northern Kosovo was challenging due to continuing political tensions. Grants for MSMEs, mostly used for purchasing equipment and tools, were awarded to businesses with the highest growth potential. Micro enterprises were the main target. 25 percent of beneficiary businesses formally registered as companies, which was a significant achievement given Kosovo's large scale of informal business activity. According to an impact evaluation from the Social Inclusion and Local Economic Development Fund, social and economic infrastructure activities and MSME support were the highest community priorities, and highlighted the Bank's well-functioning participatory engagement model with these communities.

27. **Youth apprenticeship and entrepreneurship support led to improved economic opportunities for beneficiary NEETs³¹ and underemployed youth in Kosovo.** By introducing a comprehensive set of financial and non-financial business development services and apprenticeship opportunities, the Second Kosovo Youth Development Project was instrumental in supporting youth job creation and sustainable income generation. Business start-up grants, trainings and business support services, administered by the Ministry of Culture, Youth and Sport, and delivered by private training centers at 8 locations and 6 project-established regional Business Incubators, ensured accessibility of services by marginalized youth (rural, minorities and disabled). In the period 2013–2016, 466 youth businesses were initiated by project supported young entrepreneurs creating a total of 1,180 new jobs (2,5/jobs on average per business). Prior to participation in the project, grant beneficiaries were either NEETs or highly underemployed and majority (~70 percent) of the micro-firms established with the Project support were formalized. During additional financing, the project intensified activities in areas with minority concentrations, including in Serb-majority Northern Kosovo. During this period, over 40 percent of the start-up grants were disbursed to marginalized youth. In addition, 162 participants of the Apprenticeship Program were employed by the businesses where they did their apprenticeship.

28. **Sixteen Youth Centers fully developed sustainable strategies and effectively supported youth cohesion.** By organizing three training workshops on sustainability and inclusive management of youth centers, all sixteen centers were able to develop sustainable strategies. 80 percent of all local youth center activities, supported by the Kosovo Youth Development Project, including ethnically mixed groups as a result of targeted outreach to marginalized youth. High financial sustainability was achieved by the youth centers, which continue to provide a variety of youth services, including non-formal education to ethnically

³¹ NEET - Neither in Employment, Education or Training.

diverse groups of youth. The Project provided additional opportunities for interethnic collaboration through business development activities organized for ethnically mixed groups and by supporting businesses established collaboratively between different groups. Furthermore, a Bank study on demographics and socioeconomic dynamics of Northern Kosovo, with a focus on youth and vulnerable groups, started in January 2016. The study aims to collect and analyze data on employment opportunities, availability of basic services, and challenges for social interaction between interethnic groups in order to provide a basis for a more comprehensive strategic support program in Kosovo. The findings will be used as a foundation to develop interventions and scale up of the World Bank supported operations in Kosovo, and will provide analytical underpinning to inform the Government of Kosovo, donor community, civil society, private and other public sector institutions interested in supporting economic development and addressing youth unemployment in Northern Kosovo.

Country Development Goal 6: Strengthening public financial management, procurement and anti-corruption efforts - PARTIALLY ACHIEVED

CPS Outcome 19: Long-term focus on public financial management with strengthened internal controls and audit, strengthened external audit, as measured by improved performance in the PEFA indicators.

29. **The Public Sector Modernization Project strengthened public financial management and contributed to satisfactory outcome in improving budget performance.** PEFA indicator PI-1, which shows actual expenditure deviation from the budget, showed improved performance as the budget was more stable, with actual expenditures not deviating from the budgeted expenditure by more than nine percent, compared to 15 percent in 2009.

CPS Outcome 20: Increased bidder participation in public procurement tenders and cost savings achieved through Quick Gains actions and e procurement modules.

30. **This outcome is partially achieved as cost savings were achieved in centralized procurement, but the e-procurement component is still underway.** In 2013, bidder participation in public procurement tenders, relative to the baseline, increased by about 10 percent. In January 2016, the Prime Minister announced the start of the piloting phase of the e-procurement system after experiencing a six-month delay. Since introduction of the e-procurement system is still underway, a final increase in bidder participation cannot be measured during this strategy period. On the other hand, the Central Procurement Agency used e-procurement, at different stages, in 11 categories, two centralized procurement contracts under implementation had contract/unit prices at about 15-25 percent below market prices of previous contracts.

CPS Outcome 21: Transparent and coherent pay and grading structure introduced in the core civil service.

31. **The outcome to introduce a transparent and coherent pay and grading structure in the core civil service was partially achieved.** Pay and grading reform efforts experienced eight-month delay due to Kosovo's political deadlock in 2014. On May 25, 2016 the Government of Kosovo approved Job Classification and obliged all government institutions to begin implementation of new job classification from September 1, 2016. It is likely the Government will begin implementation of job classification as scheduled, but with no changes in the payment structure, due to financial constraints, but with no changes in the payment structure. Review and approval of proposals remain the final steps before a system-wide rollout. Public Sector Modernization Program supported this reform.

PILLAR II: Improving environmental management

Country Development Goal 7: Reduce the environmental footprint of development activities, reducing environmental hazards to human welfare, and moving towards harmonization with EU environmental standards - ACHIEVED.

CPS Outcome 22: Broader appreciation of environmental issues and of strategies for addressing them throughout Government and among stakeholders.

32. **The Government prepared an update of the Kosovo Environmental Strategy and an associated National Environment Action Plan for 2011–15.** The NEAP defines environmental objectives in order to be able to meet the EU requirements. In the short term, the focus will be on the implementation of existing legislation and continued efforts to modify legislation and institutions. In this context, the Ministry of Environment and Spatial Planning aims to integrate *acquis communautaire*-related requirements into sectoral development policies in the relevant line ministries. The CLRP contributed to this result.

CPS Outcome 23: Pollution in mining operations has been reduced and environmentally sound mining operations have been strengthened through the elimination of dumping on open land of ash from the Kosovo A power plant.

33. **Pollution in mining operations was reduced and environmentally sound mining operations strengthened.** The preparation of the Mirash open pit mine for Kosovo A power plant ash management and the installation of the wet ash handling system to eliminate air pollution from ash handling resulted in the elimination of ash dumping from Kosovo A on open land. Previously, the Ash Dump was threatening nearby houses to collapse due to its instability, and the air pollution produced by the dump was causing the nearby villagers to want to move away from the area. However, the 243-hectare ash dump was mostly reshaped and covered with soil to eliminate dust. Also, the results measured by KEK's monitoring equipment, financed by the Clean Up and Land Reclamation Project (CLRP), in six different places around the ash dump show that levels of dust, each month, have decreased. Air quality in central Pristina improved as evidenced in the following environmental parameters: PM10 in January 2015³² was 51.7 µg/m³, NO₂ 27.7 µg/m³, and SO₂ 5.9 µg/m³, an improvement compared to figures in 2010: 74.7, 20.8, and 11.2, respectively. The CLRP brought international best available techniques in ash management to Kosovo through the hydraulic wet ash system. Additionally, KEK installed electrostatic precipitators in Kosovo A and continues air monitoring, significantly reducing the air pollution.

CPS Outcome 24: Initiate and enable KEK to achieve land reclamation for natural habitats, agriculture, resettlement or other land use purposes.

34. **KEK took ownership of land reclamation activities, which produced sustainable environmental achievements.** The CLRP provided financing for design of the cleanup and rehabilitation activities, as well as the equipment required to do the works. KEK, a state-owned company, executed the remediation works themselves, and mine remediation and land reclamation activities are expected to remain a permanent part of the mining company, which is the case internationally. KEK provided all the workers, and covered operating expenses for the activities, and co-financed the project with about US\$1 million a year. As a result, to date KEK reclaimed 55 percent of the total overburden area, exceeding the target of 50 percent. A total of 653 hectares were reclaimed and can now be used for agriculture, resettlement, and natural habitat purposes, among others. Exceeding their land reclamation target led to a change of thinking within KEK about their responsibilities for environment and land restoration activities.

³² The latest available data is from 2015.

CPS Outcome 25: Removal of highest priority hazardous substances from storage tanks at the gasification site.

35. **Removal and treatment of more than 7,000 tons of hazardous waste, including tars, benzene, phenols, methanol and oily compounds, far exceeded the target of 4,300 tons and relieved KEK from the duty of storing such waste for decades.** This waste was previously stored in very old, almost collapsing tanks. Potential collapse of these tanks and subsequent leakage of hazardous waste would contaminate soil, surface water and underground water with high-risk residuals that could cause significant health risks. Leakage could also easily run into the nearby Sitnica river that runs in neighboring Serbia. The materials were treated in licensed facilities in Europe, in line with the Basel Convention. Additionally, 15,000 tons of low level organic content materials have been treated locally.

CPS Outcome 26: The KRPP program adheres to good environmental practices and options for deriving energy from renewable sources.

36. **Regular environmental monitoring of air, soil and groundwater pollution in the KRPP area was established, and the low-carbon growth strategy was prepared.** As per the EU Energy Community's obligations, Kosovo is required to achieve by 2018 a 25 percent share of renewables in final consumption along with energy efficiency improvements of 9 percent. Kosovo has, in turn, set a more ambitious target of 29.4 percent for renewables. Kosovo does not yet have a CO₂ emissions reduction target. The Marginal Abatement Cost Curve (MACC) presented in the Low Carbon Growth Study report (completed in September 2015) assesses the potential impact and costs of a select set of measures that Kosovo needs to implement to meet its energy and climate related targets. The now prepared low-carbon growth strategy, based on the MACC, will allow Kosovo to implement measures to move towards meeting its obligations to the EU Energy Community.

Fiduciary and Safeguard Compliance

37. **Compliance with procurement, financial management and disbursement requirements was moderately satisfactory.** Weak procurement capacity continues to be significant contributor to implementation delays including delays in bids evaluation and contracts award. The World Bank will continue strengthening procurement capacity through regular implementation support and the SAFE funded project on Strengthening National Audit Office Capacities on Procurement Audits. In retrospect, the main challenges in financial management were: a) capacity constraints at the implementing agencies, and the Ministry of Finance, combined with poor cooperation between them, which led to implementation delays, especially in regard to budgeting and establishing adequate funds flow arrangements, and b) the introduction of budget ceilings during the CPS cycle, paired with weak budgeting capacity in the implementing agencies which affected the speed of project implementation and disbursements, especially during the first half of the CPS period. Continuous monitoring and follow up have been a crucial element in assuring compliance and implementation of sound financial management practices.

38. **Compliance with social safeguards was moderately satisfactory.** The most challenging aspect was mining related resettlement under the Clean Up and Land Reclamation Project (CLRP), and the proposed Kosovo Power Project (KPP), where unclear allocation of responsibilities among government agencies and weak capacity resulted in non-compliances that were corrected very slowly upon reiterated requests by the World Bank. The World Bank provided comprehensive technical advice and capacity building to key government agencies on social risk and resettlement issues, including workshops in Kosovo and practical trainings and study tours in the Netherlands and Germany. Currently there are indications that the allocation of responsibilities among government agencies has been clarified, while the training and policy dialogue prompted the government to undertake initiatives to correct deficiencies in the legal framework related to mining-related land acquisition and resettlement.

