



The World Bank in Kosovo

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Unlocking Kosovo's Growth Potential



By *Jan-Peter Olters*

World Bank Country Manager in Kosovo

It seems contradictory. Kosovo's economy has grown about twice as fast as countries in Central and Eastern Europe (even when including buoyant Turkey), but its unemployment rate refuses to budge, remaining at levels roughly four times the regional average. What seems particularly concerning is the fact that joblessness, during the last six years, has remained fairly stable, despite average GDP growth rates of around five percent (at which rate income doubles every fifteen years). If this growth performance were maintained or improved upon and an understanding of the root causes for the unemployment puzzle found, it would represent a critical ingredient to economic policies that would ensure that families suffer a little less from uncertain income streams, persistent poverty, and the lack of a professional perspective (even among the young and educated).

To allow Kosovo's economy from using—effectively and intelligently—its natural resources and the valuable talents of its people, the key question to all stakeholders relates to measures that need to be taken to unleash the full potential of Kosovo's economy and ensure that living standards approach (possibly surpass) those in neighboring countries. As the external economic environment appears to be deteriorating rapidly (reflecting growing concerns over the effects from large fiscal deficits and unsustainable levels of public debt on either side of the Atlantic), it seems critical to re-assess recent experiences and develop a broad-based understanding of economic-policy priorities over the medium-term horizon.

Available data suggest that two principal factors have fuelled economic growth in recent years, namely

government spending and, with gradually decreasing weights, transfers of funds by the diaspora. In an attempt to untie the puzzle of Kosovo's largely jobless growth experience and draw the appropriate policy lessons from it, it would be important to know whether related resources were spent more on consumer items or those with investment characteristics. In the former case, businesses and (potential) investors would not have any particular reason to adjust their profit expectations upwards and thus refrain from recruiting additional staff. Such a situation would be consistent with low growth rates in productive activities and an increasing reliance on goods and services imported from abroad. And here seems to be the crux of the economic conundrum. If the exports of goods and services pay for only a small fraction of imports and if the implementation of large-scale public investments do not provide a sufficiently large demand stimulus (as they rely heavily on foreign inputs), it is the efficiency of production that is the core problem. At least, this is the case if the situation is not a temporary phenomenon, as frequently seen during periods of transition and economic catch-up, but a permanent feature reflecting low productivity (that is, the low quantity and/or quality of output relative to the labor, technology, and capital that is required to produce/provide it).

Such a relationship is measured by the external current account balance, or the difference in the total value of exports of goods and services (including transfers and remittances) and imports. This widely quoted indicator of international competitiveness is a particularly binding constraint for countries that have either fixed their exchange rate to another currency (as is the case in Bosnia-Herzegovina or Macedonia) or are using someone else's currency altogether (like Kosovo or Montenegro). In such a situation, policymakers are precluded from using currency depreciation as an instrument to boost international competitiveness and/or offset wage increases in excess of productivity growth. In a euroized economy, structural challenges—irrespective of their inherent "political" costs—need to be addressed head on. The euroization of Kosovo's economy is not negative per se (in fact, it comprises a number of considerable

advantages), it “only” implies that, over a longer-term horizon, today’s decisions on economic policies will converge to either of two possible outcomes. In a positive scenario, coordinated reform efforts of the public and private sectors will help to lay the foundation for a strong, competitive economy that is increasingly able to compete successfully domestically and sell its goods and services in foreign markets. If not, the country will continue to struggle with the interplay of low productivity, deficits in the external and fiscal balances, and an economic trajectory not unlike that of Greece (and, to a lesser degree, in other countries in the eurozone’s Southern periphery).

The bar seems high, but the challenge, in Kosovo’s case, appears more daunting on first glance than it actually is. To be successful, the country would need to exploit the so-called “latecomer advantage” and narrow the gap in infrastructure, technology, and skills with higher-income countries quickly. In short, it would need to absorb the relevant standards and their experiences. Why reinvent the wheel? But for this to work (that is, to increase productivity at a sufficiently dynamic pace to allow vacancies and wages to increase), it appears most effective to concentrate efforts on attracting strategic domestic and foreign direct investments from companies that are able to bring in capital as well as technology and know-how. This means that the quality of investors matters as much as the funds that they are able to bring into the country as only the joint effects from these three aforementioned elements will be able to lift productivity and competitiveness of an economy at Kosovo’s stage of development. That, in turn, would lead to increased profit expectations and, as such, would trigger sustainable growth and lead to more and better paid jobs.

In many respects, investors are easy to understand. Their motivations are clearly defined and consistent across origin, sector, and firm size. To consider Kosovo as a possible location for investment, entrepreneurs need to have confidence in their ability to amortize their outlays within a reasonable period of time and earn profits thereafter. The “confidence” aspect is critical, especially for domestic or foreign factory owners whose networks do not reach into the highest echelons of government. Countries tend to be more successful in attracting investments if investors have developed trust in institu-

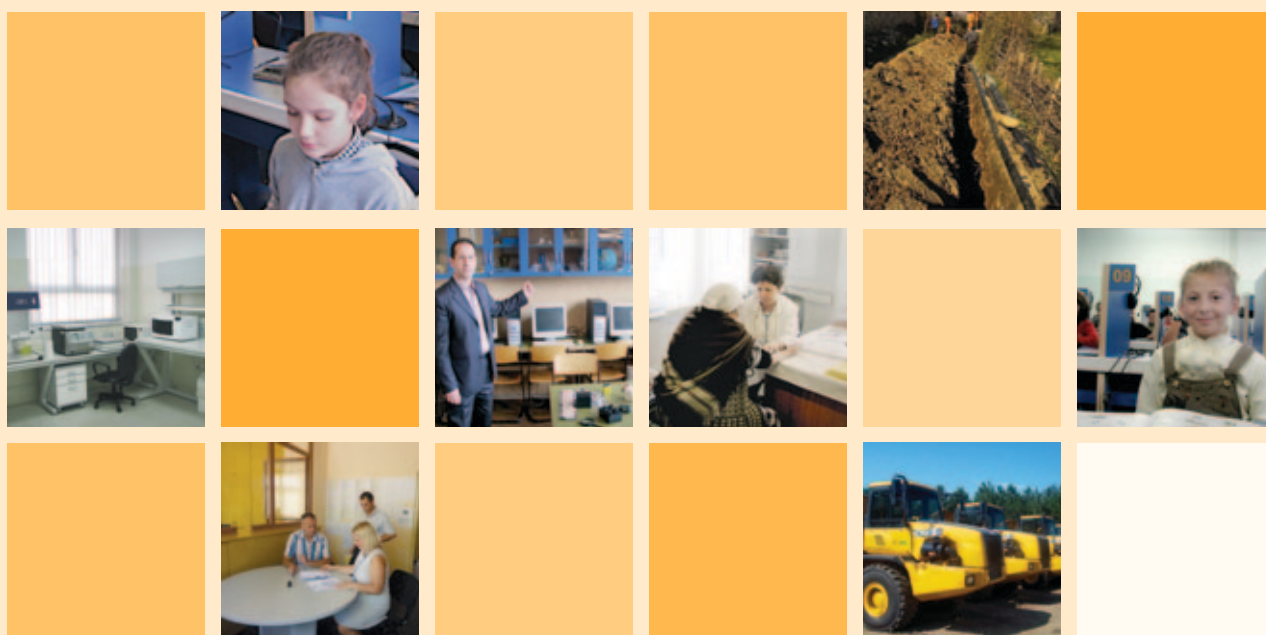
tions and the uniform applicability of laws, rules, and regulations. This is often referred to as a country’s “soft” infrastructure. In Kosovo’s case, high-quality, productivity-increasing investments have happened in the—professionally supervised—banking sector, but they remain outstanding in several other potential growth areas.

Further progress in this direction would thus require a focus on the consistent improvement in all elements of successful policymaking, including prudent macro-fiscal management, the proper preparation and sequencing (public) infrastructure, the continued focus on education, governance-related challenges, and the broader institutional investment environment. The latter “umbrella” term comprises features of the economy that relate to the available skills in the labor market, rule of law, the definition and enforcement of property rights (including for real estate), and a properly functioning court system. It is thus not surprising that the European Commission’s recently published Progress Report highlights these very areas as priorities for reform. As such, the document provides critically important input to the derivation of strategic medium-term policy priorities, which, if implemented, will serve two purposes at once, namely to facilitate the realization of Kosovo’s overarching political objective (EU integration) and economic policy goals (more jobs and better living conditions). While much narrower in scope, the World Bank’s recently published “Doing Business” survey has identified similar challenges, pointing to institutional challenges (such as “dealing with construction permits” and “protecting investors”) as subcategories requiring most urgent policy responses.

There is no single policy measure that can foster the increase in productivity, allow for tangible employment growth, and improve overall living conditions. The key to success lies in a series of reforms aimed at strengthening schools and universities, the legal framework, the functioning of public institutions, and the quality of services provided by the public administration—and all that within a sustainable budgetary framework. It remains an arduous journey, but a clear vision of direction is half the success. To use a 2000-year-old quote from Roman philosopher Lucius Annaeus Seneca, “if one does not know to which port one is sailing, no wind is favorable.”

Contribution in Kosovo since 1999 and Active Portfolio

The World Bank
in Kosovo



World Bank Program in Kosovo

Since 1999, the World Bank has provided and/or managed around US\$400 million to Kosovo through more than 30 operations, including trust funds. As of March 1, 2012, there are seven active lending operations with commitments totaling US\$76.8 million and four Trust Funds with total commitments of US\$8.9 million. They provide support in a wide array of sectors, including environmental clean-up and land reclamation, education, public-sector reform, business environment, cadastre, agriculture, social inclusion, and financial-sector strengthening. Since Kosovo was not a member of the World Bank before June 2009, all Kosovo operations supported by the Bank prior to that were financed through grants from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund, and the International Development Association (IDA).

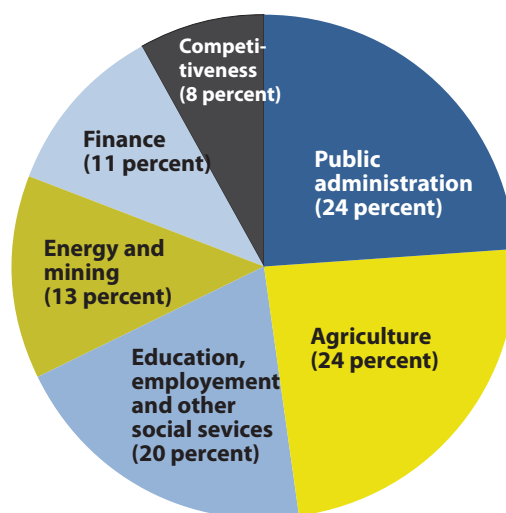
Following a series of Interim Strategy Notes, the World Bank Group (WBG) has adopted the first four-year Country Partnership Strategy (CPS) for Kosovo, on May 29, 2012, representing the framework of cooperation between the World Bank Group and the Government of Kosovo. The CPS proposes a strategic set of activities focused on (i) accelerating broad-based economic growth and employment generation; and (ii) improving environmental management.

The two operations of the Sustainable Employment Development Policy Program (SEDPP) have aimed at supporting the Government in maintaining a stable macro-fiscal framework and improving the conditions for sustainable employment. Through the various SEDPP-inspired reforms, the Government has increase the transparency, accountability, and management of public expenditures, and laid the institutional and legislative foundations Kosovo needs for sustainable employment and growth. The first

SEDPP operation, in the amount of US\$34 million, was disbursed in December 2011, while the second SEDPP tranche, a US\$49-million grant, was paid out in June 2012.

