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IMPLEMENTATION COMPLETION REPORT
(TF-27807)

ON A

GRANT

IN THE AMOUNT OF US\$5 MILLION

TO THE

UNITED NATIONS ADMINISTRATION MISSION IN KOSOVO

FOR THE BENEFIT OF KOSOVO

FOR A THIRD ECONOMIC ASSISTANCE GRANT

TO SUPPORT PRIVATE SECTOR DEVELOPMENT

06/07/2002

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CURRENCY EQUIVALENTS

(Exchange Rate Effective June 7, 2002)

Currency Unit = EUR
1 = US\$ 0.9378
US\$ 1 = 1.0663

FISCAL YEAR
January 1 December 31

ABBREVIATIONS AND ACRONYMS

EAR	- European Agency for Reconstruction
EU	- European Union
DTI	- Department of Trade and Industry
FRY	- Federal Republic of Yugoslavia
GDP	- Gross Domestic Product
JAC	- Joint Advisory Committee for Legislative Matters
PISG	- Provisional Institutions of Self-Government
PSD	- Private Sector Development
SFRY	- Socialist Federal Republic of Yugoslavia
SMEs	- Small and Medium Enterprises
SOEs	- Socially Owned Enterprises
SRSG	- Special Representative of the Secretary General
TA	- Technical Assistance
TSS	- Transitional Support Strategy
UN	- United Nations
UNMIK	- United Nations Interim Administration Mission in Kosovo

Vice President:	Johannes F. Linn
Country Director:	Christiaan J. Poortman
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KOSOVO
Economic Assistance III (PSD)

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<i>Project ID:</i> P071264	<i>Project Name:</i> Economic Assistance III (PSD)
<i>Team Leader:</i> Gerardo M. Corrochano	<i>TL Unit:</i> ECSPF
<i>ICR Type:</i> Core ICR	<i>Report Date:</i> June 19, 2002

1. Project Data

Name: Economic Assistance III (PSD) *L/C/TF Number:* TF-27807
Country/Department: KOSOVO *Region:* Europe and Central
Sector/subsector: BI - Institutional Development Asia Region

KEY DATES

	<i>Original</i>	<i>Revised/Actual</i>
<i>PCD:</i> 01/16/2001	07/31/2001	07/26/2001
<i>Appraisal:</i> 02/08/2001	MTR: 11/01/2002	11/01/2002
<i>Approval:</i> 03/05/2001	<i>Closing:</i> 12/31/2001	12/31/2001

Borrower/Implementing Agency: UNMIK/UNMIK

Other Partners:

STAFF	Current	At Appraisal
<i>Vice President:</i>	Johannes F. Linn	Johannes F. Linn
<i>Country Manager:</i>	Christiaan J. Poortman	Christiaan J. Poortman
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<i>Team Leader at ICR:</i>	Gerardo M. Corrochano	Gerardo M. Corrochano
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2. Principal Performance Ratings

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HL=Highly Likely, L=Likely, UN=Unlikely, HUN=Highly Unlikely, HU=Highly Unsatisfactory, H=High, SU=Substantial, M=Modest, N=Negligible)

Outcome: S

Sustainability: S

Institutional Development Impact: SU

Bank Performance: S

Borrower Performance: S

<i>QAG (if available)</i>	<i>ICR</i>
<i>Quality at Entry:</i> S	S
<i>Project at Risk at Any Time:</i> No	

3. Assessment of Development Objective and Design, and of Quality at Entry

3.1 Original Objective:

Context. The objectives of the Kosovo Third Economic Assistance Grant (EAG III) to support private sector development (PSD), need to be assessed in the context of (i) the exceptionally complex political circumstances affecting Kosovo and the Balkan region, (ii) the stage of devastation of the Kosovar

economy following decades of neglect and conflict, (iii) the severely weak institutional development affecting the entire business environment, and (iv) the near complete absence of a modern commercial framework for private sector activity. It is also important to highlight that the United Nations interim administration that was established in Kosovo since mid-1999 (UNMIK) has had a particularly difficult mandate that combines objectives of consolidation of peace and reconciliations among the peoples of Kosovo, with an overarching goal to initiate a sustained effort of recovery and private sector-led growth that would allow restoring normal civil life and adequate standards of living to Kosovo. These are difficult crisis conditions that determined a narrow yet critically important objective for the EAG III, and that are crucial for understanding the context of this operation.