39. **Compliance with the environmental safeguards was satisfactory.** Apart from the required due diligence documentation, almost all of the projects in Kosovo have integrated client capacity building and training of client staff and final beneficiaries alike, which remains a crucial element in assuring complete implementation of sound environmental practices and compliance with environmental safeguards.

III. WORLD BANK GROUP PERFORMANCE

40. **The overall performance of the WBG in designing and implementing the CPS program was Good.** The following summary of the WBG's performance elaborates on this assessment.

Design

41. **CPS objectives were aligned with the country's development goals.** The two pillars responded to Kosovo's priorities as outlined in the Government's development strategy *Vision of Economic Development Priorities 2011-2014* and associated Action Plan, the Medium-Term Expenditure Framework (MTEF) for 2011-2014, and available sector strategies such as Energy Sector Strategy. The CPS was developed through consultations with stakeholders from the Government, development partners, private sector, and civil society.

42. **The Bank applied selectivity to focus limited IDA and TF resources on the key development priorities, and areas where the WBG had a comparative advantage.** The following selectivity filters were applied: i) interventions which have high impact and strong government ownership, ii) comparative advantage—taking into consideration contribution of other development partners, and iii) avoid proliferation of thinly spread investment projects. It is recommended that similar selectivity filters be applied in the new CPF.

43. **The CPS results framework was overly complex and fragmented.** It comprised two key pillars, seven country development goals, 26 outcomes, and 31 indicators. The large number of outcomes reflected the team's desire to include results from all ongoing and proposed operations. In doing so, the results framework became fragmented and unwieldy. The 26 outcomes were too spread out given the number of projects and the small size of the portfolio. Going forward, greater selectivity, more measurable or quantitative indicators, and stronger links between outcomes and outcome indicators will allow for a clearer results framework and more effective result monitoring.

44. **The identification of risks was candid.** The CPS correctly recognized macro-economic stability, controversies around lignite-fueled power generation, securing financing for the power project, and volatile governance and political structures as the principal risks to implementation. The PLR further highlighted political and macroeconomic risks due to the Government's inability to finance the already implemented or pre-committed spending obligations, as well as major uncertainties as to the finalization of the KPP and the remaining energy shortages hurting the economy. In addition to these, the PLR recognized increased portfolio implementation risks due to weak institutional capacity and short term political challenges, environmental risks related to air pollution by Kosovo's power plants, and social risks of several vulnerable groups falling into poverty and social exclusion. Risks presented in the CPS and those added in the PLR were all highly relevant and realistic to the changing political and economic situation in Kosovo. Mitigation measures were well thought out and included strengthening dialogue with the new Government and analytical and technical support.

Implementation

45. **The Bank delivered seven operations financed by four IDA Credits for the total amount of US\$71.7 million, complemented by grant funding totaling US\$57.6 million.** The original CPS envisaged

that six new operations will be approved during the period May 2012 - June 2015, with an IDA financing envelope of about US\$78 million, and about US\$56 million in grant funds channeled through IDA by donors. The financing program targets were largely met in spite of delays in preparing the support to Kosovo's energy goals³³, reflecting its exceptional complexity and controversial nature, and delays in delivery of the Water Security Protection Project³⁴. All other planned operations were delivered albeit with delays that were outside of the World Bank's control. The World Bank demonstrated flexibility and responsiveness to emerging needs by the client by adjusting the lending program and extending the CPS cycle by one year. This enabled delivery of the Education Improvement Project, and the new project in the health sector, and building of a solid working relationship with the new government before launching the preparation for the new CPF.

46. **IFC's investment portfolio during the CPS period averaged about US\$16 million. Despite efforts, IFC could not grow its own account portfolio during the CPS period.** In total, IFC invested and mobilized financing of US\$326.5 million compared to US\$40-50 million envisaged in the beginning of the CPS period. IFC provided US\$5.9 million loan to a private bank targeting SMEs, and maintained a trade finance line with this bank. Also, IFC financed US\$1.7 million to a microfinance institution to support small entrepreneurs in rural and semi urban areas. IFC's lower than expected own account financing was underscored by inadequate level of transparency and integrity of the private sector companies in real sector, as well as competition from other IFIs offering subsidized financing. However, IFC mobilized US\$319 million from third parties for the privatization of the Kosovo Electricity Distribution Company (KEDS), one of the largest private sector investments in the country. Several large privatization projects such as *Posta e Telekomunikacioni i Kosoves (PTK)* and *Kosova e Re Power Plant (KRPP)* have been delayed by the Government. Should these projects have been realized, possibly IFC's own account financing would have been higher.

47. **The PLR reconfirmed the relevance of the two CPS pillars in relation to country priorities.** The report also endorsed the choice of instruments, and the energy sector as the central focus of the program. The PLR introduced two changes: (i) new health project was included in the country program in response to Client demand, and (ii) the CPS period was extended by one year to allow additional time to clarify progress in the energy sector, as well as to provide the opportunity to work together with the newly formed government in developing the new CPF. The original results framework was also adjusted to: (i) revise broad and overly ambitious energy sector outcome, (ii) make three private sector development outcomes more measurable, (iii) modify labor market outcome to recognize unavailability of data, (iv) revise the formulation of health sector outcome to focus on increased access to health services, and (v) add baseline indicators and new targets for end-FY16 where available. These were not substantive changes in the indicators as the same Bank interventions remained appropriate to achieve expected results. It should be noted that the PLR was somewhat delayed in relation to the timeline of the FY12–FY15 CPS period. PLR delays were, in part, caused by additional time required to clarify progress in KPP procurement. As the program's key intervention, an update on KPP progress was necessary in order to make assessments and mid-course corrections in the PLR. PLR delays also materialized due to the political deadlock from June-December 2014, making it challenging to carry out discussions with the Government on changes and corrections.

48. **The portfolio performance improved, due to proactive actions and close cooperation with the Client.** Portfolio performance improved significantly during the CPS period, reflecting the Bank's proactivity in addressing challenges in a timely manner and in partnership with the Client. The period prior to the CPS was marked by long delays in effectiveness of projects, and slower implementation, which affected the disbursement performance. During the CPS period, following increased cooperation with the

³³ The PRG is currently planned as FY19 deliverable

³⁴ The Water Security Protection Project was approved on September 30, 2016 (IDA Credit - US\$24.5 million).

Parliament, intensified efforts by the teams, and regular portfolio reviews led by the Ministry of Finance, the ratification process was accelerated and the implementation performance improved. Although the period from approval to effectiveness was reduced from 12 months, for projects approved before 2015, to 8 months, in case of recently approved Education System Improvement Project, performance in this area should be further improved. As a result of the proactivity and close communication with the Client, the solid performance of the portfolio was maintained even during the six-month period of political deadlock in Kosovo (FY15). Disbursement ratio for FY15 was 14 percent, while in FY14 it reached 27 percent, exceeding past performance and ECA average. As of June 2016, the Bank's active portfolio consisted of eight investment operations, with commitments totaling US\$131.45 million (average operation size is around US\$16 million) and Trust Funds totaling US\$6.52 million.

49. **A robust program of ASA and technical assistance/capacity building provided analytical underpinning for the CPS lending program.** The main ASA work included the first-ever *Financial Sector Assessment Program* (FSAP), three financial-sector Reports on the Observance of Standards and Codes (ROSCs), a *Country Environmental Analysis* (CEA), and the preparation of a multi-sector *Public Financial Review* (PFR). The Financial Sector Assessment Project (FSAP), jointly conducted by the Bank and the IMF in 2012, provided a baseline for coordination and follow up support in strengthening the financial sector in Kosovo. Additionally, providing programmatic assistance to strengthen public expenditure management, the fiduciary framework and anti-corruption efforts stood out as key highlights, complementing lending efforts in public sector modernization. Other key ASA work included monitoring and analysis of the macro-fiscal and financial framework, the socioeconomic situation (labor market, poverty, and gender), and ongoing IFC advisory support for the investment climate, trade logistics, infrastructure PPPs, renewable energy, energy efficiency and corporate governance. The *Environmental and Social Impact Assessment* (ESIA) and *Poverty and Social Impact Assessment* (PSIA) will contribute to the proposed PRG for the energy sector. Regional Health ASA activities such as analytical work on Smart Safety Nets and Health Finance, as well as several EU-financed *Western Balkans Investment Framework* (WBIF) trust funds in the environment, energy, water, and education sectors have provided basis for informed policy making in Kosovo. Furthermore, a cross-GP team including Poverty and Equity, Social Protection and Labor, and Education is currently supporting the Skills Toward Employment and Productivity (STEP) Measurement Survey in Kosovo and Serbia. STEP is the first ever initiative to measure skills in low and middle-income countries. Finally, support from the Western Balkans gender Trust Fund has allowed the introduction of a stronger gender lens into the Employer Survey of STEP. This will capture richer information on gender gaps in skills, including employers' perceptions on differences in skills between men and women.

50. **IFC advisory services, financed by the Austrian and Swiss trust funds as well as IFC's own resources, totaled about US\$6.0 million.** IFC operations contributed to the CPS objectives of strengthening energy infrastructure and promoting private sector development. In the energy sector, IFC through its advisory services supported privatization of the national energy distribution system, improvements in the regulatory framework for renewable energy, and promoted sustainable energy finance. To promote private sector development, IFC worked to reduce regulatory burden for business, improve corporate governance practices, and strengthen financial market infrastructure.

51. **The World Bank has gender-informed its country engagement.** WBG operations in Kosovo benefitted from the inclusion of gender aspects at the design stage. As a result, three of four projects in Kosovo were gender informed in all three areas (analysis, actions, monitoring and evaluation). Of these, the Education System Improvement Project includes a qualitative study on girls' transition to upper secondary education and girls' and boys' retention in secondary education. The findings of the study are expected to be used by the schools involved in the project when preparing their School Development Plans and grant proposals. Additionally, the health project includes a goal to improve maternal and reproductive health services for women, and the project has gender disaggregated results indicators. Beyond lending,

gender has also been integrated into ongoing analytical work. A 2014 labor market note includes gender disaggregated analysis as well as targeted analysis of gender gaps in participation and pay, and the role of childcare and social norms. A qualitative survey has also been carried out to explore the obstacles to employment that women and men face that are often missed by traditional analyses, such as those related to social norms. Additionally, the ongoing Kosovo Jobs Diagnostic, which will be gender informed, aims to address a number of knowledge gaps by providing a comprehensive analysis of the demand-side and the supply-side constraints to job creation, as well as broader institutional issues, and propose a policy agenda to tackle existing constraints. These gender-informed findings now need to be translated into targeted interventions to improve gender equality in the labor market. Possible entry points for interventions include any upcoming operational work on competitiveness and jobs.