A number of World Bank-financed projects have complemented the budget support operation aimed at reinforcing the business climate and competitiveness—especially the (i) Financial Sector Strengthening and Market Infrastructure Project; (ii) the Public Sector Modernization Project; (iii) the Business Environment Technical Assistance Project; (iv) the Real Estate Cadastre and Registration Project; (v) the Agriculture and Rural Development Project; and the (vi) the Institutional Development for Education Project. The energy sector is going to become a central element of the Bank's assistance in Kosovo. 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.

Current portfolio by sector



What We Are Doing Now

■ INSTITUTIONAL DEVELOPMENT FOR EDUCATION PROJECT (IDEP)

■ Key Dates:

Approved: December 13, 2007

Effective: December 14, 2007

Closing: June 30, 2013

Financing in million US Dollars*:

FINANCIER	FINANCING	DISBURSED	UNDISBURSED
IDA Grant	10	4.7	5.1
GoK	0.7		
TOTAL PROJECT COST	10.7		

*Source Client Connection as of June 2012.

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



In Kosovo's complex social, historical, geographical, and economic circumstances, improvements in the education sector can help to form the foundations of peace, poverty reduction, and economic growth. Education is one of the few sectors where these strategic ambitions have been articulated into detailed and credible sector development plans.

The Project Development Objective is to strengthen systems, institutions, and management capacities needed for education quality improvements. The long-term overall goal is to support the Government in the implementation of the Strategy for the Development of Pre-University Education in Kosovo and the Strategy for the Development of Higher Education. The Project addresses (i) the organization and financing of the education system in Kosovo; (ii) building institutions and managing capacities to promote quality improvements in primary and second-

ary education; (iii) creating conditions to introduce efficient and appropriate designs and reduce multiple shifts in Kosovo's schools; and (iv) strengthening the management capacity at system and institutional levels for higher education.

■ ENERGY SECTOR CLEANUP AND LAND RECLAMATION PROJECT (CLRP)

■ Key Dates:

Approved: June 13, 2006

Effective: February 28, 2007

Closing: December 15, 2012

Financing in million US Dollars*:

FINANCIER	FINANCING	DISBURSED	UNDISBURSED
IDA Grant	10.5	7.7	3.3
Dutch Government Grant	4.3	4.2	0.8
TOTAL PROJECT COST	14.8		

*Source Client Connection as of June 2012.

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 the ash dumps near the capital city of Pristina, is 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

Contribution in Kosovo since 1999 and Active Portfolio

to environmental health risks. In addition, the sizeable 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 environmental legacy issues problems related to open dumping of ashes on land; (ii) enable KEK to free land for community development purposes currently taken by overburden material and enable KEK to remediate Kosovo A ash dump; and (iii) initiate structural operations in KEK for continued clean-up and environmentally good practice mining operations. The project aims at supporting the Kosovo Government and Kosovo Energy Corporation (KEK) in promoting higher standards in environmental protection and social sustainability in the energy sector.

■ FINANCIAL SECTOR STRENGTHENING AND MARKET INFRASTRUCTURE PROJECT (FSSMIP)

Key Dates:

Original Project Approved: December 13 2007

Additional Finance Approved: June 14, 2011

Closing: June 30, 2014

Financing in million US Dollars*:

FINANCIER	FINANCING	DISBURSED	UNDISBURSED
IDA Grant	2.00	1.1	0.9
IDA Credit	6.85		
TOTAL PROJECT COST	8.85		

*Source Client Connection as of June 2012.

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



A Financial Sector Fiduciary Assessment (FSFA) conducted in May 2006 highlighted substantial institutional weaknesses in Central Bank of Kosovo (CBK) responsible for the regulation and supervision of banks and other financial institutions. Weaknesses pertained to its institutional and financial sustainability; the banking and non bank financial institutions (NBFIs), prudential regulation, supervision and resolution framework and the financial sector infrastructure. The original project aimed at strengthening (i) 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 Banker's Association to provide adequate training to local banks.

Following the work under the original project, further weaknesses were identified and an additional finance project was approved by the World Bank's Board of Executive Directors to expand the mandate of the original project. As a result of the additional finance, the original project (called Financial Sector Technical Assistance) was combined with the additional finance and renamed the FSSMIP, seeking 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) the establishment of a Real Time Gross Settlement System; (ii) the establishment of a Business Continuity Center and (iii) the provision of seed funding to the Deposit Insurance Fund of Kosovo (a first for a World Bank investment project).

Contribution in Kosovo since 1999 and Active Portfolio

■ PUBLIC SECTOR MODERNIZATION PROJECT (PSMP)

Key Dates:

Approved: February 4, 2010
 Effective: June 17, 2011
 Closing: June 30, 2013
 Financing in million US Dollars:

FINANCIER	FINANCING	DISBURSED	UNDISBURSED
IDA Grant	3.6	0.1	3.5
IDA Credit	4.4	0	4.4
TOTAL PROJECT COST	8.00		

*Source Client Connection as of June 2012.
 Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.



Despite considerable progress achieved in the past few 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 also a pressing constraint to the effectiveness of Government institutions.

The project aims at (i) strengthening the performance of key budget organizations in budget formulation, budget execution, and public procurement; (ii) establishing the foundations for fiscally sustainable payroll management and effective human resource management in the core civil service; and (iii) creating conditions for further automation of government work processes and for development of e-government applications.

■ 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	6.74	0.3	6.44
IDA Grant	5.51		5.51
Government of Kosovo	1.61		1.61
TOTAL PROJECT COST	13.86		

*Source Client Connection as of June 2012.
 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 war in 1999, thousands of homes were damaged or destroyed, up to 75,000 properties were abandoned, land records were destroyed and others were 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, which was illegally occupied as a result of the conflict, are still being processed by the Kosovo Property Agency). Real property is now private, socially-owned, state-owned, or owned by publicly-owned enterprises, mostly 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 being developed, property rights transaction often go

Contribution in Kosovo since 1999 and Active Portfolio

unregistered until there is a need for documentations for a procedure or loan, and then the registered owner may not be available.

The project is to help to develop Kosovo's land and property markets and to improve tenure security. The project addresses a range of issues by (i) supporting the improvement of the capacity of Municipal Cadastre Office (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 greater financial self-sufficiency for the Kosovo Cadastre Agency (KCA); and (iv) training for KCA and MCO managers and staff, the project coordination office, private surveyors, and other key stakeholders in management, planning, legal, technical, and administrative subjects.

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■ AGRICULTURE AND RURAL DEVELOPMENT PROJECT (ARDP)

Key Dates:

Approved: June 14, 2011

Effective:

Closing: July 31, 2017

Financing in million US Dollars:

FINANCIER	FINANCING	DISBURSED	UNDISBURSED
IDA Credit	20.15		
Government of Kosovo	1.00		
Local Beneficiaries	13.88		
TOTAL PROJECT COST	35.03		

*Source Client Connection as of September 1, 2011.

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



The project seeks to assist the Government of Kosovo to promote competitiveness and growth in the livestock and horticulture sub-sectors over the next decade through implementation of selected measures of its agricultural strategy and institutional development. Towards this, the project will sup-

port Transfer of Knowledge to the Rural Sector and Investments to Promote Sustainable Rural Development through rural development grants and capacity building of the Ministry of Agriculture Forestry and Rural Development

List of World Bank funded active projects

PROJECT NAME	BOARD APPROVAL	REVISED CLOSING	AGE IN YEARS	ORIG. COMMITMENT \$
Institutional Development for Education Project	December 13, 2007	June 30, 2013	4.4	10.00
Public Sector Modernization	February 4, 2010	June 30, 2013	2.2	8.00
Business Environment TA Project	June 14, 2005	May 31, 2012	6.9	7.00
Kosovo, Financial Sector TA	December 13, 2007	June 30, 2014	4.4	8.90
Agriculture and Rural Development	June 14, 2011	July 31, 2017	0.9	20.20
Real Estate Cadastre	February 4, 2010	July 31, 2015	2.2	12.30
Energy Sector Clean-Up and Land Reclamation	June 13, 2006	June 30, 2012*	5.9	10.50
			3.7	76.9

*to be extended to 12/31/2013 to allow for additional activities under a proposed Additional Financing

TRUST FUND NAME	NET GRANT AMOUNT US\$000	GRANT CLOSING DATE	DONOR
TA Service to Central Bank of Kosovo	498	FY12	MDTF
Carbon Capture and Storage Capacity Building	400	FY12	MDTF
Kosovo Second Sustainable Employment Development Policy Operation	17,000	FY12	MDTF
Kosovo Second Sustainable Employment Development Policy Operation	30,000	FY12	IBRD
Building Stakeholder Support for Public Private Partnership in the Energy Sector	150	FY13	MDTF
Health results based financing Knowledge and Learning Grant	125	FY13	MDTF
Youth Grant for Youth Employment	846	FY13	Italy
Energy Sector Clean up	1,165	FY14	Netherlands
Second Youth Development Project - State and Peace Building Trust Fund	2,000	FY14	MDTF
Social Inclusion and Local Development - State and Peace Building Trust Fund	4,900	FY14	MTDF
Agriculture Rural Development Grant	9,200	FY15	Denmark

Supporting Sustainable Employment

The Minister of Finance of the Republic of Kosovo, Bedri Hamza, and the World Bank's Country Manager for Kosovo, Jan-Peter Olters, have signed on May 11, 2012, the Letters of Agreements for the Second Sustainable Employment Development Policy Operation (SEDPO-2), a multi-donor-financed budget support grant for Kosovo in the total amount of approximately €36.5 million.

The funding comprises €23 million in grant funds from the World Bank, approved by its Executive Directors on May 3, 2012, and additional grants of about €13.5 million provided by bilateral and multilateral donors (European Union, Czech Republic, Denmark, Estonia, Finland, Italy, Norway, Sweden, Switzerland, and the United States). This operation is the largest joint financing activity in Kosovo, which has helped to limit transaction costs for the Government and the 10 donors.

"With the Sustainable Employment Development Policy Program (SEDPP), the donors have provided the Government of Kosovo with an important

impetus to redress macro-fiscal imbalances and overcome some of the key constraints to creating sustainable employment," said World Bank's Manager for Kosovo, Jan-Peter Olters, at the signing ceremony.

"This is helping to unleash Kosovo's socio-economic development potential and reduce poverty," he added, "which is tremendously important in a country with one of the highest unemployment rates and lowest per capita income levels in Europe."

Grant funding was provided by the European Union, Czech Republic, Denmark, Estonia, Finland, Italy, Norway, Sweden, Switzerland, and the United States. The SEDPP has supported a comprehensive set of policy reforms that have been identified by all participating donors as critical to support the objectives of promoting macroeconomic stability and creating sustainable employment. The support was divided in two operations, of which the first one disbursed €23.8 million in December 2011.

Specifically, the reforms undertaken in the context of SEDPO-2 have (i) improved the investment climate and addressed key bottlenecks to firm entry and growth by easing business registration and improving access to finance; (ii) strengthened



■ The signing ceremony at the World Bank office in Pristina, on May 11, 2012

Contribution in Kosovo since 1999 and Active Portfolio



■ Grant funding was also provided by the European Union, Czech Republic, Denmark, Estonia, Finland, Italy, Norway, Sweden, Switzerland, and the United States.

procurement and public financial management to increase transparency and improve budget execution; (iii) developed civil service pay/grading structure to improve payroll management; (iv) bolstered labor-market institutions to provide targeted services to unemployed persons and social assistance recipients; and (v) increased the quality and relevance of vocational education institutions to raise productivity and reduce employer uncertainty.

The policy reform agenda enjoyed strong Government ownership across Ministries and Central Bank of the Republic of Kosovo. The Inter-Ministerial Com-

mittee for Sustainable Employment coordinated the joint efforts by the Ministries of Trade and Industry, Finance; Labor and Social Welfare; Education, Science and Technology, and Public Administration, with the Deputy Prime Minister's leadership in coordinating the Inter-Ministerial committee having proven essential to the program's success.

