THE WORLD BANK GROUP IN KOSOVO

COUNTRY SNAPSHOT

April 2015

RECENT POLITICAL, ECONOMIC, AND SECTORAL DEVELOPMENTS

Political Developments

Kosovo is a potential candidate for European Union (EU) membership. In recent years, the country has accelerated its integration process into the EU, including through (i) the negotiation of the *Stabilisation and Association Agreement* (SAA), expected to be signed by year's end; (ii) deepening coordination with the European Commission (EC) on economic policies and governance issues (including through the submission of the *Economic Reform Programme*); and (iii) remaining a constructive partner in the EU-moderated bilateral talks with Serbia on the normalization of bilateral relations.

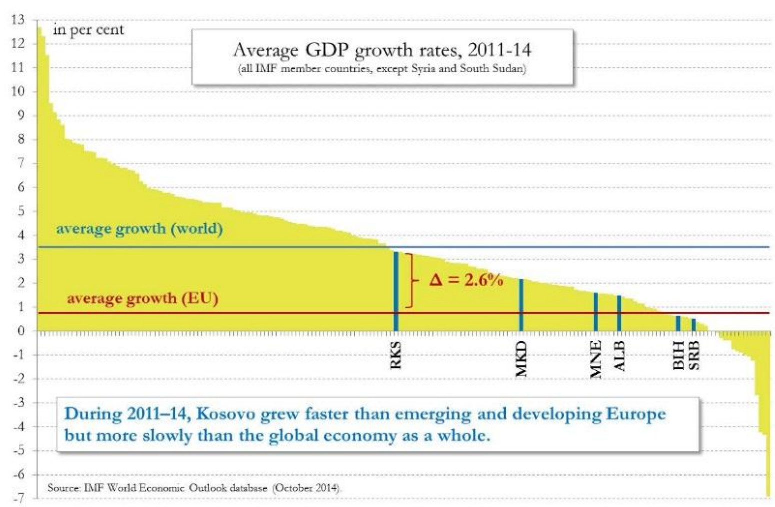
Kosovo's non-membership in the United Nations (UN) remains a key obstacle to political integration and socioeconomic development. As of end-March 2015, 108 (out of 193) UN member countries recognized Kosovo's independence, including 23 out of 28 EU member states. UN membership seems a remote prospect, however, given that only three of the five permanent members of the UN Security Council and less than the required two-thirds of UN member states represented in the General Assembly have accepted Kosovo's statehood. This situation has held back the modernization of key sectors of Kosovo's economy, including insurance, transport, telecommunication, and energy. At the same time, progress has been made in the normalization of relations with Serbia, but the EU-facilitated bilateral agreement has proven difficult to implement.

General elections in mid-2014 led to a protracted politico-constitutional crisis, from which a "grand coalition" of the two biggest political parties—the Democratic Party (PDK) and the Democratic League (LDK)—plus ethnic minority parties emerged. All parties' electoral campaigns and the government's program (adopted in early March 2015) and national development strategy (in preparation) have focused on the creation of additional (formal) jobs—a topic that has gained urgency after the mass exodus of an estimated 5 percent of Kosovo's population (mostly without required visa) to the European Union during the "winter of discontent" 2014/15. The migration pressure, accompanied by anti-government protests and strikes in the health, education, and mining sectors, have reflected widespread pessimism about the rule of law and economic prospects.

Economic Developments

From mid-2011 until end-2013, Kosovo's economy was managed well, but risks have been increasing. Kosovo has been one of only four countries in Europe that recorded positive growth rates in every year of the post-crisis period after 2008. The average growth of 3.5 percent during 2011–14 contrasts favorably to the region but has remained slightly below the global average (figure 1). The growth outlook over the medium term remains moderately buoyant—with estimates and projections for 2014 and 2015 of being in the 2.5–3-percent range (largely reflecting declining marginal contributions of key engines of past growth such as workers' remittances, foreign aid, and public investments).

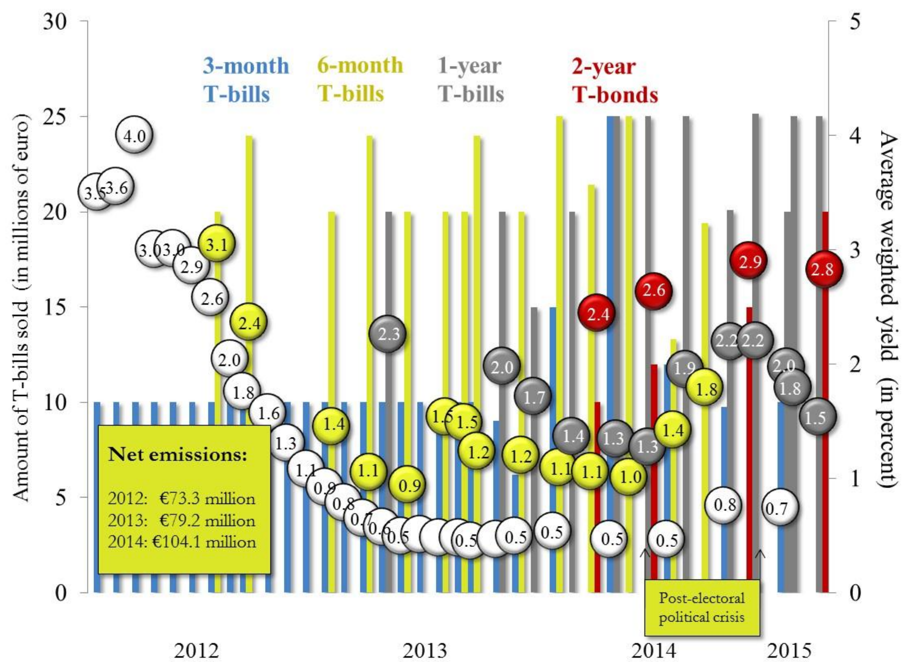
Figure 1. Solid But Not Spectacular Growth, 2011–14



New election-related fiscal obligations accepted during early 2014 have increased risks to the overall fiscal outlook.

Reforms in Kosovo aim at increasing domestic productivity. The resilience that Kosovo's economy had exhibited during the crisis periods after 2008 reflected (i) its limited integration into the global economy; (ii) the success of its diaspora, resulting in a steady influx of remittances; (iii) a pro-growth composition of the budget; and (iv) the steady inflow of donor support. In the absence of fiscal and monetary policy tools, key challenges continue to be reforms aimed at strengthening public administration to increase the quality of, and access to, public services, reinforcing the business climate, and upgrading public infrastructure. These reforms, closely embedded in the EU integration process, are key policy instruments to attract direct investments of the scale, scope, and quality to increase productivity in key sectors of the economy, generate "catch up" growth and, ultimately, reduce the high rates of unemployment and poverty.

Figure 2. Political Uncertainty Raised Cost of Domestic Debt, 2012–15



Fiscal Policies

Fiscal policies deteriorated in 2014, following the election-inspired expansion of budgetary expenditures. Within the context of the Stand-By Arrangement (2012–13) supported by the International Monetary Fund (IMF), the Government had succeeded in addressing the fiscal imbalances resulting from general election promises of higher salaries in late 2010. In an attempt to maintain Kosovo's long-term fiscal stability, a fiscal rule was adopted to serve as the Government's principal fiscal anchor. However, weaker-than-projected revenues and political (election-inspired) decisions to (i) increase public sector wages and pensions by 25 percent; (ii) introduce new social benefits for political prisoners and war veterans; and (iii) sign the contract for a budget-financed motorway construction project (with only limited economic viability) reversed the consolidation gains made during the period between mid-2011 to end-2013 and necessitated a sharp contraction in capital expenditures to keep the fiscal deficit, at 2.2 percent of GDP, close to the limit defined in the fiscal rule.

However, Kosovo's tight constitutional and legal framework constraining fiscal policies confronts the Government with a policy dilemma. Various constitutional and legal stipulations adopted to prevent public debt from rising to unsustainable levels include (i) a public debt law that sets the maximum public debt-to-GDP ratio at 40 percent; (ii) a constitutional stipulation, according to which external borrowing by the Government, including for highly concessional International Development Association (IDA) credits, would require parliamentary ratification with a qualified majority; (iii) a law on public financial management and accountability that requires any supplementary budget to be "deficit neutral"; and (iv) a fiscal rule aimed at limiting overall budgetary deficits, with few exceptions, to 2 percent of GDP (as agreed with the IMF). With revenue projections contained in the budget inherited from the previous Government being unrealistically optimistic, the mid-term budget review will not be able to both ensure budget credibility (especially with respect to budgeted tax and customs revenues) and stay in line with the deficit neutrality stipulation and the fiscal rule.

While gradually increasing, the stock of public debt remains at an estimated end-2014 level of 11 percent of GDP. This development reflected (i) disbursements by the IMF under the Stand-By Arrangement in 2012 (2013 was treated in a precautionary manner); and (ii) the net emission of newly introduced treasury bills of €73 million in 2012 (1.5 percent of GDP), €79.2 million in 2013 (1.5

percent), and an estimated €104 million in 2014 (1.9 percent). As a result, the stock of public debt increased from €284 million at end-2011 (5.6 percent of GDP) to an estimated €588 million at end-2014 (11.0 percent). Kosovo has only negligible municipal debt and no state guarantees. The structure of government borrowing tipped from the complete reliance on foreign borrowing (from international financial institutions) in 2011 to a complete reliance on domestic borrowing in 2014. While inexpensive—albeit sensitive to political uncertainty (figure 2)—the domestic debt market is shallow, requiring Kosovo to reassess its debt strategy over the next few fiscal years. **The political business cycle of 2014 has compounded fiscal risks.** With the adoption of the fiscal rule in 2013, Kosovo has limited overall budgetary deficits to 2 percent of GDP, starting with the 2014 budget. However, the country's ability to adhere to the fiscal anchor(s) is being questioned due to pre-electoral decisions on future spending. To add to the challenges, new benefits to war veterans and civilian victims of the war have been introduced, with unspecified costs to the budget.