52. Citizen engagement has been gradually adopted into the Kosovo portfolio since the introduction of the Strategic Framework for Mainstreaming Citizen Engagement in WBG Operations adopted in July 2013. This framework establishes the corporate requirements for IPFs to include both a citizen-oriented design and a beneficiary feedback indicator, and to report on the citizen engagement activities carried out. The portfolio of Kosovo projects approved since FY14 is currently 50 percent compliant. While FY16 and FY17 projects are compliant in both respects, the projects approved in FY14 did not include beneficiary feedback indicators, and are also not reporting on citizen engagement efforts. A recent assessment of the quality of citizen engagement in IPFs (at design), shows that 50 percent of projects included open mechanisms for beneficiaries to provide feedback on any issue (unrestricted feedback), that the citizen engagement tools adopted in the two most recently approved projects have planned a robust interface with promising opportunities for citizen-government dialogue (depth of engagement), three projects had more than one channel for engagement (multiple channels), and there is an increasing effort to ensure citizens have annual opportunities throughout the project to provide this feedback (frequency of feedback). A strong performer in the portfolio is the Education System Improvement Project, which provides a model for projects in the pipeline, engaging and measuring the levels of engagement of parents in planning and budgeting the use of school grants.

53. Coordination and harmonization with other development partners supported several areas of the WBG strategy. With EU and USAID being the largest donors in the country, the WBG pursued close dialogue and cooperation with these development partners in the areas of Energy, Education, Agriculture, and Governance. The Sustainable Employment Development Policy Program (SEDPP) was the largest WBG-executed multi-donor trust fund in Kosovo, and it leveraged—around US\$50 million in a single operation with the advantage of reduced transaction costs to the Government. This operation also highlighted the challenges that come along with donor coordination, most notably in managing the different procedures and timelines. Furthermore, besides providing seed capital for the Deposit Insurance Fund of Kosovo (DIFK), the Financial Sector Strengthening and Market Infrastructure Project supported institution building and capacity development of DIFK staff through technical assistance which was closely coordinated with KfW and EBRD, thus enabling DIFK to maximize benefits from the technical assistance and develop into an institution that is very well positioned today among its peers in the region. Through a Swiss Development Cooperation supported Externally Financed Operation, the Bank has provided technical assistance to the Ministry of Health on the Health Insurance Law, thus complementing activities of the Kosovo Health Project. Good progress in Agricultural and Rural Development Project leveraged donor support from DANIDA to expand the reach of its Rural Development Grant Program activities and greatly helped to overachievement of CPS goals in agriculture sector. Norwegian support was especially crucial in establishing the new Kosovo Cadaster and Land Information System. The WBG has closely cooperated with the EU, EBRD and the USAID in supporting the implementation of a comprehensive energy strategy that includes the KRP Project, but also energy efficiency, renewables and regional integration. Overall, during the CPS period, the WBG pursued activities and reforms to support Kosovo's EU integration aspirations, and it coordinated closely with the European Commission.

54. **Based on the 2016 Country Survey, the WBG is seen as a respectful, honest, long-term partner in Kosovo.** The institution’s collaboration with the government and development partners in the country is rated particularly high. Stakeholders see a greater need for the WBG to reach out more to groups outside the government, particularly to private sector. The ratings are high related to how the WBG uses country systems, provides implementation support, and monitors and evaluates its projects. WBG staff’s preparedness, quality, and accessibility are also highly rated. The survey data suggests that stakeholders greatly appreciate WBG’s knowledge activities—both in terms of content and technical quality. At the same time, stakeholders identify slow processes as the WBG’s top weakness. The WBG’s responsiveness, speed in getting things done, and flexibility received the lowest ratings. In addition, nearly half of stakeholders reported that lack of inadequate levels of capacity in government is a key obstacle to WBG supported reform efforts. Going forward, stakeholders would like to see the WBG focus primarily on economic growth and education. When asked about development areas that would benefit most from the WBG playing a leading role among development partners in Kosovo, respondents named public financial management, jobs, and capacity of state institutions as the top three priorities. Education continues to be seen as a top development priority for the country (38 percent), followed by public sector governance/reform (33 percent), law and justice (33 percent), private sector development (27 percent) and job creation/employment (27 percent).

IV. ALIGNMENT WITH WBG CORPORATE STRATEGY

55. **Although the WBG twin goals were introduced only after the start of this CPS period, many projects and outcomes were well aligned with the greater goals of reducing poverty, generating employment, increasing growth, and promoting environmental sustainability, as encompassed in the two CPS pillars.** Several program areas produced results that have the potential to contribute to poverty reduction and shared prosperity. Improvements in agricultural and rural development have led to the creation of 2,012 new jobs in the agri-rural sector and increased beneficiary incomes at a total value of EUR 1,158,117 from extra yearly production. Furthermore, a stable, efficient and accessible financial sector is an essential pre-condition for private sector-led economic growth and shared prosperity. It is an important building block for maintaining macro stability and increasing efficiency in intermediating financial resources among economic agents with the ultimate aim to foster growth. Simplifying and streamlining the business registration process and reducing hurdles to doing business led to 10,056 new MSMEs created in 2015. A more developed private sector promotes competitiveness, supports job creation, and empowers people. An improved and more efficient cadaster system contributed to an estimated 31,210 registered real estate transactions in 2015. Strengthened property rights and land security promotes greater systematic property registration, and by registering property people have the opportunity to mortgage it, which is particularly important for the poor. While Kosovo experienced progress in poverty reduction between 2006 and 2011, no new data is available for the period covered by this Country Partnership Strategy.

V. LESSONS

56. The following key lessons learned during the implementation of the CPS should be taken into account when designing the new CPF for Kosovo:

- **Improve readiness for implementation.** Weak institutional capacity, and poor inter-institutional cooperation affected performance of operations in sectors such as health and energy efficiency, and led to delays in early stages of implementation. Engagement by several ministries has been required in the case of health project and led to implementation delays. In case of energy efficiency project, the Public Procurement Agency was to lead complex and relatively large procurement using the National Competitive Bidding (NCB) practices. This led to implementation delays and cancellation of procurement packages. These recent experiences suggest that additional efforts will be needed to ensure readiness for implementation during the project preparation, and include institutional capacity building

activities in the project design. In terms of procurement management, the use of National Competitive Bidding should be avoided for large and complex contracts. At the same time, efforts to strengthen fiduciary capacity of implementation agencies, including the Public Procurement Agency, should continue throughout project implementation and through tailor made clinics. Regular portfolio reviews should continue to be used to verify progress in addressing cross-cutting portfolio issues, and propose additional corrective actions.

- **Simple project design, underpinned by sound political economy analysis, and intense implementation support should be applied to counter fragility and institutional weaknesses.** Strong performance in sectors such as agriculture and land management were largely due to clear institutional arrangements and strong commitment by the recipient ministries and agencies. Additional Financing or repeater projects should be pursued in areas where there is clear demand, commitment and capacity for implementation. As a young country, Kosovo needs to continue to strengthen and modernize its public institutions. To be successful, interventions in this area should be simple and realistic, require strong client ownership and a good level of inter-ministerial coordination, and intense implementation support by the WBG throughout the implementation.
- **A more selective approach to setting outcomes in the Results Framework.** With 26 outcomes and 31 outcome indicators, the CPS results framework was too complex. It is critical to develop stronger links between outcomes and indicators, as the status of related indicators provide the support and evidence needed for outcome assessments. Ensuring effective mid-course corrections is important not just to reconfirm program relevance, but also to re-calibrate the results framework to better capture progress of the program through relevant and measurable outcomes and indicators.
- **Reach firm agreement on possible further engagement in the energy/power generation early in the CPF process.** The last CPS cycle was characterized by high uncertainty surrounding the dominant WBG engagement in the energy sector. This was perhaps not surprising given the need to ensure that the proposed lignite-fired power plant would be economically viable and meet the highest environmental and social standards within a changing global and regional context. A clear and aligned strategic view and continuous communication within the WBG and among Kosovo's key development partners are pivotal in complex transactions such as this with economy-wide impacts. At the start of a new CPF, reliable energy remains the most important bottleneck to economic development in Kosovo. For this reason, the new CPF will also need to take into account uncertain timing of power generation investments, requiring a similar level of flexibility in the programming of IDA resources throughout the three-year IDA cycles.
- **Privatizations and infrastructure investments with private-sector participation require continued WBG support at all stages to deliver greater results.** In case of privatizations, as highlighted in the PLR, important risk stems from capacity constraints in the public administration and lack of experience in conducting negotiations with international investors, paired with a public mistrust. This risk can be mitigated, to a large extent, through a strategic transaction advice and pre-/post-privatization support so as to ensure that the private companies' investments lead to a tangible increase in the corresponding sector's productivity. Moreover, a clear and aligned strategic view and continuous communication within the WBG and among Kosovo's key development partners is pivotal in complex transactions with economy wide impact. This lesson is especially relevant in the complex engagement in the energy sector with the high risk coal-based KPP. WBG policy dialogue on energy sector reform helped complete KEDS privatization supported by IFC.

- **IFC needs to consider innovative approaches in order to be more relevant in fragile and conflict-affected states.** Despite its efforts, IFC could not grow its portfolio in Kosovo and expand SME finance in a substantial way. Weak corporate governance, accounting and integrity issues have impeded IFC in financing SMEs in Kosovo. Subsidized financing offered by other development partners also crowded out IFC financing, particularly in the financial sector.
- **The WBG’s program in Kosovo should ensure a strategic approach to promote gender equality in access to economic opportunities across the portfolio.** This is specifically relevant now that a more solid knowledge base has been established in this area. The extremely large gender gap in employment highlights the need for both targeted interventions and a horizontal approach in ensuring gender equality across the program, as overall growth has not resulted in gender-equal gains in employment.
- **Political and logistical difficulties of engaging in the Northern Kosovo, should not discourage the Government of Kosovo and the WBG to explore ways to expand operations in this part of the country.**