SEDPO-2 represents an important element of the proposed World Bank Group's Country Partnership Strategy (CPS) for Kosovo during 2012–15, which focuses as one of two main pillars on inclusive growth and employment generation. Funds will be made available as the Government has implemented the agreed policy reforms focusing on improved transparency, budgetary and fiscal management, and sustainable employment.

The Letters of Agreements for the First Sustainable Employment Development Policy Operation were signed by the World Bank Country Director for South-eastern Europe, Jane Armitage, and the Minister of Finance of Kosovo, Bedri Hamza, in Pristina, on March 11, 2011. The agreements were ratified by the Parliament of Kosovo on May 6, 2011.



■ The World Bank Country Director for Southeastern Europe, Jane Armitage, and the Minister of Finance of Kosovo, Bedri Hamza, sign the Letters of Agreements for the First Sustainable Employment Development Policy Operation.

First Country Partnership Strategy for Kosovo and Policy Dialogue

The World Bank
in Kosovo



World Bank Group's First Country Partnership Strategy for Kosovo

The World Bank's Board of Executive Directors on June 29, 2012, welcomed the World Bank Group's first Country Partnership Strategy (CPS). The strategy covers the years 2012–15 and supports Kosovo in accelerating economic growth, creating jobs, and improving environmental management. The choice of projects takes into account the country's overarching objective of accession to the European Union.

The Board endorsed the World Bank's proposed support to Kosovo. Executive Directors supported the strategy's selective focus on accelerating broad-based economic growth and employment generation and improving environmental management. They appreciated the focus on helping Kosovo to address its severe electricity constraints, with a view to balancing the objectives of energy security, energy affordability, and minimal socio-environmental externalities. The Board underlined the importance of taking full account of environmental considerations, while mitigating risks and impacts in line with World Bank standards. Directors welcomed the efforts undertaken to minimize the need for coal-fuelled

■ Directors broadly supported the CPS and its selective focus to accelerate broad-based economic growth and employment generation and to improve environmental management. In this context, Directors appreciated the focus of the CPS on helping Kosovo address its severe electricity constraints with a view to balancing the objectives of energy security, energy affordability, and minimal socio-environmental externalities. In this regard, Directors emphasized the importance of taking full account of environmental considerations, mitigating risks and impacts, and observing all Bank Group safeguard policies. Directors welcomed the efforts undertaken to minimize the need for coal-fuelled power, expressing fullest support for proposed CPS investments in energy efficiency and in renewable energy.

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■ The meeting room of World Bank's Board of Executive Directors.

First Country Partnership Strategy for Kosovo and Policy Dialogue

Ongoing work to reduce environmental hazards in Kosovo will continue and help move Kosovo toward EU environmental standards. A new project to enhance water supply is also planned. The strategy contains financial, technical, and analytical support for Kosovo to improve its business climate, upgrade infrastructure, and continue to support the country's agriculture sector. The World Bank will also continue to invest in education and skills building, the regulatory and institutional frameworks for labor and social protection, and public financial management and anti-corruption efforts. It is expected that International Development Association (IDA) funding for the CPS will be about US\$76 million, supplemented by about US\$66 million in grant funds channeled through IDA by donors. In addition, the International Finance Corporation (IFC), the World Bank's private sector arm, aims to provide around US\$40–50 million in direct financing to the private sector as well as additional funds for advisory services. The World Bank Group will also continue to support a broad development

agenda through a robust program of analytical and technical assistance.

“With high rates of poverty and unemployment, particularly among youth and women, Kosovo's central development challenge is to create the preconditions for inclusive, sustainable growth,” said Jan-Peter Olters, World Bank Country Manager for Kosovo. “Education and private sector investments are critical elements in a strategy that aims at generating high-quality jobs,” Olters added. “Kosovo realizes that important infrastructure constraints and other systemic issues will have to be addressed to attract investments of the scale and scope necessary to increase the economy's overall productivity.”

The first CPS with Kosovo—closely aligned with national development priorities—follows a series of Interim Strategy Notes (ISNs) that have been implemented with the World Bank Group over the last decade.

	IDA	GRANT-FUNDED OPERATIONS	TOTAL
FY12			
SEDPO2	0	47	
Agriculture and Rural Development AF		9.2	
FY12 Total	0	56.2	56.2
FY13			
Energy Efficiency and Renewable Energy	32.5	0	
AF for Energy Sector Clean-up and Land Reclamation	3.2**	0	
FY13 Total	35.7	0	35.7
FY14			
Education Improvement Project	10		
PRG for KRPP and Kosovo B	14.5 (58.0)*		
FY14 Total	24.5	0	24.5
FY15			
Water Supply	18	0	
FY15 Total	18	0	18
OVERALL TOTAL	78.2	56.2	134.4

*Only 25 percent of total PRG amount is counted. **includes US\$2.2 m re-allocated from cancelled LPTAP funds.

Vice President Discussed the Partnership Strategy with Parliament

The World Bank's Vice President for Europe and Central Asia, Philippe Le Houérou, accompanied by Country Manager Jan-Peter Olters, met on April 4, 2012, with the Speaker of the Assembly of the Republic of Kosovo, Jakup Krasniqi, and the heads of the parliamentary groups (from the Government coalition and the opposition) to discuss Kosovo's development priorities and the World Bank's assistance outlined in the draft Country Partnership Strategy (CPS), the first since Kosovo declared independence in February 2008 and became a member of the World Bank Group in June 2009.

Le Houérou underlined the particular importance of meetings with members of Parliament, with government officials, and shareholders in the private

ing that Kosovo's diaspora had been very successful in the difficult labor markets of central European economies. It was critical to provide firms and households with conditions and an environment that was conducive to accelerating private-sector activities. As such, the focus on education, the business climate, and public infrastructure was critical. In this context, the implementation of an energy strategy aimed at achieving the three objectives of energy security, energy affordability, and minimal environmental and social externalities represented a central challenge for Kosovo.

Krasniqi thanked the World Bank for the financial and technical assistance provided to Kosovo, expressing his belief that Parliament would continue to support the development projects financed by

the World Bank. With its support taking the form of concessional credits, Kosovo's legislation required a parliamentary ratification with a two-thirds majority (thus necessitating an across-the-aisle consensus on development priorities). The Speaker was accompanied by the heads of five parliamentary groups, namely Adem Grabov-



sector and civil society to converge, to the extent possible, towards a common view development priorities of Kosovo.

He explained that the new CPS comprised a selective support program aimed at promoting domestic productivity growth and employment generation as well as improved environmental management and use of natural resources. Kosovo's citizens were the country's most precious asset, with Le Houérou not-

ing that Kosovo's diaspora had been very successful in the difficult labor markets of central European economies. It was critical to provide firms and households with conditions and an environment that was conducive to accelerating private-sector activities. As such, the focus on education, the business climate, and public infrastructure was critical. In this context, the implementation of an energy strategy aimed at achieving the three objectives of energy security, energy affordability, and minimal environmental and social externalities represented a central challenge for Kosovo. Krasniqi thanked the World Bank for the financial and technical assistance provided to Kosovo, expressing his belief that Parliament would continue to support the development projects financed by the World Bank. With its support taking the form of concessional credits, Kosovo's legislation required a parliamentary ratification with a two-thirds majority (thus necessitating an across-the-aisle consensus on development priorities). The Speaker was accompanied by the heads of five parliamentary groups, namely Adem Grabov-

Consultations with Civil Society on the Country Partnership Strategy



■ Consultation meeting with civil society organizations on the proposed Country Partnership Strategy for Kosovo, World Bank Office in Pristina, April 4, 2012.

A consultation meeting with civil society organizations on the proposed Country Partnership Strategy for Kosovo for FYs12-15 took place on April 4, 2012 in the new premises of the World Bank Office in Pristina. It lasted for a full day with lunch provided. The meeting was attended by the representatives of 28 civil society organizations. The purposes of the full-day consultation were to get the CSOs' views on the proposed CPS, to answer their questions, and have a discussion on areas of concern.

The World Bank Vice President for Europe and Central Asia, Philippe Le Houérou opened the meeting with introductory remarks on the proposed CPS for Kosovo. The meeting was moderated by the World Bank's Senior Advisor, Theodore Ahlers. The Bank's Country Director for the Western Balkans, Jane Armitage, was also present. The Country Manager for Kosovo, Jan-Peter Olters, delivered a presentation on the key messages of the proposed CPS. The World Bank office in Pristina sent invitations to a large number of CSOs. The invitation included a detailed powerpoint presentation on the proposed CPS and an Agenda for

the consultation meeting comprising six guiding questions as well as links to key reports available on the Bank's website (Country Economic Memorandum, Public Expenditure Review, Development and Evaluation of Power Supply Options for Kosovo, Report of the SFDCC External Expert Panel, and South East Europe Regular Economic Report). All the reports, as well as the PPT and Agenda, were translated into Albanian and made available well in advance of the meeting.

The six questions guiding the discussions were: Is the World Bank's diagnosis of the challenges facing Kosovo correct? Is the proposed package (of ongoing operations, new lending, analytical work, and technical assistance) appropriate to address the challenges? Is the proposed comprehensive approach to supporting the energy sector sufficient to address concerns about the Kosovo lignite power plant? Are there other areas of emphasis for the Country Partnership Strategy that have been overlooked? What risks are to be expected and how should the strategy address these risks? This was one of many consultations held in Kosovo over the past four years.

First Country Partnership Strategy for Kosovo and Policy Dialogue



■ The World Bank Vice President for Europe and Central Asia, Philippe Le Houérou opened the consultation meeting with civil society on April 4, 2012 with introductory remarks on the proposed Country Partnership Strategy for Kosovo. The meeting was moderated by the World Bank's Senior Advisor, Theodore Ahlers. The Bank's Country Director for the Western Balkans, Jane Armitage, was also present. The Country Manager for Kosovo, Jan-Peter Olters, delivered a presentation on the key messages of the proposed CPS.



■ On November 9, 2011, World Bank's Country Director for Southeast Europe, Jane Armitage, chaired a meeting with civil society organizations to discuss the preparations for the first World Bank Group's Country Partnership Strategy for Kosovo. The meeting was held at the World Bank office in Pristina. The CSOs included: the Kosovo Civil Society Foundation (KCSF), Community Development Fund (CDF), Democracy 4 Development (D4D), Syri i Vizionit, and Developing Together.

Events with Civil Society on the Energy Strategy



■ February 10, 2012 marked the Presentation of the Background Paper: Development and Evaluation of Power Supply Options for Kosovo with senior World Bank officials, including the Director for Sustainable Development for ECA, Laszlo Lovei, as keynote speakers. Kosovo's Minister of Economic Development, Besim Beqaj, presented Government's views at the event. Around 40 representatives from Government, CSOs and media participated at the event. The presentation was broadly covered by broadcast, print and internet based media.



■ Few days later, on February 14, 2012, the Report of the Strategic Framework for Development and Climate Change External Expert Panel to the World Bank was presented to the public in Pristina. The presentation was organized in the Government building and was attended by 30 participants, including from CSOs, media and donor agencies. While two of the panel members, Derek Taylor and Wladyslaw Mielczarski, were present, the third panel member János M. Beér was connected to the presentation via audio from the US. The Expert Panel also addressed questions at a related press conference.

First Country Partnership Strategy for Kosovo and Policy Dialogue



■ On February 16, 2012, the World Bank Country Manager for Kosovo, Jan-Peter Olters, delivered a Power Point presentation in Albanian language on World Bank's program in the energy sector during a workshop organized by a group of Kosovo civil society organizations working in the sector, which was attended also by a number of international civil society organizations. The CSOs at the event included: Institute for Policy Development, INDEP, Balkan Investigative Reporting Network Kosovo, BIRN, Institute for

Advanced Studies, GAP, Forum for Civic Initiatives, FIQ, Pristina School of Political Science, PIPS, the International Crisis Group's Kosovo Office, ICG. A representative of the Independent Energy Union of Kosovo was also present. Present during the presentation and the ensuing discussion were also representatives from some international CSOs: Bank Information Center (BIC), Bankwatch, WWF, Sierra Club, Center for International Environmental Law (CIEL), European Climate Fund (ECF), Rockefeller Brothers Fund (RBF).



