



## 1. Project Data

**Project ID**  
P101614

**Project Name**  
PUBLIC SECTOR MOD

**Country**  
Kosovo

**Practice Area(Lead)**  
Governance

**L/C/TF Number(s)**  
IDA-46920,IDA-H5450

**Closing Date (Original)**  
30-Jun-2013

**Total Project Cost (USD)**  
8,000,000.00

**Bank Approval Date**  
04-Feb-2010

**Closing Date (Actual)**  
31-Dec-2016

	<b>IBRD/IDA (USD)</b>	<b>Grants (USD)</b>
Original Commitment	8,000,000.00	0.00
Revised Commitment	7,797,385.33	0.00
Actual	7,492,747.26	0.00

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## 2. Project Objectives and Components

### a. Objectives

According to the Financing Agreement dated March 10, 2010 (Schedule 1, Page 5), the project development objectives were to: (a) strengthen the performance of key budget organizations in budget formulation, budget execution, and public procurement; (b) establish the foundations for fiscally sustainable payroll management and effective human resource management in the core civil service; and (c) to create conditions for further automation of government work processes and for development of e-government applications. The statement of objectives was the same as that in the Project Appraisal Document (PAD Section C, page 5).



**b. Were the project objectives/key associated outcome targets revised during implementation?**

No

**c. Will a split evaluation be undertaken?**

No

**d. Components**

There were four components:

**(1) Improving public financial management performance in selected budget organizations (Appraisal Estimate: US\$3.00 million; Actual: US\$2.88 million)**

The objective of this component was to improve the performance of selected budget organizations in budget planning and budget execution and to achieve cost savings in public procurement. These objectives were to be achieved through two subcomponents: (a) capacity building for public financial management (PFM) in line budget organizations; and (b) public procurement (including e-procurement).

**(2) Improving payroll administration and laying the foundations for a professional civil service (Appraisal Estimate: US\$2.05 million; Actual: US\$1.73 million)**

The objective of this component was to establish a merit-based career structure in the core civil service and contribute to increased effectiveness of payroll controls. These objectives were to be achieved through two subcomponents: (a) human resource management in the civil service, including pay and grading reform; and (b) upgrading of ICT systems for human resource management (HRMIS and payroll).

**(3) Increasing the security and efficiency of government information systems (Appraisal Estimate: US\$2.3 million; Actual: US\$2.46 million)**

This component financed technical assistance and equipment to assist the Ministry of Public Administration (MPA) in implementing key building blocks of the e-government strategy for the period 2009-2015, such as the establishment of a government information center (data center) and the development of requisite standards for further automation of government work processes and future electronic service delivery. These objectives were to be achieved through two subcomponents: (a) technical assistance for government ICT standards; and (b) e-government strategy implementation and establishment of a government data center.

**(4) Component 4 - Project management, including project audit and evaluation (Appraisal Estimate: US\$0.4 million; Actual: US\$0.42 million)**

This component financed consultancy services for support to project implementation (local consultants for project coordination, financial management, and procurement), project audit and independent evaluation at closure.

**e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

**Project Cost:** The estimated total project cost at appraisal was US\$8.00 million. The actual cost was US\$7.49 million. The actual cost of all components was within the appraisal estimate, excepting



component 3 ('Increasing the security and efficiency of government information systems'), where the actual cost (US\$2.43 million) marginally exceeded the appraisal estimate (US\$2.3 million).

**Financing:** The entire project cost of \$8.00 million was to be financed by an International Development Association (IDA), credit of \$4.40 million and a grant of \$3.60 million.

**Borrower's contribution:** There was no Borrower contribution.

**Dates:** □ There were three extensions to the closing date: (i) of 18 months on July 4 2012, to make up for the time lost due to the slow ratification of the Financing Agreement; (ii) of 18 months on December 3 2014, to allow the Authorities to complete project activities; and (iii) of 6 months on June 29 2016, to allow time for the development of an e-procurement system to incorporate amendments in the Public Procurement Law and to test the system. The project closed on December 31 2016, three-and-a-half years after the original closing date of June 30, 2013. The extensions more than doubled the estimated implementation duration.

### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

The objectives of the project, which was the first lending operation of the Bank for Kosovo, were highly relevant to achieving the goal of strengthening governance and public institutions set out in the Interim Strategy Note for 2010-2011. The objectives were also relevant to the 2012-2015 Country Partnership Strategy, which emphasizes strengthening PFM, procurement and payroll management. They remain relevant to the Country Partnership Framework for 2017-2021, one of the objectives of which is improving fiscal and financial management. □

The objectives were pertinent to the conditions in Kosovo prevailing at appraisal. The country had recently become independent, but was under limited international supervision. It faced a risk of post-conflict fragility, and was seeking to build the capacity of government institutions to function in a sustainable manner. Establishing a professional civil service, raising fiduciary standards, and improving PFM were crucial to the Government's ability to ensure the sustainable functioning of official bodies, secure support from international donors, and make effective use of limited budget resources. The Government had conducted a Public Expenditure and Financial Accountability (PEFA) assessment, and on that basis, prepared action plans for PFM and public administrative reforms.

The project objectives were consistent with key Government strategies, particularly the PFM Reform Action Plan and the Public Administration Reform Strategy and Action Plan, both of which contained similar goals to those of the project.

#### Rating

High

#### b. Relevance of Design

The linkage between objectives and project-supported activities is reasonably clear. The project's three



distinct objectives were contributed to by components 1, 2 and 3 respectively. The activities under each component were selected to reflect specific constraints faced by the Government. For example, activities under component 1 included technical assistance to key budget organizations on formulating budgets that were better-aligned with sector strategies and budget constraints. The component also included technical assistance on implementing a cost reduction strategy for public procurement through addressing price distortions and limited market participation. These efforts could be expected to contribute to the first objective of strengthening budget formulation and execution, and public procurement. The activities under the other components were similarly selected to contribute to the achievement of the second and third objectives.

□

However, all the three objectives and the respective components were practically stand-alone. There was no inter-linkage in the design. Greater interlinkage could have increased the impact. For example, component 1 supported the Ministries of Agriculture, Education, Health, Justice and the Kosovo Judicial Council. But the same ministries were not targeted for technical assistance under the remaining components in areas such as public procurement, human resource management and e-government strategy implementation. Moreover, the number of activities was large and diverse, making it difficult to manage the project efficiently. Design was over-ambitious for a newly independent country trying to recover from conflict.

**Rating**  
Modest

#### 4. Achievement of Objectives (Efficacy)

##### **Objective 1**

###### **Objective**

Strengthen the performance of key budget organizations in budget formulation, budget execution, and public procurement

###### **Rationale**

###### **Outputs**

- Internal budget preparation instructions were prepared for the Medium-Term Expenditure Framework (MTEF) and the MTEF for 2017-2019 was produced.
- New budget priorities, programs and laws were costed, and a fiscal impact assessment prepared.
- Key Performance Indicator frameworks for Budget Organizations were developed.
- Training was provided, and a technical report prepared, on the Public Investment Program (PIP) and project appraisal.
- Recommendations were developed on formula-based specific grants to municipalities for health and education.
- Five introductory training courses were provided on: PFM and MTEF; program budgeting; costing of



programs and new policies; non-tax revenue; investment budgeting and project appraisal.

- The Government-wide budget program classification for the Kosovo Consolidated Fund was revised.
- A technical report on institutionalizing the Budget Policy Statement was prepared, outlining

methodology, structure and process for drafting the Budget Policy Statement. ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

### **Outcomes** ☐

There was an improvement in budget submissions in respect of all quality indicators: (i) 'baseline' budget submissions are prepared more in accordance with ceilings; (ii) budget organizations supported by the project did better in terms of consistency with the MTEF and sectoral policy priorities; (iii) the selected five budget organizations were also better than others in explaining and substantiating their budgetary requests and linking them with Government priorities; (iv) there were improvements in developing cost estimates in budget plans, although this could not be done for three separate and consecutive years; (v) justification of proposed changes from previous budgets were provided in line with Ministry of Finance and Economy (MFE) instructions; (vi) all capital projects were included in the PIP prior to their inclusion in budget tables; and, (vii) deadlines set by MFE circulars were largely complied with. ☐

However, there was no improvement in costing sector strategies. A review of trends in PEFA indicator PI- 12 (iii) reveals that the Government continues to operate with a large number of strategies, which provide incomplete information on multi-year costing of recurrent and investment expenditure. Most of these strategies were dated prior to 2014. They were costed, but the costs were inconsistent with aggregate fiscal forecasts. Kosovo had a score of 'C' against this indicator in 2009. It remained the same in 2015. ☐

Regarding linking of investment budgets with forward expenditure estimates, a number of processes related to PIP planning have improved compared to the 2009 PEFA assessment. For example, a project implementation monitoring function was added to the PIP, and cost/benefit analysis is required for projects above one million euros. However, the absence of fully-costed sector strategies means that projects are often developed in isolation. Although progress has been made in terms of system upgrade to assess the overall recurrent cost implications of capital projects in the annual budget, the efforts to collect future current expenditures associated with capital projects are undermined by the failure of budget organizations to provide such future estimates. Kosovo scored a 'D' against this indicator in both 2009 and 2015.

