Report Number: ICRR0024312

1. Operation Information

Operation ID P170113	**Operation Name** Kosovo DPF
Country Kosovo	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) IDA-70520	**Closing Date (Original)** 30-Sep-2023	**Total Financing (USD)** 53,828,280.00
Bank Approval Date 18-Mar-2022	**Closing Date (Actual)** 30-Sep-2023	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	56,400,000.00	0.00
Revised Commitment	56,400,000.00	0.00
Actual	53,828,280.00	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objectives (PDOs) for Kosovo Public Finances and Sustainable Growth Development Policy Financing (DPF), as stated in the ICR (para. 9) and Program Document (PD) (para. 10) and used in this ICRR, were to support the Republic of Kosovo’s efforts to:

- **PDO1**: Improve fiscal transparency;

- **PDO2**: Enhance private sector development; and
- **PDO3**: Strengthen environmental sustainability in the wake of the COVID-19 crisis.

b. Pillars/Policy Areas

The corresponding pillars and policy areas (PAs), as stated in the ICR (para. 11-13) and PD (para. 28), were:

A. Improving fiscal transparency:

- Debt management;
- Fiscal policy: costing social protection initiatives.

B. Enhancing private sector development:

- Business inspections;
- Licensing and permit requirements in the agriculture and agribusiness sectors;
- Regulatory framework for electronic identification (e-IDs).

C. Strengthening environmental sustainability:

- Waste management;
- Legal framework for renewable power generation (reducing greenhouse gas emissions).

c. Comments on Program Cost, Financing and Dates

An IDA credit to the Republic of Kosovo of EUR50.6 million (US$56.4 million) was approved for a stand-alone development policy finance (DPF) operation for Public Finances and Sustainable Growth in March 2022. It became effective in August 2022 and closed as expected on 30 September 2023. The Organization of Petroleum-Exporting Countries (OPEC) provided parallel financing of US$40 million.

3. Relevance of Design

a. Relevance of Objectives

The Republic of Kosovo is Europe's youngest country both politically and demographically. It declared independence from Serbia in 2008 after nearly a decade of United Nations (UN) administration following the Kosovo War of 1998-99. Its independence is widely but incompletely recognized, and ethnic tensions continue, making it subject to potential conflict and to "institutional capacity constraints which are typical for a young and fragile democracy" (Country Partnership Framework [CPF] FY17-FY21, para. 46). With the youngest population in Europe, the Risk and Resilience Assessment identifies youth disenfranchisement as the most relevant internal risk for Kosovo (CPF, para. 85).

Kosovo grew at 4.6 percent per annum during the 2010s, achieving middle-income status in 2018 and reducing both poverty and reliance on foreign aid. However, the service- and consumption - driven economy went into recession in 2020 due to the COVID-19 pandemic, with particularly adverse consequences for the private sector and public debt. Nevertheless, fiscal and policy support measures, along with remittances and goods exports, enabled a strong recovery in 2021 (ICR, paras. 3-5).

In addition to the rapid rise in public debt due to pandemic response and untargeted social expenditures, the program document (PD, paras. 4-6) for the Public Finance and Sustainable Growth DPF identified important growth constraints, including a "*burdensome and uncertain regulatory framework… inadequate energy supply, and an incomplete legal framework for e-commerce*." It cited "*heavy air pollution and environmental degradation*" as a consequence of "*dependence on fossil fuels and inadequate waste management*."

Relevance of objectives

The PDOs were consistent with the Systematic Country Diagnostic (SCD) 2017, which highlighted fiscal sustainability, increased competitiveness and inclusion, and environmental sustainability as development priorities for poverty reduction and shared prosperity (SCD, 2017, para. 2.71, and SCD Update 2022, para. 3). The PDOs addressed:

1. Reprioritizing public expenditures and reorienting taxation to address critical development challenges, while preserving fiscal discipline;
2. A more attractive environment for private sector investment and business expansion in tradable sectors;
3. Better stewardship of the environment and natural resources.