Original Objective. The main objective of the EAG III was to support Kosovo's PSD program. The operation was envisaged in the Transitional Support Strategy for Kosovo (TSS - Progress Report) discussed by the Board on July 25, 2000. The reform actions undertaken by UNMIK centered on the creation of a policy framework for encouraging the growth of the private sector. More specifically, the Grant supported the enactment of four key commercial regulations: (i) the Regulation on Business Organizations, (ii) the Regulation on Contract for Sale of Goods, (iii) the Regulation on Pledges, and (iv) the Regulation on Foreign Investment.

Assessment. The objective presented above matched some of the most important priorities for Kosovo. When UNMIK was established nearly three years ago, the economy was utterly destroyed. After a necessary initial period of peace consolidation and restoration of normal life, the administration recognized that urgent measures needed to be taken to foster Kosovo's economic recovery. Without hesitation, fostering a sustainable and vibrant private sector was considered essential to growth and to the generation of employment and income, and as such, it was given special attention by UNMIK and the donor community. It was with this background that establishing the conditions under which the private sector could flourish rapidly became a top priority. EAG III's objective aimed to address this priority and became a key element of a complex policy dialogue to support Kosovo's PSD program. Within this dialogue, it was determined that some components of the applicable legal regime to which Kosovo was subject remained valid (i.e., pre-March 22, 1989 Yugoslav law, as all laws between 1989-99 were deemed discriminatory and abolished by UNMIK - Regulation No. 1999/24). However, the laws governing commercial activities were considered obsolete and did very little to support the private sector.

Today, Kosovo's situation remains difficult as there is still a fair degree of political uncertainty. However, the reconstruction effort has progressed well, economic growth has been strong, and efforts to build basic institutions have yielded some impressive results. While a fully adequate business environment in its broadest sense still requires a great deal of effort, it is fair to say that despite the extremely difficult starting conditions, the private sector is playing a very important role in Kosovo's economic development. New private enterprises are the major source of job creation and income generation and have shown rapid post-war revitalization. Employment in the private sector is increasing, and structural changes within enterprises can also be observed, with a fall in the proportion of trade companies and an increase in the share of production firms. Statistics are particularly weak in Kosovo, but official estimates show that the economy grew some 16 percent in 2001, a trend that is expected to continue in 2002. During the post-war period the contribution of private business in GDP has increased to more than 65%.

3.2 Revised Objective:

The Grant Objectives were not revised.

3.3 Original Components:

To meet the objective of the project, EAG III components focused on critical areas of reform to establish Kosovo's commercial legal framework. The project components were essential pillars to the establishment of a modern commercial legal framework that could provide parties in any commercial transaction the necessary predictability to the consequences of their actions and a fair remedy in case of disputes in the course of commercial transactions. Among a series of competing priorities within the multiple parts of a comprehensive commercial legal framework, as well as time and institutional constraints, it was decided that the initial effort would comprise four key commercial regulations:

- i. the Regulation on Business Organizations;
- ii. the Regulation on Contract for Sale of Goods;
- iii. the Regulation on Pledges; and,
- iv. the Regulation on Foreign Investment.

These four regulations were drafted by the commercial law team of UNMIK's Pillar IV - Department of Trade and Industry (DTI), and were subsequently reviewed by UNMIK's Joint Advisory Committee for Legislative Matters (JAC), a body created by the Special Representative of the Secretary General in Kosovo (SRSG) and composed mainly of leading local Kosovar lawyers and academics, and by the local UN Office of Legal Affairs. The drafts were also forwarded to UN New York for review by the UN Office of Legal Affairs before the SRSG's final approval.

Despite the fact that the introduction of these four commercial regulations was considered a high priority, their approval was envisioned as a difficult process. Not only were these regulations highly technical pieces of legislation, but its approval entailed a rather complex and largely untested approval mechanism for commercial regulations within the administration. UNMIK requested the support of the World Bank to leverage the process, by providing technical advise and supporting the consultation process. The final approval of the above mentioned commercial regulation was defined as a condition for Board presentation of the EAG III.

3.4 Revised Components:

The Grant Components were not revised.

3.5 Quality at Entry:

The operation was not selected for a quality at entry assessment by the Bank's Quality Assurance Group. The Region's assessment is that the quality at entry of the operation was satisfactory, based on (i) consistency of the project objective with those identified in Kosovo's TSS, (ii) adequate match between project objective and specific components with UNMIK's priorities, (iii) project design and focus that took into account exceptionally hard starting conditions and constraints; (iv) adequate consultation process in which the Bank played a key catalytic role, particularly with the local legal community; (v) adequate identification of risks; and (vi) identification complementary actions, particularly in parallel institution building activities, that would determine the sustainability of reform efforts supported by the project.