Figure 3. Commercial Banks: Deposits and Loans, Dec. 2000–February 2015

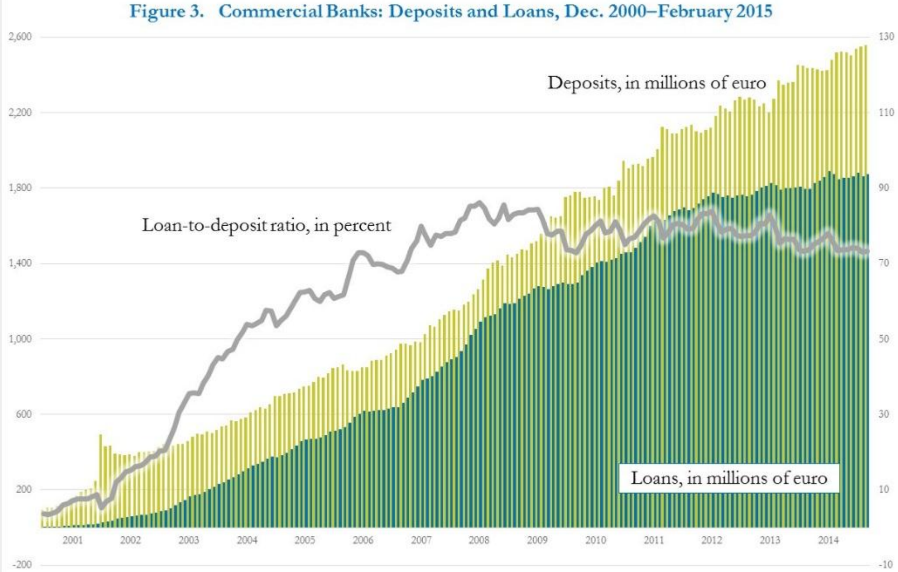
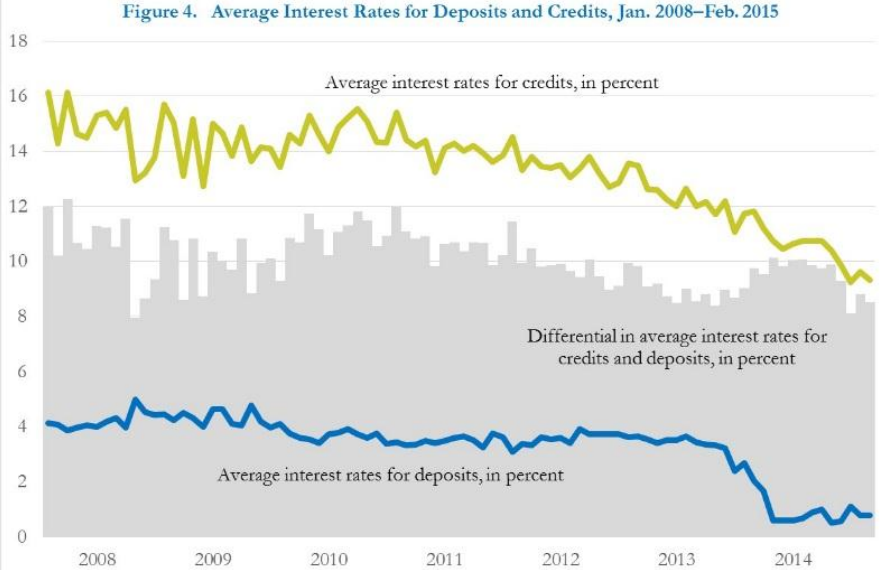


Figure 4. Average Interest Rates for Deposits and Credits, Jan. 2008–Feb. 2015



The additional spending obligations will crowd out alternative expenditures for growth-stimulating and/or productivity-enhancing purposes. In addition, if not properly managed, an across-the-board salary increase for public servants will (i) affect the implementation of the pay and grading reforms; (ii) risk the accumulation of government arrears to suppliers, which would impact the country's growth potential; and (iii) put pressure on ministries with particularly high wage bills, such as education and health. At the same time, these decisions unleash similar demands in the private sector for increases in (minimum) wages.

The Financial Sector

The banking sector has proven resilient to the deterioration in the external environment, reflecting the banks' conservative conduct and risk-averse lending decisions. The concentrated—largely foreign-owned—banking sector has remained well-capitalized, liquid, and profitable. In February 2015, Kosovars entrusted the banks with close to €2.6 billion in deposits, 6 percent more than a year earlier, with households contributing more than two-thirds to the banks' corresponding liability positions.

The average loan-to-deposit ratio in 2014 averaged 75 percent, down from 78 percent in 2013 (figure 3), but it has increased to 81 percent in February 2015. Reflecting the banking sector's liquidity, credit rates fell from 12.9 percent in December 2012 to 9.3 percent in December 2014—the first single-digit rates since the war in 1998/99. As summarized in figure 4, the interest differential increased, as interest rates on deposits fell from 3.7 percent (December 2012) to 2.4 percent (December 2013) and 0.9 percent (June 2014).

Although nonperforming loans (NPLs) have increased moderately, they remain lower than in neighboring countries. Risk factors emanating from the (principally healthy) financial sector include (i) the deleveraging by, and funding difficulties at, foreign parent banks; and (ii) the gradual deterioration in asset quality. Between December 2011 and December 2013, NPLs rose from 5.9 percent to 8.7 percent of total loans, but loan-loss provisions against adversely classified loans, at 115.4 percent, remained adequate. At that level, NPLs stabilized, having marginally declined to 8.4 percent by February 2015

Different from previous years, the marginal decline in credit growth rates in 2013 affected companies' and households' access to capital, while depressing overall bank profitability. The banks' profits declined from €35 million in 2011 to €6.6 million in 2013, with a solid rebound in 2014 to €26.9 million at end-June 2014.

The Central Bank of the Republic of Kosovo (CBK) has maintained a focus on preserving banking sector stability. Having adopted the euro as sole legal tender, Kosovo does not have access to independent monetary policy instruments. But the monetary and fiscal authorities have pursued an important structural reform agenda, in which context (i) €46 million from treasury deposits were earmarked for a fund for Emergency Liquidity Assistance; (ii) a Deposit Insurance Fund was established; (iii) a new Law on Banking, Microfinance, and Non-Bank Financial Institutions was approved by Parliament; and (iv) a safe and efficient payment system is being promoted by Kosovo's membership in, and the receipt of a user-assigned code from, the Society for Worldwide Interbank Financial Telecommunication (SWIFT). In mid-2014, Kosovo was able to introduce international bank account numbers (IBANs).

Growth and External Performance

Kosovo's economic growth has been steady and generally at rates above those in neighboring countries. The robust growth since independence was largely attributable to public investments in infrastructure, donor assistance, and remittances. The particular structure of Kosovo's economy—limited financial linkages and a small export base—has implied that, similar to the aftermath of the global crisis in 2008–09, spillovers from the eurozone crisis have been less severe than in neighboring countries. In particular, remittances and other non-debt–creating flows from Kosovo's (economically successful) diaspora, many of whom are working in central and northern Europe, were substantial and are expected to remain relatively stable.

Kosovo's current growth model is unsustainable over the longer term. Growing private sector activities and productivity-increasing investments will (have to) become increasingly more critical as engines to growth and, in turn, improve job and income perspectives. The productive base has remained narrow, despite some progress in recent years. Exports have not reached the level required to transform the economy, as foreign direct investment (FDI), similar to the situation in neighboring countries, has not reached the level needed to finance the current account deficit.

For the most part, companies are not yet in a position to compete successfully in local, regional, and international markets. Reflecting binding public infrastructure and business climate constraints, domestically produced goods—including in the agriculture sector—have not yet been supplied in the quantity and quality required to compete successfully in either domestic or foreign markets, despite some improvements. In 2014, exports rose by 10.5 percent to €325 million, while imports increased by 3.6 percent to €2.5 billion, widening Kosovo's already large trade deficit.

Rule of Law and Business Climate

To improve its growth outlook, Kosovo will need to continue to focus its efforts on strengthening the rule of law. An inviting business and investment climate is particularly important for a euroized economy with limited or no access to fiscal and monetary policy instruments. Since the second quarter of 2011, Kosovo has made significant progress on strengthening its basic legal framework and institutional structures, with a view to reinforcing the necessary foundations for a functioning market economy. These reforms (partially supported by World Bank–financed projects and a multi-donor, World Bank–led budget support operation) have begun to be reflected in improved rule-of-law and business climate indicators (figure 13), with Kosovo's ranking in the most recent *Doing Business* survey having improved by 40 positions in two years. Notwithstanding the fact that several features in the overall business environment compare favorably to those of Kosovo's neighbors (such as flexible labor markets, an open trade regime, and a healthy banking sector). However weak institutional capacity, unclear property rights, and a complicated and fragmented licensing and inspection regime continue to create disincentives for formal private sector activities.