The PDOs conformed with the three Focus Areas of the CPF FY17-FY21 (Figure 5), which in turn was aligned with the Kosovo National Development Strategy 2016-2021:

1. Enhancing Conditions for Accelerated Private Sector Growth and Employment;
2. Strengthening Public Service Delivery and Macro-Fiscal Management;
3. Promoting Reliable Energy and Stewardship of the Environment.

PDO1 addressed fiscal discipline and management with a focus on costing and debt management. PDO2 sought to facilitate private-led growth by rectifying regulatory burdens on starting private sector businesses and utilizing electronic identification. PDO3 supported energy and environmental objectives in the areas of waste management and power generation.

b. Relevance of Prior Actions

Rationale

The operation had seven prior actions (PAs), one with two distinct sub-actions, all dealing with laws and regulations. Given the limited time frame of this standalone DPF, only one action required full enactment by Parliament; two referred to submission of legislation to Parliament (which then undertakes a review of at least nine months [ICR, para. 46]); one to adopting a law (for subsequent submission to Parliament); while four involved only adoption of regulations (when administrative approval was sufficient under existing law). All the PAs related closely to the stated objectives.

The ICR (Table 2) provided a detailed theory of change linking each PA to the PDOs through the expected outputs and intermediate outcomes. The PD had no explicit theory of change or results chain, although this was implicit in its discussion of the substance of the PAs and expected results, as evidenced in the ICR's Table 2.

Table 1: Objectives, Policy Areas and Prior Actions (PAs) for Kosovo Public Finance and Sustainable Growth DPF

PDO1: Improve Fiscal Transparency
Debt management
PA1: The Recipient has adopted and submitted to the Parliament the Law on State Debt and State Guarantees that (i) codifies annual and quarterly debt reporting requirements and (ii) requires annual reporting of the Government to the Parliament on the implementation of the State Debt Program.
Fiscal policy
PA2: The Recipient has adopted requirements for conducting and publishing long-term costing of new pension policy proposals and other social protection policy proposals, as well as regular updating (at least every five years) for existing pension policies.
PDO2: Enhance Private Sector Development
Business inspections
PA3: The Recipient has enacted the Law on Inspections to (i) reduce the number of inspectorates and legal overlaps, (ii) establish a general inspector's office, and (iii) introduce risk-based inspections.
Licensing and permit requirements in the agriculture and agribusiness sectors
PA4: The Recipient has adopted regulations to: (i) reduce the number of agriculture and agribusiness sector licenses and simplify the licenses approval process, and (ii) reduce the fees and documentation requirements for producers, exporters, and importers in the agriculture and agribusiness sector.
Regulatory framework for e-IDs
PA5: The Recipient has adopted the Law on Electronic Identification and Trust Services in Electronic Transactions that facilitates electronic identification and trust services for electronic domestic transactions.
PDO3: Strengthen Environmental Sustainability
Waste management
PA6: The Recipient has (i) adopted and submitted to the Parliament the Law Amending and Supplementing the Law No. 04/L-060 on Waste to create the legal basis for an extended producer responsibility mechanism and procedures for the establishment of the deposit refund system, and (ii) adopted the Integrated Waste Management Strategy (2021-2030) and Action Plan (2021-23) which sets objectives, instruments, and targets to pave the way for a circular economy and improve public service delivery.
Legal framework for renewable power generation
PA7: The Recipient has adopted a Concept Document on Renewable Energy Sources, that initiates the required regulatory and legal changes to the current legal and policy framework.

Source: ICR, Table 1

PDO1: Improve fiscal transparency

PA1 strengthened the legal basis for debt reporting requirements, including to Parliament, as well as mandating a risk assessment before issuing loan guarantees. Besides harmonizing different legislation on debt and better aligning Kosovo with international practice, the action was expected to improve oversight of the Executive and enhance fiscal transparency, thereby strengthening fiscal sustainability (PD, para. 32-33, ICR, Table 2). The action was based on substantial prior analytical work on debt management (PD, Table 4) and directly contributed to the PDO of improving fiscal transparency (though not necessarily fiscal sustainability). **Relevance of PA1: Highly Satisfactory (HS).**