■ On November 9, 2011, a discussion meeting with civil society organizations focused on the energy sector took place at Hotel Pristina. The meeting was chaired by the Country Director for Southeast Europe, Jane Armitage. It was attended by the representatives of a number of civil society organizations,

including: KIPRED, INDEP, BIRN, Kosovo Democratic Institute / Transparency International Kosovo, Kosovo Fund for Open Society, RIINVEST Institute, Regional Environmental Center Kosovo, Youth Initiative for Human Rights, International Crisis Group, Kosovo Stability Initiative, INPO, MAR.

Working with Donors

Kosovo has many multilateral and bilateral donors that provide support to a range of sectors at central and local levels, sometimes in concert with Bank operations.

The World Bank Group works closely with many of these external agencies, including through joint analytical work and co- or parallel financing of operations. For example, the Bank is partnering with the IMF and USAID to provide Technical Assistance to Kosovo's financial sector, with the Netherlands, US and EC in the energy and environment sectors, with Austria in public financial management, with DANIDA in the agriculture sector and with DFID and SIDA to build capacity for statistical analysis. The Bank and other partners worked towards developing a Sector-Wide Approach (SWAP) for the education sector, partly through conduct of a joint feasibility study under the leadership of the Ministry of Education, Science and Technology. A group of nine external partners have been closely involved in the design and implementation of the Sustainable Employment Development Policy Program (SEDPP) and have contributed substantial grant resources for its two budget support operations.

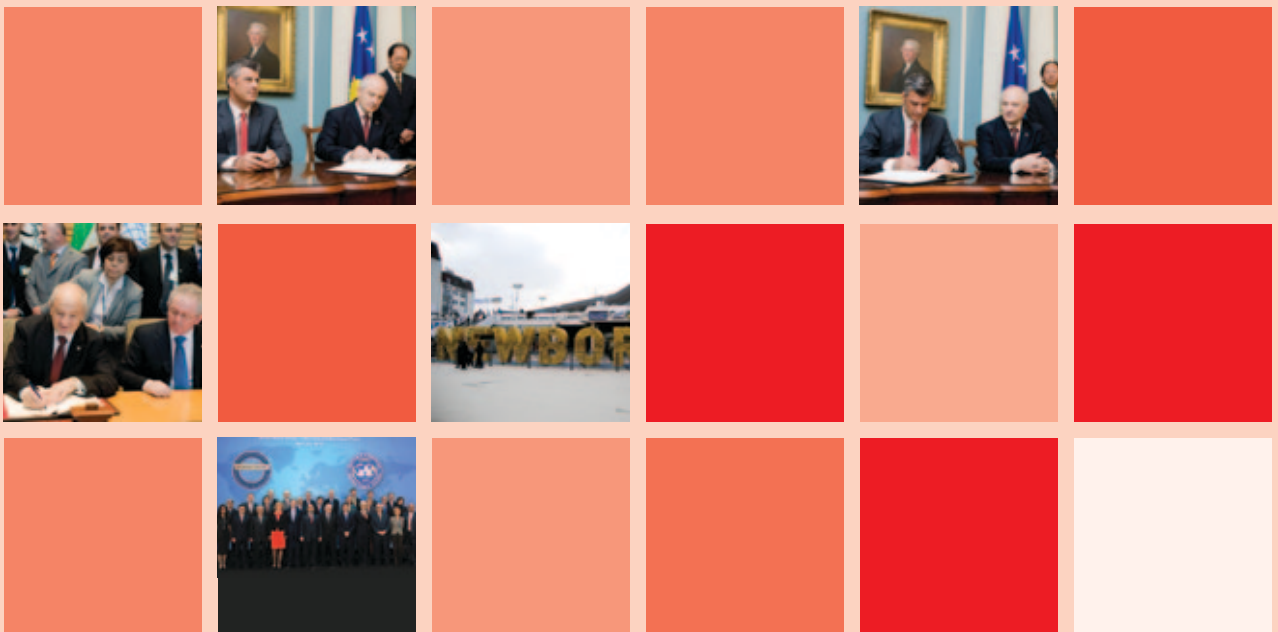
Finally, given the importance of the EU perspective for Kosovo, all World Bank operations are aligned with the criteria for EU accession. Further possibilities for cooperation between European Commission,

European international financial institutions, and the World Bank, in the Western Balkans, have been opened by the 2011 agreement to grant the Bank associate membership in the Western Balkans Investment Framework (WBIF), a financing mechanism designed to pool grants, loans, and expertise from the EC, IFIs, and bilateral donors to prepare a common pipeline of priority investment projects that could be financed by any of the WBIF donors. While in other Western Balkan countries, the Bank cannot act as the lead IFI for WBIF-financed project preparation activities, an exception to this rule has been agreed for Kosovo, where the Bank—as the only IFI that is fully operational in the country—has been encouraged to play a leading role in several areas. The Kosovo Government has already submitted a number of grant proposals to the WBIF Project Financiers Group including for studies on energy efficiency in public buildings, feasibility and environmental impact analyses for strengthening waste management (covering municipal and hazardous waste) and feasibility studies for protection of the 50-km long Ibër Canal. In addition, Kosovo will benefit from a number of regional proposals submitted by SEE Governments including for a study to examine development options (including financing options) for implementation of an Energy Community Gas Ring through public-private partnership consortia.



Becoming Member of the World Bank Group

The World Bank
in Kosovo





■ Kosovo's Former President, Fatmir Sejdiu, and Prime Minister, Hashim Thaçi, sign the membership agreement with the World Bank in Washington DC, on June 29, 2009.

Making of History - Membership of the Republic of Kosovo in the World Bank Group

The Republic of Kosovo became the newest member of the five World Bank Group institutions on June 29, 2009, when Kosovar President Fatmir Sejdiu and Prime Minister Hashim Thaçi signed the Articles of Agreement of the International Bank for Reconstruction and Development (IBRD). Kosovo's Minister of Economy and Finance and World Bank officials witnessed the signing ceremony.

In addition to becoming a member of IBRD, Kosovo joined the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). With the admission of Kosovo, membership now stands at 186 countries for IBRD, 169 for IDA, 182 for IFC, 174 for MIGA, and 144 for ICSID (Kosovo's ICSID membership will become effective on July 29, 2009).

"I am very pleased to welcome the Republic of Kosovo as the newest member of the World Bank Group," said World Bank Group President Robert B. Zoellick. *"Kosovo's reconstruction and political transition since 1999 has progressed well, with a quicker than expected recovery and a positive economic outlook."*

Membership in the World Bank Group comes with privileges and responsibilities. When Kosovo became a member of the World Bank, it agreed to take on responsibility for past Federal Republic of Yugoslavia debt to the International Bank for Reconstruction and Development (IBRD) amounting to about €381 million. In parallel, a Bank-administered multi-donor trust fund was established to assist Kosovo to repay the debt. Thus far, the trust fund has received US\$125 million from the United States and €5 million from the European Commission. In October 2009, the Ministry of Economy and Finance prepaid one-third of the IBRD loan using the funds in the debt Trust Fund and additional funds from the budget.

What the Five Institutions of the World Bank Group Offer

The World Bank Group consists of five closely associated institutions, all owned by member countries that carry ultimate decision-making power. As explained below, each institution plays a distinct role in the mission to fight poverty and improve living standards for people in the developing world. The term “World Bank Group” encompasses all five institutions. The term “World Bank” refers specifically to two of the five, IBRD and IDA.



The International Bank for Reconstruction and Development

Established in 1945, 186 Members

IBRD aims at reducing poverty in middle-income and creditworthy poorer countries by promoting sustainable development through loans, guarantees, and (nonlending) analytical and advisory services. The income that IBRD has generated over the years has allowed it to fund several developmental activities and to ensure its financial strength, which enables it to borrow in capital markets at low cost and offer clients good borrowing terms. IBRD's 24-member Board is made up of 5 appointed and 19 elected Executive Directors, who represent its 184 member countries.

in developing countries without accepting government guarantees. It provides equity, long-term loans, structured finance and risk management products, and advisory services to its clients. IFC seeks to reach businesses in regions and countries that have limited access to capital. It provides finance in markets deemed too risky by commercial investors in the absence of IFC participation and adds value to the projects it finances through its corporate governance, environmental, and social expertise.



The Multilateral Investment Guarantee Agency

Established in 1988, 174 Members

MIGA helps to promote foreign direct investment in developing countries by providing guarantees to investors against noncommercial risks, such as expropriation, currency inconvertibility and transfer restrictions, war and civil disturbance, and breach of contract. MIGA's capacity to serve as an objective intermediary and to influence the resolution of potential disputes enhances investors' confidence that they will be protected against these risks. In addition, MIGA provides technical assistance and advisory services to help countries to attract and retain foreign investment and to disseminate information on investment opportunities to the international business community.



The International Development Association

Established in 1960, 169 Members

Contributions to IDA enable the World Bank to provide approximately \$6 billion to \$9 billion a year in highly concessional financing to the world's 81 poorest countries (home to 2.5 billion people). IDA's interest-free credits and grants are vital because these countries have little or no capacity to borrow on market terms. In most of these countries, the great majority of people live on less than \$2 a day. IDA's resources help to support country-led poverty reduction strategies in key policy areas, including raising productivity, providing accountable governance, improving the private investment climate, and increasing access to education and health care for poor people.



ICSID The International Centre for Settlement of Investment Disputes

Established in 1966, 144 Members

ICSID helps encourage foreign investment by providing international facilities for conciliation and arbitration of investment disputes, thereby helping to foster an atmosphere of mutual confidence between states and foreign investors. Many international agreements concerning investment refer to ICSID's arbitration facilities. ICSID also issues publications on dispute settlement and foreign investment law.



The International Finance Corporation

Established in 1956, 182 Members

IFC promotes economic development through the private sector. Working with business partners, it invests in sustainable private enterprises

Project Stories

The World Bank
in Kosovo





■ The language learning facility in Leke Dukagjini elementary school, established with World Bank and community support. Through the School Development Grants program, approximately US\$ 3.4 million in grant funding was awarded to over 600 schools.

Flourishing Schools Expand Opportunities for Kosovo's Children

Dramatic improvements have been made in some 600 schools - approximately half of the schools in Kosovo - over the last six years under a small grants program funded by the World Bank and the Canadian International Development Agency. The grants are aimed at increasing enrollment, attendance, and keeping kids in class. They also seek to enhance the quality of teaching and learning.

Avdullah Hoxha, principal of the Leke Dukagjini elementary school in the town of Prizren, is happy about the improvements. "I only hope for more such grants in the future - our needs are huge," he said.

Next door at Luciano Motroni Medical High School, Kosovo's future dental technicians learn the ropes on new dentistry equipment. Their dentistry teacher, Dr. Rishan Kransniqi, is convinced that real-life equipment in the classroom has better prepared his

students for the jobs they'll be seeking when they graduate. All of these improvements, and others like them, have been funded with grants from the World Bank in schools across Kosovo.

At Sadri Duhla elementary school in village Duhla, some 50 kilometers south of the capital Pristina, ninth grade students are able to learn better about the human anatomy with the aid of plastic body parts, bought with one of the grants.

"In the books we see only photographs of the body parts, but here we see them [the life-like body parts] in real life," said one of the pupils Ermira Suka.

Raxhep Suka, a Biology Teacher, is equally pleased. "When you teach biology and chemistry without equipment, the class is very dry and incomprehensible for the students. This equipment helps us clarify, it gives us the tools," he says.