### **(b) Strengthen the Performance of Key Budget Organizations in Budget Execution**

☐

#### **Outputs**

- Instructions to regulate budget execution were prepared,
- Standard Operating Procedures for Budget Execution Reporting for Ministry of Education, Science and Technology were prepared.
- Preparation of draft administrative instructions for the Commission for budget implementation monitoring and planning of liquidity needs.
- The budget implementation performance of the Ministry of Agriculture, Forestry and Rural Development (MAFRD) for the 2015 budget was analyzed.
- A Manual for Risk Assessment for MAFRD was prepared.

### **Outcomes** ☐



There was improved adherence of actual aggregate expenditure and its composition with the original approved budget. Deviation from original approved budget expenditure was less than 10% in all the five targeted budget organizations. Variance in expenditure composition in two out five budget organizations and overall deviation in primary expenditure was less than 5%. Target expenditure and milestones were met for 70% of projects approved in four out of five beneficiary budget organizations. □

The 2016 PEFA report notes that, despite reduced allocations to Budget Organizations arising from revenue shortfalls, the improvement in budget execution was due to strengthened spending capacities across government institutions and the close-to-plan implementation of a large capital project.

□

### **(c) Strengthen the Performance of Key Budget Organizations in Public Procurement Outputs**

- An in-depth analysis of procurement processes and categories was carried out.
- Preparation of tender dossiers.
- Terms of reference for e-procurement were prepared.
- A catalogue for supply of office materials was elaborated.
- Guidance documents on contract management were prepared.
- Technical assistance was provided for a readiness assessment for e-procurement and development of technical specifications for transactional modules of e-procurement systems.
- Detailed technical specifications and functional requirements for development and implementation of e-procurement systems (hardware and software) were developed.
- Bidding documents were readied for the start of the tendering process for selection of a consulting firm for development and implementation of the e-procurement system.
- Various e-procurement system modules and components were developed.
- Training was provided on system maintenance and interfaces with the business registry system, tax administration and financial management system.

### **Outcomes □**

The number of participating bidders was significantly increased from about 1.7 bidders per procurement contract at the baseline to 3.9 bidders per contract at closure. This increase of 130 percent greatly exceeded the target of 15 percent. Competition was enhanced and with it the potential for greater value for money. Improved bidder participation was complemented by cost reductions stemming from the use of the Quick Gains methodology, which analyzes the Governments' purchasing system and provides concrete proposals to achieve quick and transparent cost savings.

□

Centralizing procurement through a Central Procurement Authority (CPA) started in 2015. Since then, the CPA has signed contracts for seven categories of items for a value of about €45 million, compared with the target value of €51 million. This has saved the state budget €6.3 million. All contracts were signed as framework contracts with a duration of three years. As a result, price disparities, which ranged by up to 27% for some goods were successfully eliminated for seven items of common use procured centrally for 56 local entities and 80 central level entities. Prices of five categories of goods were reduced by 6% on average. For some categories, such as supply of wood and coal, contract prices were about 20-35 percent lower than market prices from previous contracts due to centralized procurement.



Efficacy of the first objective as a whole is rated Substantial. While enhancements in budget preparation were relatively modest, both budget execution and public procurement were substantially, and even in some areas highly, improved.

### **Rating**

Substantial

## **Objective 2**

### **Objective**

Establish the foundations for fiscally sustainable payroll management and effective human resource management in the core civil service

### **Rationale**

Outputs:

(a) Improve Human Resource Management in the core Civil Service

- Legal problems and discrepancies of all secondary legislations deriving from the Law on Civil Service and Law on Salaries of the Civil Servants identified.
- Model organograms and classification of grading positions for pilot institutions developed.
- A manual on job standardization and job catalogue prepared and training organized.
- An appraisal manual prepared and distributed to every civil service institution.
- Training provided to 185 officials on objective setting and competence evaluation.
- Training provided to 146 Managers, HR Officers and staff of Department of Civil Service Administration (DCSA) on performance appraisal and promotion.
- Report containing detailed recommendations on changes to be made to the existing Recruitment Regulation prepared.
- Amendments prepared for regulation of allowances and other compensation.

