



1. Project Data:		Date Posted : 10/20/2004	
PROJ ID: P078380		Appraisal	Actual
Project Name: Economic Assistance IV	Project Costs (US\$M)	5	5.5
Country: Kosovo	Loan/Credit (US\$M)	5	5.5
Sector(s): Board: EP - Central government administration (40%), General industry and trade sector (40%), Banking (20%)	Cofinancing (US\$M)		
L/C Number: CH047			
	Board Approval (FY)		3
Partners involved :	Closing Date	01/31/2004	01/31/2004
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The main objective of the fourth budget support grant was to assist Kosovo to implement a structural reform agenda aimed at enhancing medium-term macro-fiscal sustainability, sustaining adequate public service delivery in the face of declining donor support, and promoting private-sector driven growth. The reform program supported by the grant was to achieve these objectives through specific reforms in the areas of budget management and the business environment.

b. Components

Public Expenditure Management

Strengthening Budget Management

1. Pass 2003 Consolidated Kosovo Budget; 2. Produce 2004-2006 macroeconomic and revenue forecasts and budget calendar; discuss budget ceilings at Economic and Fiscal Council; 3. Pass and promulgate Law on Public Financial Management and Accountability; 4. New institutional arrangements for 2004-06 budget process operational; 5. Consolidated budget and Public Reconstruction and Investment Program (PRIP) integrated in annual budget process and Medium Term Expenditure Framework (MTEF); 6. Complete review of civil service pay and employment; 7. Pilot sector budget plans establish clear links between resources and sectoral priorities .

Improving Budget Execution and Accountability for Public Finances

8. Ensure that good budget documentation is publicly available including year -end financial statements, external audits, and annual budget allocation tables; 9. Budget execution improved through connecting municipalities to automated Treasury system. Review of 2002 actual/allocation undertaken by Ministry of Finance and Economy (MFE), recommendations for improved budget execution agreed; 10. Complete and make publicly available external audits of 2000-2002 budgets; 11. Establish Audit Office, management in place, recruitment and training strategy for external auditors operational. Work program for 2004 audits being implemented; 12. Guidance and manuals for internal audit functions in line with IAS and IASB standards; 13. Law on Public Procurement passed and promulgated.

Business Environment /Private Sector Development

14. Law on liquidation and reorganization of bankrupt firms passed and promulgated; 15. Law on establishment of registry of immovable property rights passed and promulgated, including supplementary legislation; 16. Contract law, competition law, mortgage law, and company law passed and promulgated; 17. Operational and financial audits conducted of principal SOEs and utilities; 18. Business Registry operational; information shared with Tax Administration; 19. Private sector advisory group established; 20. Submission of results of business environment survey, including recommendations to overcome key constraints .

c. Comments on Project Cost, Financing and Dates

Project disbursements were US\$5.5 million instead of the original figure of US\$5 million, due to exchange rate variations.

3. Achievement of Relevant Objectives:

Public Expenditure Management

Strengthening Budget Management: Achievement in this area was mixed, but overall *unsatisfactory*. While the legal framework was strengthened (item 3), MFE took full responsibility for budget management, and Kosovar officials have been integrated into MFE work, there were important shortcomings (see sec. 5), most notably item 5, described in both the Program Document and the ICR as being very important.

Improving Budget Execution and Accountability for Public Finances: Achievement in this area was *satisfactory*. Accomplishments included items 8, 11, and 13, which outweighed deficiencies.

Business Environment/Private Sector Development: Achievement in this area was *satisfactory*. Four of the envisioned 6 laws were passed; increased private sector activity included large increases in private sector mortgage lending, bank lending overall, and a large increase in the number of registered businesses.

4. Significant Outcomes/Impacts:

- A strong legal and institutional foundation has been put into place that can support further reforms in budget management and execution.
- The Ministry of Economy and Finance has taken full responsibility for management of the annual budget process.
- Operational and financial audits of the 4 principal state-owned enterprises were completed.
- In an Investment Climate Assessment, macroeconomic stability is considered a hindrance to business by only 25% of Kosovo firms as compared to 35-60% of firms in neighboring countries.