It should be noted that the EAG III was complemented by a parallel Bank operation, the Private Sector

Development Technical Assistance Grant (Report No. 21893-KOS), which is currently under implementation. The PSD TA supports the establishment and operation of a modern business registry system, provides training to the judiciary to strengthen the knowledge and understanding of the new commercial legal framework, and assists in the development of capacity to implement modern accounting standards. The PSD TA is part of a broader and rather extensive program of technical assistance by the donor community to assist institution building and PSD efforts in Kosovo.

4. Achievement of Objective and Outputs

4.1 Outcome/achievement of objective:

EAG III promoted the development of the private sector in Kosovo by supporting the enactment of the first package of commercial legislation which created the basic legal framework for a functioning market oriented economy. This marked an improved business enabling environment that has provided some basic conditions under which economic agent's confidence has started to be restored. Given the extremely difficult starting conditions, the incipient nature of UNMIK administration, and the largely untested nature of the legislative process in commercial areas in Kosovo, the overall assessment of achievement of EAG III's objective is considered satisfactory.

4.2 Outputs by components:

EAG III components focused on critical areas of reform to establish Kosovo's commercial legal framework. Specifically, the project supported the enactment of:

- i. the Regulation on Business Organizations;
- ii. the Regulation on Contract for Sale of Goods;
- iii. the Regulation on Pledges; and,
- iv. the Regulation on Foreign Investment.

(i) Regulation on Business Organizations:

The Regulation on Business Organizations (UNMIK/REG 2001-6) established a legal regime for the formation, maintenance and termination of personal business enterprises, partnerships, and corporations in Kosovo, by providing that the legal entities be organized as single person companies ("Personal Business Enterprises"), as either general or limited partnerships, or in corporate form as joint stock companies or limited liability companies. The provisions of the regulation are quite standard in following western European practice. One of the main goals of this regulation was to make it possible for the unregistered business to emerge into legality. The means for achieving this goal was the establishment of a fully-fledged business registration system as provided by the regulation on business organizations. The business registration system is being supported by the Bank's PSD TA project currently under implementation and is subject of a large-value technical assistance contract with the Norway Registry Development (NRD) system.

-> *The achievement of this component is rated satisfactory.*

(ii) Regulation on Contract for Sale of Goods:

The Regulation on Contract for Sale of Goods (UNMIK/REG 2000-68) was based on the 1980 United Nations Convention on Contracts for the International Sale of Goods, also known as the Vienna Sales Convention. The regulation repeals in part the existing FRY Law of Contracts and Torts of 1978. The

effect of this regulation was that it made the UN Convention the applicable law for domestic as well as international sales contracts. Given the current political status of Kosovo, the adoption of this regulation has had a practical effect since it made the Convention effective in international trade in the same manner as if Kosovo would have adhered to the Convention directly as a "member". Also, the previously applicable SFRY law in Kosovo on this area was generally inconsistent with the most widely accepted modern practice on sales, and as such needed to be replaced. Adopting the Vienna Convention as the applicable law in Kosovo for the time being has corrected this situation and has provided Kosovo with a modern and practical sales of goods law. A more Kosovo-specific Contract for Sales of Goods regulation will nevertheless have to be prepared in the near future as commercial practices develop and demand more specificity from the existing regulation.

-> *The achievement of this component is rated satisfactory.*

(iii) Regulation on Pledges:

The Regulation on Pledges (UNMIK/REG 2001-5) gave Kosovo a modern law regulating all forms of secured transactions that involve movable property. The Regulation on Pledges repealed those sections of the prior SFRY Law of Contracts and Torts that deal with pledges. The regulation contains much more detailed provisions for the creation and execution of pledges than the old law, and thus provides much greater security to prospective lenders. Because security is a requirement of commercial lenders, this regulation has facilitated the start-up of term-financing for business in Kosovo. Together with the subsequent approval of the Pledge Filing Office Regulation, the enactment of the Regulation on Pledges has provided Kosovo with a comprehensive regime that has made possible the use of various forms of movable property as security for loans for business or personal purposes as a first step towards creating an appropriate environment for larger-scale secure lending transactions. The Regulation on Pledges made it possible for all lenders (mainly banks) to expand their lending activity and has had a direct impact in the early stages of development of the credit market in Kosovo. Due to the still largely contentious property rights situation, particularly in land and real estate markets, pledges of movable property remain the only security that is in fact available to banks (the land and mortgage regime has not been reformed yet). As such, the pledge legal framework has had an important impact on increasing provision of loans to private business. All banks in Kosovo today use it, and it is widely considered that the pledge legal framework creates a modern system for Kosovo that is sufficient to address the present needs.

