Report Number: ICRR0024126

1. Project Data

Project ID P152881	**Project Name** Competitiveness and Export Readiness	
Country Kosovo	**Practice Area(Lead)** Finance, Competitiveness and Innovation	
L/C/TF Number(s) IDA-60350	**Closing Date (Original)** 30-Oct-2022	**Total Project Cost (USD)** 10,616,562.08
Bank Approval Date 18-May-2017	**Closing Date (Actual)** 30-Oct-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	15,270,000.00	0.00
Revised Commitment	10,596,798.00	0.00
Actual	10,616,562.08	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	Ebru Karamete	Avjeet Singh	IEGSD (Unit 4)

2. Project Objectives and Components

a. Objectives

According to the Financing Agreement (page 5) and the Project Appraisal Document (page 3), the project development objective of the Republic of Kosovo Competitiveness and Export Readiness Project was to support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections.

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

Yes

Did the Board approve the revised objectives/key associated outcome targets?

No

c. Will a split evaluation be undertaken?

Yes

d. Components

The project had two components.

Enhancing Business Environment and Export Readiness (US$14.72 million estimated at appraisal, US$10.18 million disbursed at closing) supported: (a) improvements to the Kosovo National Quality Infrastructure -- the institutional framework that establishes and implements standardization, metrology, accreditation, inspections, and market surveillance -- to enable the system to attain international recognition in global markets including in the European Union; (b) the establishment of a matching grants program to help micro, small, and medium enterprises (MSMEs) with an export potential to improve their export readiness, meet international quality standards and obtain product certifications, and acquire business development services for productivity improvements; and (c) reforms to the business inspection regime (which protects the public interest, public health, public safety, and the environment) under a new Law on Inspections aimed at raising the effectiveness and efficiency of the inspection system and reducing the costs of inspections to firms.

Project Implementation and Coordination Support (US$0.55 million estimated at appraisal, US$0.44 million disbursed at closing) supported the activities of the Project Implementation Unit at the Ministry of Economy, Employment, Trade, Industry, Entrepreneurship, and Strategic Investments (formerly the Ministry of Trade and Industry).

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

Project Cost. The project was estimated to cost Euros (EUR) 14.3 million (US$15.27 million equivalent) at appraisal. The final project cost at closing was US$10.6 million (69.5 percent of the original amount). The reduction was due to the cancelation of some of the project activities.

Project Financing. The project was financed by a credit from the International Development Association (IDA) of EUR 14.3 million (US$15.3 million equivalent) to the Republic of Kosovo. There was no financial contribution from the borrower. The final disbursed amount was US$10.6 million

Dates. The project was approved on May 18, 2017, became effective one year later on May 18, 2018, and closed on October 30, 2023, a year after the original closing date of October 30, 2022. The delay in securing effectiveness motivated the extension of the closing date.

Restructuring. The project was restructured four times (all were Level 2 restructurings). The project development objective remained unchanged.

- The first restructuring on June 1, 2020, with US$0.35 million disbursed (3.3 percent of the final project cost of US$10.6 million), revised the project components, costs and implementation arrangements: (a) canceled activities to improve the Kosovo National Quality Infrastructure -- after limited progress with the component and due to a weakening of the Government's commitment to the upgrading effort; (b) reduced the scope of activities to reform the business inspection system by dropping capital investments for the digitalization of the inspectorates -- following disagreement with technical specifications; (c) reallocated funding from these first and third project activities to the MSME matching grants program for export readiness, while also expanding the range of MSME activities to be supported by matching grants to include e-commerce, business continuity issues, and process and technology upgrading and raising the funding coverage offered by matching grants from 60 to a maximum 90 percent of MSME costs -- motivated as well by the economic downturn from the COVID-19 pandemic; (d) revised the results framework of output indicators, outcome indicators, and targets to reflect these changes; and (e) transferred the management of the matching grants program from the Grants Management Unit of the Kosovo Investment and Enterprise Support Agency to a contract firm to be selected by the Project Implementation Unit.
- The second restructuring on October 12, 2022, with US$1.71 million disbursed (16.1 percent of the final project cost), extended the project closing date by a year from October 30, 2022, to October 30, 2023. The extension would compensate for the delay in securing the effectiveness of the project after early elections in June 2017, the installation of a new government, and the late adoption of the Project Operations Manual and establishment of the Project Implementation Unit.
- The third restructuring on September 6, 2023, with US$8.1 million disbursed (76.3 percent of the final project cost): (a) cancelled activities to implement e-inspections and the interoperability system; (b) dropped the output indicator, number of inspectorates within the government body; and (c) reduced the project cost by US$2.24 million, from US$15.27 million to US$13.03 million.
- The fourth restructuring on October 26, 2023, with US$9.25 million disbursed (87.1 percent of the final project cost): (a) reduced the project cost by US$2.44 million, from US$13.03 million to 10.6 million, involving the cost of activities not implemented by MSME recipients of matching grants; and (b) cancelled the unused project funds.