5. Significant Shortcomings (including non-compliance with safeguard policies):

- The Consolidated Budget and PRIP were not integrated with the MTEF in the budgetary process (item 5).
- While a review of civil service pay and employment was completed (item 6), its contribution to achieving the project objectives was constrained by the 2 pay increases (mid-2003 and early 2004) that were implemented, as well as large salary increases implemented by the UN.
- While municipalities have been linked to the Treasury automated system (item 9), this did not improve budget execution as the system is volatile and slow and authorizations are still provided with signed paper copies.
- External audits of the 2001-2002 budgets have not been made available to the Bank or to the public (item 10).
- Guidance and manuals for internal audit (item 12) were not promulgated.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Moderately Satisfactory	The project achieved most of its relevant objectives, but with significant shortcomings (sec 5).
Institutional Dev .:	Substantial	Modest	A rating of modest is consistent with the limited success achieved by many project initiatives to build capacity.
Sustainability:	Likely	Non-evaluable	The ICR states that "considerable attention will still need to be paid to implementation of the new legislation, building local capacity, and improving institutions." While further TA operations are planned, there is insufficient evidence to support a rating of "likely."
Bank Performance:	Satisfactory	Satisfactory	Quality at Entry was satisfactory, but with some shortcomings: the project objectives were overly ambitious for a US\$5 million policy-based grant; borrower capacity was lacking; and the time frame of the grant was insufficient to achieve the stated goals. Also, Bank delay in delivering a survey of the business environment delayed the review of its recommendations by the private sector advisory group (item 20 in sec 2).
Borrower Perf .:	Satisfactory	Satisfactory	While Borrower Performance was overall satisfactory, policy disagreements within government and turnover within the Kosovo Trust Agency hindered progress

			in private sector development.
Quality of ICR :		Unsatisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Success in meeting the conditions of a policy-based loan is not, per se, evidence of satisfactory project outcome
- In a post-conflict environment, with many obstacles to successful implementation of reforms, the Bank should be particularly vigilant concerning the realism of its expectations with respect to the breadth of the reform agenda being pursued and the time required to achieve it

8. Assessment Recommended? Yes No

Why? This operation is the fourth in a series of policy-based grants aimed at strengthening budgetary and financial sector capacity in Kosovo, as well as supporting other reforms. An overall evaluation of these 4 projects would be useful in assessing the success of the program over an extended period.

9. Comments on Quality of ICR:

The ICR is unsatisfactory. Its main shortcoming is that it does not present adequate evidence to justify the stated ratings, and it is inconsistent in its presentation of the evidence. In a number of cases the ICR does not present adequate evidence on important points (e.g., operational status of the Audit Office, public availability of budget documentation), whereas such evidence was made available by ECA in response to inquiries. The ICR also acknowledges that "IDA remains committed to achieving the stated objectives of the operation," which implies that they have not yet been achieved. Yet, the ICR rates outcome as satisfactory.

A key project objective was to "implement structural reforms that enhance medium-term macro-fiscal sustainability." While the ICR asserts that "macroeconomic sustainability has been achieved," no macroeconomic data are presented to substantiate this point. At a minimum, the ICR should have presented data on the fiscal balance, tax revenue and donor assistance as a % of GDP, inflation, debt, and debt service requirements. In addition, the ICR should have presented data on budget-financed capital expenditures and wage and salary expenditures as a percent of GDP.

Rather than focusing on an assessment of the degree to which the project objectives were met, the ICR seems to base its satisfactory rating for outcome on the successful implementation of all of the grant's core conditions and "achievement of all supporting legal and policy actions." While these are an important foundation for future progress, their achievement does not, per se, comprise satisfactory achievement of the project objectives.

In Annex 2, Project Costs and Financing, 2 of the 3 tables are not filled in, and the third table is inaccurate, showing disbursement of US\$5 million--US\$0.5 million less than the actual.