-> *The achievement of this component is rated satisfactory.*

(iv) Regulation on Foreign Investments:

The Regulation on Foreign Investments (UNMIK/REG 2001-3) was intended to provide Kosovo with an attractive regime to badly needed foreign investments for reconstructing and enhancing the economy. A significant reason for the lower presence of foreign capital is the absence of a legal infrastructure which creates a great level of insecurity amongst investors regarding their rights and obligations, thus placing Kosovo's business environment at unacceptable level of risk. The purpose of this regulation was to put in place certain basic legal guarantees that are necessary to encourage foreign investment. These guarantees are quite standard, and are contained in varying forms in the laws of virtually all countries making the transition to free market systems. More specifically, the regulation provides that foreign investments are governed by the principle of national treatment, meaning that they will be treated no less favorably than similar domestic enterprises. Also, foreign investments are protected against unreasonable expropriations, and provides that income from foreign investments may be freely transferred abroad or otherwise used in an unrestricted manner. This regulation did not grant foreign investors any advantages over similar domestic enterprises regarding tax, customs, or other regulations.

-> *The achievement of this component is rated satisfactory.*

While the enactment of the above mentioned four regulations were narrowly defined as outputs of EAG III and were a condition for its approval, the project identified a broader legislative agenda that was also part of the Bank's overall policy dialogue. The project clearly highlighted that it will take considerable time and effort to complete Kosovo's commercial framework, and even longer to create the institutional capacity to support it. Furthermore, the project mentioned the importance of continuing efforts to complete a new bankruptcy regime, a new law on mortgages, and a new framework for modern accounting standards. Of these three areas of reform, only the reform in accounting standards has progressed approximately as planned. The bankruptcy and mortgage regimes have been subject to extensive consultations, remain at fairly advanced stages of preparation, but have not been completed. However, to evaluate these developments, it is crucial to understand the dramatic political changes that occurred in Kosovo in recent months with the adoption of the new Kosovo Constitutional Framework in mid-2001, and the subsequent progress towards self-government with the creation of Kosovo's Assembly and the appointment of Kosovo's President. While these changes have effectively redefined the political and legislative process in Kosovo, the newly recently established Provisional Institutions of Self-Governance (PISG) have already outlined their reform agenda and pledged their commitment to attach the highest priority to the modernization and completion of the commercial framework in Kosovo.

4.3 Net Present Value/Economic rate of return:

Not applicable.

4.4 Financial rate of return:

Not applicable.

4.5 Institutional development impact:

Institutional development impact was central to EAG III and is rated substantial. The operation was conducted in parallel with a Bank PSD Technical Assistance facility and developed in the context of other technical activities of major donors. The Bank's PSD TA project is currently under implementation and is part of larger donor-driven technical assistance effort that has been carried out in Kosovo during the last three years. It should be noted that the amount of resources committed by the Bank to Kosovo and to PSD, are rather limited when compared to those of the European Union, the USAID, or other large donors.

Despite the fact that this was a straight budget support operation, important institutions have been created and are in the process of being further developed in connection with policies supported by EAG III. Most notably, the Pledge Filing Office, that has made possible the use of various forms of movable property as security for loans for business or personal purposes as a first step towards creating an appropriate environment for larger-scale secured lending transactions. In addition, with assistance of the Norway Registry Development (NRD) a fully-fledged business registry system is the process of upgrading the provisional business registration system.

While there have been several donor-driven complementary efforts in judicial training activities that relate to the establishment of a new commercial legal framework, the specific activities planned in the context of the Bank PSD TA for judicial training have lagged behind the original time-table. Efforts are underway to correct this delay and generate additional institutional impact of the policies supported by EAG III.

5. Major Factors Affecting Implementation and Outcome

5.1 Factors outside the control of government or implementing agency:

The implementation of a coherent economic development program has remained largely dependent on the regional stability and the evolving nature of the political and social reality of Kosovo. While the return of peace to the region brought back many of the aspects of normal civil life and there have been some visible improvements in the economic condition of Kosovo, prevailing political and social developments have continued to fuel a fair degree of uncertainty and remained a threat to restoring investors confidence.