CPS CLR Attachment 1

Kosovo: FY12–FY16 CPS Completion and Learning Review: Summary of CPS Program Self Evaluation			
CPS Outcomes and Outcome Indicators	Status and Evaluation Summary	CPS Instruments and Partners	Lessons and Suggestions for the New CPF
Pillar 1: Accelerating Broad-Based Growth and Employment Generation			
(i) Strengthening infrastructure, with a focus on energy - MOSTLY ACHIEVED			
<p>Outcome 1: Preparations completed for replacement of the 50-year old, highly inefficient and pollutant Kosovo A power plant with a private sector-financed replacement power plant, in line with relevant Directives of the EU’s environmental acquis communautaire.</p> <p>1.1 The tender for the Kosova e Re power plant concluded successfully, with (i) a winning bidder announced, (ii) successful negotiations between the winning bidder and the Government, allowing the commercial and financial close and the tender for the engineering, procurement, and construction (EPC) and operations and maintenance (O&M) contracts, and (iii) the preparation of required documentation for the proposed PRG for Board consideration, based on the ESIA and PSIA.</p> <p>Outcome 2: Improved quality of service, with secure supply to all paying customers, elimination of the need for subsidies from Government and donors to pay for electricity purchases and</p>	<p>Partially achieved: A preferred bidder was announced in November 2015. Pre-negotiations between the Government and the winning bidder have been ongoing since February 2015. A final agreement is being negotiated with the preferred bidder and expected to be signed by early spring 2017. The construction is expected to start in early 2018. The draft ESIA and the Environmental and Social Scoping Report were prepared under the energy sector Cleanup and Land Reclamation Project (CLRP). However, this is not the final ESIA as the Government and the private investor are currently discussing significant changes to the configuration of the proposed project, which, if adopted, will require the draft ESIA to be significantly revised and updated.</p> <p>Achieved: The electricity distribution was privatized in May 2013, and technical and commercial losses were reduced from 38.2 percent in 2011 to 33.5 percent in 2014 and</p>	<p>World Bank: CLRP and CLRP-AF, incl. ESIA for KPP (<i>active</i>) KEEREP (<i>active</i>) PRG for KPP (<i>in preparation</i>) Water Security and Canal Protection Project Central Kosovo Project (<i>approved</i>) CEA (<i>published</i>)</p> <p>IFC: Transaction support for KEDS Privatization (<i>closed</i>) KEDS post-privatization support (<i>active</i>) Strategic Advice for GoK Kosova e Re Power Plant (<i>active</i>) Balkans Renewable Energy Advisory Program- BREP (<i>active</i>) Sustainable Energy Finance (<i>active</i>)</p> <p>MIGA: Possible political risk guarantee for KRPP</p> <p>Partners: European Commission, USAID, The Netherlands, EBRD, KfW, DevCo, Austria, and UNDP.</p>	<p>A clear and aligned strategic view within the WBG—and among Kosovo’s key development partners—is necessary in order to successfully undertake a complex and high risk project, such as the KPP.</p> <p>Given limited capacity and inexperience with investments of this nature, it is critical that the government hire highest-quality advisors, with deep experience in the sector, in order to be able to make informed decisions in the public interest. The WBG is well-placed to provide the Government with important support, provided its technical teams receive relevant and timely information, on which basis the Government could receive technical advice underlying its decision-making processes.</p> <p>Privatizations in infrastructure sector require continued World Bank Group support at all stages. Inherent risks stem from capacity constraints in the public administration, particularly lack of experience in negotiating with international investors, and lack of public trust in fair and transparent process. These risks can be mitigated,</p>

<p>Outcome 4: Increased use of renewable resources for electricity generation.</p> <p>4.1 At least 3 bankable projects have been prepared for private sector investment in renewable resources, and a financing mechanism for private sector renewable energy projects is in place.</p>	<p><i>Mostly Achieved:</i> 24 projects are being prepared for private sector investments in renewable resources, mainly small hydro and wind energy investments.</p> <p>Five projects with a total capacity of 35.8 MW received the final authorizations from the Energy Regulatory Office (ERO).</p> <p>ERO prepared methodology for Solar Feed-in Tariff (FiT) and approved the FiT for photovoltaic (PV) installations. Six solar companies have already received the authorization from ERO to construct solar power plants with total capacity of 10 MW. With this, GoK will achieve quota of 10 MW for renewable energy from solar to 2020 and increase the renewable energy for electricity.</p> <p>A financing mechanism for private sector renewable energy projects, supported by EBRD and IFC, has not yet been made available for qualified investors³⁷.</p>		
<p>(ii) Promote private sector development and financial strengthening - ACHIEVED</p>			
<p>Outcome 5: Simplified processes for doing business introduced.</p> <p>(Baseline: In the 2008 BEEPS, 38 percent of firms said licenses and permits were a problem. Overall ranking in the 2012 Doing Business survey: 117, with subcategories starting a business, registering</p>	<p><i>Partially achieved:</i> While original benchmark data and outcomes are not directly comparable, the percentage of firms indicating problems with business licensing and regulation was reduced to 31 percent (BEEPS 2013), the business registration process was streamlined, and 28 one-stop-shops were</p>	<p>World Bank: BETA (<i>closed</i>), SEDPP (<i>closed</i>), RECAP (<i>active</i>), PSMP (<i>active</i>), SILED (grant, <i>closed</i>), KYDP2 (grant, <i>closed</i>), FSSMIP (<i>active</i>), various TA operations for the Central Bank (<i>active</i>).</p> <p>AAA and ESW:</p>	<p>To be relevant in FCS markets, IFC needs to consider more blended financing schemes. Despite efforts, IFC could not grow its portfolio in Kosovo in a substantial way. Double booking practices, accounting and integrity issues in the corporate sector have impeded IFC to finance SMEs in Kosovo. Also, subsidized</p>

³⁷ The list of the final authorizations received from the Energy Regulatory Office is available at: www.ero-kso.org.

<p>property, and enforcing contracts being, respectively, 168, 73, and 157.)</p> <p>5.1 Reduction in percentage of firms indicating problems with business licensing and regulation from 38 percent in 2008 to 28 percent in 2015.</p> <p>Outcome 6: Property and cadastral services have improved as indicated by increase in registered real estate transactions and decrease in the average days to register a standard sale or purchase of a residential property.</p> <p>6.1 Average number of days to register a standard transaction of residential property decreased from 30 days in 2012 to 20 days in 2013, 11 out of 23 MCO facilities are reengineered.</p> <p>Outcome 7: Creation and strengthening of new small and micro enterprises.</p> <p>7.1 300 small and micro enterprises created.</p> <p>Outcome 8: Increase entry of formalized SMEs.</p>	<p>established, issuing a single document with registration, fiscal, and VAT numbers.</p> <p>In the 2016 Doing Business survey, Kosovo ranked 60 overall, with the subcategories on starting business, registering properties, and enforcing contracts being, respectively, 13, 33, and 44. Kosovo also records steady improvement in Distance to Frontier with overall 68.79 percentage points in the 2016 Doing Business (1.64 percentage points improvement compared to previous year).</p> <p>Achieved: The average number of days to register a standard transaction of residential property has decreased from 30 days in 2012 to 27 days in 2013, 10 days in 2014 and 9.7 days in 2016, 23 out of 23 MCO facilities have been re-engineered.</p> <p>Achieved: 10,056 small and micro enterprises have been created.</p> <p>Achieved: Number of new, registered enterprises increased to 9,654 in 2012 (+22.5 percent), 9,484 in 2013</p>	<p>FSAP (<i>finalized and published</i>), several ROSCs (<i>published</i>), PFR (<i>finalized and published</i>).</p> <p>IFC Advisory: Trade Logistics (<i>closed</i>) Investment Climate (<i>active</i>) Corporate Governance (<i>active</i>) Doing Business Report (<i>active</i>) Financial Institutions Project (<i>active</i>)</p> <p>IFC Financing: Support to SMEs, microfinance institutions, and banks with a focus on the SME sector.</p> <p>Partners: IMF, USAID, US, SECO.</p>	<p>financing products offered by other development partners crowd out IFC financing.</p> <p>Digital services and IT systems have supported the land reform process through making the process of mapping and recording property rights in the cadaster system more efficient and systematic. Looking forward, strengthening the cadaster system will require working towards web-based services and e-government integration that combine different registries.</p> <p>IFC might need to consider more blended financing schemes to support export oriented SMEs, including in agribusiness sector, as well as energy efficiency products.</p> <p>While CBK showed strong ownership in the project, the complexity of multiple procurements under FSSMIP showed the necessity for establishment of a PIU mainly focused on project implementation rather than drawing from CBK staff with multiple other functions, in particular as regards to fiduciary aspects under the project.</p>
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<p>8.1 Increase by at least 15 percent, relative to 2011, number of new, registered companies.</p> <p>Benchmark: 7,879 new enterprises registered in 2011.</p>	<p>(+20.4 percent), 9,629 in 2014 (+22.2 percent), and 10,056 in 2015 (+27.6 percent).</p> <p>Support provided under Business Environment TA project, Social Inclusion and Local Development TF, IFC Investment Climate project, and IFC Corporate Governance Program contributed to achievement of the above results.</p>		
<p>Outcome 9: Stronger financial system through support of the regulatory and institutional reform of Kosovo's financial system.</p> <p>9.1 Reform of the payment system, and implementation of Real Time Gross Settlement, harmonization of existing regulations and procedures with Kosovo's new Banking Law, and assurance of conformity with EU practices, particularly in the area of financial reporting and auditing.</p> <p>Outcome 10: The sustainability of the CBK and its capacity to supervise banks and non-bank financial institutions have been strengthened.</p>	<p>Achieved: Reforms of the payment system and the implementation of the Real Time Gross Settlement was completed. Existing regulations and procedures were harmonized with existing regulations and procedures with Kosovo's new Banking Law. Assurances of conformity with EU practices, particularly in the area of financial reporting and auditing, were provided. Kosovo became a member of SWIFT and introduced IBANs. TA is being provided to follow up on FSAP recommendations.</p> <p>The following additional indicators show the strength of the financial system: Capital Adequacy Ratio – 17.9%, Non-performing Loans - 4.9%, Return on Assets - 3.2%, Return on Equity – 26.8, Liquidity Ratio – 41.5%, Loan to Deposit Ratio – 76.5% (source: CBK)</p> <p>Achieved: The CBK developed plans to ensure access to long-term resources, including in the CBK Strategies 2010-14 and 2015-19. CBK supervised Kosovo's main</p>		

<p>10.1 CBK has developed plans to ensure access to long-term resources and supervises Kosovo’s main banks and pension funds on a regular schedule.</p>	<p>banks and pension funds on a regular basis.</p>		
<p>(iii) Strengthening agricultural development - ACHIEVED</p>			
<p>Outcome 11: Promote competitiveness and growth in the livestock and horticulture sub-sectors through implementation of selected measures of agricultural strategy and institutional development.</p> <p>11.1 At least 80 agricultural enterprises have adopted improved products and/or processes.</p> <p>11.2 At least 20 new agricultural micro and small enterprises have been established.</p> <p>Outcome 12: Women farmers targeted through the awareness campaign. More women farmers engaged in agriculture and agribusiness in Kosovo. Strengthen capacity of the Ministry of Agriculture to include support to women farmers.</p> <p>12.1 Percentage of women farmers awarded grants is doubled. <i>(Baseline: 4.4 percent in 2011).</i></p> <p>12.2 At least one quarter of all participants trained in grant preparation are women. <i>(Baseline: 0).</i></p>	<p><i>Achieved:</i> Original targets proved to be overly conservative as 642 agricultural enterprises have adopted improved products and/or processes, and 325 new agricultural enterprises were established in 2011, 741 in 2012, 753 in 2013, and 674 in 2014 and 270 in 2015 (source: Kosovo Agency of Statistics, and Green Book published by the Ministry of Agriculture).</p> <p><i>Achieved:</i> By December 2015 -14.3 percent of grants went to female farmers. The participation of women in trainings went up from 6.32% in 2014 to 19.5% in 2015.</p>	<p>World Bank: ARDP (<i>active</i>), Danish TF (<i>active</i>), SILED (grant, <i>closed</i>)</p> <p>Partners: Denmark, United States</p>	<p>ARDP was the first IDA credit received by the Government, thus providing key lessons in implementation experience. It is important for Bank teams to be highly proactive in guiding and advising counterparts on project implementation to ensure that all aspects of implementation are in accordance with the relevant Bank policies and guidelines. Ensuring this requires close Bank supervision of project implementation through regular missions and VCs with the PIU. Regularly meeting with key high-level officials keeps Bank teams apprised of project progress and issues. Open lines of communication and building trust are key to project success.</p> <p>ARDP design was kept simple, aiming to match the implementing capacity of the government, to allow effective implementation as Kosovo had just gained independence and technical capacity was severely limited. Legal agreements should be kept simple reflecting only salient project details so that amendments are not triggered each time a change has to be made in project activities/implementation. This will</p>