Vulnerable Groups - A Priority

Through the School Development Grants program, approximately US\$ 3.4 million in grant funding was awarded in small targeted contracts to over half of the 970 primary schools and 110 secondary schools in Kosovo's current 36 municipalities. Schools in poor condition and those with a higher proportion of vulnerable groups such as ethnic minorities, the poor, girls, and disadvantaged children were prioritized for the School Development Grants program.

A total of 300,000 students benefited from the Project.

The types of projects funded include computers, musical instruments and equipment, textbooks and clothes, teacher training, and transportation. Many of the improvements in the learning environment targeted basic and critical infrastructure needs such as sanitation facilities, water supply, and repairing roofs. This was badly needed as many schools in Kosovo still lack basic infrastructure.



■ Final year students at Luciano Motroni Medical High School in the southern Kosovo city of Prizren, learn to become dental technicians. The school used a project grant to purchase the equipment the students are practicing on.

The Education Participation Improvement Project (EPIP), under which the grant program was implemented, also helped to build capacity in the education sector within local communities. After the war, schools were required by law to establish functional school boards, but most schools were unable to mobilize parents and communities and to establish a



■ Rexhep Suka, Biology Teacher: "When you teach biology and chemistry without equipment, the class is very dry and incomprehensible for the students. This equipment helps us clarify, it gives us the tools".

Project Stories

board, which limited their capacity to efficiently and effectively manage themselves and to provide high quality education for children.

World Bank assistance provided schools not only the grants, but also the training in school-based planning and management, strengthening the role of school boards, and participation of municipalities in the school grant selection process. Local communities participated in the grants program through co-funding and design-preparation.

“Parents were so satisfied that, after understanding how beneficial all the equipment was, they decided to contribute by paying for the construction of cabinets in the school,” says Hamdi Rrafshi, the principal of the school in Duhle village.

Officials involved in the project assess that about 60 percent of the schools which received these grants

are now able to produce a school development plan on their own. As a result of strong appreciation for the School Development Grant activities among schools, parents, and communities, the government has included the program as one of the priority areas in the new Strategy for the Development of Pre-University Education in Kosovo 2007-2017.

The World Bank is continuing its support for the education sector in Kosovo through a US\$10 million grant for the ongoing Institutional Development for Education Project (IDEP). This project, too, has a School Development Grants component. In total, 240 schools (195 primary and 45 secondary) will receive these grants and the Project will continue targeting schools with a high proportion of students from minority groups and poor families, low retention and attendance rates among girls, the poor and ethnic minorities, and poor physical conditions.



■ Parents of the pupils in the Sadri Duhla School appreciated the benefits of the equipment funded by the grant and decided to contribute by paying for the construction of some cabinets in the school.

Cleaning the Ash and the Chemical Waste - Legacy of Coal-Burning

Kosovo's oldest power plant has been burning coal for over 40 years as it produces electricity. And for same time period, Kosovo A, as it's known, has been throwing vast quantities of ash out in the open, creating a hill of ash visible from the capital ten kilometers away.

When the wind blew, ash mixed with existing air pollution, cloaking the area in choking dust. Over the last three years, Kosovo's public energy utility, Kosovo Energy Corporation (KEK), has been working to clean up its environmental legacy through the Clean Up and Land Reclamation Project. It is funded by a US\$10.5 million World Bank grant, a € 3-million Dutch Government donation and a US\$3.5 million KEK contribution.

"Eliminating these pollutants will make the environment cleaner for those living near the power plants. At the same time it will allow the corporation to operate in a way that's better for the environment," says KEK's CEO Arben Gjukaj. Cleaning up and stabilizing the ash dump is one part

of the project. The second is installing a system to discharge ash in the mine pit through water pipes, sharply reducing its exposure to the open air. The third is removal of chemicals from a disused gasification plant that was once part of the power plant complex.

Most of the ash hill has now been rehabilitated with excavators and trucks purchased with project funds. Almost 30,000 hectares of ash have been covered. The manmade mountain is 14 meters lower; its slide towards the neighboring has been stopped.

A new hydraulic system to transport wet ash is expected to start working in the autumn of 2012. An open cast mine has been prepared to receive the wet ash. The wet ash transport plant, new ash bunkers and transport pipelines are being built and transport pipelines installed.

Not only ash, but also the overburden from mining—soil and rock—was dumped carelessly. The project cleaned that up, too, leveled and reshaped overbur-



■ Given outdated technology and poor management, Kosovo's electricity sector currently acts as a brake on socioeconomic development, is a huge drain on the country's budget and has been polluting Kosovo's more densely populated regions.



den dumps and planted almost 100,000 trees on 30 hectares. What is more, around 20,000 cubic meters of liquid hazardous waste from the gasification plant were abandoned when the facility was closed in 1988. They contained liquid and concentrated phenol, tar, and different chemical solvents.

“Treatment was necessary because the waste represented a permanent hazard for human health and the environment, since the tanks where the waste was stored began to leak with time,” says Behxhet Shala, a cleanup expert working on the project. About 15,000 cubic meters of phenol waste have been treated and neutralized. The remaining 5,000 cubic meters of waste with higher phenol concentrations have been stored in new containers awaiting disposal outside the country. Kosovo is working on agreements to transport the waste to Belgium or Sweden, which are better equipped to neutralize it. Export and final disposal of over 5,000 tons of hazardous chemical liquids, tar sludge, solvents and pasty

tar is expected by September 2012. Transporting the waste internationally will fully comply with the Basel Convention.

“The potential danger for massive pollution is now avoided,” Shala explains.

Continuation of cleanup

The government will need to do some more ash dump remediation and land reclamation work after the project closes in June 2012. Given the importance of the clean up for surrounding communities and feedback from World Bank consultations with civil society representatives, the World Bank is proposing finance an additional US\$3.2 million for the cleanup as part of its country partnership strategy for 2012-15.

This additional financing would extend clean up and land reclamation efforts at the site of the Kosovo A and B power plants. It would finance monitoring of air, soil and water associated with power generation, strengthen the capacity of Kosovo’s environmental and energy regulatory authorities, environmental and social assessments for energy projects, and preparation of a low carbon growth strategy and a greenhouse gas inventory.

The additional financing will be complemented by a Dutch government grant of about US\$1,165,000.



■ Thousands of tons of chemical waste produced by the old power plant needed to be cleaned up.



1

■ The highly polluting Kosovo A coal-fired power plant.



2

■ Careless discharge of ash pollutes the air whenever the wind blows.



3

■ The ash dump was unstable and risked tumbling down onto the village nearby.



4

■ Kosovo Energy Corporation has been working intensively to clean up its environmental legacy.



5

■ Once reshaped, this part of the ash dump was covered with overburden from mining operations.



6

■ Almost 20,000 cubic meters of hazardous waste from the abandoned gasification plant, once part of the power plant, are being cleaned up.



7

- Full rehabilitation of the ash hill can take place only after dumping fresh ash stops.



8

- The open-air, dry ash transport system of Kosovo A power plant will be replaced with a closed, hydraulic one.



9

- Around 15,000 cubic meters of phenol waste have been treated and neutralized.

Doing Business More Easily in Kosovo

In May 2012, a new business registration center in Pristina started making life a lot easier for business owners in the Republic of Kosovo, allowing them to register and obtain licenses in less time and for less money than before. A modern facility, trained staff and less red tape—thanks to an agreement between the Ministry of Trade and Industry and the Tax Administration—make it possible. Individual businesses can be registered in one day. And business registration numbers, fiscal and VAT numbers are now consolidated in one certificate, instead of several. Businessmen and women can get business advice and information. Pristina's new center is part of a recently established network of 28 efficient municipal business centers spread throughout Kosovo, established with support from the World Bank's Business Environment Technical Assistance project. The US\$7 million project has been supporting the implementation of reforms modernizing business registration, along with upgrading the infrastructure of the centers themselves.

During the official opening ceremony of the Pristina center that coincided with the project's concluding workshop, Deputy Prime Minister Mimoza Kusari-Lila said: "I consider that the work and engagement in the public sector is rewarded on days like today. First, the change has to be visible physically, and second it has to be felt in procedures which will directly benefit the private sector, businesses and Kosovo's economy in general."

Muharrem Osmani is feeling those benefits directly. The first time he opened a business years ago, he had to travel from north Kosovo to the capital several times to fill out paperwork and the registration procedure lasted two weeks.

Recently he registered a new shareholder in a couple of hours at the Mitrovica Municipal Business Center—a short drive from his detergent, shampoo, and vinegar manufacturing plant.

"It was very difficult before," says Muharrem. "We had to spend a lot more time and money in lengthy administrative procedures. Now, with the business center in town everything is easier, we receive all the services we need fast and for little money."

That frees up more of his time to focus on running the family business.



■ The municipal business registration center in Mitrovica makes doing business easier for the local business community.

When contemplating reforms, the government listened to feedback from business owners. Firms in Kosovo identified a number of administrative barriers to starting and operating a business, and other constraints to doing business in a 2003 survey. They included unfair or informal competition, regulatory policy uncertainty, and corruption.

Thirty separate sets of regulations for licensing and construction permits—many of them ill-defined—existed in different municipalities. Enforcement was lax, and health and trade inspections were inconsistent. To streamline regulations and encourage business development, the government supported establishing municipal business centers where citizens can obtain permits and business registrations, pay taxes and customs fees—as well as get advice.

Since the opening of the first municipal business centers in July 2010, data collected in the field shows 6,116 new registrations in using the new system, 3,006 changes in registration and 789 business closures. And word of mouth says the business of doing business has become a lot easier. The center has an online database directly connected to the Kosovo Business Registry Agency in the capital Pristina.

Fatmir Halili heads the Gjilan center. "We are receiving very good feedback from our clients. And we aim at functioning as a one-stop-shop in the future, offering clients all municipal level services," he says.

Doing business still remains a challenge in Kosovo, but the government is committed to reforms that will simplify bureaucracy, reduce the number of permits and licenses needed, improve inspection capacities and streamline the legal framework.

Helping Businesses and Communities Help Themselves

For three war widows in Kosovo, the money allows them to get as much work done in a week as they used to do in a month. The women live and work in Krusha e Madhe, a small village in southwestern Kosovo, which was devastated after the 1999 war. Nearly 10 years after the war's end, a farmer named Kimete Hoti organized a small enterprise called "Women Farmers." The women farmers decided to set up a business growing and processing peppers and other vegetables.

Peppers Bring Prosperity

The women farmers of Krusha e Madhe were scrambling to provide for their families in the hard years after the conflict. "My husband was killed. So was his brother," Kimete Hoti explains. "I was left with two children to take care of. Right now I need to support my daughter's university studies in Pristina (the capital)."

Hoti and her colleagues applied for a World Bank-supported grant to buy equipment for their business. After a review and a field check, their application was approved. In 2011, they got a grant for about US\$12,000. That money paid for almost 80 percent of the cost of the new equipment, they paid for the rest.



More Local Employees

They bought a pepper-processing machine, two large bowls for cooking the peppers, and an irrigation system for a new greenhouse. The new purchases not only saved time, but also improved working conditions. Perhaps most importantly, the new equipment allowed the three women to expand their business; they hired four more women from their village plus an additional five to help during the four-month high season in summer.

Every year, the "Women Farmers" produce 40 kilograms of a dip called Ajvar, made with red peppers, which is sold in two supermarket chains throughout Kosovo. They also grow vegetables, some of which they pickle and others they sell fresh.

The Krusha e Madhe business is not unique. Across Kosovo, almost one hundred small businesses have received small grants like theirs. About half of the grants have gone to businesses run by women, ethnic minorities, and youth, and they are all small—none employ more than 20 people. The grants aim at helping business, but also to benefit entire communities. For example, the "Women Farmers" operation buys some of its vegetables from neighbors. "We collect vegetables grown by other women in the village, from seven families at the moment, because we cannot grow all the vegetables," says Hoti.