Of particular importance have been the gradual progress towards self-governance of Kosovo marked by the approval of a new Constitutional Framework in mid-2001, and the Kosovo-wide elections of November 2001 that led to the establishment of the Provisional Institutions of Self-Government (PISG) that were completed in March 2002, and resulted in the appointment of a new Kosovo President and Prime Minister.

In this context, it should be taken into account that the narrowly defined outcomes of EAG III that supported the creation of a modern commercial framework to facilitate private sector-led growth are part of a long-term process that is largely dependent of the above mentioned political developments. Moreover, the political events affecting the project outcomes, while conditioning the sustainability of project objectives, are largely outside the control of project counterparts.

5.2 Factors generally subject to government control:

EAG III has highlighted that the development, approval and decision making process of regulating commercial activities remains a difficult one. Moreover, adequate consultations with local stakeholders, particularly now that the PISG are being established, will continue to be essential to foster the acceptance and sustainability of a modern commercial framework. On both counts, UNMIK and the newly established PISG need to strengthen efforts to adequately prioritize the development of regulatory activities, define a credible consultation process, and expedite the approval mechanism.

5.3 Factors generally subject to implementing agency control:

As highlighted in the project documents, parallel technical assistance in key areas of the newly established commercial legal framework remains crucial for its implementation. Of particular relevance are training activities directed at the judiciary that will play a fundamental role in the enforcement of new regulations. Parts of UNMIK and the PISG that have a direct role in defining and coordinating donor's efforts in technical assistance for PSD will continue to play a key role in this area. Efforts need to be increased to make sure that technical assistance is delivered in a targeted and timely manner.

5.4 Costs and financing:

Not applicable.

6. Sustainability

6.1 Rationale for sustainability rating:

The overall sustainability rating of the reforms supported by the Grant appears likely. The new commercial framework supported by this operation is largely under implementation, and while, the evolving nature of commercial activities in Kosovo would demand further upgrades and 'Kosovarization' of the initial regulations, there is marked evidence of the desire of UNMIK and the PISG to continue to develop an adequate and comprehensive commercial legal framework that suits the needs of Kosovo. In this context, the outcomes of the project are highly unlikely to be reversed. The initial statements and policy priorities outlined by the new Kosovo government largely coincide with the need to provide an adequate business environment where the private sector can flourish. However, as EAG III highlighted, it will take considerable time and effort to complete the legal commercial framework of Kosovo, and even longer to create the institutional capacity to support it. Therefore, it will be crucial to prioritize the drafting and enactment process according to a critical path analysis which focuses on removing the biggest obstacles first, and adequately direct technical assistance efforts into institutions that would play a crucial role in the enforcement of commercial regulations.

6.2 Transition arrangement to regular operations:

Not applicable.

7. Bank and Borrower Performance

Bank

7.1 Lending:

The Bank performance during project preparation was satisfactory. Risks and weaknesses related to the context of the project, as well as those specifically related to the sustainability of policy reform were identified in project documents. The project was identified in consultation with major donors and was part of a coherent effort by the Bank to support PSD. The design of the operation largely matched key priorities defined by UNMIK and coincided with the objectives outlined in the Bank's TSS. The Grant provided much-needed budget support to UNMIK in a timely fashion within an agreed framework and appropriate burden sharing with other donors. The conditionalities of the Grants were also grounded in supporting economic work (see Annex 7 for details), and it was formulated in a highly collaborative process with the interim administration in Kosovo.

Bank staff involved in the project had extensive experience in the region and in the sectoral policies that were supported by the project. There was continuity and consistency between the extensive policy dialogue that preceded this operation and the specific objectives and components that were subsequently outlined.

There was excellent cooperation and high complementarity with the interim administration staff and the Bank missions during the identification and subsequent appraisal of the project. The role of the Bank was particularly important during early stages of consultation with the local stakeholders.

7.2 Supervision:

Bank supervision missions have continued to follow-up the implementation of the project. Much of the activities of the Bank have been centered in implementation aspects of the PSD TA operation as its components directly relate to institutional aspects that are considered crucial to the sustainability of the policy reforms supported by EAG III.

It should be noted that one of the PSD TA components that was considered important to the sustainability of the EAG III and that dealt with training to the judiciary in commercial activities is substantially delayed due to procurement difficulties. Efforts are well under way in the context of the supervision of the Bank PSD TA project to correct these delays, and the impact of the policy reforms supported by the EAG III are expected to be further leveraged in the coming months.