Split Rating. This ICR Review will conduct a split evaluation of this project. Although the project development objective was not revised, the scope of the project was reduced with the cancelation of key institutional activities and the deletion of one outcome indicator. The split rating will use the first restructuring date, taking the disbursements before and after this date to calculate the overall weighted outcome rating.

3. Relevance of Objectives

Rationale

Binding Constraints to Development. Exports of goods and services was 23.8 percent of GDP in Kosovo at the time of appraisal in 2016, some four percentage points lower than 27.4 percent of GDP for all countries globally. Following the signing of a Stabilization and Association Agreement with the European Union in 2016, Kosovo was listed among six Western Balkan states that the European Commission considered were viable candidates for the European Union "expansion plan" in 2018 -- where the six applicants could achieve accession as members of the union after 2025. European integration, should it materialize, could potentially grow Kosovo's trade sector, but only if the country addressed the binding constraints to productivity at home and competitiveness abroad.

The *Republic of Kosovo Systematic Country Diagnostic* of 2017 (SCD) advocated a strategy of integration into global value chains to overcome Kosovo's small domestic market and reverse its poor export performance and excessive reliance on low-value-added raw material exports to a limited set of markets. The SCD suggested an extensive approach at solving the impediments to a successful value chain integration strategy. The main challenges were: (a) a weak product quality assurance infrastructure -- there were no domestic accreditation services, testing facilities lacked adequate equipment, and domestic certifications were not internationally recognized; (b) micro, small, and medium enterprises (MSMEs) were uncompetitive, lacked economic vitality, and faced an unfavorable business environment; and (c) the business inspection regime operated without a clear definition of the duties and mandates of inspectorates and lacked sufficient resources to enforce inspection laws and rules.

Country Development Priorities. The project objective was consistent with the "country's top priorities" articulated in the *National Development Strategy 2016-2021* (NDS), specially with orienting the country's development agenda "toward European integration in all areas." The NDS focused on "four thematic pillars": Human Capital, the Rule of Law and Good Governance, Development of Competitive Industries, and Development of Infrastructure. The project objective was relevant to the second pillar, specifically to Intervention 10 - Improve the efficiency of the inspections system. The project objective was also relevant to the third pillar, specifically to Intervention 16 - Increase access to finance for SMEs and to Intervention 18 - Upgrade SMEs to activities with higher value.

Bank Group Country Strategy. The project objective was aligned with the country strategy for Kosovo at closing.

- The *Country Partnership Framework for the Republic of Kosovo for the Period FY23-FY27* (CPF) commits continuing Bank Group support to the country's development strategy organized around three "high level objectives" -- Greater Public Service Efficiency and Quality, More Formal Private Sector Jobs, and Increased Environmental Resilience. The project objective was aligned with the second high-level objective of the CPF, which advocates for "more formal private sector jobs, building on previous progress toward strengthening the business-enabling environment." According to the CPF, the strategy would contribute to "improving the business environment and trade integration, which aim to establish a more transparent and predictable business environment and improved conditions for sustainable productivity growth and integration into the global economy."