PA2 contributed to the objective of fiscal transparency by requiring costing of new pension and other social protection policy proposals, as well as periodic updating of pension policies. The growing fiscal burden from introducing various special pensions schemes was threatening the ability to maintain the poverty-targeted Social Assistance Scheme (ICR, para. 18). PA2 supported the requirement that all new proposals for pension or social benefit schemes have a budget impact statement and that the long-term budgetary effects of all existing pension schemes be assessed. Thus, it directly supported fiscal transparency, which was implicitly assumed to lead toward the ultimate objective of fiscal sustainability. **Relevance of PA2: Highly Satisfactory (HS).**

PDO2: Enhance private sector development

PA3 drew on an especially strong analytical base of a decade of studies on inspection bodies, a Concept Paper and the Country Economic Memorandum (CEM) to address the key challenges of an excessive number of and lack of coordination between inspection authorities, as well as inadequate training and unclear procedures (ICR, para. 19). The prevailing situation hampered private sector investment, productivity and competition by imposing a "significant regulatory burden and creat[ing] uncertainty for businesses…. promoting rent-seeking activities and corruption" (PD, para. 38). The PA supported <u>enactment</u> of new legislation, which was essential to "consolidate the number of inspecting authorities, introduce risk-based inspections, and establish clear rules…and procedures" (ICR, para. 19). It also established the General Inspector's Office to help ensure effective implementation and thereby achieve the intended outcome of improving the environment for and performance of private businesses. **Relevance of PA3: Highly Satisfactory (HS).**

PA4 represented an important modification of regulations to reduce the time and cost for agriculture and agribusiness to comply with multiple, redundant licensing and permission procedures. It drew on a comprehensive review of procedures within the relevant agencies, which highlighted the negative impact on competitiveness and exports (ICR, para. 20; PD, para. 41). The action only required amendment or repeal of Administrative Instructions (ICR, para. 29). It was expected to support PDO2 through "compliance cost savings for enterprises over the medium term" and "reduced discretionary practices and rent seeking" (PD, para. 43). Implementation was supported with technical assistance (TA) under the International Finance Corporation (IFC) Investment Climate Project. **Relevance of PA4: Highly Satisfactory (HS).**

PA5 was needed to facilitate commercial and government use of digital technologies by providing a legal framework for electronic identification (e-ID). Digital technologies and internet were widely used in Kosovo by 2022, with growing numbers of digital transactions and electronic registers (ICR, para. 21). But a well-functioning e-ID system was needed to "enable digitalization of firms, in particular e-commerce….and enable e-government services and e-payments to develop at a faster pace with increased efficiency," as well as "to close the gender gap in entrepreneurship," since "women entrepreneurs were digitally more ready compared to men" (PD, para. 44). The PA supported adoption of the Law on Electronic Identification and Trust Services, as a necessary step toward Parliamentary enactment and eventual implementation. **Relevance rating: PA5: Highly Satisfactory (HS).**

PDO3: Strengthen environmental sustainability

PA 6: The legislation to be submitted to Parliament under the first sub-action of PA6 was intended to address the environmentally unsustainable waste management system by establishing a legal basis for making producers bear responsibility for the waste in certain electronic and vehicle product streams and to establish a deposit refund system (PD, para. 49). The second sub-action supported an Integrated Waste Management Strategy and Action plan to "pave the way for a circular economy." These actions represented important initial steps to address some of the environmental problems identified in the Economic Reform Program 2022-24. Nevertheless, the path and timeline to implementation was unclear and depended upon "the establishment of a new Producer Responsibility Organization (PRO) that facilitates self-organization by industrial producers towards greater recycling" (PD, para. 50). Although the Ministry of the Environment, Spatial Planning and Infrastructure was to provide oversight, there was no clear chain of enforcement to assure that the producers would indeed pursue the intended result of improved environmental sustainability. **Relevance of PA6: Satisfactory (S).**