			allow teams to respond rapidly to changing needs on the ground.
(iv) Investing in education and skills - MOSTLY ACHIEVED			
<p>Outcome 13: The central and local capacities to monitor financial and quality trends and plan and carry out investment is strengthened, as indicated by (i) the transfer of budgetary autonomy to municipalities, (ii) the adoption of a per-capita funding formula that directs resources to areas of need, (iii) the monitoring and publication of annual current expenditures of key parameters.</p> <p>13.1 Financial decentralization and transfer of autonomy to schools. <i>(Baseline: 13 municipalities in 2011, target 37 municipalities in 2013).</i></p> <p>13.2 Percentage of municipalities that use EMIS data to report on the status of drop outs and retention disaggregated by gender and community. <i>(Baseline: 0 percent in 2011, 60 percent in 2013).</i></p> <p>Outcome 14: Improved opportunities for relevant training and life-long learning as indicated by the establishment of a National Qualifications Framework and continued accreditation of vocational training institutions.</p> <p>14.1 National Qualification Framework document and administrative instruction of accreditation criteria developed and approved. Decisions about the</p>	<p>Mostly achieved: Financial decentralization and transfer of autonomy to schools took place in 31 (out of 38) municipalities. 80 percent of municipalities use EMIS data to report on the status of drop-outs and retention, disaggregated by gender and community. The Ministry of Finance publishes annual expenditure reports which contain information on education expenditures. The Ministry of Education, Science and Technology has published a report with detailed analysis on expenditures in 2015.</p> <p>Achieved: National Qualification Framework (NQF) document and administrative instruction of accreditation criteria have been developed and approved. Decisions about the accreditation of training providers made publicly available. The National Qualifications Authority (NQA) has formally referenced the Kosovo NQF with the European Qualifications Framework</p>	<p>World Bank: SEDPP (<i>closed</i>), IDEP (<i>closed</i>), follow up education project (<i>implementation underway</i>)</p> <p>Partners: Sweden, European Commission, Austria, United States</p>	<p>IDEP underscores the importance of using a simpler project design. IDEP’s design was overarching and complex with many subcomponents requiring specific knowledge of the subject matter and complex dialogue with MEST and other stakeholders. This lesson is even more critical during a time of political uncertainty, or before independence as in the case of IDEP.</p> <p>Significant reprocessing of activities and recalculation of costs that were necessary during IDEP implementation, due to the paucity of background material and working papers, highlight the need for complete working papers on project costs, implementation schedules, and activity breakdown to be part of project preparation.</p> <p>In countries with little or no experience with budget support operations, the underlying policy program should be selective and supervision and technical assistance resources need to be dedicated to support implementation of the reforms, especially in areas where capacity is low.</p>

<p>accreditation of training providers made publicly available.</p>	<p>which is expected to result in improved referencing of qualifications and labor mobility. As of 2016, the NQA has accredited 29 providers, including the Vocational Training Centers that function under the Ministry of Labor and Social Welfare.³⁸</p>		
<p>(v) Promoting sustainable employment and social inclusion - PARTIALLY ACHIEVED</p>			
<p>Outcome 15: Labor programs strengthened and employment opportunities enhanced (<i>there is no reliable baseline or current data on job placement or informal employment</i>).</p> <p>15.1 Pilots of labor market programs with increased participation of regional and local employment offices carried out.</p> <p>15.2 Public works program expanded.</p> <p>Outcome 16: The capacity for monitoring strengthened, as indicated by improved statistical data collection and analysis.</p> <p>16.1 The development of a Labor Market Information System has been initiated.</p> <p>Outcome 17: The health insurance law passed as necessary condition to improve access to health care.</p>	<p>Achieved: Public works program (PWP) were implemented during 2010–12. Pilots of labor market programs with increased participation of regional and local employment offices were carried out in 2011 and 2012. The target of at least 33 percent of public works participants being Category II social assistance benefit recipients was surpassed in 2011 (34 percent) and 2012 (46 percent). PWP were implemented after the project closure. In 2013 - 1,558 participants were engaged, in 2014 - 2,330, and in 2015 - 1,865.</p> <p>Achieved: The development of a Labor Market Information System was completed. This system helped to transform the paper based records to a computer based system, which supports searches for job seekers and job vacancies.</p> <p>Partially achieved: Health insurance law was passed, and preparation for implementation is underway with the</p>	<p>World Bank: SEDPP (<i>closed</i>), SILED (grant, <i>closed</i>), KYDP2 (grant, <i>closed</i>).</p> <p>AAA and ESW: Kosovo Human Development Technical Assistance (2012, 2013), Kosovo Statistical and Analytical Capacity Development (<i>Labor Force Surveys published for 2012 and 2013</i>), Programmatic Poverty and Gender monitoring (<i>ongoing</i>).</p> <p>Partners: United Kingdom, UNDP</p>	<p>Identifying good indicators to evaluate progress in a short-term DPO can be difficult, especially in countries with scarce data and limited capacity.</p> <p>Coordinating a multi-donor trust fund is time-consuming and costly but can sustain a consolidated and impactful operation.</p> <p>Going forward, engage more proactively with the Ministry of Finance to get the support needed to implement project activities with other line ministries.</p> <p>In order to achieve stronger and more sustainable results, youth entrepreneurship and business development support needs to be integrated within an overarching government strategy.</p> <p>Better systematic data collection on disadvantaged groups (i.e. Roma, Ashkali, Egyptian) would make it simpler to analyze issues of social inclusion and provide effective solutions.</p>

³⁸ Information available at: <http://akk-ks.net/en/nqf/providers-qualifications-accredited-in-nqf>.

<p>17.1 Health insurance law passed.</p> <p>Outcome 18: Support social cohesion through the rehabilitation of small-scale social and economic infrastructure in the poorest villages and in mixed/minority communities as well as promoting MSMEs in a socially inclusive manner, and through youth centers, promoting inter-ethnic collaboration among youth, especially from marginalized and vulnerable groups.</p> <p>18.1 At least 20 basic community infrastructure objects have been rehabilitated or built through a socially inclusive approach and at least 300 small and micro enterprises have been created or expanded with a socially inclusive approach.</p> <p>18.2 At least 16 Youth Centers have fully developed sustainable strategies.</p>	<p>aim of starting with premiums' collection by July 2017.</p> <p><i>Mostly achieved:</i> 31 basic community infrastructure objects were rehabilitated or built through a socially inclusive approach and 256 small and micro enterprises were created or expanded with a socially inclusive approach, 16 Youth Centers fully developed sustainable strategies.</p>		
<p>(vi) Strengthening public financial management, procurement and anti-corruption efforts - ACHIEVED</p>			
<p>Outcome 19: Long-term focus on public financial management with strengthened internal controls and audit, strengthened external audit, as measured by improved performance in the PEFA indicators.</p> <p>19.1 In no more than one out of last 3 years has the actual expenditure deviated from budgeted expenditure by more than 10 percent of budgeted expenditure (PEFA indicator PI-1).</p>	<p><i>Achieved:</i> After the 2010 budget, which had to absorb a major, budget-financed motorway investment, the subsequent budgets were considerably more stable, with actual expenditures not deviating from budgeted expenditure by more than 9 percent.</p>	<p>World Bank: PSMP (<i>ongoing</i>), SEDPP (<i>closed</i>)</p> <p>AAA and ESW: CFA (<i>published</i>)</p> <p>Partners: European Commission</p>	<p>PSMP implementation demonstrates that in a country with a fragile political environment, a project could perhaps be structured in several phases to mitigate the impact by the volatile political situation. Structuring an investment project with disbursement linked indicators may be more effective.</p> <p>Engagement in civil service reforms underscores the need for clear Government ownership and political will in order to complete reforms</p>

<p>Outcome 20: Increased bidder participation in public procurement tenders and cost savings achieved through Quick Gains actions and e procurement modules. 20.1 Bidder participation in public procurement tenders increases by 15 percent (<i>Baseline: 8,270 bidders</i>).</p> <p>Outcome 21: Transparent and coherent pay and grading structure introduced in the core civil service. 21.1 Grading system is fully introduced and there is an equal base pay for posts of equal grade and salary step across civil service bodies.</p>	<p><i>Partially achieved:</i> In 2013, bidder participation in public procurement tenders, relative to the baseline, has increased by about 10 percent.</p> <p><i>Partially achieved:</i> Grading system was introduced. Equal base pay for posts of equal grade and salary step across civil service bodies for new hires only.</p>		<p>during the project implementation period, as well as to ensure their sustainability after the project closing.</p>
<p>Pillar II: Improving Environmental Management</p>			
<p>(vii) Reduce the environmental footprint of development activities, reducing environmental hazards to human welfare, and moving towards harmonization with EU environmental standards - ACHIEVED</p>			
<p>Outcome 22: Broader appreciation of environmental issues and of strategies for addressing them throughout Government and among stakeholders. 22.1 Completion of Government's Kosovo Environmental Action Plan (2011 draft) and the State of the Environment Report.</p> <p>Outcome 23: Pollution in mining operations devours been reduced and environmentally sound mining operations have been strengthened</p>	<p><i>Achieved:</i> The Government's Kosovo Environmental Action Plan and the State of the Environment Report have been completed. Most of the legislation has been harmonized with the EU's environmental <i>acquis communautaire</i>. CLRP activities contributed to achievement of this objective.</p> <p><i>Achieved:</i> The Mirash open pit mine was prepared for Kosovo A ash management, and the wet ash handling system was installed to</p>	<p>World Bank: CLRP and CLRP-AF (<i>ongoing</i>), Dutch TF (<i>closed</i>), Water Security in Central Kosovo (<i>approved in September 2016</i>)</p> <p>AAA and ESW: Country Environmental Analysis (<i>published</i>)</p> <p>Partners: European Commission, The Netherlands, Switzerland, Germany, KfW, UNDP and Kosovo Energy Cooperation (KEK)</p>	<p>More government ownership leads to more sustainable outcomes. While, WBG provided financing for CLRP and international experience on how to remediate an ash dump, KEK, the mining company, established a reclamation department, carried out actual project operations and made reclamation an integral part of their efforts. This combination not only established a strong mold for the project, but it also created a more sustainable and cost-efficient way to doing project activities.</p>

<p>though the elimination of dumping on open land of ash from the Kosovo A power plant.</p> <p><i>Baseline: particulate matter (PM10) in central Prishtina in 2010 is 74.7 $\mu\text{g}/\text{m}^3$, NO2 20.8 $\mu\text{g}/\text{m}^3$, and SO2 11.2 $\mu\text{g}/\text{m}^3$:</i></p> <p>23.1 Mirash open pit mine has been prepared for Kosovo A ash management, and the wet ash handling system has been installed.</p>	<p>eliminate air pollution from ash handling (and is operational since late 2013). This eliminated fully the dumping of ash from Kosovo A power plant on open land.</p> <p><i>Particulate matter (PM10) in central Prishtina in January 2015 is 51.7 $\mu\text{g}/\text{m}^3$, NO2 27.7 $\mu\text{g}/\text{m}^3$, and SO2 5.9 $\mu\text{g}/\text{m}^3$.</i></p> <p>The ash dump of 243 hectares has been mostly reshaped and covered with soil to eliminate the dust from the ash dump.</p> <p>KEK has established a full time reclamation department for its mining departments for continued reclamation activities as part of environmentally sound mining practices.</p> <p>KEK also installed Electrostatic Precipitators (ESP) on the three operational stacks of Kosovo A and continuous air monitoring has demonstrated a significant reduction in air pollution.</p>		
<p>Outcome 24: Initiate and enable KEK to achieve land reclamation for natural habitats, agriculture, resettlement or other land use purposes.</p> <p>24.1 At least 55 percent of the total overburden area has been reclaimed.</p>	<p><i>Achieved: 55 percent of the total overburden area was reclaimed.³⁹ 653 hectares were reclaimed in total.</i></p>		

³⁹ This result was verified a KEK team - Department of Surveying (Geodesy) and the Department for re-cultivation, and reported in the CLRPP Implementation Completion and Results Report.