World Bank Sector Experience. There were two other Bank operations working in parallel that were relevant to achieve the project's objectives:

- The Kosovo Investment Climate II Project of the International Finance Corporation, which aimed to improve the business environment through better regulations, advanced reforms to the business inspection system by supporting the preparation of the new overarching Law on Inspections as well as the bylaws; sectoral laws, and regulations to enable the implementation of the new law. The project also conducted the initial surveys of enterprises about the time and the cost to comply with business inspections.
- The Kosovo Public Finances and Sustainable Growth Development Policy Financing, which aimed to enhance private sector development among other objectives, required the enactment of the Law

on Inspections as a prior action. The enactment of the legislation in December 2021 fulfilled the prior action and served to achieve a target for this project (see Section 4 -.

Based on relevance of objectives to country and World Bank strategies, and because the project objectives were realistic and sufficiently challenging when assessed with respect to the country capacity as well as the World Bank's country and sector experience in Kosovo, the relevance of the project development objective is rated high.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections.

Rationale

Theory of Change. Integration into global value chains, especially in key industries of comparative advantage, including garments, textiles, and food products, offered Kosovo a strategic opportunity to grow its export sector, which had historically relied on low value raw material exports and limited overseas markets. A value chain integration strategy, in the wider context of future accession to the European Union, would be viable if Kosovo could overcome constraints to developing export products that met quality standards in overseas markets. Building an effective national system by which export products were standardized, accredited, and quality certified for international markets, fostering the ability of micro, small and medium enterprises to obtain business development services and financial resources to spur export readiness, and modernizing the regulatory practices governing business inspections to reduce regulation compliance costs would help advance Kosovo's export strategy. The attainment of these objectives would be reflected by an increase in the number of products that were tested at domestic laboratories and certified by product certification bodies accredited by an internationally recognized agency, a rise in the value of exports by firms that received funding and business development support services from a matching grants program, and a reduction in the costs of compliance by firms with government business inspection requirements.

Outputs. The project achieved the targets for five of ten output indicators defined at appraisal to measure the achievement of the project objective.

- The number of firms financed through the matching grants program reached 271 by closing, exceeding the original target of 150. There were 151 MSME direct grant beneficiaries (25 in the first round of the program and 136 in the second round) and another 120 MSME indirect grant beneficiaries. According to the ICR, the direct beneficiaries: (a) received US$9.6 million in matching grants, including US$0.6 million from the Ministry of Trade and Industry; (b) invested EUR 4.65 million

-- US$0.9 million of their own funds and US$3.75 million of matching grants -- in obtaining some 140 international standard/product certifications from international certification bodies and in purchasing machinery related to product certifications (in the second round); (c) some 106 purchased 380 new machines to automate their production processes, improve product quality, reduced production costs, increase capacity, and introduce new products; (d) another 21 purchased computer equipment and software to digitalize their operations; and (e) procured the services of consultants to develop business plans, develop a brand, introduce new sales channels, design marketing strategies, and improve their technical skills. Meanwhile, the 120 indirect beneficiaries obtained training from their business associations.

- The number of firms with female owners that were financed through the matching grants program reached 37 by closing, exceeding the target of 15. The number represented 24.5 percent of all matching grant recipients, more than the ratio of women-owned or women-managed businesses in the economy.
- A new law on inspection was adopted by the Parliament, meeting the target. The Law on Inspections (Law No. 08/L-067) was adopted in December 2021, defining the principles of inspection, the establishment of the Office of the Inspector General, the rules for the organization of inspection bodies under the state and municipal administration, the rules for coordination and inspection procedures. Following the enactment of the new law, the Office of the Inspector General was established in the Office of the Prime Minister. Although this project did not directly finance the design of the new law, the Bank participated in its preparation by reviewing the draft law and supporting the development of an action plan to implement the new law. The Bank also supported the initial capacity building activities of the Office of the Inspector General though the Kosovo Investment Climate II Project of the International Finance Corporation
- The number of inspection visits per firm per year was reduced from 22 in the baseline to 2.93 by closing, exceeding the target reduction to 16. The result was achieved with the application of the risk-based inspection method following the adoption of the new Law on Inspections.
- The number of user survey results about the business inspection system that was shared with the public reached three by closing, achieving the target. The surveys in 2021 and 2022 were conducted by an International Finance Corporation project. The summary report for all three surveys were published on the website of the Ministry of Trade and Industry (https://mint.rks-gov.net/page.aspx?id=2,326), and in three languages.