PA7: The Concept Document supported by PA 7 represented "a critical and mandatory step in the policy and institutional reform process… [that] involves significant analysis and public consultation" in order to facilitate greater private investment in renewable energy, which was needed for Kosovo to continue meeting its renewable energy commitments by offsetting reliance on coal-fired thermal power generation (PD, paras. 51-52). Besides clarifying procedures and responsibilities, and updating renewable energy targets, the Concept Document was intended to trigger preparation of a new law on renewable energy that would enable a market-based, auctioning approach to sustainable and competitive renewable energy investments. Thus, the action initiated a reasonable chain of steps toward achieving the objective of strengthening environmental sustainability through private investment in renewable energy. **Relevance of PA7: Satisfactory (S).**

Rating

Highly Satisfactory

4. Relevance of Results Indicators

Rationale

The seven results indicators (RIs) were generally attributable to their respective PAs and appropriate to track achievement of objectives (with one exception). One sub-indicator provided a gender dimension.

Table 2: Results indicators (RIs) by Objective and PAs; baseline and target values; status and achievement

Results indicator (RI)	Asso-ciated PAs	RI Rele-vance	Baseline (2021)	Target (2023)	Actual (Year)	Actual as % of targeted change	RI Achieve-ment rating
PDO1: Improve Fiscal Transparency							
RI1: Regular reports on the implementation of the State Debt Program, including all new borrowing and guarantee operations conducted by the Government during the previous fiscal period, are prepared and submitted to the Parliament.	PA 1	HS	No	Yes	No (2023) Yes (2024)	0% 100%	High (with delay)
RI2: Number of long-term financial analyses for existing pension schemes and benefits completed and published online.	PA 2	HS	0	15	0 (2023) 17 (2024)	0% 113%	High (with delay)
PDO2: Enhance Private Sector Development							
RI3: Number of inspectorates affecting private sector operations.	PA 3	MS	36	20	30 (2023-24)	37.5%	Modest
RI4: Percentage reduction in total compliance costs for simplified licenses and permits in the agriculture and agribusiness sector.	PA 4	HS	0	25% reduction	53%	212%	High
RI5: (a) Percentage of businesses using digital ID as a share of total number of businesses. **(b)** Percentage of women owned businesses using digital ID as a share of total number of women-owned businesses.	PA 5	HS	0 0	15% 20%	2023: No data available 0.7% (2024) 0.1%	n.a. 4.7% 0.5%	Negligible Negligible
PDO3: Strengthen Environmental Sustainability							

RI6: Establishment of a Producer Responsibility Organization (PRO) that facilitates self-organization by industrial producers towards greater recycling.	PA 6	MS	No	Yes	No (2023-24)	0% Administrator selection in process (2024)	Modest
RI7: Number of auctions launched based on the new legal framework for market-based mechanisms to support renewable energy investments.	PA 7	S	0	1	1 (2023-24)	100%	High

Note: *Achievement ratings in the table reflect the level of achievement based on actual change relative to the targeted change of the RI. Where the achievement rating is shown in brackets, the RI is not deemed adequate for assessing achievement, and the ratings have been adjusted (noted in the Efficacy section); * denotes rating based on additional information; [..] denotes a further downgrade to be taken in calculating Overall Efficacy due to Relevance of RI.*

Source: ICR, Table 1.

PDO1: Improve fiscal transparency

RI1 tracked whether the law submitted to Parliament under PA1 resulted in an annual report to Parliament, and hence it was directly attributable to the PA. Although the indicator could not capture the quality of the reporting, in the context of inadequate or contradictory existing laws (PD, para. 31), initiation of reporting to Parliament under revised requirements can be considered a significant improvement in fiscal transparency (PDO1). **Relevance of RI1: Highly Satisfactory (HS).**

RI2 adequately measured the extent to which the regulations supported by PA2 resulted in publication of analyses of the budgetary implications of existing pension schemes. Such analysis was essential for a more evidence-based approach to pension policy in pursuit of the ultimate desired outcome of fiscal sustainability, and publication of such reports captured the stated objective of fiscal transparency. **Relevance of RI2: Highly Satisfactory (HS).**

PDO2: Enhance private sector development

RI3 was directly attributable to PA3 in term of implementation of legislation to reduce the number of inspectorates (although it did not capture the aspects of establishing a general inspector's office and introducing risk-based inspections). However, in terms of impact on the objective of enhancing the private sector business environment, it "failed to establish a clear link in the results chain and capture efficiency increases and improvements in procedures" (ICR, para. 25). **Relevance of RI3: Moderately Satisfactory (MS).**

