THE WORLD BANK IN KOSOVO

COUNTRY PROGRAM SNAPSHOT

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RECENT POLITICAL, ECONOMIC, AND SECTORAL DEVELOPMENTS

Political Developments

Kosovo is a potential candidate for European Union (EU) membership. In recent years, the country has accelerated its integration process into the EU, including through (i) signing the Stabilization and Association Agreement (SAA) with the EU in October 2015; (ii) deepening coordination with the European Commission (EC) on economic policies and governance issues (including through the submission of the Economic Reform Program); and (iii) remaining a constructive partner in the EU-moderated bilateral talks with Serbia on the normalization of bilateral relations.

Kosovo's non-membership in the United Nations (UN) remains a key obstacle to political integration and socioeconomic development. As of end-March 2016, 109 (out of 193) UN member countries had recognized Kosovo's independence, including 23 out of 28 EU member states. UN membership seems a remote prospect, however, given that only three of the five permanent members of the UN Security Council and fewer than the required two-thirds of UN member states represented in the General Assembly have accepted Kosovo's statehood. This situation has held back the modernization of key sectors of Kosovo's economy, including insurance, transport, telecommunications, and energy. At the same time, progress has been made in the normalization of relations with Serbia, but the EU-facilitated bilateral agreements have proven difficult to implement.

The "grand coalition" of the two biggest political parties—the Democratic Party (PDK) and the Democratic League (LDK)—plus ethnic minority parties has endured for a difficult 15 months in power. The Government's program (adopted in early March 2015) and the National Development Strategy 2016–2021 (adopted in January 2016) have focused on the creation of additional (formal) jobs, a topic that gained urgency after the mass exodus of an estimated 5 percent of Kosovo's population (mostly without the required visas) to EU countries during the "winter of discontent" in 2014–15. The migration pressure has reflected widespread pessimism about the rule of law and economic prospects. The Government also faced protests by opposition parties regarding the recent compromise agreements with Serbia on greater autonomy for the Serb minority community in Kosovo (and the role of Serbia in Kosovo's telecom and energy sectors).

Economic Developments

From mid-2011 until end-2013, Kosovo's economy was managed well, but risks have been increasing. Kosovo is one of only four countries in Europe that has recorded positive growth rates in every year of the post-crisis period since 2008. The average growth of 3.5 percent during 2011–14 contrasted favorably to the region but was slightly below the global average. The growth outlook over the medium term remains moderately buoyant, as it recovered in 2015 to 3.6 percent from only 1.2 percent in 2014, according to Kosovo's Statistics Agency. The growth in 2015 is estimated at 3.6 percent, largely reflecting the solid increase in contributions from private investments by 4.2 percentage points and the positive contribution of consumption of 0.9 percentage points, fueled by foreign direct investment (FDI) and workers remittances.

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

Fiscal Policies

Kosovo has adopted various constitutional and legal stipulations to prevent public debt from rising to unsustainable levels. They include (i) a public debt law that sets the maximum public debt-to-GDP ratio at 40 percent (which was reduced to 30 percent of GDP in a recent amendment of the fiscal rule); (ii) a constitutional stipulation, according to which external borrowing by the Government, including for highly concessional International Development Association (IDA) credits, would require parliamentary ratification with a qualified majority; (iii) a law on public financial management and accountability that requires any supplementary budget to be "deficit neutral"; and (iv) a fiscal rule aimed at limiting overall budgetary deficits, with few exceptions, to 2 percent of GDP (as agreed with the International Monetary Fund [IMF]).

Fiscal policies deteriorated in 2014, following the election-inspired expansion of budgetary expenditures. In an attempt to maintain Kosovo's long-term fiscal stability, a fiscal rule was adopted to serve as the Government's principal fiscal anchor. However, weaker-than-projected revenues and political (election-inspired) decisions to (i) increase public sector wages and pensions by 25 percent; (ii) introduce new social benefits for political prisoners and war veterans; and (iii) sign a contract for a budget-financed motorway construction project (with only limited economic viability) reversed the consolidation of gains made during the period between mid-2011 and end-2013 and necessitated a sharp contraction in capital expenditures to keep the fiscal deficit, at 2.2 percent of GDP, close to the 2 percent of GDP limit defined in the fiscal rule. A modification of the original budget was needed by mid-year 2015 to bring back fiscal stability and maintain the fiscal rule, applying both revenue and expenditure measures. The fiscal rule was also amended in 2015 to allow for an investment clause enabling excess investments in productive capacities that is limited to financing from development partners and does not exceed the debt level of 30 percent of GDP.

A new 22-month Stand-By Arrangement (SBA) of about €184 million was agreed with the IMF in July 2015. Roughly €70 million from these funds have already been disbursed. The SBA seeks to preserve low debt and financial stability and rebuild government bank balances while creating conditions for more dynamic and better-balanced growth.