There was no data to measure the achievement of the targets for the other five output indicators.

- The Kosovo Metrology Agency would become a signatory to the International Committee on Weights and Measures (CIPM) Mutual Recognition Arrangement (MRA).
- The Kosovo Accreditation Directorate would become a signatory to the MRA with the International Laboratory Accreditation Cooperation (ILAC) and the International Accreditation Forum (IAF).
- The participation of the Kosovo Metrology Agency in international inter-laboratory comparisons, for which the target was ten such inter-laboratory comparisons.
- The amount of private capital mobilized through the matching grant program, for which the target was EUR 2.34 million.
- The percentage of grievances about the MSME matching grant scheme that were responded to (Citizen Engagement), for which the target was 90 percent.

- The number of inspectorates within the government body, the target of which was a reduction from 36 in the baseline to 15 by closing.

Outcomes. The project achieved one of three outcome indicators defined at appraisal to measure the achievement of the project objective.

- The reduction in annual inspection compliance cost per business, reached 80 percent by closing, exceeding the target of 15 percent. Annual inspection compliance cost per firm -- staff time, travel time, other costs, but excluding fines -- was reduced from EUR 220 in 2010 (the baseline) to EUR 148.80 in 2021, EUR 62.89 in 2022, and EUR 44.80 in 2023. As the authorities resorted to risk-based methods in compliance with the new Law on Inspections, the number inspections per firm fell from 22 annually to only three, and the duration of inspections, from five hours to less than two hours, according to surveys of the MSME business inspection system.

There was no data to measure the achievement of the targets for the two other outcome indicators.

- The number of products tested at domestic laboratories and certified by product certification bodies that were accredited by an internationally recognized accreditation agency, for which the target was 200.
- The share of beneficiaries of the matching grants program that increased their export value, for which the target was 50 percent.

Therefore, the achievement of the objective to support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections is rated negligible.

Rating
Negligible

OBJECTIVE 1 REVISION 1

Revised Objective
To support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections.

Revised Rationale
Theory of Change. The results chain was partly altered to exclude inputs at upgrading the Kosovo National Quality Infrastructure and inputs at digitalizing business inspections. Exporters were still expected to obtain standardization, certification, and accreditation services, but from foreign rather than domestic bodies. And business inspections would exclude digital methods.

Outputs. In addition to achieving the targets for the four output indicators defined at appraisal (see Objective 1) and retained at the first restructuring, the project achieved the target for an additional output indicator defined at the first restructuring to measure the achievement of the project objective.

- The percentage of beneficiaries who reported that the project established an effective engagement process reached 91 percent by closing, exceeding the target of 70 percent. Twenty of 21 respondents in the first round of matching grant awards and 84 of 93 in the second round considered the consultation and engagement process under the matching grants program to be "effective" or "very effective."

The project failed to meet the revised target for the expansion of the matching grants the program at the first restructuring but met the revised target for the reduction of the matching grants program at the fourth restructuring.

- The number of firms financed through the matching grants program reached 271 by closing, failing to achieve the first revised target of 420 but exceeding the final revised target of 160.

Outcomes. In addition to achieving the target for one outcome indicator defined at appraisal (see Objective 1) and retained at the first restructuring, the project achieved the target for the second outcome indicator defined at the first restructuring.