RI4 directly measured the extent to which PA4 regulations to reduce and simplify licensing for agriculture and agribusiness reduced compliance costs, thereby achieving the objective of enhancing competitiveness of private businesses in these sectors. The PD (para. 43) stated that "the methodology for measuring reduced compliance savings will be based on estimates of time and cost savings for businesses," drawing on technical assistance from the IFC. **Relevance of RI4: Highly Satisfactory (HS).**

RI5 tracked the extent to which the legislation supported by PA5 in fact yielded increased issuance of e-IDs to businesses, thereby contributing to the objective of private sector development through more effective use of internet commerce. The PD (para. 46) stated that "the use of e-IDs will be proxied by the number of e-IDs issued to active businesses by the Ministry of Economy." A sub-indicator (with a higher target) tracked whether uptake of e-IDs by women-owned businesses could help close the gender gap in entrepreneurship (PD, para. 44). **Relevance of RI5: Highly Satisfactory (HS).**

PDO3: Strengthen environmental sustainability

RI6 related to only one of the two sub-actions under PA6. Establishment of an Extended Producer Responsibility mechanism (PRO) was mandated by the amended Law on Waste and was expected to "enable producers to coordinate their operations and establish a waste recycling process" (ICR, para. 23) and to help participating companies to share costs, fulfill their legal obligations, and monitor compliance (additional information from TTL). The second sub-action to adopt a Waste Management Strategy and Action Plan [not captured by RI 6] was also intended to "pave the way" for achievement and monitoring of results. A major challenge in devising more suitable indicators was that the time frame to actually achieve meaningful results substantially exceeded the time frame of this standalone operation. **Relevance of RI6: Moderately Satisfactory (MS).**

RI7 reflected the desired outcome of a chain of steps triggered by adoption of the Concept Document on Renewable Energy Sources under PA7, including amendments of by-laws, enactment of a new Renewable Energy Law, and introduction of a market-based approach toward facilitating the objective of private sector investment in renewable energy. Utilizing an auction mechanism, as captured in RI7, represented an important stage in the implementation process, although the actual desired result of increased investment in renewable energy could not be tracked within the time frame of this operation. **Relevance of RI7: Satisfactory (S).**

Rating

Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Improve fiscal transparency

Rationale

RI1 was eventually achieved, although the first report on the State Debt Program was submitted to Parliament more than a year after the operation closed. The delay was due in part to the longer-than-usual review process after submission to Parliament of the Law on State Debt and State Guarantees [PA1 involved submission, as a step toward enactment]. Establishing a dedicated Debt Management Department and overcoming staff shortages and turnover occasioned further delay (ICR, para. 26) – illustrating the difficulty of implementing the chain of actions needed to achieve intended results during the limited period of a standalone DPF. **Achievement Rating: RI1: High**

RI2 was achieved after some delay, also due to reorganization and staffing issues, as well as COVID-19 disruption, with some additional modeling support from the World Bank in order to develop the model needed to analyze different scenarios (ICR, para. 27). The number of financial analyses undertaken by mid-2024 (17) slightly exceeded the original target (15) for 2023. **Achievement Rating: RI2: High**

Rating

Highly Satisfactory

OBJECTIVE 2

Objective

Enhance private sector development

Rationale

RI3 saw only modest progress in reducing the number of inspectorates relevant to private sector operations from 36 to 30 – only 37.5 percent of the targeted reduction to 20 and well above the 11 now mandated by the new Inspection Law (ICR, para. 28). Further progress requires realignment of eight sectoral by-laws, only one of which is beyond the stages of public consultation and drafting. Nevertheless, the ICR (para. 28) reported some progress in terms of intermediate outcomes such as guidelines for risk-based inspections and formulating workplans and checklists. **Achievement Rating: RI3: Modest**

RI4: The estimated reduction in total compliance costs due to simplification of licenses and permits in the agriculture and agribusiness sector was more than double the targeted change. The methodology developed through the IFC Investment Climate II project was applied to five amended licenses (out of the seven resulting from consolidation of the original 22; PD, para. 43). This result directly benefited private businesses in the targeted sector. **Achievement Rating: RI4: High**