Benefitting Business and Community

Other grantees have similar stories. In the village of Marmulle, in western Kosovo, a small farm with 24 cows produces about 400 liters of milk daily. David Gojani, who owns the farm, got a grant to buy a refrigerator, a milk bottling machine and a yoghurt bottling machine. "This helps us to improve the product and packaging quality" he says, "as well as increase the capacity of milk collection from more than 20 farmers in our village." Because of the grant, the farm

is now able to sell bottled milk at the local market every day. Right now, it has four full-time employees, but Gojani plans to expand his staff so the farm can serve as the sole milk collection point for the entire village.

And in Grapanica, in central Kosovo, the Ginza company makes doors and windows. With help from the grant program, Ginza's owners bought new machines for cutting, cleaning, and drying glass. Now, the company's owner can do in-house the work he was contracting out to a larger company. He has also been able to hire four new employees.



Post-Conflict Support

The project is financed with a US\$4.9 grant from the State and Peace-Building Fund of the World Bank, a fund reserved for fragile and post-conflict countries. This three-year project gives support to small businesses to allow them to invest and expand. It also relies on community input to target and rebuild important local infrastructure. And in doing those things, the project promotes local employment and local decision making.

Via the project, entrepreneurs can apply for grants, technical help and training, but so far the grants seem to be the most sought after. Access to credit in Kosovo can be a problem, and this project is easing business owners' access to investment money. The business owners must match at least 20 percent of the money they receive, and the largest possible amount of money they can apply for is about US\$13,000.



Local Decisions

As for infrastructure, like roads and bridges, the project has made about twenty grants so far, mostly to the country's poorest municipalities. Four communities with large minority populations have received grants of US\$85,000 each. Communities choose the projects that need work, and are asked to contribute; they pay about fifteen percent of the total cost.

In the village of Gadime, Afrim Limani is the spokesman for the 180-person Ashkali Roma population. The Ashkali Roma asked local authorities to improve the outdated and dangerous electricity grid, which was used by 30 houses. A US\$9,000 grant from the project matched funding from the village. Workers installed 335 meters of new cables and built ten new cement poles to carry them. "People's lives have changed," says Limani. "A disaster was avoided because the electricity connection was so bad that a small malfunction could have caused a fire."

A Desire for More

Led by local input like the Ashkali Roma's, other infrastructure projects range from a village water supply system, to central heating in a primary school to the modernization of an electricity grid. Local officials estimate about one thousand people have already benefitted from these improvements. Nermin Mahmuti runs the Community Development Fund, a local organization, which runs the project. She says things are improving nicely, and she hopes to expand. "The project is going so well that we have contacted other development donors to ensure the project is continued."

Community Development through Health Clinics and Water Pumps

- Many villages in Kosovo are enjoying newly rebuilt or newly constructed infrastructure and services, which were hit hard by both the armed conflict and decades of neglect.
- Some 320 projects were conducted under the Community Development Fund from 2001-2008. Residents have closer access to health clinics for treatment needs.

The village of Cabra in northern Kosovo, about 10 kilometers away from Mitrovica, was completely destroyed during the war. When peace came, survivors returned to their torn-down homes and rebuilt them with the help of local and international humanitarian organizations. Despite reconstruction efforts, villagers of Cabra lacked a health clinic and were required to go to the city of Mitrovica to receive health care...that is, until 2005 when the Community Development Fund helped them build a small local clinic.

Many villages in Kosovo are enjoying newly rebuilt or newly constructed infrastructure and services, which were hit hard by both the armed conflict and decades of neglect.



■ Krajkove village official, Salih Elashani, is very thankful for the water supply system, which brings running water to his home and the rest of the 170 families or 400 people living in this village. The World Bank supported water supply system in Krajkove village, included creation of a reservoir and installation of a pump and underground pipes going through the village.



■ A water supply system constructed with grants from Community Development Fund.

Some 320 projects conducted under the Community Development Fund (CDF) project from 2001-08 are a contribution towards this improvement in the lives of individuals and communities across Kosovo.

The Fund was set up in 1999 as a local NGO and was chosen to carry out the implementation of the post-conflict project, which received US\$8 million in grant money from the World Bank. The funding was part of special support provided through the International Development Association — the World Bank's fund for the poorest countries — for Kosovo's reconstruction and recovery, mobilized in response to its emergency condition after the conflict in 1998-99. The Government of Netherlands also contributed US\$4 million to the trust fund.

The project aimed to increase the quantity and quality of infrastructure and services in poor and conflict-affected communities as well as the most vulnerable groups, and to promote local capacity building.

Project Stories

Hida Hasani is employed at the Cabra clinic as a nurse, assisting her villagers every weekday and when needed on the weekends. "I live here and I have a house here, they all know my telephone number, so no matter if during working hours or after hours, I am here for them," she proudly exclaims. The clinic in Cabra is one of the five health clinics constructed with grants, and another two-thirds of the projects were to build or upgrade schools or water supply systems.

After years of failed water supply systems and the destruction of some systems during the conflict, the CDF financed the rehabilitation of the system and people finally have running water in their homes. According to a review carried out by the CDF in consultation with stakeholders, a direct outcome of the CDF's water supply projects has been a dramatic reduction of waterborne diseases. For example, in the project area of Bakshi and Raskovë villages with 1,520 beneficiaries, the number of people suffering from waterborne diseases dropped from 84 to 0. In Petrove village, out of 5,220 beneficiaries, the number dropped from 98 to 12.

An additional important benefit of the water supply systems financed by the CDF II Project has been the elimination of time and effort in carrying water. For example, in another study carried out by the CDF, prior to the water supply project in the area of Bakshi and Raskovë villages, 160 people carried water 200 meters. The time and effort in doing so has been completely eliminated as an outcome of the project.



■ The Health Clinic in the village Cabra, northern Kosovo, is one of the five health clinics constructed under Community Development Fund grants.



■ The office of nurse Hida Hasani, where patients explain their reason for asking a doctor. Nurse Hida Hasani assists her villagers every weekday, but when needed also on weekends. When the doctor is not in, no matter if during working hours or after hours, nurse Hida Hasani provides assistance to her villagers. During the winter season, patients mainly seek assistance on flu, but also on cases of lung, heart and kidney problems.

"We did not have water, so we had to bring it from the neighbors [who had wells]. You cannot do anything without water," says Kimete Haziri, a housewife living in the conflict-destroyed village of Krajkove in central Kosovo. When the CDF repaired the water system here, it created a reservoir and installed a pump and underground pipes going through the village. Over 170 families and 400 people now have running water in their houses in Krajkove alone.

"The water supply system was a good idea! It is much easier now, for the children and for everyone," says Kimete Haziri. Women benefit from the water supply projects in particular, as they are primarily responsible for gathering water.

The CDF financed projects reached tens of thousands of people. Infrastructure projects were also conducted in Serbian and other minority communities, as well as in mixed communities. Communities are now enjoying potable water in their homes, rehabilitated and warmer schools for their children, cleaner and safer sewerage systems, access roads to neighboring communities, and multi-purpose community centers and local market places. The latter, in particular, have helped strengthen social interaction and provided incentives to the young to remain in local areas, thus stemming the tendency for rural-urban migration. The social service projects cover a wide range of services including youth, women, and the disabled.

Supporting Youth Development in Kosovo



A central challenge for Kosovo is to develop its fledgling local economy while reducing ethnic tensions and integrating different ethnic groups. One good place to start is with young people.

The Kosovo Youth Development Project KYDP worked to increase social cohesion and inter-ethnic interaction and cooperation among communities in Kosovo, with a special emphasis on improving relationships between young Albanians and Serbs. Supported by the World Bank, KYDP was established in 2006, and since then has helped 5,800 young people learn new skills and improve their chances



■ One of the Youth Centers supported by the Youth Development Project is in Priluze village, some 15 kilometers from Pristina. It gathers mainly young people from the Serb minority community. The center includes a radio-station which airs program mainly dedicated to youth.

in the labor market, as well as find ways to get along with their peers.

This innovative project awarded grants to support the improvement of services and infrastructure in 13 youth centers across Kosovo. The project tried to insure a balance of ethnic participation in activities. It introduced core programs, peace and tolerance training for center staff, and the development of sustainability plans for the centers themselves.

These youth centers served as the spaces for non-formal education, inter-ethnic collaboration, and peace building. And communities and youth throughout Kosovo have had significant achievements through participation in the project.

The youth center in the mainly Albanian town of Lipjan is overwhelmed with demands for English language and computer courses. "We have between 100 and 200 visitors a day, we are the only place in our municipality where young people can find support," says Muhamet Grajqevci, center coordinator. The center also serves surrounding villages, inhabited by approximately ten thousand people.

At Cabra youth center in northern Kosovo, the young are also enthusiastic, joining in language and painting classes. The community was flattened during the war, but has been rebuilt. The municipality and

Project Stories

citizens are trying to improve people's lives. There's a new road and a new clinic, but citizens need jobs. "Nothing was done for the young people. But the center created opportunities for youth and helped them escape isolation," says youth center coordinator Aferdita Selmani. Three of the 13 youth centers that received grants are located in areas populated by the minority Serb community. One such community is Priluze. Most of the young there are unemployed and their numbers dwindle as many leave to look for work elsewhere. But the youth center's radio station still broadcasts. "It provides entertainment programs, mainly music, but also messages against drugs and alcohol," says Dragisa Lazic, who works at the center. KYDP also supported two youth resource hubs: one on the campus of the University of Pristina, and the other near the University of Mitrovica, in a Serb-dominated part of Kosovo. The hubs aim to involve the young in youth development and decision-making. They offer career development information and mentoring, communication and volunteer skills training, library and web information services, and web design classes. The hubs also offer internet access, a photography lab and a movie theater. Based on surveys of student needs, other events are organ-

ized: seminars, public debates, radio programs, movie nights and summer camps.



■ Representatives of the Youth Centers show-case their work and distribute promotion material about their project at the KYDP promotion of achievements event on May 11, 2009.

Financial sustainability of the youth centers remains a challenge. Some of their operating costs are supported by a combination of municipal allocations, fees for training, and other donors, gradually reducing the need for World Bank support. A Second Kosovo Youth Development Project (KYDP 2) was recently approved, and it will provide grants to youth centers to refine and support their longer-term sustainability plans, building on local partnerships and support from their communities and other donors.



■ Students using internet at the Resource Center at the Faculty of Economics of the University of Pristina, funded by the Youth Development Project.

Strengthening Kosovo's Capacity to Prevent Flu Pandemics

Pandemic flu is not the worldwide scare it once was. But it has not gone away. Some 500 people were diagnosed in Kosovo with the A/H1N1 flu and 18 died because of the disease in the last three years.

"It could have been a lot worse without the new intensive care unit," says Shemsedin Dreshaj, Director of the Infectious Diseases Clinic at the Pristina Hospital.

The modern equipment in the clinic he runs makes possible maintaining constant room pressure, moisture and temperature levels for the patients. As part of a project funded with a US\$3 million grant from the World Bank, the intensive care unit got 8 beds, 3 respirators and 10 monitors, while the doctors and nurses received training in using the new equipment in Italy.

The new Intensive Care Unit was inaugurated on October 20, 2010. Patients with acute encephalitis, severe forms of meningitis, H1N1, various neural infections,

tetanus, and other diseases are treated at the unit.

The ability to carry out the tests in Kosovo is another great improvement over the past, when samples had to be shipped to other European countries



and patients had to wait over a week to find out if they had the potentially fatal infection.

Around a thousand patients were tested in the capital's newly equipped Virology Lab that can test patients for avian flu and other viruses. The lab opened in September 2009 at the National Institute of Public Health, as part of the World Bank-supported Avian Influenza Control and Human Pandemic Preparedness and Response Project.