- The share of beneficiaries of the matching grants program that increased their export value, **relative to firms of similar size in the same sector**, reached 32 percent by closing, exceeding the target of 15 percent. This result applies to beneficiaries of the first round of the matching grants scheme, where eight of the 25 beneficiaries increased their exports relative to comparator firms by the third year after receiving the matching grants (i.e., in 2022). A similar definitive assessment could not be made of the beneficiaries of the second round of the matching grants scheme, as the second round was completed only in 2023 and the results must be assessed under a three-year window (in line with the project design). However, according to the ICR, preliminary data compiled by the matching grants manager yielded the following: (a) 102 export-oriented beneficiaries increased their exports by 6.5 percent in one year from EUR 51.1 million in 2021 to EUR 54.45 million in 2022, after making investments in certifications, equipment, and advisory services; (b) micro enterprise beneficiaries raised their exports the most -- by 47 percent year-on-year; albeit they started with a lower level of exports, at an average EUR 88,000 per enterprise; (c) the increases were more moderate among small enterprise beneficiaries at 4.5 percent, and medium enterprise beneficiaries, at 5.7 percent, and (d) 35 non-exporter beneficiaries were expected to begin exporting in the near to medium term.

Based on the revised indicators and targets, the project substantially achieved the objective to support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections.

Revised Rating
Substantial

OVERALL EFFICACY
Rationale

The overall efficacy of the original objective is rated negligible.

Overall Efficacy Rating	**Primary Reason**
Negligible	Low achievement

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

The overall efficacy after the first restructuring is rated substantial, based on achievement of the revised indicators and targets.

Overall Efficacy Revision 1 Rating

Substantial

5. Efficiency

Economic Efficiency. The ICR calculated the economic rate of return (ERR) of the project at 40.1 percent, lower than the 45.9 percent estimated at appraisal. With the cancellation of the project activities related to supporting the upgrade and the international recognition of the Kosovo National Quality Infrastructure, the ICR computed the ERR as consisting of 23.5 percent for the matching grants program and 91.2 percent for business inspection reform. In contrast, the Project Appraisal Document estimated ERRs of 43.5 percent for the Kosovo National Quality Infrastructure upgrading, 46.3 percent for the matching grants program, and 50.4 percent for the business inspection reform.

Operational Efficiency. The implementation period was a year longer than planned. The second restructuring extended the project closing date by a year to compensate for the one-year delay in attaining effectiveness. Due to a change of leadership after the project's approval, it took a long time to ratify the project, establish a PIU and adopt the operational manual. Frequent change of project directors delayed the decision making process. As a result of insufficient coordination with relevant stakeholders to project activities, inadequate follow up on project activities, the Kosovo National Quality Infrastructure upgrading and the the implementation of the e-inspection and interoperability systems were canceled leasing to disbursement of 69.5 percent of the original IDA credit.

Because of poor operational efficiency, the efficiency of the project is rated modest.

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	✓	45.90	96.00 ☐ Not Applicable
ICR Estimate	✓	40.10	96.00 ☐ Not Applicable

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

6. Outcome

Based on a split evaluation, the outcome of the project is rated moderately satisfactory.

	Original	Revision 1 (1st Restructuring)
Relevance of Objective	High	
Efficacy:		
Objective 1 - To support product certification for export markets, strengthen the capacity of export-oriented firms, and reduce the cost of business inspections	Negligible	Substantial
Overall Efficacy	Negligible	Substantial
Efficiency	Modest	
Outcome Rating	Unsatisfactory	Moderately Satisfactory
Outcome Rating Value	2	4
Amount Disbursed, US$ million	0.35	10.27
Disbursement, %	3.3	96.7
Weight Value	0.07	3.87
Total Weights	3.93	
Overall Outcome	Moderately Satisfactory	

a. Outcome Rating

Moderately Satisfactory

7. Risk to Development Outcome

The ICR (para 75) noted that the risks to the sustainability of the development outcomes achieved by this project are substantial due to the redirection of the key institutional capacity building activities to more short-term interventions.

The cancellation of project activities supporting the upgrading of the Kosovo National Quality Infrastructure may have set back the country's agenda to build its own product standardization, metrology, accreditation, inspection, and market surveillance system, forcing enterprises to rely on foreign certifications in the meantime. Recent events, however, indicate that the Government may have since reversed its stance on the Kosovo National Quality Infrastructure upgrading with a proposal for the Bank to finance key metrology laboratories (which would be part of the Kosovo National Quality Infrastructure) under the Western Balkans Trade and Transport Facilitation Project II, according to the ICR (para 69). The measure would mitigate risks to building a workable quality assurance system for export products.

