1. Project Data:  
Date Posted: 09/03/2013

Country: Kosovo  
Project ID: P088045

Project Name: Business Environment TA Project  
L/C Number: CH167

Appraisal |
---|---|---|
Project Costs (US$M): 7.0 |
Loan/Credit (US$M): 7.0 |

Actual |
---|---|---|
6.9 |
6.9 |

Board Approval Date: 06/17/2005  
Closing Date: 02/28/2010 05/31/2012

Sector Board:  
Sub-national government administration (50%); Central government administration (20%); General industry and trade sector (15%); Law and justice (10%); General finance sector (5%)

Theme(s): Other financial and private sector development (25% - P); Personal and property rights (25% - P); Land administration and management (24% - P); Rural markets (13% - S); Regulation and competition policy (13% - S)

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ICR Review Coordinator: Christopher D. Gerrard  
Group: IEGPS2

2. Project Objectives and Components:

a. Objectives:

The Grant Agreement and the PAD (project summary, main text and results framework in Annex 3) give the same project development objective (PDO): "The overall project development objective is to improve the business environment by reducing uncertainty of key regulatory processes, improving delivery of related services, strengthening property rights, and increasing transparency and accountability of implementing institutions."

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

No

c. Components:

The project comprised three main components. Around three quarters of planned expenditures were on consultancies and advisory services, the rest mainly on IT hardware and software with smaller amounts for staff training and public outreach. The ICR does not give a detailed breakdown of actual expenditures.

(1) Business services integration (US$2.6 million): Harmonize regulations and licensing at central and municipal levels, and improve transparency and accountability in order to reduce uncertainty and regulatory burden on starting and operating a business. Specific activities included (i) establishment of Business Service Centers (BSCs) in up to 30 municipalities to integrate enterprise regulations and services; (ii) rehabilitation of BSC premises; (iii) upgrading of the Kosovo business registration system; and (iv) assistance and capacity building in...
(2) ** Immovable property rights enhancement ** (US$3.4 million): Enhance property rights and reduce transaction approval times to promote land market development and facilitate new business start-ups through better access to land and capital. Specific activities included (i) technical assistance to strengthen policy and legal frameworks; (ii) support to improve property rights registration systems in up to 30 municipalities; (iii) increased registration of mortgages; (iv) reconstruction and renewal of cadastre in at least six municipalities; and (v) implementation of a national cadastre.

(3) **Project Coordination and Monitoring** (US$ 0.6 million): Establish a small project secretariat to support to the Steering Committee in implementing activities under the project and lead the broader policy reform agenda on the business environment.

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

The project was approved by the Board on 6/14/2005 with an initial closing date of 2/28/2010. After a slow start -- only 30% of funds had disbursed by 2009 -- two extensions were agreed, moving the closing date back by 27 months to 5/31/2012. Implementation gathered pace with the resolution of Kosovo's political status and the project eventually disbursed almost completely.

3. **Relevance of Objectives & Design:**

a. **Relevance of Objectives:**

Kosovo’s governance structure over the period was complex and evolving. Resolution of political status was tied to the development of standards in such areas as the rule of law, enforcement of property rights, and ensuring a competitive market economy, and the project was therefore of central importance to Kosovo’s future. It was also in line with the Bank’s **Transitional Support Strategy** approved by the Board in 2004. The current Country Partnership Strategy for Kosovo (FY12-15) refers to accelerating broad-based growth and employment generation and specifically mentions (but does not provide funding for) areas supported by the project including simplifying business licensing and regulation, promoting small and medium enterprises (SMEs), strengthening the cadastre system, and improving access to finance.