7.3 Overall Bank performance:

The overall Bank performance during all stages of the project is considered satisfactory given the positive outcomes and the likely sustainability of the reforms supported by the EAG III.

Borrower

7.4 Preparation:

The Borrower performance during early stages of project preparation was considered satisfactory. Tremendous efforts were put by UNMIK officials to jump-start and prioritize the regulatory process in key areas of the envisioned modern commercial framework. It should be noted that given the complex environment under which UNMIK operated in late 2000 and early 2001, the initial efforts to set a modern commercial framework and a precedent for the legislative approval process were particularly satisfactory.

The staff of the interim administration dealing with the design and appraisal of the operation were highly competent and their work was essential to the completion the EAG III.

7.5 Government implementation performance:

UNMIK's performance during implementation has been satisfactory. Efforts have been maintained to focus the legislative effort on the biggest priorities, and several aspects of the commercial framework that are complementary to the EAG III have been pursued.

As stated above, due to procurement delays, the planned training to the judiciary in commercial activities under the Bank PSD TA has run behind schedule. Specific actions have been taken under the PSD TA to correct these delays so that the outcome of the reform policies supported by the EAG III is maximized in the near future.

7.6 Implementing Agency:

Not applicable.

7.7 Overall Borrower performance:

The overall Borrower performance during all stages of the project is considered satisfactory.

8. Lessons Learned

EAG III demonstrates the Bank's catalytic role by providing scarce budget support resources that are specifically linked to sectoral policies. Much of the effectiveness of the policies supported by EAG III

reflect a project design that tackled key priorities that had been clearly identified by the interim administration of Kosovo and the Bank's TSS.

Clear focus on limited outcomes was crucial to achieve EAG III's tangible results. Kosovo is a good example of a post-conflict situation where particular emphasis was put on selectivity of the activities the Bank could support with limited resources. The Bank's role (advisory to UNMIK, financing, and guiding other donors who provided support to PSD policies) has been critical to leverage scarce resources. In this regard, the exclusion of the ownership transformation agenda from this PSD operation was, in retrospect, a controversial but correct decision, as privatization in Kosovo remains an elusive and politically charged process that may take some more time to be resolved.

Ownership by the interim administration of Kosovo was an absolutely necessary condition to achieve proper selectivity and adequate prioritization of conditionalities. UNMIK clearly defined (and EAG III supported) a few key policy areas that were essential for sending immediate signals to the private sector of the administration's intentions to modernize the business environment and improve the investment climate.

Local consultations in which the Bank played a key role were crucial given the early stages of UNMIK's mandate in Kosovo. Tensions with the local community were on the rise and the proposed changes to the commercial legal framework were seen at best with suspicion. The Bank, in cooperation with UNMIK Pillar IV, organized a series of events where the Bank presented examples of neighboring transition economies that facilitated the process of consultation, particularly with members of the local legal community.

The **companion PSD TA** was crucial to leverage EAG III impact. Despite some delays in the implementation of the companion PSD TA, the combination of budget support and TA operations was key to the positive outcomes of the project.

Frequent, close, and intensive **consultation with donors** (i.e., EAR, USAID, DFID) was critical. The Bank had to play an important role in judging the areas of the greatest needs, and in providing signals to donors accordingly.

9. Partner Comments

(a) Borrower/implementing agency:

UNMIK highly appreciates the strong financial and technical support we have received from the World Bank in the efforts to create a sound framework for the private sector in Kosovo. We consider the outcomes as highly satisfactory, and in the field of the Regulation on Pledges as outstanding. Although the grant's benchmarks focussed on the four pieces of legislation dealt with below, the Bank has given very valuable inputs in the debate over the wider commercial law legislative framework.

With the Bank's support it was possible to put into place four major pieces of legislation (UNMIK Regulations) that are cornerstones of a lawful development of the nascent private business sector that has been rapidly growing in the post conflict environment after 1999. The area concerned is now in the realm of the powers transferred to the Provisional Institutions for Self-Government, which can now build their further work on a sound basis laid with the Bank's support.

- (i) The Regulation on Business Organisations (UNMIK Reg. 2001/6) established a legal regime for founding and running business corporations in Kosovo. Although the institutional development could not follow suit as quickly and Kosovo is today still working with a provisional business registry, up to May

2002 more than 46,000 enterprises have been registered. A full fledged business registry is to be set up in the very near future. With further integration into the European Union this Regulation, with some amendments, is a good basis for covering the European *acquis communautaire*.