RI5 was not achieved – due to the long process of developing the necessary software, which was disrupted by the European Union's imposition of sanctions on Kosovo in 2023 (due to election-related violence), but not to delays in legislation (which was passed in 2021, with amendments in 2022). The national e-ID system was not tested successfully until July 2024, meaning that no data were available for 2023, and only about 0.7 percent of registered businesses (0.1 percent of women-owned businesses) had been issued e-IDs as of ICR preparation in September 2024 (ICR, para. 30). In addition, 12,000 e-IDs had been issued to citizens.
Achievement Rating: RI5(a): Negligible; RI5(b): Negligible

Rating

Moderately Unsatisfactory

OBJECTIVE 3

Objective

Strengthen environmental sustainability

Rationale

RI6 had not been achieved at the time of the ICR. The long process of passing legislation and then establishing a Producer Responsibility Organization (PRO) had only reached the stage of accepting applications from companies to act as Administrator as of end August 2024 (ICR, para. 31). The TTL reports that the Ministry of the Environment, Spatial Planning, and Infrastructure (MESPI) expects to complete the selection process by December 2024, and then to formalize it and operationalize the deposit refund system. Although not captured by the RI, the ICR (para. 31) cited some additional evidence of progress toward the PDO associated with adoption of the Waste Management Strategy and Action Plan in terms of reduction in illegal landfills by 37 percent from 2021 to 2022. In addition, MESPI has formulated a Construction and Demolition Waste management plan, and the Ministry of Health has prepared a Health Care Waste Management Strategy – which help lay the foundation for measures to achieve the objective (though not yet at the implementation stage). **Achievement Rating: RI6: Modest**.

RI7 was achieved in that the government initiated a pilot auction for 100MW of solar energy in May 2023, which concluded in January 2024 with a winning, competitively-priced bid to build a plant with a 30-year concession (based on an Administrative Instruction, although the process of enacting the Law on Renewable Energy was not fully completed until May 2024 (ICR, para. 32). The ensuing private investment in solar is estimated at EUR 105 million (TTL). A second competitive auction, for wind energy, in November 2024 was expected to generate around EUR 70 million in private investment (additional information from TTL). **Achievement Rating: RI7: High**

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

Although PDO1 achievement was Highly Satisfactory, PDO2 was rated Moderately Unsatisfactory and PDO3 Moderately Satisfactory, resulting in an overall rating of Moderately Satisfactory.

Overall Efficacy Rating

Moderately Satisfactory

6. Outcome

Rationale

With PA relevance rated as Highly Satisfactory and Efficacy as Moderately Satisfactory, the overall Outcome is Moderately Satisfactory.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Limited institutional capacity and access to TA may delay implementation and achievement of results. The PD (para. 7) rated institutional capacity implementation risk as substantial “given Kosovo’s young institutions and limited inter-ministerial coordination.” Achievement and implementation of PAs 1, 2, 3, 5 and 6 suffered from legislative and administrative delays, due in part to “high staff turnover and, in some instances, labor shortages” (ICR, para. 44). TA under the IFC Kosovo Investment Climate II Project has been important in overcoming capacity constraints, but it ended in June 2024 “with no clear successor in sight” (ICR, para. 44). Nevertheless, further mitigation of capacity constraints may come from a new programmatic DPF and from support by the United States Agency for International Development (USAID) and the German Gesellschaft für Internationale Zusammenarbeit (GIZ).