### **(b) Upgrading Human Resources Management Information Systems**

- Gap analysis report completed on existing HRMIS and Payroll system with findings and recommendations for further improvements of both systems and recommendation for upgrade/modification of existing HRMIS or development of a new HRMIS.
- Technical Specifications and Functional Requirements prepared for development of a new Human Resources Management Information System (HRMIS), including technical specifications for linkage of the system with the payroll system and the Financial Management Information System housed in the Treasury.
- Technical Specifications developed for supply with hardware equipment for HRMIS and Payroll System.
- Development and implementation of a new web based Human Resources Management System





covering key HR functionalities and business processes.

- System manuals completed for each type of user – starting from low to highest level of civil servants.
- Training of about 200 HR managers from HR offices in all government levels, including a specific training of trainers for DCSA staff.
- Supply, installation and commissioning of hardware/ICT infrastructure (servers and storage system) for the new HRMIS and existing payroll system.
- Human resource planning module (HRPM) installed in accordance with regulations on personnel planning in the civil service and integration of this module with the HRMIS.
- Training for all Personal Managers and staff of all institution in new added functionalities, operation of the HRPM, recruitment for senior management positions and user manuals.□

### Outcomes □

The objective of establishing the foundations for fiscally sustainable payroll management was partially achieved.□ According to the Government Annual Work Report for 2016, since May 2016, 86 institutions completed the systematization of 10,967 civil servants, whose data was entered into the HRMIS. As of March 2017, job titles and grading were set for about 70% of permanent civil servants (around 11,200 out of 15,500). 1,702 job titles have been standardized based on the job classification methodology. Job descriptions for about 300 positions, covering 60 percent of the civil servants, were prepared.

However, the target of "equal base pay for posts of equal grade and salary step across civil service bodies" was not achieved. Despite the substantial advances made in the implementation of the new job catalogue, the new salary grading structure related to the job classification had not been implemented at closure. The current Government appears committed to finalize the implementation of the pay and grading reform, but this is still uncertain and influenced by factors outside the control of the project.

The target related to effectiveness of payroll controls as measured by PEFA PI-18 was achieved. According to the 2016 PEFA report, the 2015 score for PI-18 has improved to C+ from the baseline of D+. Before the HRMIS was installed, budget organizations submitted monthly payroll change requests manually to the payroll division in the Ministry of Public Administration (MPA). The MPA was unable to determine whether the requests were based on valid personnel records. There was no robust mechanism for *ex-post* reconciliation of the newly run payroll with last month's payroll; hence D ratings for this dimension in the 2007, 2009 and the 2013 PEFA assessments. With implementation of the HRMIS, budget organizations cannot announce a vacancy without it being approved centrally by the MPA and recorded in the system. This has improved the tracing of vacancies and personnel records.

Nonetheless, the HRMIS is not yet complete. Despite regulations requiring interoperability, and the link between the HRMIS and payroll being ready and tested, it cannot be fully utilized because the implementation of the new job classification, grading and payment structure is still pending.

In the absence of full integration between the HRMIS and payroll, the project's efficacy in achieving the outcome of laying the foundations of a fiscally sustainable payroll management is modest.

**Rating**  
Modest





## **Objective 3**

### **Objective**

Create conditions for further automation of government work processes and for development of e-government applications

### **Rationale**

#### **Outputs**

- Assessment report of current ICT legislation, policies and standards and recommendations for updating and them for further automation of government work processes prepared.
- Updated/revised E-governance Strategy 2009-2015 prepared.
- Kosovo ICT security management framework completed.
- Training for 25 staff on ICT security, Project management, and E-governance best practices conducted.
- National Data Center established.
- Feasibility Study for e-governance and ICT investments conducted.
- Detailed technical specifications and functional requirements for improvements of ICT infrastructure, disaster recovery center and interoperability layer prepared.
- Financial analysis of investments in all prioritized projects carried out.

