REPORT NO.: RES31551

RESTRUCTURING PAPER

ON A

PROPOSED PROJECT RESTRUCTURING

OF

KOSOVO HEALTH PROJECT

APPROVED ON MAY 13, 2014

TO

REPUBLIC OF KOSOVO

June 11, 2018

HEALTH, NUTRITION & POPULATION

EUROPE AND CENTRAL ASIA

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ABBREVIATIONS AND ACRONYMS

CBPP	Capitation-Based Performance Payments
CE	Citizen Engagement
DA	Designated Account
FM	Financial Management
HIF	Health Insurance Fund
HIFIS	Health Insurance Fund Information System
HR	Human Resources
IP	Implementation Progress
KHP	Kosovo Health Project
MoH	Ministry of Health
MTR	Mid-term Review
NCD	Non-Communicable Disease
PCU	Project Coordination Unit
PDO	Project Development Objective
PHC	Primary Health Care
SHI	Social Health Insurance

BASIC DATA

Product Information

Project ID	Financing Instrument
P147402	Investment Project Financing
Original EA Category	**Current EA Category**
Not Required (C)	Not Required (C)
Approval Date	**Current Closing Date**
13-May-2014	30-Oct-2019

Organizations

Borrower	Responsible Agency
Republic of Kosovo	Ministry of Health

Project Development Objective (PDO)

Original PDO

To contribute to improving financial protection from health spending for the poor and quality of care for priority maternal and child health and non communicable disease services.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-54420	13-May-2014	15-Jan-2015	20-May-2015	30-Oct-2019	25.50	2.40	20.95

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No

I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. The Kosovo Health Project (KHP) was approved on May 13, 2014 and became effective on May 20, 2015.

2. Project Development Objective (PDO). The PDO is: "to contribute to improving financial protection from health spending for the poor and quality of care for priority maternal and child health and non-communicable disease services."

3. Progress toward achieving the PDO has been rated Moderately Unsatisfactory (MU) since April 2016. The status of the PDO and Intermediate Results Indicators shows little progress. The health insurance scheme has yet to be launched, and the capitation-based performance payment (CBPP) scheme is still limited to only six pilot municipalities. Progress against the PDO indicators has been modest as outlined below:

   - PDO Indicator 1: Percentage of poor enrolled in mandatory health insurance - health insurance scheme has not yet been launched due to a significant lack of qualified staff at the Health Insurance Fund (HIF), the need for a decision on the benefit package, and the lack of a Health Insurance Fund Information System (HIFIS).

   - PDO Indicator 2: Outpatient drug benefit scheme established and functional based on pre-defined operational criteria – legal acts have not yet been approved, including the list of pharmaceutical products to be included in the outpatient drug benefit scheme.

   - PDO Indicator 3: Percentage of participating municipalities where at least 75 percent of agreed quality targets were achieved in the preceding one year – capitation-based performance payment operational manual was developed and one indicator was introduced for the pilot phase (number of patients registered with a proper identification number), which does not require an agreement on targets.

4. Implementation Progress (IP) has mainly been rated MU since April 2016:

   - Component 1: Improving Financial Protection. The main constraint has been the lack of staff at the HIF and of an appropriate work environment for the existing HIF staff. Limited trainings for HIF staff have been delivered under the KHP, and the Ministry of Health (MoH) highlighted that an assessment of the skills profiles of new HIF staff is required. The outpatient drug benefit scheme, which will be delivered by private pharmacies, is still seen as a priority on which the health insurance benefit package should initially focus given the difficulties in ensuring medicines supply in public facilities and the fact that most medicines are purchased out-of-pocket in private pharmacies. However, the operationalization of the outpatient drug benefit scheme has been postponed due to capacity limits at the MoH and HIF. Though the Government is committed to the development of the HIFIS with its own resources, the HIFIS is still not functioning.