(ii) The Regulation on Contract for Sale of Goods (UNMIK Reg. 2000/68) has provided Kosovo with a very modern law for trans-border transactions. With very high imports and slowly rising exports this Regulation provides basic security for the businessmen being active in probably the most dynamic sectors of Kosovo's economy. A law on internal sales transactions is still to be developed.

(iii) The Regulation on Pledges (UNMIK Reg. 2001/5) is a milestone for the development of credit opportunities for the private sector, by providing the legal basis for the use of various forms of movable property as collateral. With the subsequent Regulation on the Establishment of a Pledge Filing Office (Reg. 2001/32) this Regulation has already been contributing to the development of the credit market in Kosovo. A significant number of pledges has already been registered, which means a boost in commercial banks' lending activities.

(iv) The Regulation on Foreign Investments (UNMIK Reg. 2001/3) is a first important legal contribution to enhancing the investment climate for foreign investors, by setting out basic guarantees for investments made in Kosovo. This type of guarantees have always been high on the agenda of potential investors that have been talking to UNMIK over the last three years.

A major lesson learnt in the period behind us is that the necessary institutional development that is needed to implement the legislation requires substantial financial and capacity building resources. Both factors, in a post-conflict environment, are more time consuming than often anticipated.

In order to take these constraints into account, UNMIK has sometimes developed creative solutions to bypass bottlenecks. For instance, given the weak commercial court structure, the need for a bankruptcy Regulation that has correctly identified in the context of the Bank's assistance as an important part of the broader legislative agenda, has been bypassed through provisions for voluntary liquidations, that can be initiated by the new Kosovo Trust Agency that is going to carry through the privatisation programme in Kosovo.

The Bank and its staff have been dealing highly professional with an environment that is still characterised by permanently changing institutions (e.g. through the gradual handover of responsibilities to the Kosovar institutions) and a high turnover in international and local staff that makes institutional learning particularly difficult.

(b) Cofinanciers:

Not applicable.

(c) Other partners (NGOs/private sector):

Not applicable.

10. Additional Information

Not applicable.

Annex 1. Key Performance Indicators/Log Frame Matrix

This operation did not include output/impact indicators. EAG III promoted the development of the private sector in Kosovo by supporting the enactment of the first package of commercial legislation which created the basic legal framework for a functioning market oriented economy. This marked an improved business enabling environment that has provided some basic conditions under which economic agent's confidence has started to be restored. The overall assessment of achievement of EAG III's objective is considered satisfactory. Specifically, the project supported the enactment of:

<u>Outputs</u>	<u>Achievements</u>
i. Regulation on Business Organizations	Established legal regime for the formation, maintenance and termination of personal business enterprises, partnerships, and corporations, by providing that legal entities be organized as single person companies ("Personal Business Enterprises"), as either general or limited partnerships, or in corporate form as joint stock companies or limited liability companies. The regulation's standard provisions follow western European practice.
ii. Regulation on Contract for Sale of Goods	Based on the 1980 UN Convention on Contracts for the International Sale of Goods (Vienna Sales Convention), the regulation repealed in part the 1978 SFRY Law of Contracts and Torts. The effect of this regulation was that it made the UN Convention the applicable law for domestic and international sales contracts.
iii. Regulation on Pledges	Established a modern law regulating secured transactions that involve movable property. The regulation repealed those sections of the 1978 SFRY Law of Contracts and Torts that deal with pledges. With the approval of the Pledge Filing Office Regulation, the pledge regulation has made possible the use movable property as security for loans for business or personal purposes.
iv. Regulation on Foreign Investment	Set an attractive that includes basic legal guarantees that are necessary to encourage foreign investment. The regulation provided that foreign investments are governed by the principle of national treatment, meaning that they will be treated no less favorably than similar domestic enterprises. Also, foreign investments are protected against unreasonable expropriations, and provides that income from foreign investments may be freely transferred abroad or otherwise used in an unrestricted manner.