### **Outcomes**

The objective of creating the conditions for further automation of government work processes was fully achieved. The data center became operational and the risk of data loss and access control to data was reduced, inter alia, through enhanced physical security. □The data center stores and maintains on its protected servers the majority of the Government's information and systems. In the past, Kosovo's different government agencies used separate facilities for data storage, which were not in compliance with international standards and had a high risk of data loss, system failure, and interruption of services. Since the data center became operational, no data losses, cyber-attacks, threats, or major interruptions have occurred, while previously they were common. In three years, the center has experienced a downtime of only around 3 hours.

In addition, the project supported the establishment of Kosovo's first ever ICT Security Management Framework. □The Framework and its recommendations enabled the Government's main IT agency, and other government institutions, to develop and manage security policies, standards and processes in accordance with appropriate industry standards.

The project updated the Government's e- strategy in line with European directives on e-government and revised the interoperability framework. Currently, around 90 software applications/systems, including some of the main government IT applications, such as the payroll system, civil status registry, business registry, government e-mail, HRMIS, e-procurement system, health information system, and backup systems for Kosovo Customs, Treasury, and Ministry of Finance and Economy, are hosted in the data center and are using the interoperability framework.

The project also contributed to strengthening the capacity of the Ministry of Public Administration and the principal IT agency in planning, integration and preparation of ICT projects.

### **Rating**



High

## 5. Efficiency

At appraisal, the project was expected to: (a) improve the quality of budget preparation and the accuracy of budget execution; (b) increase cost-efficiency in public procurement; (c) strengthen controls in the administration of the civil service payroll; and, (d) achieve efficiency gains in the data storage and maintenance of government ICT systems. However, there was no ex ante calculation of the project's expected Economic Rate of Return, given the difficulties in quantifying the gains from capacity building activities. Only the expected benefits in the areas of procurement and ICT and the project's financial impact were quantified.

Ex post, benefits were estimated in the areas of public procurement, strengthened payroll controls, and from efficiency gains from the establishment of the data center. The 2015-2016 Country Procurement Assessment estimated a direct saving of about €500,000 from the elimination of price disparities and reductions in the price of centrally procured items. Further efficiency gains are considered to have been achieved through the introduction of e-procurement, increased competition, better value for money, reduced transaction costs, better control and more transparency. However, these gains were not quantified. At appraisal, it was expected that the introduction of a pay and grading structure in the core civil service would result in an increase in the wage bill due to the equalization of pay levels for equivalent posts in different institutions, temporary salary protection, and the introduction of performance-based horizontal salary progression. A fiscal impact analysis conducted by the MFE with technical advice from the Bank and financing from DFID estimated the additional cost at €9.1 million in the first year (including salary protection), rising by an additional €2 million after five years due to salary progression. However, since grading and equal pay system had not been fully implemented, no attempt was made to quantify this set of benefits.

□

At appraisal, it was expected that the data center would generate approximately €0.95 million of savings in the first three years. At closure, it was estimated that the savings generated were between €2.8 million and €3.1 million through centralizing data management and maintenance functions, and eliminating fragmented ICT systems for different government agencies.

□

There were significant administrative and operational efficiencies that led to the doubling of the originally estimated project implementation period (see Section 9b below).

## Efficiency Rating

Modest



a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

The relevance of objectives is rated high and that of design modest. The efficacy of the first objective is substantial. There was an improvement in budget submissions in respect of all quality indicators, adherence of aggregate and composition of expenditure outturns to the original approved budget, and an increase in bidder participation for public procurement. The efficacy of the second objective is modest. Employee grading was incomplete at closure, and interlinkage between the HRMIS and payroll could not be utilized. The efficacy of the third objective is high - the data center is operational and the risk of loss of data and access control is reduced while physical security has been enhanced. Efficiency is rated modest – quantification of benefits was partial and there were considerable operational and administrative inefficiencies. Overall, these are considered moderate shortcomings and outcome is assessed as **moderately satisfactory**.

### a. Outcome Rating

Moderately Satisfactory

## 7. Rationale for Risk to Development Outcome Rating

There are substantial risks to the achievement of the development outcomes due to the sensitivity associated with many reforms supported by the project combined with the volatile political situation. The formal adoption by the Government of reform strategies for the years up to 2020 is an encouraging sign, and development partners, such as the EU and USAID, are committed to supporting the finalization of the reforms initiated by this project, particularly in e-procurement and civil service reforms. However, both Government and implementing agency performance reflects lack of full ownership and political commitment related to civil service and procurement reforms. There are also weaknesses in implementation capacity, adequacy of beneficiary/stakeholder consultations, and a high turnover of staff involved in the implementation of reforms. Unless and until these issues can be addressed, the risk to development outcome remains substantial.