   - Component 2: Strengthening Primary Health Care (PHC). The pilot phase for the CBPP scheme has been implemented since 2017, and two transfers were made to six pilot municipalities in 2017, which confirmed that these funds contributed to their operating budget. However, the MoH has decided to move away from the Health Information System (HIS) on which CBPP rely. As CBPPs require some basic information to be captured, there is a need to ensure that a basic HIS module is in place to allow for capitation payments per registered patient and for independent technical audits to take place as these are requirements for the implementation of this component.

- Component 3: Project Management. The capacity of the Project Coordination Unit (PCU) has yet to be strengthened with the selection of a monitoring and evaluation expert, which has been repeatedly delayed — the selection process is at the evaluation stage.

5. Fiduciary. Financial Management (FM) and procurement has consistently been rated Moderately Satisfactory. Overall, FM arrangements, including planning and budgeting, accounting, financial reporting, external audit, internal controls and funds flow at the PCU are found acceptable to the Bank. No issues have been identified in the audited financial statements and there are no overdue audit reports for the Project. Therefore, FM requirements for the Project (including audit compliance) as stipulated in the Financing Agreement are complied with. However, there were mistakes in the calculation of the first CBPPs, and delays in the revision of the operations manual for CBPPs. Procurement post-review reports have highlighted repeated delays in the implementation of some contracts, as well as challenges in compliance with the Bank's procurement rules. The task team has put in place specific procedures to mitigate this risk, including physical inspections, training, and close supervision of procurement processes even for contracts that should in principle be subject to post-reviews.

6. Disbursements/Commitments. The amount disbursed under the Project as of May 2018 has only reached 10.6 percent (US$2.5 million) of the total Credit of US$25.5 million equivalent, with US$1.73 million in commitments.

7. Social and Environmental Safeguards. The Project has been assigned a category "C" and, therefore, has no Social or Environmental Safeguards risks.

Rationale for Restructuring

8. It is recognized that the Project design is overly complex given the unstable political environment and institutional capacity weaknesses at the time of preparation and during implementation. This first IDA-financed Project in the health sector includes support to the establishment of Social Health Insurance (SHI) and the introduction of performance-based financing, which are both technically challenging. Notably, the MoH has changed its leadership twice and went through internal changes which altogether influenced the pace of the Project implementation and disbursement alike. Consequently, elements of the Project design must be restructured to significantly simplify and streamline the Project scope and content. In particular, the mid-term review (MTR), which took place over the period October 2017 to February 2018, identified a number of areas in the Project that require revisions, including: (a) reformulation of the Project Development Objective (PDO) to reflect the streamlining of the Project design; (b) modifications of the Results Framework to ensure consistency with the revised PDO and components; (c) revision of the Project components and costs to streamline the Project design and ensure consistency with the revised PDO; and (d) partial cancellation of SDR 5.72 million (US$8.33 million equivalent) and a reallocation between expenditure categories.

II. DESCRIPTION OF PROPOSED CHANGES

This Level 2 restructuring includes:

9. **Revision of the PDO**. The PDO is revised to read as follows: "To contribute to (i) developing the building blocks to introduce Social Health Insurance, and (ii) strengthening Primary Health Care in selected municipalities."

10. **Revision of the Results Framework**. All target values for PDO and intermediate results indicators are revised to reflect implementation progress, and improve measurability of specific indicators and consistency of data sources (see section IV on the proposed revisions of the Results Framework). Specifically, the following changes are proposed:

PDO Indicators:

- Percentage of the poor enrolled in mandatory health insurance: this indicator is dropped as it is no longer relevant given the streamlining of the Project.
- Outpatient (OP) drug benefit established: the targets are revised to reflect revised PDO and Project scope.
- Percentage of participating municipalities where at least 75 percent of the agreed quality targets were achieved in the preceding year: this indicator is dropped as it is no longer relevant given the streamlining of the Project.
- HIFIS is functional: this new indicator is added to monitor achievement of the revised PDO.
- Number of municipalities participating in CBPP scheme: this indicator is added to monitor achievement of the revised PDO.