Fair competition is not necessarily ensured, for several reasons: First, the large informal economy significantly distorts the market and harms those businesses that comply with laws. Second, unfair competition results from an inefficient Competition Authority that lacks both the expertise to implement its functions and suitable premises to do so. And third, regional, family, or political connections have an important impact on market outcomes, weakening the informative powers of the price and quality signals that emanate from the marketplace.

Kosovo needs to maintain a focus on improving the business environment as a policy priority. Although in a number of *Doing Business* subcategories investment climate indicators are better than the averages of relevant comparators, other constraints constitute considerably higher hurdles for businesses. The Government had established a National Economic Development Council to coordinate corresponding reform efforts, which sponsored amendments to business organization and internal trade laws to reduce registration costs, simplify procedures, eliminate work permits, and wave charter capital requirements for limited liability companies. The new Government intends to revive the National Economic Council, which had not be functional for the last year, and to utilize it as a forum to facilitate public private dialogue. The Secretariat of this Council is foreseen to be administered by the Ministry of Trade and Industry. The Government has also taken measures to speed up business registration through the establishment of one-stop shops that have, among other measures, integrated business registration, value added tax (VAT), and fiscal numbers into one document. Recently, the authorities have adopted new fiscal reforms comprising the differentiation of the value-added tax (VAT) from a flat 16 percent to 18 and 8 percent, with the reduced rate for a list of "basic" products (bread, water, oil, energy and heating). The Government aims at shortening the VAT repayment period for those companies that pay their contributions regularly.

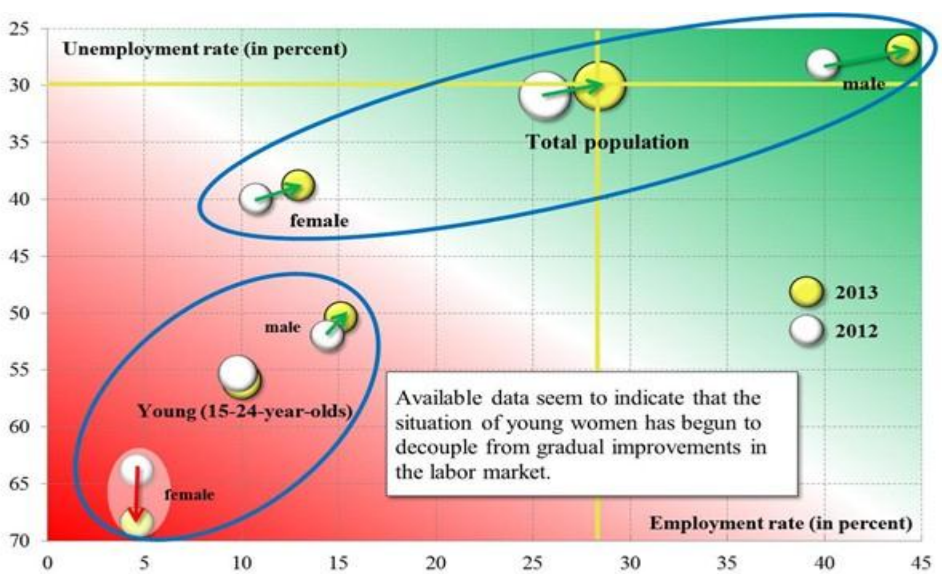
Central to private-sector developments are considerable efforts to (further) develop and prepare young Kosovars for high-skilled employment. Nearly a quarter (23 per cent) of firms state that an inadequately educated workforce is a "major constraint" to their business. This requires more regular, consistent, and strategic consultations with the private sector so as to (i) improve job placement programmes (alignment with market demand); (ii) develop business and management know how; (iii) facilitate a more significant transfer of skills and information, research, and development; and (iv) improve the overall access and quality of formal education, from early childhood to tertiary education.

Poverty and Unemployment

With per capita GDP estimates of close to €3,000, Kosovo is one of the poorest countries in Europe. Average per capita income is about one-tenth that of EU levels, and the incidence of poverty remains high. Standardized poverty lines used by the World Bank—defined by a threshold of US$5 per person per day (at purchasing power parities)—lead to poverty rates of about 80 percent. Using the domestic poverty line of €1.72 per day (2011 data) as defined by the Kosovo Agency of Statistics, 29.7 percent of its population of 1.8 million are considered poor. Kosovo has a relatively low Gini index and flat consumption distribution, with poverty rates declining gradually. No significant differences exist between urban and rural poverty, but there are notable regional differences. Extreme poverty is disproportionately high among children, the elderly, households with disabled members, female-headed households, and certain ethnic minority households (especially in the Roma, Ashkali, and Egyptian communities). As in many other countries, there is a strong negative correlation between education and poverty.

Widespread unemployment and a lack of quality jobs have contributed to poverty and income insecurity. With an estimated unemployment rate of above 30.0 percent in 2013 and an employment rate of only 28.4 percent (figure 5), Kosovo has one of the weakest employment records in Europe. Kosovo's 40.5 percent labor force participation rate is substantially below the 70 percent average estimated for the countries represented in the World Bank's Europe and Central Asia (ECA) region. The lack of jobs has direct consequences on income, as households with unemployed heads have the highest extreme poverty indices. In addition, many households with adult members in precarious or unsteady jobs are below the poverty line, depending on small, informal enterprises offering uncertain employment for the majority of their income.

Figure 5. Unemployment and Employment Rates, 2012–13



Kosovo's difficult labor market conditions have been especially severe for youth and women. Estimates suggest that unemployment among 15–24-year-olds exceeds 55 percent. The generally poor quality of the education system, coupled with limited employment opportunities, makes it difficult for young people to access and retain jobs; those who do succeed in finding employment are typically hired into low-skilled, low-productivity positions, often in the informal sector. According to the 2013 labor force survey, more than 10 percent of even university graduates are unemployed, while 35.3 percent of 15–24-year-olds are neither employed nor in education or training—foreshadowing considerable development impacts over the medium- to long-term horizon.

Education

Education is an essential part of Kosovo's efforts to boost economic growth, increase productivity and wages, and reduce its high unemployment. Kosovo is a young country, with 38 percent of the population under 19 years of age (2012). This youthful structure, if exposed to high-quality education, provides an opportunity to increase tangibly the productivity of the workforce. In recent years, wide-ranging reforms have been initiated and progress achieved, including (i) improvements in *access to pre-primary and upper secondary education*, with enrollment rates in 2012 of 72 percent and 92 percent, respectively;[1] (ii) strengthened *financing of education* systems to for more equitable distribution of resources across the country; (iii) improved *teacher management* by setting up a mandatory teacher licensing/certification system and enhancing teacher training opportunities, as well as increasing teachers' salaries; (iv) c*urriculum reform*, to make curricula more modular and relevant, including introducing new approaches to schooling, learner-centered and outcomes-based teaching methodologies as well as development of teaching and learning materials in line with the new social, economic, labor market and new technological developments; and, (v) improved *learning conditions and school infrastructure* by expanding school buildings and improving conditions of existing buildings thus eliminating triple shift schools and reducing to 70 percent schools operating in two shifts.

[1] Impressively, upper secondary education enrollments increased by 50 percent between 2004 and 2012 and remained at high levels for basic education, between 97 and 100 percent.

Public spending in education is low relative to regional and GDP per capita comparators, indicating the need to prioritize education in public spending. Kosovo spent 4.1 percent of GDP in 2012, less than the average in Europe and Central Asia (4.6 percent) or the upper middle income country average (5 percent). Total public spending on education represents about 14 percent of budgetary expenditure, in line with other middle income countries with similar age profiles. However, because of the large number of pupils, Kosovo spends only 13 percent of per capita income per student in both primary and secondary education, which is much less than all countries in Southeastern Europe.

Moreover, Kosovo's quality of education is weak and inequitable and does not succeed at providing students the skills necessary to transition to a rapidly changing labor market and economic environment. Although reliable data on students' achievements is poor and there are no internationally comparable data, the low passing rate and achievement levels of students at the national Matura demonstrate a need for improvements. The initial results of Grade 5 sample-based test, undertaken in 2010 as a pre-cursor to Kosovo's entry in PISA 2015, suggest large differences between girls and boys (especially in language test) and rural and urban students. Overall results show significant municipal disparities, calling for action in order to alleviate and mitigate these differences. In Kosovo, inadequate workforce is a major or severe obstacle for firms, especially the large and fast-growing ones. About 23 percent of businesses surveyed reported difficulties in recruiting skilled workers.

The Government is placing a high priority on strengthening the education system. The Ministry of Education, Science, and Technology (MEST) has developed the *Kosovo Education Strategic Plan* (KESP) and an associated Action Plan for 2011–16. The strategy tackles all levels of education and addresses issues of quality, access, management, and implementation. Improvements in the quality and relevance of the education sector require continued implementation and support in implementing the ongoing reforms in a concerted manner.

Health

Health outcomes are weak, reflected—inter alia—in Kosovars' life expectancy being about 5 years lower than in neighboring countries (and 10 years lower than in the EU). To date, the health sector has not been a public policy priority, and it did not receive the required support from international development partners. As a result, the reform and modernization of the health sector has remained in early stages, with most health sector indicators remaining poor. Improving quality of care at all levels, particularly the availability of drugs, is a critical element in reducing regressive health spending patterns by households and poor health outcomes, among the worst in Europe.