Relevance of objectives: High.

b. **Relevance of Design:**

The PAD is light on details of the analytical basis for the project, mainly referencing the Bank’s experience with similar issues and throughout the region. In general, the design seems pertinent, even foundational with regard to the higher-level goals of resolving Kosovo’s political status and creating a framework for private sector development, though linkages to project objectives are not clearly articulated. In particular:

- The only background in the PAD is a 2003 enterprise survey in which a third of the firms referred to regulatory uncertainty as a major or very severe constraint, while access to land was mentioned by less than 10% and business licensing by around 5%. Moreover, regulatory uncertainty was mainly attributed to Kosovo’s transitional status, the existence of 30 largely autonomous municipalities, and weak and erratic enforcement, none of which were explicitly addressed by the project.

- With regard to specific objectives, the business services integration component supports streamlining licensing and regulatory frameworks; creating local, one-stop shops as points of contact with the business community; establishing service delivery standards and improving access to information. While these plausibly address impediments to Kosovo’s private sector development, impacts on regulatory uncertainty, transparency and accountability are less clear.

One might have had more confidence in the design if standard diagnostic work (Public Expenditure Review, Doing Business Survey, Investment Climate Assessment) had been undertaken first, though the rationale for
deciding to proceed without these was clear. A positive aspect of design was the choice of instrument -- a relatively inexpensive TA project -- which seems appropriate in light of uncertainty about policy needs, fragile institutions and the high-risk political situation.

Apart from this concern, the design was overly optimistic about the authorities’ commitment and institutional capacity, especially under the UN interim administration. During preparation, project components dealing with food standards and judicial reform were removed after a Quality Enhancement Review recommended narrowing the scope, but even so, additional components addressing regulatory harmonization and standardization were also quietly dropped during implementation. Finally, even after adding more than two years to the life of the project, it is clear that more time and follow up will be needed along with broader public sector reform and capacity building to cement the results.

Since much of the regulatory uncertainty stemmed from 30 municipalities operating largely independently and struggling with limited capacity, one wonders about the alternative of transferring their powers to a centralized authority, but the PAD rejects this approach having determined it would meet with significant resistance. Given this judgment about the political context, creating more efficient institutions at a municipal level appears the right approach, though it implies considerable risks going forward.

Relevance of design: Substantial.

4. Achievement of Objectives (Efficacy):

Results indicators give a positive impression of the evolution of Kosovo’s business environment. Regulatory burdens were reduced as measured by the percentage of management time spent on compliance which declined from what seems already like a relatively modest baseline value of 5% to 3.6% at closing. Other indicators highlight the elimination or alleviation of undoubtedly burdensome licensing requirements and administrative procedures. Nevertheless, three factors suggest a cautious assessment of the project’s achievements. First, as noted above the results framework is not detailed enough to assess specific progress toward the objectives. Second, of five PDO indicators, only two were fully achieved, while two were partially achieved and one not achieved. The project may have scored better in terms of outputs, with four of five intermediate indicators fully achieved and one partially achieved; but given institutional constraints and capacity limitations it remains to be seen whether there will be much impact on outcomes and hence PDOs. Third, the project gained momentum over time, so that many achievements were realized only toward closing, and hence may not have had enough time yet to take full effect.

Breaking down the PDO into its constituent parts, the project sought to improve the business environment in four areas:

- reducing uncertainty of key regulatory processes
- improving delivery of related services
- strengthening property rights, and
- increasing transparency and accountability of implementing institutions

Reducing uncertainty of key regulatory processes: Results appear to have been mixed. Twenty five Municipal Business Centers (MBCs) were established as one-stop-shops for the business community which met the target. Work permits and several construction licenses were eliminated, and numerous other requirements were simplified or streamlined. Even accepting these indicators as measuring regulatory uncertainty, MBCs fell short of the goal of serving as one stop shops as they do not (yet) handle local licensing requirements. Only eight administrative processes were simplified or streamlined, against a target of fifteen and there is no information about how significant the changes were. Curiously, this indicator was added in 2011, less than a year before closing, raising questions about the Bank’s awareness of implementation status and communication with the authorities (the issue was not flagged in Implementation Status Reports (ISRs) at the time). Finally, there was no reduction in the number of inspection bodies because, according to the ICR, inspection reform only began toward the end of the project.