Intermediate Results Indicators:

- Direct Project beneficiaries: this indicator is dropped as it is no longer relevant given the streamlining of the Project scope.
- Percentage of resident population enrolled in mandatory health insurance: this indicator is dropped as it is no longer relevant given the streamlining of the Project scope.
- Achievement of key benchmarks for functioning health insurance system: this indicator is dropped as it is no longer relevant given the streamlining of the Project scope.
- Health personnel receiving training: this indicator is revised. Onward target values are adjusted to reflect revised PDO and Project scope.
- Number of municipalities that have entered into performance agreements with the MoH/HFA/HIF and MoF: this indicator is dropped as it is no longer relevant given the streamlining of the Project.
- Percentage of participating municipalities with a performance improvement action plan: the description of this indicator is revised to reflect the revised PDO and Project scope.
- Percentage of CBPP budget spent at municipality level: the description of this indicator is revised to reflect the revised PDO and Project scope.
- Health facilities constructed, renovated, and/or equipped: the Project has completed its financing of medical equipment for health facilities, therefore the end target value is increased to the actual value of 11 health facilities equipped.
- Number of patients registered in the HIS, of which female (in percentage): this new indicator is added to monitor achievement of the revised PDO and inform on gender.
- Percentage of patients using PHC facilities who are satisfied with services: this new indicator is added to incorporate Citizen Engagement (CE) indicators within the remaining Project duration.

11. **Revision of Project Components and Costs**. The revisions in the Project components and costs aim at optimizing benefit for the population, and ensure consistency with the revised PDO and Project scope. Additional criteria were the feasibility of implementation by the Project Closing Date (October 30, 2019), sustainability of interventions beyond that date, and technical soundness. Specifically, the original Component 1 (improving financial protection and quality of care) is streamlined by dropping activities that are not essential to the introduction of SHI in the short-term. This includes investments in complex information systems on which hospital payments may be based in the long-term, the development of an e-health framework, and the design and implementation of an e-prescription system. In addition, capacity building activities are down-sized to reflect delays in implementation and the limited absorption capacity of the MoH/HIF. Finally, activities related to PHC strengthening and under the original Component 1 are more

appropriately included under the revised Component 2 (strengthening PHC). These include capacity building to deliver quality PHC services, development of feedback mechanisms, simple HIS modules, and technical audits that are part of the CBPP scheme at the PHC level. In addition, the amount of funds allocated to CBPPs is reduced to reflect delays in the effective transfer of such payments as well as the longer than expected pilot phase in only 6 participating municipalities. Finally, the amount allocated to Component 3 is decreased to reflect delays in implementation. The revised components and costs are as follows:

Component 1: Establishing building blocks for the introduction of Social Health Insurance (US$ 5.82 million equivalent)

(a) Support the definition and implementation of the SHI benefits package. The package will consist of health care services that will be reimbursed by the HIF, and which will initially be focused on outpatient drugs delivered by private pharmacies. This sub-component will include the needed technical assistance to facilitate consultations with key stakeholders and beneficiaries, the preparation of the required technical reports, policy documents, and by-laws, as well as the decision-making process leading to the adoption of the package. It will also include technical support to the HIF for the management of the outpatient drug benefit scheme during the initial stages of implementation.

(b) Support the design, the development and utilization of the HIF Information System (HIFIS), including an adequate software with a focus on the modules that are crucial for the implementation of the outpatient drug benefit scheme that will be delivered by private pharmacies (the modules will cover patients' database, prescription registry, payment system, management functions—budget, financial management (FM), and human resources).

(c) Build capacity of the HIF as purchaser of health care services. This will include technical assistance to the HIF to prepare the HIF budget and financial documents, develop health financing monitoring, define financial management processes related to the purchasing of health care goods and services. In addition, this subcomponent will provide for adequate working conditions (office furniture and equipment, training, twinning arrangements, study visits, technical support, etc.).

(d) Build capacity of health facilities to respond to the establishment of SHI. This will include, inter alia, technical support for hospital management modernization, as well as medical equipment to upgrade the facilities that will be contracted by the HIF.