Kosovo’s fiscal and debt situation remains vulnerable to external shocks. Fiscal and economic performance in recent years has been adversely affected by the COVID-19 pandemic, the energy crisis in 2022 (ICR, para. 44), and punitive measures taken by the European Union (EU) in 2023 in response to the Kosovar government’s handling of ethnic tensions and elections.[1] Nevertheless, “extraordinary diaspora inflows and sustained increases in net credit to the private sector” have helped to mitigate fiscal challenges (PD, Annex 2), and steps that Kosovo has taken to ease ethnic tensions in the north have improved the prospects for lifting of EU measures.[2]

[1] Group for Political and Legal Studies, “The One Year Anniversary of EU Measures against Kosova,” June 14, 2024. https://www.legalpoliticalstudies.org/the-one-year-anniversary-of-eu-measures-against-kosova/

[2] Euronews Albania, “EU measures against Kosovo are expected to be partially and gradually lifted,” June 20, 2024. https://euronews.al/en/eu-measures-against-kosovo-are-expected-to-be-partially-and-gradually-lifted/

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Since Kosovo had no prior experience with DPFs, “the DPF team invested considerable efforts… to prepare thoroughly and build client understanding of how the DPF instrument works enhancing the government's capacity and raising awareness about the operation's design” (ICR, para. 39). The design drew on a substantial amount of prior analytical work and diagnostics, including the SCD (and update) and CEM, complemented by TA, particularly regarding debt management and pensions, as well as the IFC Investment Climate II Project regarding regulatory reforms and inspections (PD, Table 4; ICR, para. 39). The PD and ICR did not indicate any application of prior lessons learned (in the absence of prior DPFs).

Results chain and indicators

While the PD did not explicitly articulate a theory of change, the diagram in ICR Table 2 provided a logical chain from PA reforms to outputs and results in terms of intermediate outputs and development objectives, drawing on explanations of rationale and expected results in PD section 4.2. The selected indicators generally tracked implementation of PAs and/or progress toward achievement of objectives. However, the ICR (para. 41) noted some shortcomings in the linkage of some RIs to the results chain and the difficulty in selecting indicators that could suitably track progress within the “short period available to assess the impact of reforms…. [especially] in contexts of weak institutions and capacity constraints.”

Identification and mitigation of risks

The only risk identified in the PD (para. 78 and Table 2) as “substantial” was Institutional Capacity for Implementation and Sustainability, which was to be “mitigated by close coordination with the government, with parliamentary commissions, and the strong consensus among Kosovo’s development partners,” as well as by TA. There was no discussion of potential risks emanating from ongoing ethnic tensions, which in fact led to punitive measures by the EU that undermined public finances and impeded implementation of e-ID reforms (ICR, para. 16, p. 5). Nor was there any mention of risks emanating from youth disenfranchisement, identified in the CPF “as the greatest and most relevant internal risk for Kosovo’s future” (CPF, para. 85) – perhaps because the reforms undertaken offered little immediate impact on the problems facing youth (although private business development and environmental sustainability do have important longer-term implications).

Consultation with stakeholders and development partners

Kosovo has a strong framework for public consultation, with “all legislation, …strategies, and concept documents subject to mandatory public consultations …. conducted systematically through an online consultation platform,” with “98 percent [of 184 draft documents in 2020] published on the official platform for public consultations” (PD, para. 57). In preparing the reforms, the design team undertook substantial consultations (through several changes in government) to build partnerships with “the MFLT [Ministry of Finance, Labor, and Transfers], the Office of the Prime Minister, the Ministry of Industry, Trade, and Entrepreneurship, the Ministry of Economy, and the Ministry of Environment and Spatial Planning” (PD, para. 58). Consultations “with business associations, with the private sector and with parliamentarians” helped build consensus around the DPF program, as well the Kosovo CEM and the SCD Update (PD, para. 58). Nevertheless, the ICR (para. 48) noted the need for “further consultations with stakeholders to better understand the feasibility, complexity, and timelines of reform implementation.”

Strong consensus among development partners was evidenced by the OPEC Fund’s parallel financing of US$40 million (ICR, para. 39) and by support by “the EU and GIZ, in the areas of inspections reform, simplification of licenses and permits, waste management, and e-IDs… [as well as] support provided by USAID and EBRD in the area of energy sector reform" (PD, para. 58). The IFC's Investment Climate II Project provided TA that supported inspection reforms and other measures to reduce regulatory burdens (ICR, para. 40).