Household out-of-pocket (OOP) spending on health in Kosovo is high, impoverishing and creates financial barriers to access for the poor. Households' OOP health spending has accounted for about 40 percent of total spending on health, which has contributed to the 7-percent increase in the poverty headcount in 2011. Reflecting the high costs of using care, the poor have "self-rationed" care. Drugs comprise approximately 85 percent of household OOP health spending.

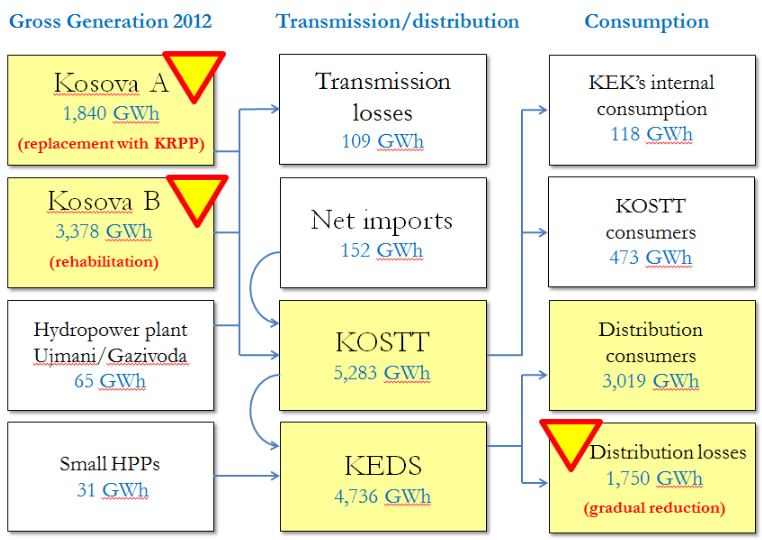
The Ministry of Health has prioritized health sector reforms to improve financial protection and access to quality health services. The Health Insurance Law, passed in April 2014, provides the legal basis and framework for a mandatory health insurance scheme funded through general tax contributions and mandatory insurance premiums. World Bank estimates suggest that health insurance could increase public health expenditures). These additional revenues present an opportunity to improve the quality of care, including the availability of drugs, and lower household OOP health spending with a specific focus on the poor.

Improvements in financial protection and access to quality care will, however, depend on how effectively health insurance is implemented, including the coverage of the poor. In practice, given the large share of the informal sector in Kosovo's economy, the transformative impact of health insurance will depend on its ability to enroll premium payers which, in turn, will likely depend on the value it delivers and is seen to deliver in terms of better services and lower OOP spending. Finally, poverty targeting systems currently under-cover the poor, and improving poverty targeting mechanisms are a crucial mediator of potential poverty impact.

Energy and Mining

Businesses regard the unreliable electricity supply as a major obstacle to their operations and a constraint to investment and business expansion. Demand for energy has been growing rapidly in Kosovo over the past decade, with considerable variances in hourly and seasonal peak demand. Most of Kosovo's domestic electricity generation comes from two outdated, inefficient, and highly polluting thermopower plants (TPPs) (figure 6). Additional supply—amounting to 5–17 percent of annual consumption over the past decade—has been derived from unreliable (and generally very expensive) electricity imports from an energy-starved region, especially during the winter months. External developments (the floods in the Western Balkans and the Ukraine crisis) as well as domestic challenges (the explosion at the Kosovo A power plant in early June 2014) have resulted in an even tighter situation, both for imports and domestic generation capacities. In Kosovo, since June 2014, only two out of five generation blocks were on the grid, with an uncertain time frame for the reconnection of the three units currently being rehabilitated.

Figure 6. Kosovo's Energy Sector (Challenges), 2012



As a signatory to the Energy Community Treaty, Kosovo has committed to decommissioning one and rehabilitating the other TPP by 2017. To address the energy supply and corresponding environmental challenges, Kosovo—in close collaboration with the World Bank and other development partners—has developed a multi-pronged strategy aimed at (i) ensuring adequate and reliable energy supplies; (ii) reducing the need for public subsidies to energy; (iii) limiting the environmental externalities; and (iv) attracting the private sector for generation and distribution. In addition, Kosovo seeks to step up payment enforcement, reduce technical and commercial losses (figure 18), adjust tariffs to levels consistent with full-cost recovery, and invest in energy efficiency and energy alternatives.

Energy efficiency and renewable energy can help to mitigate projected power shortfalls, while enhancing Kosovo's energy security and environmental sustainability. This is consistent with the Government's National Energy Efficiency and Renewable Energy Action Plans (NEEAP, NREAP), which call for a cumulative energy savings of 9 percent by 2018 and a 25 percent renewable energy target by 2020, respectively. Such targets are in line with the European Union's energy *acquis communautaire*, as committed under the Energy Community Treaty, in the areas of climate change and environmental protection, which will require strengthening the existing regulatory frameworks and institutional capacity in support of energy-efficiency and renewable energy investments. Recent studies found a very high energy savings potential for public buildings (of 38–47 percent in municipal buildings and up to 49 percent in central government buildings). There is a considerable potential for biomass (for both heating purposes and as moderate potential for power generation) and some potential for using renewable energy from wind and small hydro.

Several studies of Kosovo's energy options have been conducted over the past decade. Most recently, the World Bank conducted a study entitled, "Development and Evaluation of Power Supply Options for Kosovo," to assess ways of meeting current and future energy needs and balancing corresponding economic, financial, and environmental costs. The study found that the lowest-cost reliable energy supply that would meet Kosovo's base load and peak demand was a mix of thermal and renewable sources of energy. The

Government of Kosovo has requested a World Bank partial risk guarantee (PRG) for attracting private investors to build a new, efficient 600 megawatt (MW) coal-fired TPP. The bidding process for the new power plant is expected to be concluded in 2015.

Kosovo is very rich in mineral deposits, although their potential has been left largely untapped. In addition to 10.9 billion tons of proven, exploitable lignite reserves, the country has abundant deposits of ferronickel, lead, zinc, magnetite, and other ores that—if developed—could make a major contribution to employment and exports. Prior to ex-Yugoslavia's dissolution, the mining sector had been an important growth engine for Kosovo's economy, but capacity has suffered due to neglect during the 1990s, the damages caused by the war, and the political fragilities in the four Serb-majority municipalities in northern Kosovo.

Environment and Water

Air pollution is a significant problem, especially in Kosovo's urban areas. Principal sources of contaminants are sulfur dioxide (SO_2), nitrogen oxide (NO_x), ozone (O_3), lead (Pb), carbon dioxide (CO_2), suspended particles (fine dust), and dioxin. Urban ambient air quality is particularly poor in and around Prishtina, Obiliq, Drenas, and Mitrovica. The principal sources of pollution include (i) energy and mining production activities; (ii) the burning of wood and lignite for household heating purposes; (iii) smoke and emissions from large industrial complexes; (iv) landfills for urban and industrial waste; and (v) vehicular emissions. The recent *Country Environmental Analysis* has sought to quantify the economic costs of pollution in Kosovo.

Key health impacts from air pollution are related to the high levels of particulate matter (PM). During 2010–11, the monthly average PM concentration in Prishtina fluctuated between 40 and 130 micrograms per cubic meter ($\mu g/m^3$), i.e., almost always above the 40 $\mu g/m^3$ average concentration deemed acceptable by the EU and consistent with human health. The key sources of fine particle emissions in Prishtina and neighboring communities are the antiquated power plants and the household use of wood and coal heating during winter. High PM levels are responsible for increases in cardiopulmonary and lung cancer mortality (in cases of long-term exposure), chronic bronchitis, and respiratory diseases, particularly in children. During 2012–14, Kosovo's energy corporation (i) replaced the open system of ash transport with a closed hydraulic system; and (ii) installed electrostatic precipitators (or dust filters) in all three units of the oldest power plant. Both investments have resulted in a noticeable reduction in local pollutants. Three air monitoring stations in the most affected areas near the power stations are currently monitoring the air quality on a continuous basis.

Kosovo has limited water resources that are divided into four main water basins. Water resources in Kosovo are restricted, insufficient, and—in light of rising demand for water (reflecting urban, industrial, and agricultural development)—soon expected to represent a limiting factor for socioeconomic development. Data from the Institute of Public Health show that bacterial (rather than chemical) contamination affects the quality of drinking water. Much of this bacterial (fecal) contamination occurs in the water supply systems of small cities and rural areas, where a large proportion of wells and springs are thought to be contaminated. There are no wastewater treatment plants in operation in Kosovo, adding to the challenges of water contamination.

The lack of adequate environmental protection measures has resulted in serious environmental impacts from former mining and mineral processing activities. Historical and current industrial waste has remained over long periods of time within production sites, storage areas, and industrial hot spots. Mining and industry activities generate about 1.3 million tons of (commercial, hazardous, and non-hazardous) waste per year, with municipal solid waste adding another 0.4 million tons. At present, there is no proper waste management for any type of waste—whether domestic, industrial, or (bio-) hazardous. This applies to both current and historic waste. Current "waste management" practices, if left unchanged, will lead to high levels of air and groundwater pollution, including through methane or landfill gas, dioxins, and fine particles (when burned).