<p>Outcome 25: Removal of highest priority hazardous substances from storage tanks at the gasification site.</p> <p>25.1 4,300 tons of tars, benzene, phenols, methanol, and oily compounds have been removed.</p> <p>Outcome 26: The KRPP program adheres to good environmental practices and options for deriving energy from renewable sources.</p> <p>26.1 Regular environmental monitoring of air, soil, and groundwater in the KRPP area is established. A low-carbon growth strategy for Kosovo is prepared.</p>	<p><i>Achieved:</i> Approximately 7,000 tons of high organic content materials (tars, benzene, phenols, methanol, and oily compounds) have been removed and incinerated in licensed facilities in Europe, in line with Basel Convention, and 15,000 tons of low level organic content materials have been treated locally.</p> <p><i>Achieved:</i> Regular environmental monitoring of air is established and soil and groundwater pollution monitoring has been executed in the KRPP area. A low-carbon growth strategy for Kosovo was prepared.</p>		
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CPS CLR Attachment 2

Planned Financing Program and Actual Deliveries (FY12–FY16)

PLANNED			ACTUAL		
Project	IDA	Grant	Project	IDA	Grant
Pillar I: Accelerating Growth and Employment Generation					
FY12 Sustainable Employment DPO 2 Agriculture and Rural AF		47 9.2	FY13 Sustainable Employment DPO 2 Youth Development AF		46.4 2
FY14 PRG for KRPP ^a Education Improvement	14.5 10		FY14 Health Project Agriculture and Rural Dev AF	25.5	9.2
			FY16 Education System Improvement	11	
Sub-total Pillar I	24.5	56.2		36.5	57.6
Pillar II: Improving Environment Management					
FY13 Energy Efficiency Energy Sec Clean-Up AF	32.5 3.2		FY13 Energy Sec Clean-Up AF	4.2	
FY15 Water Supply ^b	18		FY14 Energy Eff and Renewable Energy	31	
Sub-total Pillar II	53.7			35.2	
TOTAL	78.2	56.2		71.7	57.6

Note: All amounts in US\$, millions.

a. Forwarded to FY18.

b. Forwarded to and delivered in FY17 - IDA Credit US\$24.5 million.

CPS CLR Attachment 3

Kosovo: CPS Completion and Learning Review: Planned Non-lending Activities and Actual Deliveries (FY12–FY15)		
Planned	CPS PLANS (5/01/2012)	STATUS (11/15/2016)
Completion FY	Activity	Actual, Dropped, or Moved to a Different FY
FY12	ROSC	Delivered (P128808, FY13)
FY13	Financial Sector Assessment	Delivered: Kosovo FSAP (P131520, FY13)
FY12–13	Statistical and Analytical Capacity TA	Delivered (P127642, FY14)
FY13–15	Employment and Social Protection	Delivered: Employment Impact Study (P155223, FY15)
FY12	Country Environmental Analysis	Delivered (75029-XK, FY13)
FY12	Water Strategy Follow-up/Round Table	Delivered FY14
FY12	Solid Waste Management Concession	Delivered: Strengthening Waste Management (P143131, FY16)
FY13	Smart Safety Nets	Delivered: Activation and Smart Safety Nets (P146964, FY14)
	Western Balkans Public Financial Management/PEFA	Delivered (P131894, FY14)
FY13–15	Western Balkans Programmatic Gender Monitoring	Delivered (P133412, FY15)
FY13–15	Western Balkans Programmatic Poverty Assessment	Delivered (P132666, FY15)
		Additional Actual Products
		DeMPA Kosovo (P131397, FY13)
		First TA Service to Central Bank (P118455, FY14)
		Kosovo Health Results-Based Financing (P129027, FY14)
		Kosovo Study tour on Migration Policies (P129709, FY14)
		Kosovo Labor Force Survey support (P132962, FY14)

		<p>Health PSIA - Kosovo (P143147, FY14)</p> <p>Kosovo Public Finance Review (P133100, FY14)</p> <p>Kosovo Energy Poverty and Social Impact Analysis (P133007, FY15)</p> <p>Kosovo Health TA (P147168, FY15)</p> <p>Electricity affordability study (P154735, FY15)</p> <p>Employment impact study (P155223, FY15)</p>
		<p>Feasibility Study for Protect. of Iber Canal (P143130, FY16)</p> <p>Strengthening Waste Management (P143131, FY16)</p> <p>Diversifying Kosovo's Export and Product (P150843, FY16)</p> <p>Efficient Infrac. Sharing for Kosovo (P151347, FY16)</p> <p>Digital Economy Skills for Jobs (P156007, FY16)</p>

Annex 3: Selected Indicators of Bank Portfolio Performance and Management

As of Date 04/17/2017

Indicator	FY14	FY15	FY16	FY17
Portfolio Assessment				
Number of Projects Under Implementation ^a	7.0	7.0	8.0	6.0
Average Implementation Period (years) ^b	3.8	4.8	5.2	3.5
Percent of Problem Projects by Number ^{a, c}	0.0	14.3	25.0	33.3
Percent of Problem Projects by Amount ^{a, c}	0.0	7.3	43.0	45.4
Percent of Projects at Risk by Number ^{a, d}	14.3	14.3	25.0	33.3
Percent of Projects at Risk by Amount ^{a, d}	12.2	7.3	43.0	45.4
Disbursement Ratio (%) ^e	26.9	11.7	11.6	14.9
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				
Memorandum Item	Since FY80		Last Five FYs	
Proj Eval by OED/IEG by Number	24		1	
Proj Eval by OED/IEG by Amt (US\$ millions)	59.2		9.6	
% of OED/IEG Projects Rated U or HU by Number	8.3		0.0	
% of OED/IEG Projects Rated U or HU by Amt	15.1		0.0	

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

- b. Average age of projects in the Bank's country portfolio.
 - c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
 - d. As defined under the Portfolio Improvement Program.
 - e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 4: Operations Portfolio (IBRD/IDA and Grants)

As of 3/31/2017

Closed Projects **30**

<u>IBRD/IDA*</u>	
Total Disbursed (Active)	29.15
of which has been repaid	0.00
Total Disbursed (Closed)	89.71
of which has been repaid	250.04
Total Disbursed (Active + Closed)	118.86
of which has been repaid	250.04
Total Undisbursed (Active)	84.20
Total Undisbursed (Closed)	0.54
Total Undisbursed (Active + Closed)	84.74665615

Project ID	Project Name	<u>Last PSR</u>			Fiscal Year	<u>Original Amount in US\$ Millions</u>				<u>Difference Between Expected and Actual Disbursements %</u>	
		Supervision Rating		Cancel.		Undisb.	Orig.	Frm Rev'd			
		<u>Development Objectives</u>	<u>Implementation Progress</u>						IBRD	IDA	Grants
P112526	AG & RURAL DEVT Education System Improvement Project	S	S	2011	0.0	20.2	0.0	2.1	3.1	0.0	
P149005	Energy Efficiency and Renewable Energy	S	MS	2016	0.0	11.0	0.0	10.6	2.2	0.0	
P143055	Kosovo Health Project	MU	MU	2014	0.0	31.0	0.0	25.9	10.6	0.0	
P147402	REAL ESTATE CADASTRE	MU	MS	2014	0.0	25.5	0.0	20.6	12.5	0.0	
P101214	Water Security and Canal Protection	S	S	2010	0.0	12.3	0.0	1.4	2.4	2.4	
P133829		MS	MS	2017	0.0	24.5	0.0	23.7	0.9	0.0	
Overall Result					0.0	124.4	0.0	84.2	31.7	2.4	

* Disbursement data is updated at the end of the first week of the month.

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

Annex 5: Statement of IFC's Held and Disbursed Portfolio and Ongoing MIGA Operations