The cancellation of activities advancing the digitalization of business inspection services, including the procurement of an e-inspection system and an inspection interoperability system, may detract from gains made with the reform of the business inspection system, headlined by the enactment of the Law on Inspections, the creation of the Office of Inspector General, and the adoption of risk-based inspections. Digital inspections remain necessary to improve the efficiency of the system. Separate assistance from the U.S. Agency for International Development and other donors to the Office of Inspector General may help mitigate sustainability risks, but additional assistance from the Bank may be necessary to complete the reforms, according to the ICR (para 76).

Political and institutional capacity risks pose additional outcome sustainability issues. While the project supported the creation the Office of Inspector General and helped improve the institutional capacity of the Kosovo Investment and Enterprise Support Agency, political decisions pose risks to the sustainability of these gains. The Government recently downscaled the mandate of the Kosovo Investment and Enterprise Support Agency and created a new investment and export agency in the Office of the Prime Minister, muddling the institutional setup for export development and investment promotion.

8. Assessment of Bank Performance

a. Quality-at-Entry

Analytical Underpinnings. The planned upgrading of the Kosovo National Quality Infrastructure was informed by both an extensive gap assessment of the capacity of the existing product quality assurance system and a credible roadmap for its reform, including the renovation of the Kosovo National Quality Infrastructure facilities and the recruitment of an additional staff of twenty over time. The roadmap also featured collaboration with other national metrology institutes globally and substantial technical assistance on accreditation.

Link to Other Bank Operations. The project design (as well as implementation) benefitted from two complementary Bank operations, as mentioned in Section 3.

Operational Risks and Mitigation Measures. The Bank considered the overall risk to be substantial. Political and governance risk was substantial considering the fragility of the governing coalition. The Bank worried that the enactment of the proposed Law on Inspections might be derailed but considered the inclusion of the legislation in the European Reform Agenda to be a mitigating factor. Macroeconomic risk was rated substantial and might be reflected in a thin budget for the Ministry of Trade and Industry, although an ongoing arrangement with the International Monetary Fund would help address budgetary issues. Institutional capacity risk was substantial because agencies lacked experience with Bank projects. The Bank thought a Project Implementation Unit, backed by Bank training, would address this issue, but this proved to be insufficient. Fiduciary risk was considered substantial for the matching grants program, but would be mitigated through technical assistance from, and close supervision by, the Bank.

Implementation Arrangements. The Ministry of Trade and Industry would implement the project, for which the Project Implementation Unit would be responsible for coordination, procurement, financial management, monitoring and evaluation, and reporting. Policy oversight would be vested in a Project Steering Committee consisting of representatives from the Prime Minister's Office, the Ministry of Finance, and the Ministry of Trade and Industry. The project plan also called for the preparation and submission, in a form acceptable to the Bank, of a Project Operations Manual and a Matching Grants Manual. Overall, these implementation arrangements were sound.

Shortcomings at Entry. Project design could have been better if the Bank required the enactment of the Law on Inspections prior to the approval of the project, as the legislation was necessary to implement inspection reform. Moreover, implementation arrangements were insufficient particularly for the matching grants program, which led to the outsourcing of the implementation of this component to an external implementing entity.

Based on the foregoing, the quality at entry is rated moderately satisfactory.

Quality-at-Entry Rating
Moderately Satisfactory

b. Quality of supervision

Supervision. The Bank supervised the project regularly and filed eleven Implementation Status and Results Reports (ISRs) over the six-year life of the project, matching the average two-a-year for investment project financing operations. With the agencies lacking experience with Bank projects, the Bank team provided extensive support in many aspects of project implementation, including with procurement, financial management, monitoring and evaluation, and project reporting. The Bank Task Team Leaders held weekly meetings with the Project Implementation Unit. Moreover, a Bank recommendation to outsource the implementation of the matching grants program to a private firm proved beneficial.