The Ministry of Environment and Spatial Planning (MESP) has prepared an update of the Kosovo Environmental Strategy (KES) and an associated National Environment Action Plan (NEAP) for 2011–15. The NEAP defines environmental objectives in order to be able to meet EU requirements. In the short term, the focus will be on the implementation of existing legislation and continued efforts to modify legislation and institutions. In this context, the MESP aims to integrate *acquis communautaire*–related requirements into sectoral development policies in the relevant line ministries. In the longer term, the KES/NEAP will define goals and/or strategies to (i) reduce pollution and mitigate environmental degradation; (ii) prohibit economic activities that would cause harm to human health or the environment; (iii) promote biodiversity protection and preserve the ecological balance; (iv) use rationally and sustainably natural resources, including agricultural land; and (v) protect valuable natural landscapes. In addition, the NEAP identifies, costs, and prioritizes the needed investments in water, air quality, waste (including chemical waste) management, biodiversity preservation, and environmental policy development.

Rural Development

Kosovo is endowed with high-quality agricultural land. Agriculture has always been a key sector in Kosovo's economy, but it declined precipitously during and after the conflict. With the decline in agriculture output, Kosovo's agro-food trade deficit has been widening. On a per capita basis, Kosovo is one of the largest importers of food in Europe. Given the country's ample supply of agricultural labor, proximity and free market access to the EU, and relatively good climate, Kosovo should have a comparative advantage in the production of high-value horticultural and dairy products. Average agricultural land per person is around 0.15–0.18 hectares, which is less than half the EU average. The fragmentation and small size of the agricultural parcels are a problem for sustaining adequate agricultural outputs and lead to lower agricultural production and subsequent economic losses. This is further aggravated by the constant conversion of designated agricultural land into residential or industrial plots.

The agriculture sector remains a highly "informal" sector. The last census in 2011 registered only 15,000 people working "formally" in agriculture—i.e., 3–4 percent of the population. However, recent studies from the Kosovo Agency of Statistics indicate that some 140,000–150,000 people are employed in agriculture. With its relatively abundant and underutilized labor, Kosovo has competitive potential in the horticulture sector (i.e., the production of fruits and vegetables) as well as in the livestock subsector. Domestic demand for horticulture and livestock products is expected to grow as purchasing power increases. Over the past decade, the demand for high-value horticulture products has surged more than any other food category. However, though there is great potential for the growth and expansion of productivity in agriculture, the sector faces several challenges that are reducing the quantity and quality of agricultural production and hence, competitiveness in local and foreign markets. The difficulties are largely due to unfavorable farm structures, outdated farm technologies and farm management practices, the suboptimal use of inputs, weak rural infrastructure, a rudimentary rural advisory system, and the limited access to credit and investment capital. Moreover, agricultural imports from Kosovo's trading partners, which receive production and export subsidies, place Kosovo's farmers at a competitive disadvantage.

The World Bank supports the Government's strategy to promote growth and competitiveness in the agriculture sector, with a view to overcoming identified bottlenecks that hold back sustainable rural development. Through the support provided by the World Bank and other development partners, the Government has sought to align Kosovo's rural sector with the four axes of the Instrument for Pre-Accession for Rural Development (IPARD). The Government is undertaking several significant and strategic initiatives in this direction, including by establishing institutional structures consistent with EU accession requirements.

THE WORLD BANK PROGRAM

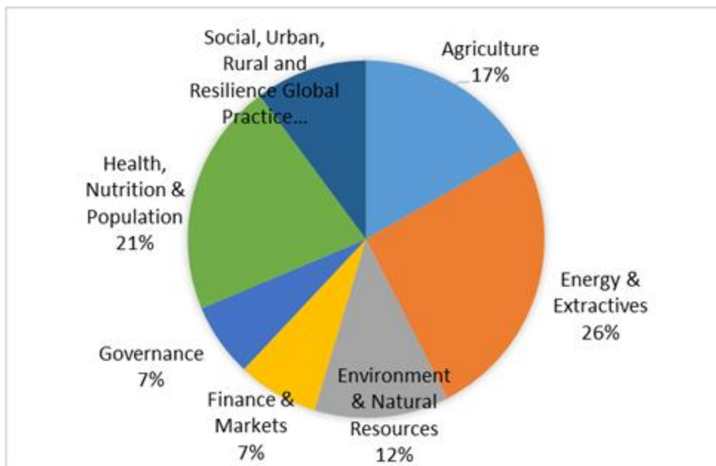
Since 1999, the World Bank has provided and/or managed roughly US$400 million to Kosovo through more than 30 operations, including Trust Funds. As of March 25, 2015, there were seven active lending operations with commitments totaling US$129 million. These operations provide support in a wide array of sectors, including energy, education, public sector reform, cadastre, agriculture, social inclusion, and financial sector strengthening. Since Kosovo joined the World Bank Group as a full member only in June 2009, all previous Bank-supported projects had been financed through grants from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund, and IDA.

The World Bank's program in Kosovo is anchored in its four-year Country Partnership Strategy (CPS) FY12–15, following a series of Interim Strategy Notes. This document provided the Word Bank Group and Kosovo with a framework of cooperation. In support of Kosovo's EU integration objective, the CPS helped to enable the authorities to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management. The World Bank Group has now begun preparations for a new Country Strategy Framework for Kosovo for the period 2016-2020. **The World Bank–financed projects have been designed to strengthen the business climate and improve competitiveness.** These include (i) the *Financial Sector Strengthening and Market Infrastructure Project*; (ii) the *Public Sector Modernization Project*; (iii) the *Real Estate Cadastre and Registration Project*; (iv) the *Agriculture and Rural Development Project*; and (v) the *Institutional Development for Education Project*. A key obstacle to meeting Kosovo's socioeconomic development objectives is the energy sector, a central element of Bank assistance to the country. The active portfolio includes the *Energy Sector Clean-Up Project,* which addresses the environmental legacy issues related to the open dumping of ashes from Kosovo's oldest Thermal Power Plant, for which Additional Financing has been approved.

The main focus of lending under the closing CPS program is the energy sector, aimed at addressing Kosovo's energy crisis in a comprehensive way. This involves seeking to balance energy security and energy affordability with efforts to minimize socio-environmental externalities, so as to mitigate the adverse environmental, public health, and economic impacts on affected citizens. These activities fit into broader CPS objectives that seek to support the business environment and good governance and address the issue of skills, while continuing to implement reforms in the agriculture sector, financial sector, and the cadastre.

The CPS envisages five new IDA operations designed to support the Government in meeting its overarching objective of accelerating the EU integration process. These include (i) the *Energy Efficiency and Renewable Energy Project* (already approved by the Board of Directors of the World Bank and ratified by Parliament of Kosovo); (ii) the Partial Risk Guarantee supporting the *Kosovo Power Project*; (iii) the *Water Supply Project*; and (iv) the *Education Improvement Project*. In addition, a *Kosovo Health Project* to support reforms in the health sector was approved in 2014 by the World Bank and ratified by Parliament of Kosovo in March 2015. The Bank and the International Finance Corporation (IFC) support the development of other infrastructure services through studies and other advisory services. IFC also seeks to selectively provide financial support to private firms involved in infrastructure projects in Kosovo in areas such as water, transport, solid waste disposal, and energy.

Figure 6. Commitments by Sector



IFC seeks to selectively provide financial support to private firms involved in infrastructure projects in Kosovo, in areas such as water, transport, solid waste disposal, and energy. IFC's investment in Kosovo totals $391 million, including $369 million mobilized from our partners, in 6 projects across a variety of sectors. Our committed investment portfolio in Kosovo as of 30 June 2014 is $20.5 million. In fiscal year 2014, IFC invested $600,000 in Kosovo. IFC invested in the general manufacturing and financial sectors. IFC's advisory services in Kosovo aim to improve the investment climate and the performance of private sector companies and to attract private sector participation in the development of infrastructure projects.

KOSOVO: ENERGY SECTOR CLEANUP AND LAND RECLAMATION PROJECT INCLUDING ADDITIONAL FINANCING (CLRP)

Key Dates:
Approved: June 13, 2006
Effective: Feb 28, 2007
Closing: June 30, 2015
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	10.5	10.9	0.1
Additional IDA Credit	4.2	0.6	3.7
Dutch Government	4.3	4.3	0.0
Grant	1.1	0.4	0.8
Additional Dutch Grant			
Total Project Cost	**20.1**	**15.79**	**5.1**

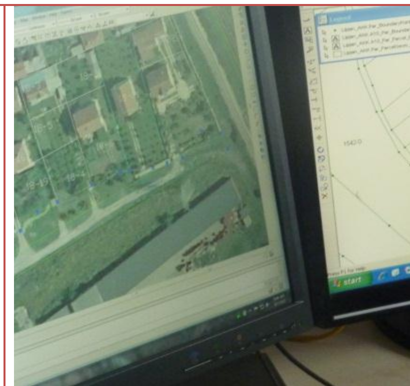
***Source Client Connection as of September 15, 2014.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Air pollution, particularly from the dust generated by the power stations and ash dumps near the capital Prishtina, has been a critical problem. Soil and groundwater contamination from the ash dumps create negative environmental impacts but pose less of a direct threat to public health than the direct exposure to airborne dust. The use of outdated mining practices, an industrial infrastructure that ignored environmental impacts, and a non-functioning environmental management system are the main factors behind the high exposure to environmental health risks. The sizable overburden dumps from lignite mining occupy large areas near the mines, sterilizing land for other productive uses, while the former gasification plant consists of numerous structures containing hazardous chemicals in deteriorating and risky conditions. The project seeks to (i) address the environmental legacy problems from the open dumping of ashes on land; (ii) enable the Kosovo Energy Corporation (KEK) to free land for community development purposes currently taken by overburden material and to remediate Kosovo A ash dump; and (iii) support KEK and the Ministry of Environment and Spatial Planning (MESP) to implement continued cleanup operations and environmental good practices in the mining and energy sector. The Additional Financing will further scale up the existing cleanup and land reclamation activities, aiming at fully removing the hazardous chemicals found on the gasification site of KEK, as well as financing a component with MESP to fund additional activities associated with an environmental and social impact assessment for the proposed Kosovo Power Project.