Annex 2. Project Costs and Financing

Project Costs by Component	Appraisal Estimate US\$ mln.	Actual Estimate US\$ mln.
Total Baseline Costs:		
Economic Assistance Grant III for PSD	5.00	5.00
Contingencies	0.00	0.00
Total Project Costs	5.00	5.00
Total Financing Required	5.00	5.00

Annex 4. Bank Inputs

(a) Missions:

Stage of Project Cycle	No. of Persons and Specialty (e.g. 2 Economists, 1 FMS, etc.)		Performance Rating		
	Month/Year	Count	Specialty	Implementation Progress	Development Objective
Identification/Preparation Sept. 2000 to January 2001		5	3 PSD specialist, 2 lawyers	S	S
Appraisal/Negotiation January 2001 to April 2001		4	3 PSD specialists, 1 lawyer	S	S
Supervision June 2001		1	1 PSD specialist	S	S
ICR April 2002 to June 2002		2	2 PSD specialists	S	S

(b) Staff:

Stage of Project Cycle	Actual/Latest Estimate	
	No. Staff weeks	US\$ ('000)
Identification/Preparation	12.7	73
Appraisal/Negotiation	10.0	62
Supervision		
ICR	10	32
Total		

Annex 5. Ratings for Achievement of Objectives/Outputs of Components

(H=High, SU=Substantial, M=Modest, N=Negligible, NA=Not Applicable)

	<i>Rating</i>
<input type="checkbox"/> <i>Macro policies</i>	○ H ○ SU ○ M ○ N ● NA
<input checked="" type="checkbox"/> <i>Sector Policies</i>	○ H ● SU ○ M ○ N ○ NA
<input type="checkbox"/> <i>Physical</i>	○ H ○ SU ○ M ○ N ● NA
<input checked="" type="checkbox"/> <i>Financial</i>	○ H ● SU ○ M ○ N ○ NA
<input checked="" type="checkbox"/> <i>Institutional Development</i>	○ H ● SU ○ M ○ N ○ NA
<input type="checkbox"/> <i>Environmental</i>	○ H ○ SU ○ M ○ N ● NA
<i>Social</i>	
<input type="checkbox"/> <i>Poverty Reduction</i>	○ H ○ SU ○ M ○ N ● NA
<input type="checkbox"/> <i>Gender</i>	○ H ○ SU ○ M ○ N ● NA
<input type="checkbox"/> <i>Other (Please specify)</i>	○ H ○ SU ○ M ○ N ● NA
<input checked="" type="checkbox"/> <i>Private sector development</i>	○ H ● SU ○ M ○ N ○ NA
<input type="checkbox"/> <i>Public sector management</i>	○ H ○ SU ○ M ○ N ● NA
<input type="checkbox"/> <i>Other (Please specify)</i>	○ H ○ SU ○ M ○ N ● NA

Annex 6. Ratings of Bank and Borrower Performance

(HS=Highly Satisfactory, S=Satisfactory, U=Unsatisfactory, HU=Highly Unsatisfactory)

6.1 Bank performance

- Lending*
- Supervision*
- Overall*

Rating

- HS S U HU
- HS S U HU
- HS S U HU

6.2 Borrower performance

- Preparation*
- Government implementation performance*
- Implementation agency performance*
- Overall*

Rating

- HS S U HU

Annex 7. List of Supporting Documents

Transitional Support Strategy for Kosovo. The World Bank. October 1999.

Transitional Support Strategy for Kosovo Progress Report. The World Bank. July 2000.

Kosovo. Building Peace through Sustained Growth: The Economic and Social Policy Agenda. The World Bank. November 1999.

Toward Stability and Prosperity: A Program for Reconstruction and Recovery in Kosovo. The European Commission and the World Bank. November 1999.

Kosovo, FRY. Memorandum of the Country Director to the Regional Vice-President on a Proposed Economic Assistance Grant to the United Nations Interim Administration in Kosovo for the Benefit of Kosovo from the Trust Fund of Kosovo. World Bank Report No. P. 7369. March 2000.

Kosovo, FRY. Memorandum of the Country Director to the Regional Vice-President on a Proposed Second Economic Assistance Grant to the United Nations Interim Administration in Kosovo for the Benefit of Kosovo from the Trust Fund of Kosovo. World Bank Report No. 21740 KOS. January 2001.

Kosovo, FRY. Memorandum of the Country Director to the Regional Vice-President on a Proposed Third Economic Assistance Grant to the United Nations Interim Administration in Kosovo for the Benefit of Kosovo from the Trust Fund of Kosovo. World Bank Report No. 21783 KOS. March 2001.

Kosovo, FRY. Economic and Social Reforms for Peace and Reconciliation, World Bank Report No. 21784-KOS, February 2001.

Kosovo 2001-2003 from Reconstruction to Growth. A Preliminary Assessment by the Department of Reconstruction. Department of Reconstruction, UNMIK. February 2001.

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