Adaptation. While the Bank was proactive in restructuring the project, it would have been useful to include a revision of the PDO and the TOC, to better capture the narrowing of the project’s focus (ICR, para 72). The first restructuring recognized the changed political setting for the Kosovo National Quality Infrastructure upgrading, and the second, the lengthy delay in securing project effectiveness (see Section 2.E). The third and fourth restructuring, which cancelled unused funds, ensured the possibility of reprogramming the unused resources for Kosovo's IDA20 Replenishment (the process by which the IDA would support countries in their recovery from the COVID-19 crisis and transition to green, resilient, and inclusive development).

Based on the foregoing, quality of supervision is rated satisfactory.

With the quality of entry rated moderately satisfactory, and the quality of supervision, satisfactory, the overall Bank performance is rated moderately satisfactory.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The Bank defined ten output indicators and three outcome indicators to measure the achievement of the project objective (see Section 4 - Objective 1). Most of the original results indicators were well defined, measurable, and time bound.

The M&E plan called for the Government, through the Ministry of Trade and Industry, to monitor and evaluate the progress of the project and to prepare quarterly Project Reports, based on the project indicators, which would be submitted to the Bank within a month after the end of each reporting period.

b. M&E Implementation

The cancellation of the Kosovo National Quality Infrastructure upgrading at the first restructuring, the cancellation of the implementation of the e-inspection and interoperability system at the third restructuring, and changes to the matching grants program at the first and fourth restructurings prompted revisions to the results framework.

The Bank also clarified the outcome indicator, "share of beneficiaries of the matching grants program that increased their export value", to mean "the share of beneficiaries of the matching grants program that increased their export value, *relative to firms of similar size in the same sector."* The qualifier provided a relevant comparator, but was challenging to measure during implementation, according to the ICR, since it required a special effort at collecting data on comparator firms from the customs office and the state statistical office. The bank also expanded the definition of women MSMEs to include women-owned MSMEs and women-managed MSMEs.

The final results framework consisted of six output indicators and two outcome indicators (see Section 4 - Objective 1 - Revision 2). Although data to measure the final set of results indicators was available at closing, the implementation of the M&E plan was problematic in many aspects, according to the ICR: (a) data collection was often late and complete numbers were available only in the last year of project implementation; (b) data analysis was incomplete; (c) the Project Implementation Unit lacked the capacity for M&E work and the unit's performance improved only after it hired a dedicated M&E specialist, which did not occur until the second half of project implementation; and (d) there were few substantive meetings about progress toward the results targets.

Although M&E was rated satisfactory in the last ISR of July 2023, the performance was less noteworthy at moderately satisfactory in September 2021 and October 2022, and moderately unsatisfactory in April 2022.

c. M&E Utilization

For at least the matching grants program, M&E data about the export performance of beneficiary firms and their comparators during the first round of the program was useful to inform recommendations about the conduct of the second round, according to the ICR.

Because of weaknesses with M&E implementation, the overall M&E quality is rated modest.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

Environmental Safeguards. The project was classified as an environmental assessment category C project at appraisal, meaning that no environmental review was required. The project did not involve any civil works. All MSME matching grant applicants were required to answer and file an environmental questionnaire that the Kosovo Investment and Enterprise Support Agency used to assess adherence to the country's environmental regulations.

At closing, the ICR concluded that the matching grants program for MSMEs likely had a "positive environmental impact": (a) 72 firms obtained International Organization for Standardization (ISO) 14001:2015 certifications -- for environmental management systems: (b) 59 firms obtained ISO 45001:2018 certifications -- for occupational health and safety management systems; (c) all MSME matching grant recipients adopted environmental and social standards acceptable to the Bank.

b. Fiduciary Compliance

Procurement. Procurement faced substantial delays, exacerbated by the resignation of the procurement specialist at the Project Implementation Unit and the difficulty in hiring a replacement. The lack of an agreement on the technical specifications of the e-inspection system and inspection interoperability system, as well as the limited time available to complete the procurement (even if an agreement on specifications were reached), prompted the Bank to cancel the e-inspection project component at the third restructuring in late 2023. Procurement was rated moderately satisfactory in the last ISR of July 2023, a surprising assessment considering the problems with procurement for the e-inspection system until that time.