Component 2: Strengthening PHC (US$ 9.10 million equivalent)

(a) Provide clinical training to PHC staff. Such training, which was successfully implemented in 6 municipalities in 2016-17, will be rolled-out to the 32 remaining municipalities in 2018-19. It includes training for medical and paramedical staff to improve the quality of health care services that are delivered in PHC facilities.

(b) Support CBPP through the provision of a simple HIS module. This will allow for capitation payment per registered patient and for independent technical audits to continue. In addition, it will include capacity building of key stakeholders to implement the CBPP, e.g. technical support, training, knowledge sharing.

(c) Finance CBPP to participating municipalities to improve access to quality PHC services.

(d) Implement community outreach interventions to improve access to PHC. This will include frequent focus group discussions with selected patient groups (at least every six months) to obtain feedback and discuss patient

suggestions for improving PHC, which will strengthen and inform the community outreach interventions, and inform and help prioritize project support. Actions taken will be reported in subsequent meetings.

(e) Support the design of a new HIS. The first step in this area will be the preparation of a "Master Plan" for the new HIS, which will take into account the existing documentation on this topic, include a detailed description of the new system, and clarify the timeline and the costs for the new system development and implementation.

(f) Contingency. This component of the restructured Project also includes a contingency amount of US$2.5 million equivalent, which could be used to initiate the implementation of the new HIS.

Component 3: Project management and communications (US$ 0.77 million equivalent)

(a) Strengthen the capacity of the MoH to carry out the technical and administrative management of the Project, including audits, equipment, and operating costs.

(b) Conduct patient satisfaction surveys accompanied by PHC forums for dialogue between health users and PHC providers. Two satisfaction surveys and two events will be held to enable discussion of patient recommendations, facilitate participatory deliberation and decision-making, disseminate satisfaction survey results. It will also be linked to efforts to improve information flows to Kosovo citizens through communication campaigns on SHI and PHC reforms.

12. **Partial Cancellation**. The total amount of the Credit will not be used by the Closing Date of October 30, 2019 based on the disbursement trend to date, but more importantly the revised PDO and Project scope. Therefore, the restructuring includes a partial cancellation of US$ 8.33 million equivalent (SDR 5.72 million). The cancellation includes SDR 0.98 million from Category 1 (Goods, non-consultant services, training, operating costs for the Project, including audits), and SDR 4.74 million from Category 2 (Capitation payments under Component 2). Disbursement estimates are adjusted accordingly.

13. **Closing Date**. The current Closing Date of October 30, 2019 is a tight deadline to fully implement the restructured project activities. An extension of the Closing Date may be considered when there is evidence of sustained progress towards the achievement of the revised PDO and implementation of the restructured activities.

14. **Risks**. The Overall Risk rating remains High (see Implementation Status and Results Report No. 10). A pending decision by the Client as to whether this project restructuring requires Parliamentary ratification under national legislation compounds the risks to implementation (Political and Governance risk). The Bank is working with the Client, including the Ministry of Finance, to mitigate this risk.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Change in Project's Development Objectives	✓	
Change in Results Framework	✓	
Change in Components and Cost	✓	

Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Change in Disbursement Estimates	✓	
Change in Implementing Agency		✓
Change in DDO Status		✓
Change in Loan Closing Date(s)		✓
Change in Disbursements Arrangements		✓
Change in Overall Risk Rating		✓
Change in Safeguard Policies Triggered		✓
Change of EA category		✓
Change in Legal Covenants		✓
Change in Institutional Arrangements		✓
Change in Financial Management		✓
Change in Procurement		✓
Change in Implementation Schedule		✓
Other Change(s)		✓
Change in Economic and Financial Analysis		✓
Change in Technical Analysis		✓
Change in Social Analysis		✓
Change in Environmental Analysis		✓

IV. DETAILED CHANGE(S)

PROJECT DEVELOPMENT OBJECTIVE

Current PDO

To contribute to improving financial protection from health spending for the poor and quality of care for priority maternal and child health and non communicable disease services.

Proposed New PDO

The Project Development Objective is to contribute to (i) developing the building blocks to introduce Social Health Insurance; and (ii) strengthening Primary Health Care in selected municipalities.