### a. Risk to Development Outcome Rating

Substantial



## 8. Assessment of Bank Performance

### a. Quality-at-Entry

As noted in Section 3b above, the project's three objectives were individually well aligned with the three components on a one-to-one basis, but there was little inter-linkage between them. Moreover, the three objectives were further broken down into numerous intermediate objectives, the targets of which were formulated as project goals. The time needed to implement the project was underestimated, and various activities were to suffer implementation delays. The design of Component 3 did not include provisions for data disaster recovery hardware, which is essential for the effectiveness and sustainability of the data center. Political economy-related risks were identified, but the expectation that these could be effectively mitigated by preparatory work, sequencing of activities and a flexible approach proved to be over-optimistic. Mitigation of other risks proved equally ineffective. Limited client capacity and high staff turnover were not, as expected, allayed by the introduction of a clear pay and grading system. Difficulties in attracting staff with ICT skills were to be palliated by legislative provisions for market-rate allowances, but hiring and retaining ICT specialists persisted due to uncompetitive compensation packages. Anticipated weaknesses in coordination between the multiple government agencies involved materialized despite what were considered to be adequate implementation arrangements (which included an Intergovernmental Steering Committee). There were important weaknesses in M&E design (see Section 10a below).

#### **Quality-at-Entry Rating**

Moderately Unsatisfactory

### b. Quality of supervision

The project was closely supervised with two or three visits per year, as is fitting for a first-time Borrower and a newly independent country. The ICR (p. 44) reports that the Bank team collaborated well with the Project Director and the staff of the Project Coordination Team. Bank staff were particularly proactive in overseeing financial management, and went beyond the review of financial management reports and audits. The supervision team also addressed the capacity needs of the Public Procurement Regulatory Commission as well as assisting with the procurement needs of other beneficiary organizations. Albeit with delays, a reasonably effective procurement support structure was put in place. The supervision team used the leverage from a Bank-financed development policy operation (the Sustainable Employment Development Policy Program, SEDPP) to advance the adoption of key legislation (which were prior actions under the SEDPP). The ICR (p. 44) reports that a capable local consultant was appointed to work with the Bank team; the consultant assisted with implementation, including in complex technical areas such as information and communication technology.

There were, however, moderate shortcomings in supervision. Weaknesses in the results framework were identified only at a late stage (in 2014) and were not adequately addressed during supervision - although revising the indicators through restructuring was considered, this was not done. There were four task team leaders, although the ICR states that this did not affect the quality of supervision. Although a mid-term review (MTR) mission was carried out in October 2013, there is no evidence that components other than those



involving ICT and procurement packages received attention. No formal MTR report was issued, and few actions seem to have resulted from the MTR.

### **Quality of Supervision Rating**

Moderately Satisfactory

### **Overall Bank Performance Rating**

Moderately Satisfactory

## **9. Assessment of Borrower Performance**

### **a. Government Performance**

Effectiveness was delayed due to tardiness in parliamentary ratification of the Financing Agreement. Appointment of key Project Implementation Unit (PIU) staff was also delayed due to administrative inefficiencies. The Intergovernmental Steering Committee (ISC) tasked with the responsibility of oversight of project implementation and taking policy decisions, was composed of high ranking officials and political appointees who did not possess sufficient technical knowledge. The ICR reports that the ISC met only a few times until 2014 to obtain updates of progress rather than taking decisions to resolve inter-ministerial coordination issues. Its coordination with beneficiary organizations was not smooth. Project activities related to e-procurement and pay and grading reforms were postponed several times due to lack of political will, and the necessary budgetary provisions for the implementation of the pay and grading reform were not secured. Implementation capacity also suffered from high levels of staff turnover and lack of relevant experience especially in respect of ICT contract management. There were four changes of leadership of the Project Implementation Unit (PIU) during the life of the project.

### **Government Performance Rating**

Moderately Unsatisfactory

### **b. Implementing Agency Performance**

The two main implementing agencies were the Ministry of Finance and Economy (MFE) and the Ministry of Public Administration (MPA). MFE's role was to manage the project, and coordinate the implementation of Component 1. MPA was responsible for Components 2 and 3. Both agencies faced strong opposition from powerful ministries in respect of e-procurement and pay and grading reform. Project-supported e-procurement aimed to enhance transparency and competition, and this undermined the interests of those benefitting from rent seeking behavior. MFE's commitment to the reform agenda, while generally strong, showed some variation during implementation, as shown, for example, by delays in appointing the Director of the Central Procurement Agency. The ICR (p. 46) reports MFE was not always able to absorb the project's outputs and recommendations regarding program classification and the MTEF.