Financial Management. Financial management was rated satisfactory through most of project implementation and in the last ISR of July 2023. According to the ICR: (a) the financial management staff were qualified and experienced; (b) the Ministry of Trade and Industry managed budget challenges adequately; (c) funds flow arrangements were sound; (d) there were sufficient controls over the matching grant operation; (e) the Project Implementation Unit managed the matching grant operation efficiently after subsequently taking over the function from the private operator (se Section 2.E); and (f) audit reports were acceptable and audit findings were aligned with the Bank's own assessments.

c. Unintended impacts (Positive or Negative)

The ICR noted that (para. 55), the matching grants component of the project was used to mitigate the adverse economic impacts of Covid-19, as it led to protect and create jobs.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Overall Bank performance was moderately satisfactory, with moderate shortcomings with the quality at entry.
Quality of M&E	Modest	Modest	
Quality of ICR	---	Substantial	

12. Lessons

Three lessons are drawn from the ICR, with some adaptation.

Because enactment of laws by legislative bodies is a complex process over which implementing agencies have little control, the Bank may alternatively consider treating legislation as a prior action in a development policy operation or embedding it in a programmatic investment project financing operation. In this operation, the passage of the new Law on Inspections took four years to accomplish from project approval in 2017, with the enactment of Law No. 08/L-067 in 2021. The Law on Inspections was necessary to reform the regulatory framework for business inspections, establish the Office of Inspector General, and enable the adoption of modern inspection methods including risk-based inspections. The delayed passage of the legislation left little time to accomplish some operational measures to implement reforms, including purchasing an e-inspection system, which also ran into procurement problems. Linking legislative reforms to prior actions under complementary development policy operations may help address political challenges.

Micro, small, and medium enterprises could benefit from more flexible matching grant terms at a time of economic crisis. In this operation, the Bank and the Government liberalized the conditions for the extension of matching grants to MSMEs in response to the pandemic to include a reduction in the contribution of beneficiaries from 40 percent to 10 percent of total certification costs, the treatment of equipment purchases as an eligible expenditure, and the differential in the contributions by MSMEs to capital expenditures from 50 percent for medium sized enterprises to 30 percent for micro and small enterprises. These innovations enabled the beneficiary firms to expand their product offerings, improve their product quality, and obtain product certifications even at a time of economic distress. Meanwhile, incentives for women-owned and women-managed firms yielded positive outcomes including in less developed regions. The outsourcing of the operation of the matching grants program to a private provider facilitated the implementation and the transparent management of the support scheme but may have come at the cost of neglecting to foster institutional capacity building at a competing government agency.

Although comparisons between treatment and control groups represent the gold standard for impact evaluations, projects must recognize the limitations of these methods. In the second round of the matching grants program supported by this operation, not enough time had lapsed between the treatment (the extension of matching grants to MSMEs) and the effect (a rise in exports by matching grant recipients, relative to the control group). The sample size was also small and data availability was a constraint. The ICR suggests using intermediate indicators, including trade exhibitions in foreign markets, commercial contacts with new buyers, and signed export contracts, but the use of these proxies would fail to measure the intended effect of the intervention. The method could still be used, however, but at a time after project closing when the interventions would have had sufficient time to claim results.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is consistent with OPCS guidelines on ICRs for investment project financing operations. Considering four episodes of changes to the project activities, the output and outcome indicators, the project cost and financing, and the project schedule, the ICR presents a detailed account of the evolution of the project over a lengthy period. The efficacy assessment is outcome-oriented and based on the degree of achievement of the results targets. The efficiency assessment is realistic. The ICR presents ample evidence to support its assessment of the Bank's performance at design and implementation. The lessons learned will be applicable to similar Bank operations, including matching grant programs.

Although the ICR does not conduct a split evaluation, the ratings are similar with those of this ICR Review as the weight placed on the original objective was small (i.e., the project was restructured early, when disbursement levels were still low).

a. Quality of ICR Rating
Substantial