Rating: Modest

Improving delivery of related services: The project supported the development of new operational procedures, as well as preparation of manuals and training for staff. New business standards were developed and applied in a total of 25 MBCs, as targeted. IT systems were upgraded, allowing improved efficiency and transparency in service delivery. The time required to register property transactions in the Immovable Property Rights Register
(IPRR) declined significantly, though by less than the targeted amount. More generally, though, the impact on actual service delivery is unclear.

**Rating: Modest**

**Strengthening property rights:** The project supported enhanced property rights through process re-engineering and pilot registration contracts. Transactions registered in the Immovable Property Rights Register (IPRR) exceeded the target as did the number of measured and recorded apartments ready for registration in the building cadastre. Three municipal cadastre offices were re-engineered, also exceeding the target. However, a delay in approving the Law on Cadastre prevented the work from being completed and follow-on support is planned under a new project. In terms of outcomes, access to finance measured by the number of registered mortgages fell short of the target, in part due to macroeconomic conditions.

**Rating: Substantial**

**Increasing transparency and accountability of implementing institutions:** The project design and results framework paid relatively little attention to this component of the PDO, but a number of project activities bear on it indirectly. Establishment of local MBCs, simplification of various administrative procedures, development of service standards, upgraded IT systems and improved communication with the public, and development of centralized real property databases should all have a positive impact, though the ICR cautions about political sensitivities and notes the need for substantial post-project work.

**Rating: Modest**

5. **Efficiency:**

No efficiency calculations were undertaken and would in any case be speculative in light of uncertainty about outcomes, not to mention the project's contribution to wider political objectives such as resolution of political status. Notably, the cost of preparation and supervision charged to Bank Budget was $1.7 million or nearly 25% of the grant amount, which seems comparatively expensive.

This review concurs with the ICR's assessment that efficiency was modest.

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

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<tr>
<th>Rate Available?</th>
<th>Point Value</th>
<th>Coverage/Scope*</th>
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<tbody>
<tr>
<td>Appraisal</td>
<td>No</td>
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<td>ICR estimate</td>
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* Refers to percent of total project cost for which ERR/FRR was calculated.

6. **Outcome:**

The objectives were highly relevant to Kosovo's needs and the Bank's strategy and the design was substantially relevant, though flawed by not being linked closely enough to the objectives and the PAD was overly optimistic about prevailing conditions. The results framework did not allow careful monitoring of progress. Outcomes are difficult to assess precisely, though the achievements were generally modest and risks are moderate, all the more so as no direct follow up is envisaged in the current Country Partnership Strategy (CPS). Efficiency was likely modest, in part because of high preparation and supervision costs, totaling around 25% of the credit amount.

**a. Outcome Rating:** Moderately Satisfactory

7. **Rationale for Risk to Development Outcome Rating:**

Political uncertainty and questions about the sustainability of the Government's commitment indicate a moderate
degree of risk. While some constituency for the project has emerged, it remains to be seen how effective it will be in reinforcing the Government's commitment. Another risk is that implementation relied on consultants financed by the project. Thus, the ability to hire and retain qualified staff will also be critical, which will depend to some extent on public sector reform more broadly. Finally, the decentralized approach of retaining policy authority at the municipal level adds another layer of risk since it depends on cooperation and maintenance of good relations between the central government and municipalities.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

a. Quality at entry:

The project addressed what are plausibly important priorities for private sector development and was sensitive to political and institutional realities. At the same time, however, the analytical foundations were weak and the linkage between the design and project objectives was unclear. Moreover, expectations were too optimistic about implementation capacity and the authorities' willingness to act, especially under the UN interim administration. The results framework, undoubtedly constrained by data availability, was too limited to give more than a very general impression of the project's achievements.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

The slow start to implementation was largely due to political factors. It is difficult to gauge the adequacy of the Bank's response because no ISRs were filed in the system at the time. ISRs filed toward the end, during 2011-12, failed to flag areas where the project was significantly off track, such as simplification of administrative processes. More realistic ratings and better communication with Bank management might have led to more pro-active supervision and improved project outcomes.