Similarly, reforms in pay and grading were seen as a threat to those who had been enjoying advantages under the previous system. □MPA's ability to withstand entrenched vested interests was limited by the fact that it was a newly established and, in political terms, relatively weak Ministry. □The post of Civil Service



Director was not always filled by candidates with the required qualifications. In general terms, the Ministry's capacity was low, and it experienced difficulty in absorbing and applying Bank procedures. Structural issues were not addressed, and several rounds of pay increases were granted under pre-project procedures.

□

Most of the other beneficiary agencies were also characterized by weak capacity, and unfamiliarity with Bank financial and procurement procedures. Despite the Bank team's continuous recommendations of more training for staff directly involved in project, this proved of limited effectiveness even when provided. The ICR reports delays in appointing project supervisors in some beneficiary agencies. An attempt was made to address the lack of capacity by providing support in the form of full time consultants responsible for coordination, project financial management and procurement. However, implementation of the consultants' recommendations varied from one institution to the other. Poor organization of the Public Procurement Regulatory Commission led to major delays in the e-procurement contract. □

Financial management was rated Satisfactory in most ISRs. Procurement was rated Moderately Satisfactory in ISRs until 2014 and thereafter Satisfactory (see Section 11b below).

### **Implementing Agency Performance Rating**

Moderately Unsatisfactory

### **Overall Borrower Performance Rating**

Moderately Unsatisfactory

## **10. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

M&E was the responsibility of the implementing agencies with support from the Project Coordinator (a full-time consultant) located in the MFE. The Project Coordinator was to support the Project Director and work closely with Project Supervisors of beneficiary agencies. There was provision for an independent evaluation of the project's impact toward the end of the implementation period.

The results framework was complex and difficult to manage. There were four outcome indicators with 12 final targets and additional intermediate targets, and eight intermediate indicators, some of which contained numerous sub-indicators and targets. Several indicators were difficult to measure and open to different interpretations (for example, outcome indicator 3: "*Transparent and coherent pay and grading structure introduced in the core civil service, supported by improved ICT systems that enable effective fiscal and management controls in payroll administration*"). Some targets, such as 100% grading of civil servants, were too ambitious. Others were too complex to measure easily and accurately - for instance, the third target of the first outcome indicator related to five beneficiary organizations meeting seven criteria on budget submissions and three on execution. Baseline data were not always available - the first and second outcome indicators were to rely on PEFA exercises, with the 2009 PEFA assessment serving as the baseline with follow-up assessments in 2013 and 2016. Thus, progress towards the first and second set of project outcomes could only be monitored using intermediate indicators. There were also difficulties in attributing some of the PEFA results to project activities. Civil service reform was to be tracked through the annual reports of the Support for





Improvement of Governance and Management of the OECD, a credible and independent source.

## **b. M&E Implementation**

M&E in supervision reports was rated Moderately Satisfactory throughout implementation (except for the first report which rated it Unsatisfactory). However, most supervision reports provided little information about how the M&E arrangements were working. They often lacked precise data on the targets, partly because most data became available only once every year or two years. According to the ICR, the supervision team realized at quite a late stage (May, 2014) that the available data were likely to remain insufficient to measure all of the intermediate and outcome-level indicators. A restructuring was planned with new indicators that could be fed by obtainable information, the availability of which could be relied upon. However, the restructuring did not take place, and the indicators remained unchanged. There is no evidence that the 2008 Quick Gains Study was repeated to assess the cost savings achieved through procurement reforms, nor that progress under the civil service reform activities was tracked, as intended, by SIGMA. Most progress reports drew upon Government documents (budget submissions of beneficiary budget organizations; budget execution data as reported by the MEF; annual reports on public procurement by the Central Procurement Agency and Public Procurement Regulatory Commission; civil service personnel data of the Ministry of Public Administration). The planned independent evaluation of the project's impact was not carried out.

## **c. M&E Utilization**

The ICR reports that there is no evidence that the M&E framework was used as a management tool to guide project activities, resource allocations or supervision. Key project beneficiaries, including the Project Coordination Team, were not aware of the indicators in the results framework.