Results achieved. The depleted mine has been prepared to receive the sanitary disposal of ashes from power plant Kosovo A. The conversion of the current system of dry ash transportation to hydraulic transport has been functioning since November 2013 and was officially inaugurated in March 2014. The project contributed €1 million to the system. Currently, 85 percent of the projected remediation of the ash dumps has been completed and more than 650 hectares are available for community development in the overburden dumps, where more than 150,000 plants have been planted. The removal of the highest priority hazardous substances from the storage tanks and other containments at the gasification site (tars, benzene, phenols, methanol, oily compounds) has been implemented. 14,775 tons of Low Level Organic Content (LLOC) liquids were locally treated and 5,109 tons of High Level Organic Content (HLOC) materials have been exported and disposed to licensed disposal facilities. What remains are the additional materials recently discovered in an underground tank and the export of big bags of solid tar. The Additional IDA Credit (AF) finances efforts to (i) rehabilitate the remaining tip of the ash dump (where the dumping of fresh ash has just stopped); (ii) plant more seedlings in the southern overburden dump, which has already taken place; and (iii) remove hazardous waste from the recently discovered underground tank filled with tar sludge and solvents and repackage, transport, and treat it in a licensed treatment facility abroad, and remove the tar deposits that have been repackaged but not yet removed due to a lack of financing; works are currently ongoing. KEK staff is now fully responsible for cleanup and land reclamation operations in the area of ash and overburden dump rehabilitation, while the job of removing the hazardous waste has yet to be contracted. Regarding the activities under the AF implemented by MESP, progress has been as follows: The Environmental and Social Impact Assessment (ESIA) for the proposed Kosovo Power Project started in January 2014 and public consultations on its findings are planned to be organized by May, 2015. Resettlement monitoring efforts for the Resettlement Action Plan (RAP) for the Shala neighborhood of Hade village, as implemented by MESP, have continued with the support of an internationally recognized resettlement consultancy firm as part of this second Additional Financing. The resettlement process is still ongoing.

Key Partners: Ministry of Economic Development, KEK, and MESP. **Key Development Partners:** the Government of the Netherlands, U.S. Agency for International Development, the EU, and the German Development Bank (KfW).

KOSOVO: REAL ESTATE CADASTRE AND REGISTRATION PROJECT (RECAP)



Key Dates:

Approved: February 4, 2010
Effective: June 17, 2011
Closing: July 31, 2015

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	6.6	5.1	1.5
IDA Grant	5.4	3.2	2.2.
Government of Kosovo	1.2		1.1
Total Project Cost	**13.4**	**8.3**	**4.8**

***Source Client Connection as of March 27, 2015.**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

In Kosovo, the real estate property market is constrained by its legacy. As a result of the 1999 conflict, thousands of homes were damaged or destroyed, up to 75,000 properties were abandoned, and land records were either destroyed or moved to Serbia, where they remain. Many citizens lost access to their properties, ownership records are incomplete or unreliable, and vacated properties were occupied illegally (about 20,000 claims on property that was illegally occupied as a result of the conflict are still being processed by the Kosovo Property Agency). Real property is now owned privately, socially or by the state, or one of the publicly owned enterprises, primarily public utilities that are also being privatized. In 2006, there were an estimated 600,000 buildings of all types, of which 250,000 were in rural areas. There are about 2 million land parcels and an estimated 350,000 property owners. Government institutions are weak; property rights transactions often go unregistered until there is a need for documentation of a procedure or loan, and then the registered owner may not be available.

The Project Development Objective is to help develop Kosovo's land and property markets and to improve tenure security. The project addresses a range of issues by: (i) supporting improvements in the capacity of the municipal cadastral offices (MCOs) to deliver services by rehabilitating the MCOs and carrying out systematic registration in the Kosovo Cadastre Land Information System (KCLIS); (ii) financing the establishment and maintenance of a Continuous Operating Reference Network (CORN) to provide a single source of reference points to surveyors; (iii) supporting institutional reform by upgrading the legal and normative framework and promoting the greater financial self-sufficiency of the Kosovo Cadastre Agency (KCA); and (iv) training KCA and MCO managers and staff, the project coordination office, private surveyors, and other key stakeholders in management, planning, legal, technical, and administrative subjects.

Results achieved and expected:

- The textual component of the Kosovo Cadastre Land Information System (KCLIS) has been installed in all offices and the graphical component is being rolled out.
- The Kosovo Positioning System (KOPOS), which receives satellite signals and provides data for GPS equipment, is operational and used by both private and public sector users.
- The third round of contracts for cadastre reconstruction (CR) work have been contracted and field work began towards the end of 2014.
- Mobile gender teams have been introduced into the CR process to ensure women are registered as owners.
- The legal analysis for KCA's sustainability and institutional reform will be completed by June 2015.
- 20 municipal cadastral offices have been reengineered and four remaining offices are in the process of rehabilitation.
- The National Spatial Data Infrastructure Strategy (NSDI) is under development.
- If the Bank receives a restructuring request, the project will be extended by 18 months to January 2017.

Key Partners: The Bank team works closely with the Ministry of Environment and Spatial Planning, MCOs, other municipal structures, and the KCA. The Government of Norway continues to support the KCA and a new USAID project is providing support for legal reforms and capacity building for land administration activities. GIZ provides support to key municipal cadastral offices.

KOSOVO: FINANCIAL SECTOR STRENGTHENING AND MARKET INFRASTRUCTURE PROJECT (FSSMIP)

Key Dates:
Original Project Approved: December 13 2007
Additional Financing Approved: June 14, 2011
Closing: June 30, 2016
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	1.8	1.4	0.4
IDA Credit	6.4	3.9	2.1
Total Project Cost	**7.8**	**5.3**	**2.5**

***Source Client Connection as of March 25, 2015.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Background: A Financial Sector Fiduciary Assessment (FSFA) conducted in May 2006 highlighted the substantial institutional weaknesses in the Central Bank of Kosovo (CBK), which is responsible for the regulation and supervision of banks and other financial institutions. These weaknesses pertained to its institutional and financial sustainability, the banking and non-bank financial institutions (NBFIs), prudential regulation, the supervision and resolution framework, and the financial sector infrastructure. The original project aimed at strengthening (i) the CBK's institutional capacity and the regulatory and supervisory framework for banks and non-banks; (ii) the microfinance industry to achieve sustainability and expand outreach; and (iii) the capacity of the Kosovo Bankers Association to provide adequate training to local banks.

Additional Financing: Following the work under the original project, further weaknesses were identified and an additional finance project was approved by the Board of the World Bank to expand the mandate of the original project. As a result, the original project (called Financial Sector Technical Assistance) was combined with the Additional Financing and renamed the FSSMIP. The Additional Financing became effective in February 2012 with the aim of further strengthening the infrastructure of the financial sector.

The Project Development Objectives are to (i) enhance the stability and development of the financial sector; and (ii) strengthen the financial sector's underlying market infrastructure. The additional components are: (i) establishment of a Real Time Gross Settlement System; (ii) establishment of a Business Continuity Center; and (iii) provision of seed funding to the Deposit Insurance Fund of Kosovo (a first for a World Bank investment project).

Results achieved: The CBK's institutional strength and sustainability has substantially improved due to the preparation of a development strategy based on market development trends and a review of the CBK's funding options, including (i) a functional assessment, and (ii) the development of a medium-term staffing plan and the revision of staff incentives. The project has also supported CBK in (i) revising the banking sector legal and regulatory framework, and (ii) providing assistance to the insurance sector with regard to third-party liability on preparing a legal framework and providing a detailed functional, supervisory, and technical assessment of compulsory third-party liability tariff liberalization. In addition, the project has supported the Banker's Association and Microfinance Association in strengthening their capacity as well as the capacity of the banking and microfinance industry as a whole. The largest component of the Additional Financing—providing seed capital to the Deposit Insurance Fund of Kosovo (DIFK) in the amount of US$4 million—has been fully disbursed and has successfully achieved its objective. DIFK is now fully operational. The project has recently been extended to June 30, 2016, mainly due to procurement delays related to the Real Time Gross Settlement System and the Business Continuity Center.

Key Partners: The Bank team works closely with the U.S. Treasury, the International Monetary Fund (IMF), and the Government of Germany through KfW.

KOSOVO: AGRICULTURE AND RURAL DEVELOPMENT PROJECT (ARD)

Key Dates:
Approved: June 14, 2011
Effective: May 3, 2012
Closing: July 31, 2017

Financing in million US Dollars:

Financier	*Financing*	*Undisbursed* (approx)*
IDA Credit	20.15	12.0
Government of Kosovo	1.00	
Beneficiaries	16.00	
Government of Denmark	8.68	3.0
Total Project Cost	**43.71**	

***Source Client Connection as of March 31, 2014.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The **Project Development Objective** is to assist the Government of Kosovo in promoting competitiveness and growth in the livestock and horticulture subsectors over the next decade through the implementation of selected measures of its agricultural strategy and institutional development. To this end, the project is supporting the following activities: (i) transferring knowledge to the rural sector; (ii) enhancing investments to promote sustainable rural development; and (iii) improving project management, coordination, monitoring, and evaluation.