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

The RIs "were selected based on the best information available at the time," though with some shortcomings, especially in tracking expected outcomes during the limited time frame (ICR, para. 41). The TTL reports systematic monitoring through a combination of in-country staff, technical assistance and in-person missions. In-country staff included the Country Economist, Senior Private Sector Development Specialist, and Environment Specialist, as well as the IFC team and some consultants, who coordinated closely with the Government and development partners and tracked progress on RIs. Identification and preparation missions in early 2023 for the Kosovo First Fiscal Effectiveness, Competitiveness, and Green Growth DPF provided further occasion to monitor and support implementation.

Adaptation

The "unforeseen internal reorganization within the MFLT and consequent staff turnover" was addressed through strong support, training, and TA to MFLT (ICR, para. 42). No changes were made to PDOs, PAs or other elements of the operation during implementation.

Rating

Highly Satisfactory

c. Overall Bank Performance

Rationale

Design is rated satisfactory (borderline highly satisfactory with respect to analytical underpinnings and consultations under difficult FCV conditions). Highly satisfactory RIs, monitoring and adaptation of RIs yield a highly satisfactory rating for implementation and overall.

Overall Bank Performance Rating

Highly Satisfactory

9. Other Impacts

a. Social and Poverty

It is too early for evidence to be available on possible social and poverty impacts.

b. Environmental

It is too early for evidence to be available on improvements in resilience to climate change and other external shocks.

c. Gender

It is too early for evidence to be available on impacts on women-owned businesses.

d. Other

n.a.

10. Quality of ICR

Rationale

The ICR provided a coherent, well written narrative of the context, rationale, objectives, actions, and results, consistent with the guidelines. A clearly articulated Theory of Change underpinned analysis of the relevance of the PAs. The ICR interrogated the strengths and weaknesses of the RIs and thoroughly discussed efficacy. It noted the importance of strengthening institutions – though it could have been more explicit in applying this lesson to operations in a context of fragility, conflict, and violence (FCV).

a. Rating

High

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Satisfactory	Highly Satisfactory	The team dealt with a difficult context and lack of prior DPF experience through extensive consultations and analytical work, technical assistance, and intensive monitoring.
Relevance of Results Indicators	---	Satisfactory	
Quality of ICR	---	High	

12. Lessons

IEG offers the following lessons, drawing on those presented in the ICR, section VI.A:

A standalone DPF limits the scope for supporting enforcement and other implementation mechanisms to assure the intended results. Only one PA was satisfied by Parliamentary enactment of a law prior to approval of the DPF. Three of the PAs involved submission to Parliament of a new (or amended) law or adoption prior to submission – with enactment taking at least nine months, often longer. The two-year time frame of a standalone DPF means that the necessary underlying law would be passed only halfway through, leaving little time for the implementation actions needed to meet RI targets that measure outcomes (rather than just intermediate steps). For example, while holding an auction for renewable energy investment represented a positive step, the desired result of increased investment in renewable energy could not be tracked within the time frame of this operation. The ICR (para. 46) noted that adequate time is needed to overcome the complex political and legal environment and to reflect and measure the intermediate outcomes of reform to adjust implementation to achieve objectives. A series of two or three DPFs offers more scope to sequence implementation measures in subsequent operations to follow through on initial legislation or regulations that set a process in motion. In any case, articulation of a results chain (or theory of change) is essential to indicate what further measures are needed in follow-on or parallel operations in order to maintain progress toward achievement of objectives.

Institutional strengthening is critical when introducing reforms through a DPF in a context of FCV. As a relatively young country arising out of (and still experiencing) ethnic conflict, building capacity in governmental (and related) institutions was essential for policy reforms to be understood and implemented. The design team devoted considerable efforts to preparing government counterparts for carrying out a DPF. While reorganization within MFLT delayed implementation of PAs 1 and 2, the ICR (para. 37) noted that TA helped build MFLT's technical capacity to conduct budget impact assessments on its own. Similarly, the operation helped to establish and train the General Inspector's Office to undertake risk-based and joint inspections, and the Ministry of Agriculture, Forestry and Rural Development "has been equipped with methodologies to calculate compliance costs associated with these licenses and permits." Such TA and capacity-building is essential if reforms are to be sustained and implemented.

13. Project Performance Assessment Report (PPAR) Recommended?

No