## **M&E Quality Rating**

Modest

## **11. Other Issues**

### **a. Safeguards**

The project was not expected to have any environmental impact, as no civil works were envisaged. The renovations of the premises where the government data center was to be located were minor. The project was therefore given a "C" classification for environmental assessment purposes, and no safeguards policy was triggered.

□

It was not anticipated that project activities would have negative social consequences. The implementation of pay and grading reform in the core civil service was not expected to lead to any significant loss of earnings for civil servants, given the salary protection provisions that were included in the draft civil service





legislation. Likewise, this reform was not linked to significant reductions in civil service employment, as the new civil service legislation was designed to ensure a transition from the current regime of temporary contracts to increased job security.

## **b. Fiduciary Compliance**

The financial management arrangements of the PCT within the Kosovo Central Bank and Grant Unit of the MFE were adequate. Project accounting records were maintained in the Free Balance System of the Treasury and were accurate and reliable. There were effective controls over the processing of payments and invoices. The ICR finds that there were no major issues of fiduciary compliance, and financial management had a continuous Satisfactory or Moderately Satisfactory rating in supervision reports throughout implementation. While the ICR states that annual auditing requirements were complied with, there is no indication as to whether or not the external auditor's opinions were qualified.

While there were delays in procurement process, there were no reported cases of misprocurement.

## **c. Unintended impacts (Positive or Negative)**

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## **d. Other**

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## **12. Ratings**

<b>Ratings</b>	<b>ICR</b>	<b>IEG</b>	<b>Reason for Disagreements/Comment</b>
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Substantial	Substantial	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Unsatisfactory	There were significant shortcomings in both Government and implementing agency performance reflected, inter alia, in lack of ownership and political commitment related to



		civil service and procurement reforms.
Quality of ICR	Substantial	---

### Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 13. Lessons

The first three lessons are drawn from the ICR, with some adaptation of language. The last two are drawn by IEG.



- **A simple project design with a few critical activities and a minimum number of implementing agencies is most suited to complex, post-conflict environments and low client capacity:** Kosovo was newly independent and the project was the Bank's first lending operation. The political environment was volatile, and there was no consensus concerning some of the reform areas addressed by the project. Despite the constraints associated with such an environment, the project included three stand-alone sets of objectives and related components which could have been designed as three different projects. It involved two principal implementing agencies (MFE and MPA) and nine beneficiary and implementing institutions with implementation responsibilities. This coupled with low client capacity led to delays and resistance to change.
- **A thorough political economy analysis is especially useful for countries in Kosovo's circumstances.** Such an analysis was in fact recommended by the Quality Enhancement Review meeting, but was not carried out. The analysis could have provided a stronger assessment of the interests and motivations of stakeholders and hence have aided the selection of activities less likely to encounter resistance. It would also have supplied a stronger underpinning for advice to the Authorities on such matters as the membership of the Inter-Governmental Steering Committee.
- **Continuous sharing and exchange of information and implementation experience among beneficiary agencies can yield important benefits.** This was impeded in this case in that capacity building for PFM was provided to five budget organizations separately and in isolation. Different consultants worked directly with each organization, and there was no experience sharing. This led to a silo approach as no one looked at the lessons learned from other budget organizations.
- **An operation to improve public financial management is likely to have a greater beneficial impact when the Ministry of Finance is a key beneficiary organization:** In this case, there was no provision for capacity building in the Ministry of Finance. Unless the Ministry of Finance also benefits from capacity building, other Ministries would be constrained to continue applying its procedures, even when they were in need of improvement. The Ministry of Finance was only added as a beneficiary organization at a late stage in the implementation process.
- **Project impact can be increased when the same beneficiary organizations participate under each component.** In this case, the organizations benefiting from capacity building to enhance performance in



budget planning and execution were not targeted under other components. Had they been so targeted, the consolidated impact of project interventions on all sides would have been increased.

#### **14. Assessment Recommended?**

No

#### **15. Comments on Quality of ICR**

The ICR provides a strong and candid overview of project preparation and implementation. Its evidence is robust, drawing from a variety of sources of data. It is appropriately critical and results oriented. However, it lacks some key information on project implementation, such as when the Ministry of Finance became included as a beneficiary organization, and which of the Ministry's business processes and systems were improved. It is not clear whether disaster recovery arrangements for the data center were eventually made.

##### **a. Quality of ICR Rating**

Substantial