As of 03/31/2017

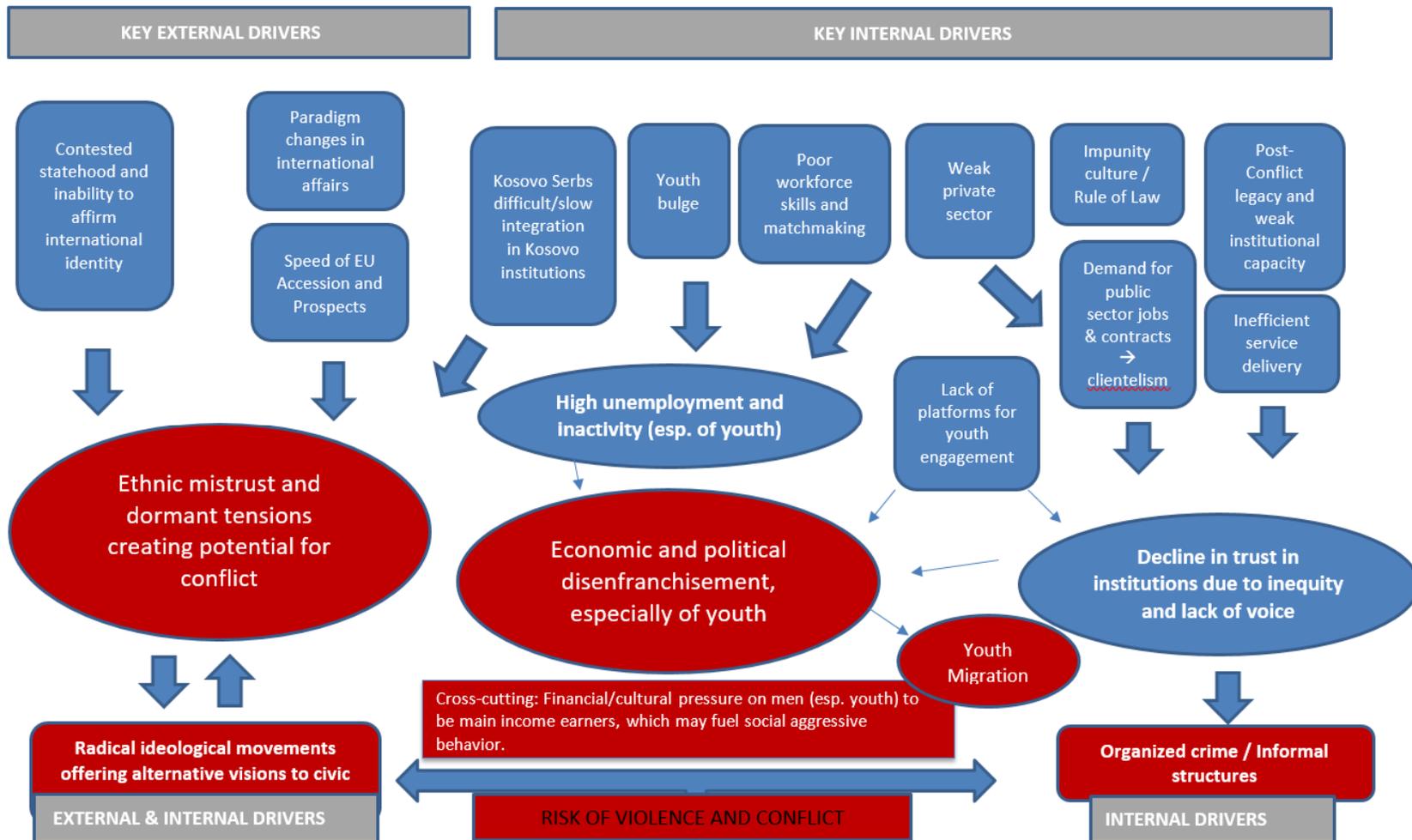
IFC HELD AND DISBURSED PORTFOLIO

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Participant	Loan	Equity	**Quasi Equity	*GT/RM	Participant
FY16	KRK KOSOVO	0.96	0.00	0.00	0.00	0.00	0.96	0.00	0.00	0.00	0.00
FY10	NEWKO BALKAN	1.28	0.00	0.00	0.00	0.00	1.28	0.00	0.00	0.00	0.00
FY13	TEB KOSOVO	0.00	0.00	4.81	0.00	0.00	0.00	0.00	4.81	0.00	0.00
Total Portfolio:		2.24	0.00	4.81	0.00	0.00	2.24	0.00	4.81	0.00	0.00

MIGA'S ACTIVE GUARANTEES

Investor Name	Project Name	Business Sector	Effective Date	Expiry Date	Investor Company	Gross Exposure (\$USD)
ProCredit Holding AG & Co. KG&A	Insurance of Mandatory Reserve at the Central Bank of Kosovo	<u>Financial</u>	<u>12/22/2010</u>	<u>12/21/2020</u>	<u>Germany</u>	40,527,000
Raiffeisen Bank International AG	Raiffeisen Bank Kosovo J.S.C.	<u>Financial</u>	<u>03/31/2015</u>	<u>03/30/2018</u>	<u>Austria</u>	46,740,384
Grand Total	2 Contracts					87,267,384

Annex 6: Visual Illustration of Key Drivers of Fragility (from Risk and Resilience Assessment)



Annex 7: Cross-cutting Themes

	Portfolio	New Lending	ASAs
Gender	<p><i>The current portfolio operations are largely gender-informed and the aim is for the future lending to be even more gender-responsive and include gender aspects at the design stage. In this respect, the World Bank Group's work in Kosovo will include gender filters to analyze the impact of each operation on gender. This analysis will be conducted during project preparation. Progress in this area will be assessed at the PLR and adjustments will be made if necessary to ensure due adjustment to promote gender equality across the program. In addition, ASAs will continue to fill knowledge and data gaps relevant to gender policies.</i></p>		
	<p>Education System Improvement Project includes a study on girls' transition to upper secondary education and girls' and boys' retention in secondary education. The findings of the study are expected to be used by the schools involved in the project when preparing their School Development Plans and grant proposals.</p> <p>Kosovo Health Project includes a goal to improve maternal and reproductive health services for women, and the project has gender-disaggregated results indicators.</p> <p>Real Estate Cadaster and Registration Project (RECAP) is planning to update ICT systems to allow for an automatic registration of marital property in the wife's name and also working to align the Family Law with the Cadaster Law to allow for marital property in the latter.</p> <p>Agriculture and Rural Development: Screening/evaluation criteria under the Rural Development Grant Program (RDGP) include additional points for women applicants. In addition, training support has been provided to women in grant preparation and women were targeted to be included in study visits to countries in the region to learn from experiences of peers.</p>	<p>Agriculture and Rural Development AF will continue to provide extra points for female applicants under the RDGP to incentivize their participation. Similarly, the project will give priority to women aggregators by assigning additional points in the business plan screening process. The public awareness/information campaign under the project will have specific elements designed to target women to stimulate their participation in project activities.</p> <p>Gender and Equity DPL (regional) focuses on strengthening the legal and regulatory framework around gender equality, to promote women's access to assets and labor market participation.</p> <p>Competitiveness and Export Readiness will contribute to lowering the gender gap in entrepreneurship participation by encouraging female-headed enterprises to apply for support under the matching grant scheme.</p> <p>The future Kosovo Digital Economy operation presents a potential for supporting the employment of young women on online jobs, based on a successful pilot (Women on-line Work - WoW).</p>	<p>The ongoing Kosovo Jobs Diagnostic will be gender informed, with the overall objective of identifying the demand-side and supply-side constraints to job creation.</p> <p>STEP (Skills Measurement Program) aims at understanding gender-related skills gaps, including employers' perception on women's skills.</p> <p>Western Balkan Gender Program will continue to support gender-focused analytical work across the Western Balkans.</p> <p>Electricity Tariff Reform aims to identify female-headed households and provide recommendations on improving the subsidy targeting for the vulnerable ones.</p>

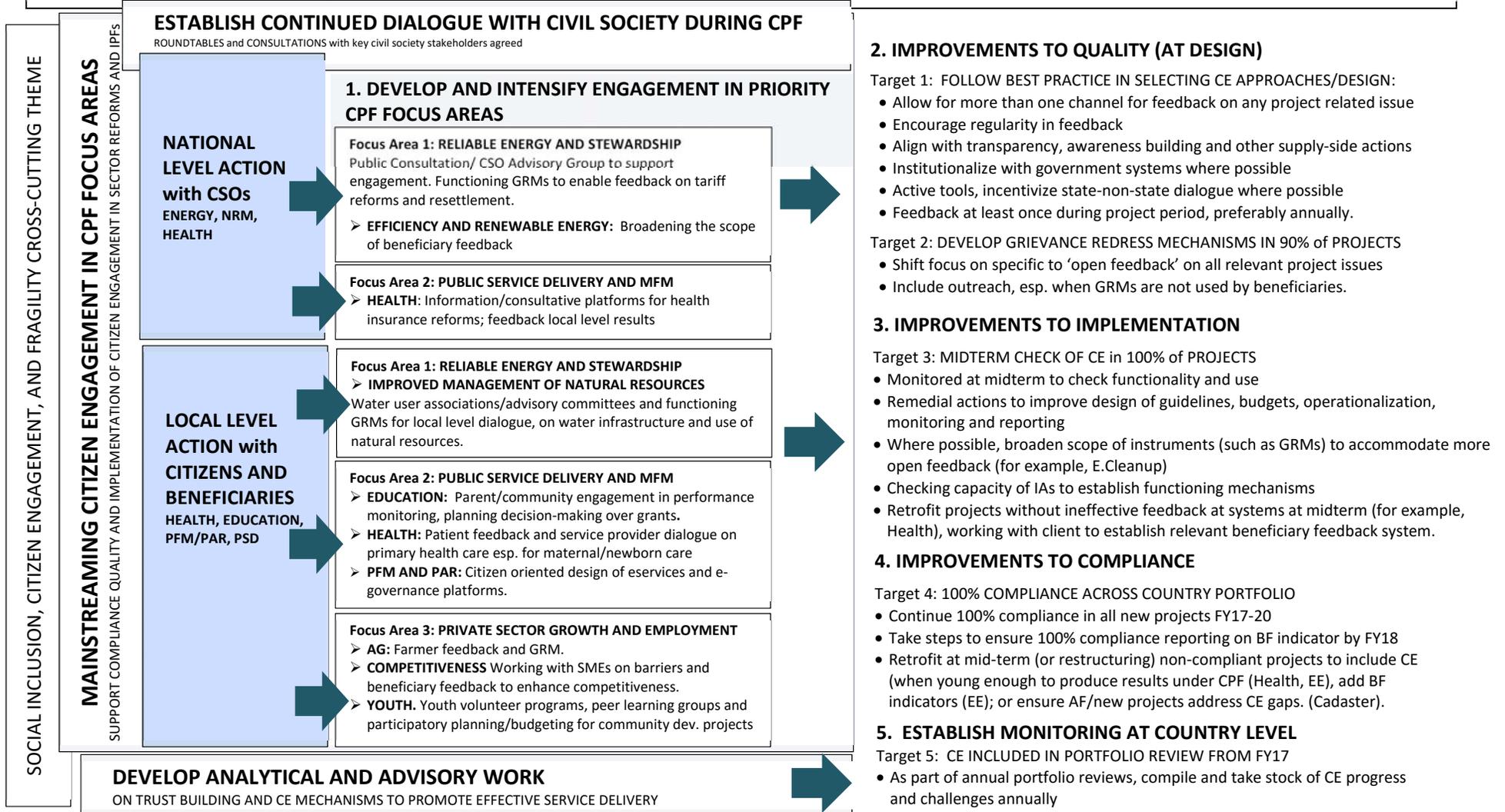
	Portfolio	New Lending	ASAs
Climate Change	<i>Some of the current operations and the future lending and ASAs seek to address the climate change challenges and promote climate change resilience.</i>		
	<p>Energy Efficiency and Renewables Project: Kosovo’s high reliance on firewood and lignite leads to adverse environmental impacts, which are expected to be mitigated through energy savings and avoiding CO₂ emissions and local pollution.</p> <p>Water Security and Canal Protection: The Water Security for Central Kosovo assessed that climate change could result in a 25% to 50% decrease in the runoff and inflow in reservoirs in Central Kosovo during very dry years, including in Gazivoda reservoir. If Ibër-Lepenc Canal is rehabilitated and losses are reduced below 30% of its discharge, Gazivoda reservoir would respond better to a sequence of very dry years for 2025–2035.</p>	<p>Kosovo Power Project - PRG: Through the replacement of the highly polluting Kosovo A power plant with a modern thermal power plant in compliance with the EU environmental standards, the environmental impacts from the fossil-fueled power plants can be minimized.</p> <p>Agriculture and Rural Development AF responds to the need for promoting climate change resilience by supporting climate-friendly activities at the farm level (as well as the provision of irrigation to counter risks of potential water shortages).</p> <p>The CPF also envisages supporting Kosovo to improve the reliability, capacity, and efficiency of its water supply infrastructure, a precondition to ensuring sustainable growth in particular in the mining, industrial, and agricultural sectors and to sustainable water access for households in the face of climate change.</p> <p>A possible future operation focused on cleanup and social issues could contribute to climate change through recultivating the degraded area.</p> <p>A future Irrigation Project helps through modern techniques and analysis in minimizing the water losses and maximizing the impact of water usage.</p>	<p>A Feasibility Study on Irrigation Needs and a National Water Usage Study will provide the necessary knowledge basis for reducing the water losses and recommend ways of optimizing the water usage.</p> <p>The District Heating Sector Assessment will look at ways the rehabilitation and/or expansion of the district heating system would lead to improved efficiencies, which in turn would reduce GHG emissions.</p>