Kosovo health officials are also pleased that the lab is up and running because Kosovo has some of the worst health care statistics in Europe, and there is little money in the budget to improve health care.



■ A new Animal Health Laboratory was also constructed and now is operational.





“The project has made possible the establishment of appropriate facilities, equipment, supplies and the staff training for diagnosing influenza, with special focus on A/H1N1 influenza,” says the head of the Laboratory, microbiologist Xhevat Jakupi.

The laboratory however carries tests for many other infections, including hemorrhagic fever, Hepatitis B and C, and HIV.

The Institute of Public Health and the Clinic of Infectious Diseases are among the institutions which received support from the project, but the Food and the Veterinary Agency was the main project beneficiary and implementation agency.



■ “It could have been a lot worse without the new intensive care unit,” says Shemsedin Dreshaj, Director of the Infectious Diseases Clinic at the Pristina Hospital.

The project was initiated after the regional outbreak of the Avian Flu. It began in September 2007, but was further developed to serve prevention and treatment of other types of pandemics, such as the A/H1N1. The vulnerability of the region to outbreaks and the difficulty of preventing the spread of the disease across boundaries create significant concerns regarding Kosovo’s vulnerability to Avian Influenza outbreaks among wild birds

or domestic poultry. The potential consequences of an undetected or unchecked outbreak include transmission of the virus to humans and/or the emergence of a virus transmissible between humans. Around half of rural households own poultry, and employ practices that expose both poultry and their handlers to high risk of HPAI infection. Over 1 million people live in rural areas and stand to be exposed to risk of infection from infected poultry.

The Animal Health sector has been supported with the establishment of a National Epidemiology Unit with two central and six regional specialized vets in epidemiology. The National Epidemiology Unit is established for the first time in the history of the vet service of the country and epidemiologist capacity is strengthened through continuous training by international epidemiology experts.

A new Animal Health Laboratory was also constructed and now is operational. “Mostly, we ran tests for Avian Influenza and a new cattle virus, but also for rabies, tuberculosis, blue tongue and few other diseases,” says Fillojete Rustemaj, one of the vet epidemiologists. “This is important because they affect human health as well.”

The project also has a Public Awareness component. It supports disease prevention through airing of television and radio messages to inform the public, in particular those more exposed to influenza, how they can avoid and minimize the spread of the disease. The project produced and distributed thousands of leaflets with general information on A/H1N1.

Knowledge Sharing

The World Bank

in Kosovo



South East Europe Regular Economic Report

This report is produced twice a year by a team of economists at the World Bank's Europe and Central Asia region's Poverty Reduction and Economic Management Department (ECA PREM). In this report, South East Europe refers to the six countries of the Western Balkans (SEE6): Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia. The Second edition of the South East Europe Regular Economic Report was released on June 5, 2012. This edition of the report covered recent economic developments, including the impact of the euro crisis on the SEE6 countries and the appropriate policies for stability and longer term growth in the region.

Summary of the SEE RER No. 2

After 2.6 percent growth in 2011, early indications are that South East Europe's six (SEE6) countries (Albania, Bosnia and Herzegovina, Kosovo, FYR Macedonia, Montenegro, and Serbia) are experiencing a significant slowdown to 1.0 percent growth in 2012. Weak economic conditions in the eurozone have exerted a drag on economic activity and government revenues in SEE6 countries. With high levels of public debt and financing pressures, most countries have to adopt significant fiscal consolidation programs. The financial sector in SEE6 remains relatively well placed, but risks are elevated, especially given a rising risk of a broader contagion from the Greek crisis. The importance of the authorities continuing to take pro-active measures to require banks to build buffers and strengthen the resilience of the sector cannot be overemphasized. Policymakers should especially take note of the difficult social situation and related trends: SEE6 countries are experiencing the highest unemployment and poverty rates in Europe. Growth has been weak and largely "jobless" during the nascent recovery in 2010-11. Poverty reduction gains from the pre-crisis period are being reversed, and the middle class has become more vulnerable. In the face of much more moderate growth prospects



than before the crisis and high social pressures, SEE6 country governments should adopt a more ambitious and urgent structural reform agenda for growth and jobs. In the longer-term, however, SEE6 countries face a historic opportunity to take advantage of the European "convergence train"—a reduction in the long-term per capita income gap with developed, "core" European Union (EU) countries. All earlier entrants into the EU experienced this strong "catch up." The same "convergence train" awaits new EU candidate countries among SEE6 but only with appropriate policies and reforms. The SEE6 long-term structural reform agenda must be focused on leveraging greater trade and financial flows and, especially, on reforming labor markets and the public sectors.

Link for the report:

<http://goo.gl/oKt4k>

Kosovo Country Environmental Analysis

The World Bank was finalizing in June 2012 an analytical report on the environment in Kosovo, called the Country Environmental Analysis. The report, prepared by a World Bank team, included a Cost Assessment of Environmental Degradation, an Institutional Review, and a Public Environmental Expenditure Review.

The objective of this country environmental analysis is to report on the state of the environment and the key environmental issues, and to estimate these issues' health and economic costs. The analysis uses international epidemiological research evidence on the relationship between the population exposed to environmental pollution and the increased risks of health impacts to estimate the environmental disease burden in Kosovo and its associated economic impacts. Costs are measured as, for example, impacts on health (morbidity and early mortality), and are then expressed as annual economic damage costs in Euros and as a share of gross domestic product (GDP). By assigning monetary values to environmental degradation, the analysis here achieves four main results. It provides a useful mechanism to rank the relative social costs of various forms of degradation and provides a tool for prioritization of environmental problems. It offers policy makers an instrument to integrate the environment into economic decision making. It expresses the damage costs as a share of GDP, allowing for comparison

with other economic indicators. And it gives to different stakeholders a tool for discussing the importance of environmental protection in economic terms—useful in deciding on how to allocate scarce resources and to increase awareness of the “costs of doing nothing” about pressing environmental problems.

The annual cost of environmental degradation in Kosovo is estimated at €123 million–€323 million in 2010, with a midpoint estimate of €221 million. This cost is equivalent to 2.9–7.7 percent of GDP, with the midpoint at 5.3 percent. Costs are indications rather than precise figures, as data gaps are many, some data have not been recently updated –due to country's turbulent history- and not all impacts can be monetized. The report concludes that with annual costs of environmental degradation of €221 million, Kosovo faces serious social and economic impacts from poorly managed polluting activities and could make huge gains from remedial actions to protect and restore the quality of the environment.

Link for the report:
worldbank.org/kosovo

POLLUTION OR CONTAMINATION /ESTIMATE	ANNUAL COST (€ MILLION)			% OF 2010 GDP		
	LOW	MID	HIGH	LOW	MD	HIGH
Outdoor air	37.2	95.6	157.8	0.89	2.28	3.76
Lead	41.7	67.9	94.0	1.00	1.62	2.24
Solid waste	19.0	25.1	31.3	0.45	0.60	0.75
Forests	16.7	18.1	19.5	0.40	0.43	0.46
Water, sanitation and hygiene	8.0	11.3	14.6	0.19	0.27	0.35
Water from heavy metals	0.4	2.8	5.2	0.01	0.07	0.12
TOTAL	123.0	220.8	322.5	2.9	5.3	7.7

Source: Authors' calculations

Note: These economic assessments provide a range of damage costs reflecting data shortcomings, range applied valuation of damages, and scientific uncertainties regarding environmental impacts.

Kosovo Country Fiduciary Assessment

On the request by the Government, the World Bank prepared a Country Fiduciary Assessment (CFA) for Kosovo, with an aim to assess the recent reforms in the public procurement and financial management systems.

The role of the Country Fiduciary Assessment is to analyze and identify strengths and weaknesses in the existing public procurement and public financial management systems. Sound public procurement policies and practices are among the essential elements of good governance. The importance of the Assessment is best seen through the fact that the public expenditures subject to procurement comprise around 80% of the state budget, and involve a wide range of sectors at the central and local government institutions.

The main objectives of the Kosovo CFA are:

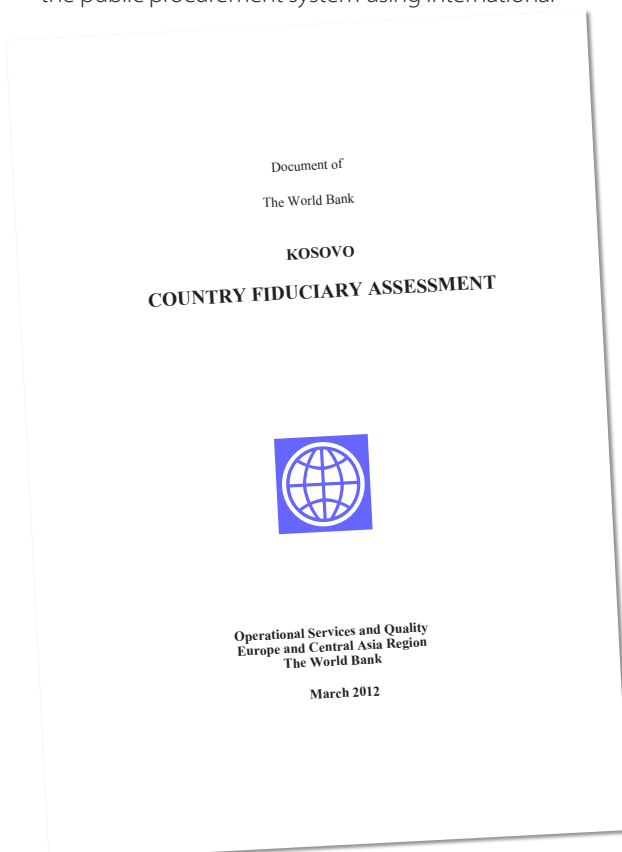
a) to analyze Kosovo public procurement and financial management systems including the existing legal framework, organizational responsibilities, control and oversight mechanisms and capacity, current procedures and practices, and how well these work in practice; b) to assess the quality and actual performance of the public procurement system using international

baseline indicators; and

c) based on these analyses and review, identify key areas for improvements in public financial management and procurement and, where possible, prepare an action plan for implementation. The assessment of the public procurement system would apply to all governmental institutions and local governments.

The Kosovo CFA makes several detailed recommendations:

- The Central Procurement Agency to be adequately resourced with staff so as to carry out properly the tasks assigned by Public Procurement Law,
- Identify items suitable for central purchase “common used goods” and prepare and conduct the first central purchasing,
- Conduct training for all contracting authorities on the new public procurement law and regulations including about bidding documents and contract management.
- Conduct awareness campaign for all contracting authorities’ high level staff about the new Public Procurement Law,
- Publish the anti-corruption plans of the contracting authorities as well as their level of implementation (on a quarterly basis),
- Propose appropriate arrangements to enforce the timely and full filing of assets and incomes of officials, and make available the names of individuals that have not filed such disclosures to the public and take any other appropriate actions for those who do not comply,
- Increase the statute of limitation for prosecuting corruption (currently two years); enhance the capacity of the District Prosecutor’s Office in Pristina and other districts as relevant; and publish a statistical summary report by type of offense, sector, procurement/tax/other system impacted, for all allegations related to fraud and corruption irrespective of the investigating and prosecuting authority and how they have been addressed by the government and EULEX, including any sanction.