Under Component 1, training is being provided to farmers, agro-processors, municipal advisors, and national extension staff, as well private advisors to help farmers and agro-processors develop sound business plans for investment support under the project. Under Component 2, the project is assisting in building the capacity of the Managing Authority and Paying Agency to implement the national Agricultural and Rural Development Program in line with EU requirements. The component also supports a Rural Development Grant Program aimed at financing investments to enhance the growth and competitiveness of the livestock and horticulture subsectors.

Key Expected Results:

- Increased number of farmers and agro-processors trained in the development of viable business plans for improving their operations
- Extension staff and municipal advisors trained in relevant agricultural production and processing techniques in the livestock and horticulture subsectors
- Increased number of farmers and enterprises applying for rural development grant support to improve their operations
- Increased number of farmers and enterprises adopting improved products and/or techniques
- Increased capacity of Managing Authority and Paying Agency to implement the Rural Development Grant Program in line with EU requirements

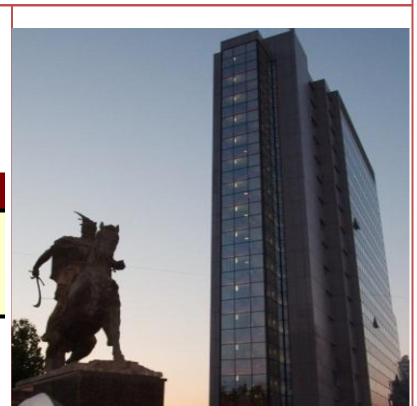
Key Partners: In addition to the Additional Financing being provided by the Government of Denmark, the Bank team is closely coordinating its work with other donors in the agriculture and rural development sector, such as the EU and USAID, to ensure complementarity of efforts.

KOSOVO: PUBLIC SECTOR MODERNIZATION PROJECT (PSMP)

Key Dates:
Approved: February 4, 2010
Effective: June 17, 2011
Closing: June 30, 2016
Financing in million US Dollars:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	3.5	2.9	0.6
IDA Credit	4.5	0.7	3.8
Total Project Cost	**8.0**	**3.6**	**4.4**

***Source Client Connection as of March 31, 2015.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Despite the considerable progress achieved in recent years, Kosovo still needs to improve public financial management and further utilize information technology to make efficient use of scarce public resources. The capacity of the civil service to attract, motivate, and retain qualified staff is a pressing constraint on the effectiveness of government institutions.

The Project Development Objective is to (i) strengthen the performance of key budget organizations in budget formulation, budget execution, and public procurement; (ii) establish the foundations for fiscally sustainable payroll management and effective human resource management in the core civil service; and (iii) create conditions for the further automation of government work processes and for the development of e-government applications.

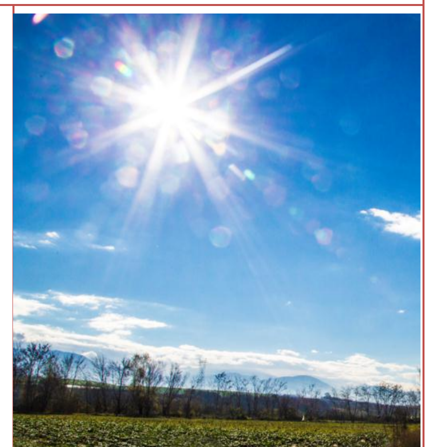
Results Achieved:

- The National Data Center was inaugurated on February 17, 2014. This investment will be the cornerstone of the e-government services, enabling citizens and businesses to benefit from faster and cheaper online services.
- Improved budget planning, execution, and monitoring will support improvements in public financial management, especially at the budgetary institutions that the PSMP is supporting (i.e., the Ministries of Health, Education, Agriculture, and Justice).
- A transparent and coherent pay and grading structure has been introduced into the civil service, supported by improved information and communications technology (ICT) systems, which enables effective fiscal and management controls in payroll administration.

Key Partners: The project was prepared in close cooperation with the Ministry of Economy and Finance (public financial management reform) and the Ministry of Public Administration (civil service reform, ICT infrastructure), which will be the key institutions responsible for project implementation.

Key Development Partners include the UK Department for International Development (DFID), which has contributed to some of the activities related to project preparation (e.g., support for drafting the civil service legislation and financial impact assessment of civil service pay reform). DFID, the EC, and USAID have also supported the development of the Public Financial Management Reform Action Plan and public procurement reform.

KOSOVO: ENERGY EFFICIENCY AND RENEWABLE ENERGY PROJECT (KEEREP)



Key Dates:

Approved: June 18, 2014
Effective: Pending, ratified by Parliament of Kosovo on March 26, 2015
Closing: August 31, 2020

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	31.0		31.0
Government of Kosovo	1.5		1.5
Total Project Cost	**32.5**		**32.5**

***Source Client Connection as of March 25, 2015.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Background: Currently, Kosovo's electricity system cannot meet the demand that is needed to fuel the country's economic growth. According to the *Doing Business 2014*, the unreliable electricity supply is among the top constraints to businesses in Kosovo. Frequent power cuts are a major obstacle to day-to-day operations and a constraint to both investment in new equipment and business expansion, in turn affecting job and employment creation and investments. Further, power production relies on two aging, unreliable lignite-fired power plants, one of which is scheduled to be decommissioned in 2017. This, along with the unsustainable heating of buildings, mostly from unmanaged, unregulated firewood and lignite-based electricity, is neither economically nor environmentally sustainable. Energy efficiency and renewable energy can help mitigate these projected power shortfalls, while enhancing Kosovo's energy security and environmental sustainability. This is consistent with the Government's National Energy Efficiency and Renewable Energy Action Plans (NEEAP, NREAP), which call for a cumulative energy savings of 9 percent by 2018 and a 25 percent renewable energy target by 2020, respectively. Such targets are in line with the European Union's energy *acquis communautaire*, as committed under the Energy Community Treaty, in the areas of climate change and environmental protection, which will require strengthening the existing regulatory frameworks and institutional capacity in support of energy-efficiency and renewable energy investments. Recent studies found a very high energy savings potential for public buildings—38–47 percent in municipal buildings and up to 49 percent in central government buildings. The moderate potential for renewable energy also exists in biomass, wind, and small hydro.

The Project Development Objectives are to: (a) reduce energy consumption and fossil fuel use in public buildings through energy-efficiency and renewable energy investments; and (b) enhance the policy and regulatory environment for renewable energy and energy efficiency. In order to realize these objectives, three components will be implemented: (i) energy-efficiency and renewable energy investments in public buildings; (ii) policy and regulatory support for renewable energy and energy efficiency; and (iii) project implementation support.

Expected Results:

- lifetime energy savings from energy-efficiency investments in public buildings (GWh)
- increased capacity of approved renewable energy regulatory licenses (MW)
- reduced fossil fuel use for heating in public buildings (toe)

Key Partners: Ministry of Economic Development, Energy Regulatory Office, Ministry of Environment and Spatial Planning.

Key Development Partners: KfW, European Commission, European Bank for Reconstruction and Development (EBRD), United Nations Development Programme (UNDP).

KOSOVO HEALTH PROJECT

Key Dates:

Approved: May 13, 2014
Effective: Pending, ratified by Parliament of Kosovo on March 26, 2015
Closing: October 30, 2019
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	25.5	0.0	25.5
Total Project Cost	**25.5**	**0.0**	**25.5**

***Source Client Connection as of March 25, 2015.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

At 40 percent of total health spending, household out-of-pocket health expenditures are high and contribute to increasing the poverty headcount—7 percent in 2011—primarily by pulling more households under the poverty line. 85 percent of household out-of-pocket spending on health is on pharmaceuticals. High household out-of-pocket health spending in Kosovo is, at least partially, a consequence of limited public spending on health, which is approximately half the Southeastern Europe and EU average. Kosovo has some of the worst health outcomes in Europe, reflecting both limited public spending on health and the poor quality of care.

The project will support health sector reforms to address these concerns. The cornerstone of these Ministry of Health–proposed reforms is a mandatory health insurance scheme to reduce catastrophic health spending, particularly for the poor. The health insurance scheme is also expected to raise additional revenues for the health sector, therefore creating opportunities to improve the quality of care, including in primary care, through performance-based contracting.

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

Expected Results:

- Improved financial protection and access to health services among the poor via enrollment in mandatory health insurance;
- A functioning outpatient drug benefit scheme to reduce out-of-pocket spending on drugs in private pharmacies, which account for 85 percent of all household out-of-pocket health spending; and
- The improved quality of primary care services through performance-based contracting between municipalities and the Ministry of Health/Health Insurance Fund.

Key Partners: The project was prepared in close cooperation with the Ministry of Health, which will be responsible for project implementation in conjunction with the future Health Insurance Fund and participating municipalities.
Key Development Partners: The Swiss Agency for Development and Cooperation (SDC) and Luxemburg Development Cooperation are key health sector partners. SDC Kosovo supported technical assistance and analysis focused on the proposed health sector reforms, therefore facilitating rapid project preparation. An SDC-supported hybrid Trust Fund for US$2 million was established in March 2015 to support complementary health sector reforms, including to improve drug procurement systems and poverty-targeting mechanisms. Luxemburg Development Cooperation is involved in information systems improvements and other reforms that complement the Kosovo Health Project's areas of focus.