	Portfolio	New Lending	ASAs
Fragility	<p><i>The whole CPF is geared toward addressing some of the key drivers of economic and social fragility. Several of the key fragility drivers are addressed through the current and pipeline projects and the Risk and Resilience Assessment provides recommendations on how to address the fragility issues in future programming.</i></p>		
	<p>School Development Grants under the Education System Improvement Project target schools in rural areas and with poorer socioeconomic background and lower education outcomes.</p> <p>Health Project is expected to contribute to improving financial protection from health spending for the poor and the vulnerable through the health insurance subsidies in the context of the introduction of mandatory health insurance.</p> <p>Energy Efficiency and Renewables Project: By investing and promoting energy efficiency in public facilities, a wide segment of the economically disadvantaged beneficiaries of these services will benefit. By investing in energy-saving measures, the public facilities will be able to reduce their operating costs and improve service and comfort levels, without any economic burden being transferred upon the beneficiary.</p>	<p>Agriculture and Rural Development AF through the investment in horticulture and livestock subsectors, helps in creating jobs (including for youth and women) in rural areas, where the poverty and unemployment are especially high.</p> <p>A targeted intervention on enhancing employment opportunities for youth, women, and vulnerable groups is planned for the second part of the CPF.</p> <p>A possible future operation focused on environmental cleanup and mitigation of social issues will benefit the population living close to environmentally hazardous places.</p>	<p>Improving Health Financial Protection and Quality of Care will help develop improved targeting mechanisms to identify the poor for health insurance subsidies.</p> <p>The Kosovo Electricity Tariff Reform will provide an analysis of the electricity tariff structure and impact on poor households and provide recommendations on necessary changes to the current tariff structure to improve the subsidy targeting for the poor.</p> <p>Statistics for Decision Making aims to strengthen the production of data and indicators by the Kosovo Agency of Statistics (KAS) in key areas, including poverty, social inclusion, health, and informality. This, among others, would support the Government in improving targeting of social support instruments.</p> <p>The TFs linked to the Health and Electricity Energy Reforms are expected to contribute to developing mechanisms for targeting the poor for the mandatory health insurance and energy reforms.</p>

	Portfolio	New Lending	ASAs
Citizen Engagement	<p><i>Citizen engagement has been gradually adopted into the Kosovo portfolio since the introduction of the Strategic Framework for Mainstreaming Citizen Engagement in July 2013. The CPF will further strengthen citizen engagement by (a) operationalizing citizen engagement across the World Bank portfolio in line with corporate requirements, (b) deepening citizen engagement in key reforms and sectors, and (c) strengthening the quality of design and implementation.</i></p>		
	<p>Education System Improvement Project promotes citizen engagement through the participation of teachers, parents, and communities in planning, implementing, and monitoring school activities.</p> <p>Kosovo Health Project plans public outreach and communications to inform the citizens about the health insurance reform process. In addition, the performance and accountability of primary health care providers can be improved through regular feedback and dialogue with the users of local health services.</p> <p>Water Security and Canal Protection foresees the establishment of a grievance redress mechanism to be channeled through a community-grievance approach and which will facilitate inputs from individuals and communities.</p> <p>Under the Energy Efficiency and Renewables Project, the World Bank will ensure that effort is made to raise awareness, hold public consultations, and strengthen and broaden the scope of beneficiary feedback mechanisms to build citizen support for energy efficiency and renewable energy.</p>	<p>Agriculture and Rural Development AF: An independent review committee is foreseen to be established in charge of reviewing complaints and inquiries from the applicants of rural development grants.</p> <p>Competitiveness and Export Readiness: During implementation, beneficiary feedback/grievance mechanisms will be an integral part of the SME grant scheme operation, to allow applicants to inquire about the selection procedure and to submit comments and complaints. Moreover, there will be consultations with SMEs to fully understand the nature and scope of the barriers they face during implementation.</p> <p>Kosovo Power Project - PRG: Effort will be made to ensure effective public consultation and establish functioning grievance redress mechanisms, through which citizens can provide feedback on issues related to the project.</p>	

Annex 8: Citizen Engagement Country Roadmap Kosovo CPF FY17–21

The Roadmap will help ensure that Kosovo meets the World Bank commitment to achieve 100 percent beneficiary feedback in all IPFs with clearly identifiable beneficiaries. IPFs will incorporate citizen engagement activities, track their results across the investment lending portfolio and monitor progress on the corporate beneficiary feedback target as per corporate guidelines. Under the CPF, the Bank will deepen its support for CE in key on-going reforms (energy, NRM and health insurance) and strengthen the quality of the CE in IPFs by building the capacity of civil society and governmental actors to engage in national level dialogue, and local level decision-making and monitoring. It will also monitor country level progress on CE and discuss project level CE in portfolio reviews. The Bank will explore opportunities for TA and ASA geared towards strengthening trust-building mechanisms for citizen feedback and state-non-state dialogue.



Annex 9: Kosovo CPF and Sustainable Development Goals

Although Kosovo did not participate at the UN General Assembly meeting in September 2016, which endorsed the 2030 Agenda for Sustainable Development, nor is it a signatory of agreements to achieve the SDGs, the World Bank Group’s CPF for Kosovo for 2017–2021, which aims at advancing its global goals of eliminating extreme poverty and boosting shared prosperity, is also aligned with the SDGs. Specifically, the whole CPF contributes to Goal 1: End Poverty, and the CPF objectives are aligned with 13 of the remaining 16 SDGs. The cross-cutting SDGs are also associated with several of the Kosovo CPF objectives.

Kosovo CPF	SDGs
Focus Area 1: Enhancing Conditions for Accelerated Private Sector Growth and Employment	
<p style="text-align: center;">Objective 1 Improve the business environment and access to finance</p>	<p style="text-align: center;">Goals 8 Promote inclusive and sustainable economic growth, employment and decent work for all</p>
<p style="text-align: center;">Objective 2 Improve productivity of the agriculture sector</p>	<p style="text-align: center;">Goals 2, 8 End hunger, achieve food security and improved nutrition and promote sustainable agriculture Promote inclusive and sustainable economic growth, employment and decent work for all</p>
<p style="text-align: center;">Objective 3 Enhance social inclusion and employment opportunities for youth and women</p>	<p style="text-align: center;">Goals 8,10, 5 Promote inclusive and sustainable economic growth, employment and decent work for all; Reduce inequality within and among countries; Achieve gender equality and empower all women and girls</p>
Focus Area 2: Strengthening Public Service Delivery and Macro-Fiscal Management	
<p style="text-align: center;">Objective 4 Strengthen selected systems to improve quality, accountability, and efficiency in delivery of education</p>	<p style="text-align: center;">Goals 4, 8 Ensure inclusive and quality education for all and promote lifelong learning; Promote inclusive and sustainable economic growth, employment and decent work for all</p>
<p style="text-align: center;">Objective 5 Broaden the coverage and improve equity of health services</p>	<p style="text-align: center;">Goal 3 Ensure healthy lives and promote well-being for all at all ages</p>
<p style="text-align: center;">Objective 6 Improve sustainability of public finances and public sector management</p>	<p style="text-align: center;">Goals 8, 16 Promote inclusive and sustainable economic growth, employment and decent work for all; Promote just, peaceful and inclusive societies</p>
Focus Area 3: Promoting Reliable Energy and Stewardship of the Environment	
<p style="text-align: center;">Objective 7 Create the foundations for reliable, cleaner, and more efficient energy supply</p>	<p style="text-align: center;">Goals 7, 8, 9, 17 Ensure access to affordable, reliable, sustainable and modern energy for all; Promote inclusive and sustainable economic growth, employment and decent work for all; Build resilient infrastructure, promote sustainable industrialization and foster innovation; Revitalize the global partnership for sustainable development</p>

<p>Objective 8 Enhance energy efficiency and renewable energy</p>
<p>Objective 9 Improve management of natural resources and address environmental contamination</p>

<p>Goals 7, 8, 9, 12, 13 Ensure access to affordable, reliable, sustainable and modern energy for all; Promote inclusive and sustainable economic growth, employment and decent work for all; Build resilient infrastructure, promote sustainable industrialization and foster innovation; Ensure sustainable consumption and production patterns; Take urgent action to combat climate change and its impacts</p>
<p>Goals 6, 13, 7 Ensure access to water and sanitation for all; Take urgent action to combat climate change and its impacts; Ensure access to affordable, reliable, sustainable and modern energy for all</p>

ANNEX 10: ACTIVE AND POTENTIAL ADVISORY SERVICES AND ANALYTICS (ASA)

Active ASAs and ASAs completed in FY17

Jobs Diagnostic
Statistics for Decision Making
Kosovo Statistics Agency Capacity Building
Macro-Fiscal Policy Notes: a) Assessment of Fiscal rule b) Social spending and how much do the poor really benefit c) Debt management capacities and potential to increase them
Medium-Term Debt Strategy
Programmatic Poverty Assessment
IFC Investment Climate Project (e-registry of business permits and licenses)
IFC Corporate Governance
IFC Financial Infrastructure
IFC Trade Logistics
IFC Infrastructure PPPs
Accounting and Auditing Reform
Feasibility Study on Energy Efficiency in Public Buildings
Kosovo Electricity Tariff Reform
District Heating Sector Assessment
IFC – KRPP advisory services for tendering of the new power plant
IFC KEDS post-privatization advisory
Innovative and Green Growth
Mining Strategy
Health Financial Protection & Quality of Care
Education and Skills Policy Support
Exploring gender gaps in skills (STEP)
Kosovo Digital Economy (KODE)
Western Balkan Gender Program

Potential ASAs to address knowledge gaps identified by the SCD

Assessment of Kosovo's informal economy
Country Economic Memorandum on Growth and Productivity
Public Finance review
Study on reservation wage and remittance receipts
Study on economic activity and social inclusion of minority groups in Kosovo
Analysis of trends in female employment and barriers to labor market participation
Addressing Infrastructure gaps to unlock growth potential of Kosovo
Improved poverty targeting mechanisms
Building Core State Functions TA
IFC Advisory on Access to Finance
IFC Advisory on Investment Climate
IFC Advisory on Trade and Transport Facilitation Support
IFC Advisory on Agriculture, Agri-finance, Agribusiness insurance
Feasibility Study on Irrigation Needs
National Water Usage Study
Energy Sector Modernization TA
Tariff and sector reform TA
IFC Advisory – ECA Energy Solutions
IFC Advisory – ECA Sustainable Energy Finance to support banking sector to finance energy efficiency and renewable energy projects
IFC Advisory – improve regulatory framework for PPPs (jointly with the Bank)
Air Pollution Assessment
Let's Work – Women Online Work pilot program (regional)