RESULTS FRAMEWORK

Project Development Objective Indicators

Percentage of the poor enrolled in mandatory health insurance
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	90.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Outpatient (OP) drug benefit scheme established
Unit of Measure: Text
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	No	The list of drugs for outpatient drug benefit scheme adopted by the HIF is submitted to the Government	Revised
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Percentage of participating municipalities where at least 75 percent of the agreed quality targets were achieved in the preceding one year
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	75.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

HIFIS is functional
Unit of Measure: Text
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	New
Date	13-May-2013	23-Apr-2018	30-Oct-2019	

Number of municipalities participating in CBPP scheme
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	6.00	6.00	20.00	New
Date	13-May-2013	23-Apr-2018	30-Oct-2019	

Intermediate Indicators

Direct project beneficiaries
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	1170000.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Female beneficiaries
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	48.00	0.00	48.00	Marked for Deletion

Female project beneficiaries, as % of number of project beneficiaries
Unit of Measure: Number
Indicator Type: Custom Breakdown

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	48.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Percentage of resident population enrolled in mandatory health insurance
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	65.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Achievement of key benchmarks for functioning health insurance system
Unit of Measure: Yes/No
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	No	No	Yes	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Health personnel receiving training (number)
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	849.00	2449.00	Revised
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Number of municipalities who have entered into performance agreements with the MoH/ HFA/ HIF and MoF
Unit of Measure: Number
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	6.00	25.00	Marked for Deletion
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Percentage of participating municipalities with a performance improvement action plan
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	0.00	75.00	Revised
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Percentage of capitation-based performance payment budget spent at municipality level
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	48.42	95.00	Revised
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Health facilities constructed, renovated, and/or equipped (number)
Unit of Measure: Number

Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	11.00	11.00	Revised
Date	13-May-2014	04-Sep-2017	30-Oct-2019	

Number of patients registered in the HIS
Unit of Measure: Number (Thousand)
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	0.00	145003.00	511074.00	New
Date	13-May-2013	23-Apr-2018	30-Oct-2019	

Of which female
Unit of Measure: Percentage
Indicator Type: Custom Supplement

	Baseline	Actual (Current)	End Target	Action
Value	0.00	78.00	78.00	New

Percentage of patients using primary health care facilities who are satisfied with services
Unit of Measure: Percentage
Indicator Type: Custom

	Baseline	Actual (Current)	End Target	Action
Value	65.80	65.80	70.00	New
Date	31-Dec-2017	23-Apr-2018	30-Oct-2019	

COMPONENTS

Current Component Name	Current Cost (US$M)	Action	Proposed Component Name	Proposed Cost (US$M)
Improving financial protection and quality of care	11.20	Revised	Support capacitiy building and establishment of building blocks for introduction of SHI	5.82

Strengthening primary care	12.50	Revised	Support primary health care strengthening	9.10
Project management	1.80	Revised	Project management and communications	0.77
TOTAL	**25.50**			**15.69**

CANCELLATIONS

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IDA-54420-001	Disbursing	XDR	16,500,000.00	5,720,000.00	04-May-2018	10,780,000.00	LOAN RESTRUCTURING, COST SAVINGS

REALLOCATION BETWEEN DISBURSEMENT CATEGORIES

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed
IDA-54420-001 | Currency: XDR				
iLap Category Sequence No: 1	Current Expenditure Category: G,non-CS,CS,TR,OC,incl.AUD			
8,411,000.00	1,606,017.39	7,430,000.00	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: Capitation payments under Part B			
8,089,000.00	144,773.79	3,350,000.00	100.00	100.00
Total 16,500,000.00	**1,750,791.18**	**10,780,000.00**		

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates
Yes

Year	Current	Proposed
2014	0.00	0.00
2015	1,900,000.00	0.00
2016	6,200,000.00	98,217.00
2017	7,500,000.00	1,717,888.00
2018	7,200,000.00	736,225.00
2019	2,100,000.00	10,892,950.00
2020	600,000.00	2,244,720.00