KOSOVO: BALKAN RENEWABLE ENERGY PROJECT (BREP) (IFC)

Key Dates:

Approved: July, 2012
Effective: July, 2012
Closing: June 31, 2016
Financing in million US Dollars:

Financier	Financing
Austrian Ministry of Finance	7.0
Total Project Cost	**7.0**

The Project Development Objectives are: to enable the creation of a renewable energy (RE) market and support the development and financing of RE initiatives in Western Balkan countries. Through the project, IFC aims to address the market barriers in these countries in order to enable investments in RE projects by working on legislation with developers and through financial intermediaries.
This will be achieved through a programmatic staged approach to be carried out through the following objectives:

- **Objective 1**: Regulatory Level: Improve the existing regulatory framework to enable RE sponsors to develop and construct feasible electricity generation capacities. Although the general focus will be at small hydropower plants (SHPPs), in Serbia and Kosovo it will be extended to wind and biomass, respectively.
- **Objective 2**: Sector/Firm Level: Work with renewable energy sponsors to improve their designs and business plans, thus increasing the bankability of their projects. The program will also merge experienced international companies with local developers.
- **Objective 3**: Sector/Financial Institutions Level: Work with selected banks to improve their internal capacities and knowledge of project financing and renewable energy and assist them in launching sustainable and dedicated renewable energy credit lines.

Expected Results:
IFC BREP supported the Energy Regulatory Office (ERO) on the preparation of the following documents that will contribute to the improvement of the renewable energy regulatory framework: Standardized Contract Agreement (SCA), Standardized Power Purchase Agreement (SPPA), recommendation for the rule of the support scheme, and recommendation for the rule of the Certificate of Origin. IFC BREP has also developed feed-in tariff methodology for solar power plants and trained the Client's staff to adopt the methodology for future use.
In December 2014, ERO started with the adoption of proposed improvements. The first ERO's step was to improve the Rulebook on Supporting Scheme for Renewable Energy by adding one more technology in it. Namely, based on the software tool and the report prepared by our team, ERO included subsidies for photo voltaic (PV) technology. Interestingly, ERO started receiving requests for PV plants and planned quota (10MW) is already fulfilled with several requests.
Other documents drafted with our technical support (standardized power purchase agreement (PPA), standardized grid connection agreement (GCA) and two rules that will support certification of guarantees of origin (GoO)) expected to be adopted in the first half of 2015.
Investments in the energy sector are one of the main priorities of the Government. Despite the limited RE potential, a number of RE projects have been identified. The lack of investments in RE projects indicates the need to improve the investment climate in the RE sector and this is where BREP will contribute to its program objectives.
Several RE sponsors and developers in Kosovo have met to discuss the modalities of cooperation on project preparation, environmental and social studies, and the cross-checking of existing designs.
Only a few banks in Kosovo are offering project financing and green credit lines, such as Procredit Bank and Raiffeisen, but these are not focused on RE financing. This indicates a market need for technical assistance services to banks to work on the capacity building of the banking sector in order to increase the lending volume for RE projects.
BREP organized the workshop "Support to Renewable Energy Sector in Kosovo," presenting BREP products for supporting the banking sector in Kosovo. The workshop attracted the interest of the local banks, and it is expected that BREP will cooperate those that are interested.
The expected impacts of BREP in the region to be achieved one–two years post-completion are:
To facilitate at least US$200 million of investment in RE construction (out of which US$20 million to be provided by IFC); to support the construction of RE power plants with total installed capacity of 150 MW; and to directly avoid 0.3 million tons of CO_2 per year.

Key Partners: MED, MESP, ERO, KOSTT, Kosovo Chamber of Commerce, KfW, USAID, EU.

KOSOVO: INVESTMENT CLIMATE PROJECT (IFC)

Key Dates:

Approved: January 21, 2013
Closing: March 31, 2016
Financing in million US Dollars:

Financier	*Financing*
IFC (SECO and the Government of Austria)	2.4
Government of Kosovo	0.1
Total Project Cost	**2.5**

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The goal of the Kosovo Investment Climate Project is to improve the country's investment climate for domestic and foreign investors. The project will link, in a programmatic manner, business regulatory, investment policy, and industry-specific work in agribusiness to maximize impact. It is a targeted intervention building on IFC strengths and addressing government priorities and the needs of the private sector in Kosovo.

The objectives are to:

- Reduce the administrative burden on businesses and improve the competitiveness of the Kosovo economy
- Help increase investment levels and foreign direct investment (FDI) inflows, in particular in employment-intensive sectors

Expected Results:

Business Regulation activities are aimed at reducing administrative compliance costs for businesses, closing the implementation gap, and improving the competitiveness of the Kosovo. Some of the achievements include:

- The projected supported the GoK to draft the Law on Permits and Licenses and the Better Regulation Strategy 2014 - 2020;
- At the central level, an e-registry of licenses, permits, approvals, and certifications has been compiled and is ready to be published. This will increase transparency of regulations. As the project continues, it will focus on recommending simplification of regulations in the area of agribusiness.
- At the local level, the project is working with the Municipalities of Gjilan, Ferizaj, Gjakova and Prishtina. In all municipalities recommendations have been provided for simplification of administrative procedures. The Municipality of Gjilan has already implemented some of the changes while the project is supporting the rest of the municipalities. E-registers of all administrative procedures will be published and will be open to the public;
- A training plan for the introduction of Regulatory Impact Assessment is already in place and will be implemented in the next year.

Investment Policy activities aim to provide a sharper focus on the country's economy-wide investment policy reform and FDI attraction efforts and address key bottlenecks to attracting more and higher-quality FDI. Some of the achievements include:

- The project supported the GoK to design the Investment Reform Map, a strategic approach to attracting FDI in Kosovo;
- Support was given to draft the Law on Foreign Investment which introduced changes in line with best practices and the team negotiating Bilateral Investment Treaties received a series of trainings to support its capacity building;
- An of fiscal and non-fiscal incentives for investors was created thus contributing to increased transparency, improved governance in incentives administration, and the creation of a level playing field for investors;
- An Investor Perception Survey was completed and discussed with stakeholders;
- The procedures for work permits for foreign employees were simplified and guides were publish to illustrate the new procedure.
- The Kosovo Investment and Enterprise Support Agency was supported through capacity building activities especially focusing on creating an aftercare program for existing investors.

Key Partners: Ministry of Trade and Industry, the Prime Minister's Office, Kosovo Business Registration Agency, Investment Promotion Agency and municipal structures, National Council for Economic Development, and GIZ.

KOSOVO: WESTERN BALKANS TRADE LOGISTICS PROJECT (IFC)

Key Dates:

Approved: September 2011

Effective: February 2012

Closing: April 2015

Financing in million US Dollars:

Financier	Financing	Disbursed	Undisbursed
European Commission	1.90	1.90	.00
WBG ($255k), Austria, FIAS ($450k), Country contributions ($85k)	**.79**	.71	.08
Total Project Cost	**2.69**	2.61	.08

Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

The Project's Objective has been to reduce the number of documents and days needed for goods to cross regional borders, through more streamlined export, import, and transit procedures; closer and more harmonized interagency cooperation in country and between countries; and the wider use of electronic systems for data exchange and risk-based controls and trade logistics–related payments. Faster border clearance procedures will enhance the competitiveness of the private sector in the region through more efficient access to regional and global markets. To date, the project, operating in Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia, has generated $7m in private sector savings. .

Project Achievements:

Transit Agreement: The Project provided technical assistance in support of the conclusion of a trade and transit facilitation agreement between the Governments of Kosovo and Albania in January 2014. It also helped Albania Customs upgrade its version of Asycuda World to Kosovo's version for greater ease of communication and data exchange. As a result of these simplifications, a significant reduction in the time needed to transit from one country to the other, from previously up to 2 days to one half hour, is expected.

Customs Brokers Reform: Technical Assistance to Kosovo Customs in support of regulating the customs brokers profession in Kosovo. Legal review of draft instruction, comparison of the customs brokers systems in Kosovo, Albania, Slovenia; expert support during study visit to Slovenia customs; Roadmap for implementation of customs brokers training, licensing, and continuing education.

Risk Management Improvements: Workshop and hands-on training with the Kosovo Food and Veterinary Agency on the development of risk criteria and risk profiles to imported products for the application of risk based controls on import; review of, and recommendations for improvement of, Kosovo Customs risk management and post clearance audit procedures

Improvement in Trading Across Borders rankings: Between 2012 and 2015, Kosovo achieved reductions in time to export (17-15), time to import (16-15), in the number of documents required to import (8-7), and in the cost to import and export (partial project attribution)

Project Regional Initiatives benefitting Kosovo

- Mapping of clearance procedures for agribusiness products at major border crossing points in the region;
- Analysis of documents required by regional SPS agencies on import of dairy products and benchmarking to them against the EU documents;
- Regional Post Clearance Audit Workshop with WCO experts;
- Support to CEFTA Working Group on Risk Management;
- Establishment of regional forum for customs and SPS agencies to discuss trade facilitation issues.

Key partners in Kosovo: Ministry of Trade and Industry, Kosovo Customs, Kosovo Food and Veterinary Agency, Kosovo Chamber of Commerce, AMCHAM

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