



<b>1. Project Data:</b>		<b>Date Posted :</b> 08/07/2001	
<b>PROJ ID:</b> P071114		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Economic Assistance Grant II	<b>Project Costs (US\$M)</b>	5	5
<b>Country:</b> Kosovo	<b>Loan/Credit (US\$M)</b>	5	5
<b>Sector(s):</b> Board: PS - Central government administration (100%)	<b>Cofinancing (US\$M)</b>	0	0
<b>L/C Number:</b>	<b>Board Approval (FY)</b>		01
<b>Partners involved :</b>	<b>Closing Date</b>	02/28/2001	02/28/2001
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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**2. Project Objectives and Components**

**a. Objectives**  
The objective was to support Kosovo's economic reform program by providing financial resources to the United Nations Interim Administration in Kosovo (UNMIK). This was intended to support (1) adoption of a sound 2001 budget representing a significant step toward sustainability through greater reliance on local tax revenue, improvement in the quality of fiscal expenditure, with greater cost recovery in public utilities, and institutional strengthening of the budget management system within the interim government (Central Fiscal Agency), with modern standards of public expenditure management, transparent fiscal operations and accounting and audit; (2) establishment of a fully liberal trade and customs regime with all external tariffs set at zero upon expected introduction of a VAT regime.

**b. Components**  
(1) Adoption of a sound 2001 budget; (2) Establishment of a fully liberal trade and customs regime.

**c. Comments on Project Cost, Financing and Dates**  
The project was approved on 1/10/01, became effective 2/26/01, and closed as scheduled on 2/28/01. Expenditure was US\$5 million, and was disbursed in a single tranche as planned.

**3. Achievement of Relevant Objectives:**

**1. Adoption of a sound 2001 budget:** A sound 2001 budget was adopted, with a preliminary estimate of the financing gap (donor funds needed) of DM162 million, compared with around DM220 million in 2000. UNMIK has developed appropriate procedures by which to plan and execute the budget. Customs, excise, payroll, VAT, and sales taxes have been introduced as planned, and 2001 revenues to date are slightly higher than projected. Public sector employment and spending for 2001 has been reduced over 2000. The 2001 budget planned a reduction of 5,344 health and education positions (over November, 2000), and as of March, 2001, 3,882 positions had been eliminated. Budgeted subsidies to the electricity sector have been reduced dramatically, and cost recovery in this sector has increased to 40% (the target for the entire year is 42%).

**2. Establishment of a fully liberal trade and customs regime :** Soon after taking office in mid-1999, UNMIK introduced a simple and neutral trade regime. This involved a uniform tariff of 10%, with no non-tariff barriers or quantitative restrictions, and simple and transparent registration and licensing. However, recognition of the existing preferential tariff arrangement between Kosovo and FYR Macedonia has created a loophole (see Section 5, Shortcomings, below).

**4. Significant Outcomes/Impacts:**

- A simple and neutral trade regime was created which is transparent and has low tariffs.
- A strong budget formulation and implementation capacity has been developed, with Kosovars assuming progressively greater responsibility

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

- Even though a VAT has been introduced, all external tariffs have not yet been reduced to zero. UNMIK has committed to the Bank to set import tariffs to zero, planning to replace the income lost by raising the VAT, but it has not yet acted due to concerns over revenue losses.
- When it attempted to lay off 700 workers, the new management of the electricity company encountered legal

barriers, and was unable to complete its plan . (It is currently pursuing other options )

- The new UNMIK trade regime recognized the existing preferential tariff arrangement between Kosovo and FYR Macedonia, which has caused distortions because goods enter duty -free from FYR Macedonia. In addition, there is a strong potential for the diversion of trade from other points of origin .

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome :</b>	Satisfactory	Moderately Satisfactory	Although a VAT was introduced, external tariffs have not been set at zero as envisioned (and as committed in the December, 2000, Kouchner letter). This is a significant shortcoming, permitting the continuation of substantial distortions .
<b>Institutional Dev .:</b>	Substantial	Substantial	
<b>Sustainability :</b>	Likely	Likely	
<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Perf .:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		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:

- In a project in which substantial emphasis is placed on an "exit strategy," technical assistance for local residents should be made an explicit part of the project approach (while substantial TA to local staff was provided by the UN and the United States, there was no explicit linkage to the project )
- Strong staff experience in the Balkans and in post-conflict situations substantially contributed to project effectiveness
- The project's focus on a small set of key economic policies and functions greatly facilitated progress

#### 8. Assessment Recommended? ☐ Yes ☒ No

#### 9. Comments on Quality of ICR:

The ICR is unsatisfactory. It does not contain sufficient evidence to substantiate the stated ratings . Among the pertinent data missing is: macroeconomic data (to substantiate the rating of "substantial" macroeconomic achievement); documentation and description of TA provided to local staff; data relating to other measures noted in the Kouchner letter as representing a "large improvement in the quality of expenditures," including reduced subsidies to public utilities, electric company staffing, and expenditures on public employment .

The following response was provided by the region : "The region disagrees with OED's evaluation (of the ICR) on two issues: (i) the relevance of including the only available macroeconomic data which cover a nominal GDP for one year and tentative GDP growth rate. The Region does not believe that these two unofficial and preliminary estimates provide any sound indication of macroeconomic performance and could be misleading . These were not therefore included in the ICR; and (ii) as this was a budget support operation, information was not included on TA as it was not part of the operation. Moreover, Kosovo, FRY, is a UN-administered territory and technical assistance is being provided by many donors bilaterally which is therefore not quantifiable in any meaningful sense ."