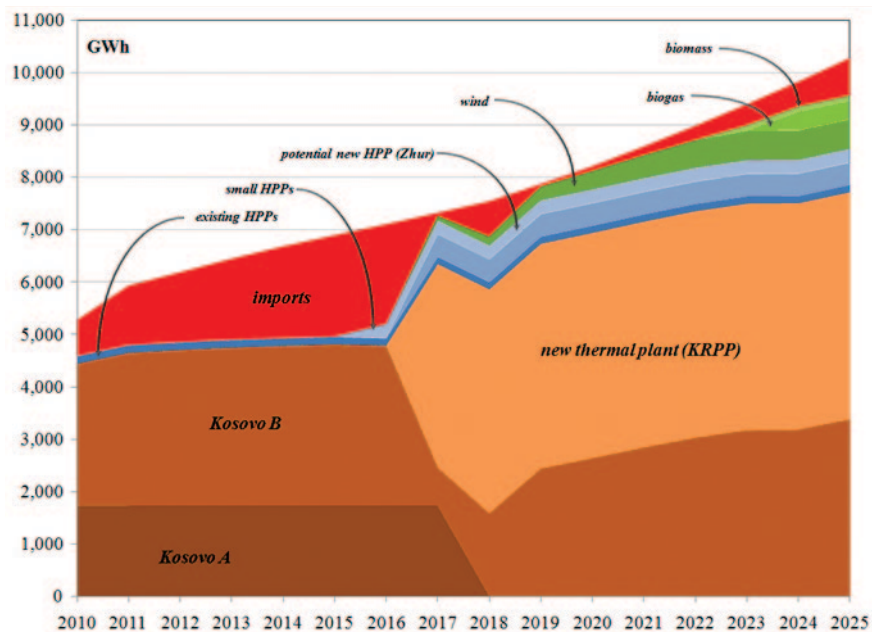
Development and Evaluation of Power Supply Options for Kosovo

This background paper was prepared by a team from the consulting firm DHIn-Infrastructure and reviewed by World Bank staff. The Government of Kosovo has requested the Bank for a Partial Risk Guarantee to support its proposed power generation project called Kosovo Power Project. Consistent with World Bank guidelines that seek to balance development needs with climate change concerns, an External Expert Panel assessed whether the proposed project meets the “Development and Climate Change: A Strategic Framework for the World Bank Group” criteria.

This background paper was commissioned by the World Bank as one of many analytical inputs to the Expert Panel’s deliberations. This background paper consolidates many analytical reports and models the projected use of the installed capacity of all power supply options for Kosovo to meet energy consumption and peak demand until 2025. The study considers environmental costs associated with each option and reviews several combinations of alternatives (such as renewables, natural gas, lignite coal, and fuel oil) for meeting daily and seasonal variations in demand. It also considered efficiency improvements, demand-side management, and importing electricity from neighboring countries. To meet Kosovo’s current and future energy shortages, it is assumed in this study that the planned Zhur Hydropower Plant can meet about 300 MW of firm capacity used during peak demand, and another 170 MW of firm capacity can be supplied by other renewable sources like small hydro, wind, biomass, and biogas but Kosovo would be left with a shortfall

for firm base-load capacity of about 600 MW during 2017-19. That shortfall would increase to about 1000 MW by 2025.

Overall, the study finds that Kosovo needs a mix of both base load and peaking capacity in order to meet its demand reliably and at low-



■ Even strong assumptions on renewable energy and demand-side management measures leaves Kosovo—as discussed in the Options Study—with few options but to invest in modern, efficient lignite-power plants.

est cost. Therefore, Kosovo needs a mix of the energy supply options—both thermal and renewable—and not any single option by itself. Specific findings on each option are:

- Kosovo has potential to improve end-use energy efficiency, reduce supply-side losses, and reduce technical and commercial losses in transmission and distribution of electricity. The study assumes uptake of efficiency measures in its demand forecast and sensitivity analysis consistent with these instruments.

- Regarding renewable power, the only specific plan for a moderately-sized hydropower plant in Kosovo is for the Zhur plant. Studies have identified

another 18-20 sites for small hydro plants for which the government is inviting private sector participation. Less than 5MW of wind power has been installed in Kosovo and the potential for new wind capacity appears limited.

■ A 2010 study funded by Swiss Renewable Energy and Energy Efficiency Promotion in International Cooperation found few areas with sufficient wind speeds for commercial windpower development. A study of solar photovoltaic power estimated solar PV potential at roughly 77 MW, but achievable only at very high costs. Biogas and biomass from forestry products are possible sources of distributed (not grid connected) generation in Kosovo, but the feedstock for this generation is in high demand for heating and fertilizer.

■ Kosovo is dependent on energy imports to meet seasonal and daily peaks. Imports in Kosovo range from 10-20 percent of total annual consumption, but are affected by transmission capacity, by the energy supply-demand balance in the Balkans, and by the financial capacity of the power utility to pay for them.

■ Regarding thermal power, Kosovo has sufficient domestic lignite to supply existing generation facilities to the end of their operational life as well as supplying the proposed new plant for 40 years.

■ Kosovo lacks natural gas resources or a gas transmission system, but the Options Study considered a base load natural gas-fired power plant. It would be more costly than a lignite-fired power plant even when taking into account environmental costs of lignite. A small gas-fired peaking power plant would be even more expensive.

The cost calculations in the Options Study include estimates of the environmental costs (CO₂, NO_x, SO_x and particulate emissions) associated with thermal options. The study finds that Kosovo's power supply plans must include a mix of thermal and renewable energy capacity, as well as a mix of base load and peaking capacity. The study assumes that the following plants will be built: (1) about 300 MW Zhur hydropower plant with a large storage facility to serve as a peaking plant; (2) 395 MW of installed renewable capacity (providing roughly 170 MW of firm capacity); (3) a 600 MW thermal power plant, for which the options considered are a lignite plant, a natural gas plant, and a plant running on fuel oil. Of the thermal options, lignite is the least expensive even when the relatively higher global and local environmental costs are included. This option withstands fairly wide deviations in the assumptions made about changes in demand, capacity utilization, capital costs, fuel costs, and global environmental costs. The lignite plan (coupled with renewables, as described above) is least cost even under much lower demand scenarios.

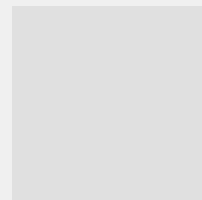
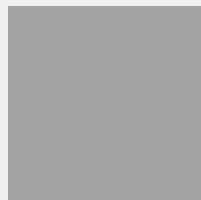
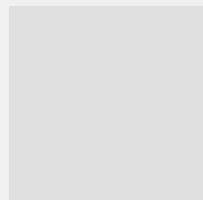
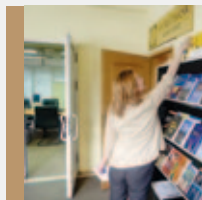
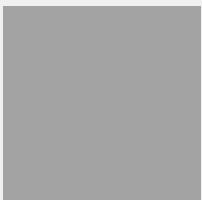
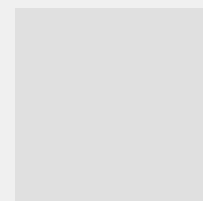
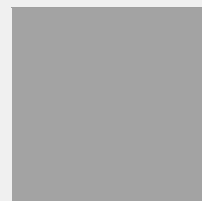
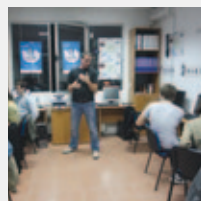
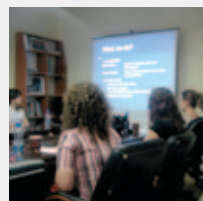
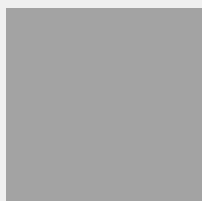
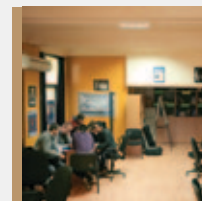
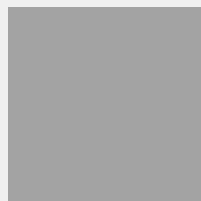
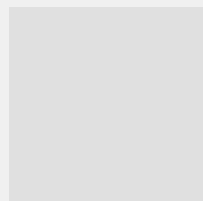
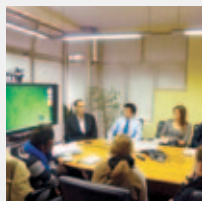
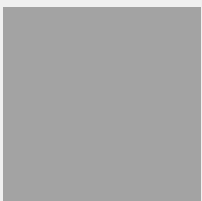
Recent World Bank analytical reports on Kosovo

- Kosovo Country Environmental Analysis: Cost Assessment of Environmental Degradation, Institutional Review and Public Environmental Expenditure Review (June 2012).
- Water Security for Central Kosovo (June 2012).
- South East Europe Regular Economic Report 2 (June 2012).
- World Bank Group's Country Partnership Strategy for the Republic of Kosovo for the period FY12-15 (May 2012).
- Kosovo Country Fiduciary Assessment (March 2012)
- Kosovo Power Project Report of the SFDC External Expert Panel to the World Bank (January 2012).
- Background Paper: Development and Evaluation of Power Supply Options for Kosovo (December 2011).
- Southeast Europe Regular Economic Report 1 (November 2011).
- Migration and Economic Development in Kosovo (May 2011).
- Consumption Poverty in the Republic of Kosovo in 2009 (May 2011).
- Kosovo Public Expenditure Review (June 2010).
- Kosovo Country Economic Memorandum (April 2010).

Public Information

The World Bank

in Kosovo



Public Information



World Bank relevant publications for Kosovo are also available at the World Bank

Kosovo Office, located in central Prishtina.

The office has an archive of different publications and also tries to make available other electronic publications upon request. There are walk-in visits. The office also hosts various organized group visits of parties interested to learn more about the World Bank program and projects in Kosovo.

Instead of a large Public Information Center, the World Bank Kosovo Office seeks partnership with various institutions, creating several points of access to information in various venues focusing on diverse audiences. Coupled with a proactive web approach, these “information partnerships” will support the country program and portray the Bank not only as a lender but a knowledge sharing/capacity building institution. A number of World Bank publications and studies have been delivered to the University of Business and Technology (UBT), in Pristina. In addition, some of the key WB publications are part of the United Nations’ corner, within the Library of Peja.

The website of the World Bank’s Office in Kosovo has had during 2011 a total of 17,586 visits. In the first four months of 2012, it received 21,364 page views from 5,583 visitors. During the month of May, the Kosovo Country Office website had 6,992 page views and it was in the Top 10 of the most visited websites in World Bank’s Europe and Central Asia (ECA) Region.

Regional Libraries Program

An agreement was signed between the World Bank Depository Libraries in Washington and the American University in Kosovo on January 13, 2009, for the opening and running of a Regional Library at AUK. It is now receiving 40 World Bank publications and other relevant regional publications per year. On January 26, 2010, access to the World Bank E-Library was granted for AUK library users, including not only students but also other registered users from the general public. The World Bank’s Regional Library Program is a key element in its publication strategy. As the world’s largest development institution, the World Bank undertakes large projects of research, analysis, and data gathering. The dissemination of that research is a necessary part of the Bank’s objectives, because knowledge and information, to have value, must be shared.



■ In March 2012 the World Bank Office in Kosovo moved to new premises. On this occasion the Country Office organized a reception on March 16, where representatives of the Government of Kosovo, diplomatic missions, donor agencies, civil society organizations and other stakeholders were invited.



■ On June 6, 2012, a Dissemination and Consultation event for the draft Kosovo Country Environmental Analysis and for the draft study Water Security for Central Kosovo was held at Hotel Sirius in Pristina. The reports were presented by the World Bank officials who led the work on these reports. Around 40 representatives from Government institutions, development agencies, bilateral donors, and civil society organizations, participated at the event.



■ A new bi-annual South East Europe Regular Economic Report was launched by the World Bank in 2011. The report was presented in World Bank Country Offices in the region, including Kosovo, simultaneously. The first issue was presented on November 15, 2011, and the second issue on June 5, 2012. Both presentations took place in the presence of representatives from Government of Kosovo, civil society organizations, academia and media. In both occasions the reports and the events where these reports were presented and discussed were broadly covered by the media.

World Bank Office in Kosovo



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