Quality of Supervision Rating : Moderately Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Strictly speaking, Kosovo had no government until independence in February 2008 when national authorities progressively began to reclaim powers from the UN administration. Prior to that, political fragmentation and uncertainty hampered implementation, especially combined with frequent changes of senior officials with project responsibilities, and generally low levels of financial management and procurement capacity. Only 30% of project funds had been disbursed by 2009. Subsequently, however, the authorities' commitment strengthened markedly and disbursements accelerated. The project eventually disbursed almost completely, albeit with a 27-month extension. The Government was willing to accept exceptional support from the Bank, with the result that financial management and procurement conformed to the Bank's requirements.

Government Performance Rating : Moderately Satisfactory

b. Implementing Agency Performance:

Implementing agencies performed adequately especially toward the end of the project. Frequent personnel changes and shifting priorities made it difficult at times to manage and coordinate the large number of
agencies involved in the project.

Implementing Agency Performance Rating : Moderately Satisfactory
Overall Borrower Performance Rating : Moderately Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:
The results framework comprised a relatively limited set of five PDO indicators and eleven intermediate indicators. Some project areas were poorly tracked, especially "transparency and accountability of implementing institutions" which had no coverage. A few indicators lacked a clear rationale, such as the number of registered businesses which weren’t obviously linked to improvement in the business environment or to measuring regulatory uncertainty and service delivery. In practice, even this limited results framework proved too demanding. The 2011 restructuring replaced two of the PDO indicators and only five of the eleven intermediate indicators were reported in the ICR.

b. M&E Implementation:
Data collection was inconsistent through the life of the project and quality was spotty, especially early on, though no ISRs were filed in the system prior to January 2011 making it difficult to assess implementation adequately. Subsequently, ISRs were overly optimistic and failed to alert management about problem areas.

c. M&E Utilization:
Relatively little use appears to have been made of the M&E framework.

M&E Quality Rating : Modest

11. Other Issues

a. Safeguards:
No issues raised

b. Fiduciary Compliance:
No issues raised

c. Unintended Impacts (positive or negative):
None

d. Other:
The Business Environment TA Project was one of the Bank’s more successful projects during the period and helped to build a relationship of trust and foster a dialogue with the new Government.

12. Ratings:

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<th>ICR</th>
<th>IEG Review</th>
<th>Reason for Disagreement /Comments</th>
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<tr>
<td>Outcome</td>
<td>Moderately</td>
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IIEG Review
Reason for Disagreement /Comments
13. Lessons:

The ICR draws a number of useful and valid lessons. Where there are political uncertainties and institutional weaknesses, project design should have a narrow focus and envisage post-project follow up that would likely be needed to increase the likelihood of success. More intensive supervision and support for financial management and procurement may also be needed.

To make the point differently, less ambitious objectives may be an advantage where the political situation is fluid and Bank’s knowledge base is limited. For instance, creating an institutional framework for a pro-growth, private sector rather than seeking to improve the business environment and addressing issues of regulatory uncertainty might have allowed more flexibility and sharpened expectations without sacrificing any of the project’s achievements. Alternatively, small scale experiments and pilot projects may be a useful approach and generate useful demonstration effects.

14. Assessment Recommended?  ○ Yes  ● No

15. Comments on Quality of ICR:

The ICR's overall ratings are reasonable and it fairly portrays the challenging environment at the time. But, it lacks objectivity and could have usefully attempted a more critical analysis. For instance, under Project Preparation, Design and Quality at Entry, we learn little more than that "the project document provided adequate evidence to justify the rationale for the project and the importance of the project objectives " and that "the project design incorporated the right features that were relevant and addressed the key client concerns at the time." No doubt these views represent the team’s judgments, but outside readers may need to be convinced. Sketching out the case explicitly and summarizing the evidence and the relevance to the client's needs would have made a more compelling presentation. In addition, pages are not numbered, and the Government's comments are missing.

Quality of ICR Rating: Satisfactory