In addition to maintaining fiscal credibility, Kosovo also faces the challenge of debt sustainability. The stock of public debt (including guaranteed debt) increased from €284 million at end-2011 (5.6 percent of GDP) to an estimated €748 million at the end of 2015 (13 percent of GDP). Kosovo has only negligible municipal debt and limited but growing state guarantees. The structure of government borrowing tipped from the complete reliance on foreign borrowing (from international financial institutions) in 2011 to a complete reliance on domestic borrowing in 2014. The new IMF program marked a return to foreign borrowing in 2015. Although inexpensive, albeit sensitive to political uncertainty, the domestic debt market is shallow, requiring Kosovo to reassess its debt strategy over the next few fiscal years.

The Financial Sector

The banking sector has proven resilient to the deterioration in the external environment, reflecting the banks' conservative conduct and risk-averse lending decisions. Banks remain highly liquid, profitable, and well-capitalized. Liquid assets recorded an annual increase to 44.9 percent at end-2015 from 38.5 percent in 2014. Return on equity (ROE) improved to 26.4 percent from 20.3 percent in December 2014 while return on assets (ROA) improved to 2.9 percent from 2 percent during the same period. The capital adequacy of the system reached an average of 19 percent, significantly exceeding the 12 percent minimum regulatory requirement. At the end of 2015, Kosovars entrusted banks with €2.70 billion in deposits, 6.5 percent more than a year earlier, with households contributing more than two-thirds to the banks' corresponding liability positions. However, risk factors emanating from the (principally healthy) financial sector include the deleveraging by, and the funding difficulties at, foreign parent banks.

In December 2015, the loan-to-deposit ratio was 74.8 percent. Reflecting the banking sector's liquidity, the credit rate fell from 12.9 percent in December 2012 to 7.7 percent in December 2015—the lowest since the war in 1998/99.

Nonperforming loans (NPLs) remain below the regional average. Between December 2011 and December 2013, NPLs rose from 5.9 percent to 8.7 percent of total loans, but decreased again to 6.2 by the end of 2015. Loan-loss provisions against adversely classified loans remained high at 115.1 percent.

The Central Bank of the Republic of Kosovo (CBK) has maintained a focus on preserving banking sector stability. Having adopted the euro as sole legal tender, Kosovo does not have access to independent monetary policy instruments. But the monetary and fiscal authorities have pursued an important structural reform agenda, in which context (i) €46 million from treasury deposits were earmarked for a fund for Emergency Liquidity Assistance; (ii) a Deposit Insurance Fund was established; (iii) risk-based supervision has been introduced in the banking sector; iv) a macro-prudential policy framework is being developed that will further strengthen systemic financial stability; v) further work is in progress strengthening contingency planning and crisis management capacities;[1] and (vi) a safe and efficient payment system is being promoted by Kosovo's membership in, and the receipt of a user-assigned code from, the Society for Worldwide Interbank Financial Telecommunication (SWIFT). In mid-2014, Kosovo was able to introduce international bank account numbers (IBANs).

Growth and External Performance

Although Kosovo's economic growth has outperformed its neighbors and been largely inclusive, it has not been sufficient to reduce high rates of unemployment; provide formal jobs, particularly for women and youth; and reverse the trend of large-scale outmigration. With negative domestic savings, the current growth model relies heavily on remittances and aid, which have been important for growth and poverty reduction. This dependency, together with Kosovo's structural characteristics (small size, past legacies, fragility, euro-based economy), is also putting pressure on competitiveness and productivity, limiting job creation and business expansion in the tradable sector.

The current growth model is unlikely to be able to sustainably support Kosovo's future development and EU ambitions. A small economy like Kosovo's may continue to grow respectably in the short and medium term on the basis of consumption fueled by aid and remittances. However, the marginal benefits of some of these growth drivers are expected to decline. Moreover, structural transformation and heightened productivity will be required to establish a well-functioning market economy that can cope with both competitive market forces associated with EU membership and socioeconomic pressures linked to its demographic profile.

Refocusing Kosovo's growth agenda requires retaining its economic foundations while increasingly tapping into production factors—natural and human resources—that are either chronically underused or not used at all. To achieve this, Kosovo's current growth strategy needs to be adapted through reforms related to governance, macroeconomic, structural, and social policies. Addressing the infrastructure bottleneck in energy and building up governance and the rule of law are top priority areas for creating a more attractive environment that is necessary for fully reaping the benefits of European integration, unleashing productivity gains, and creating quality jobs and inclusion. Other high priorities include improving the allocation and efficiency of public resources, shifting toward direct taxation and strengthening tax administration, addressing skills mismatches to increase employment and labor productivity, and ensuring the sustainable management of natural resources. The reforms required for growth and prosperity are congruent with those required for Kosovo's ability to achieve its overarching priority of integration into the EU.

For the most part, companies are not yet in a position to compete successfully in local, regional, EU, and international markets. Reflecting binding public infrastructure and business climate constraints, domestically produced goods—including in the agriculture sector—have not yet been supplied in the quantity and quality required to compete successfully in either domestic or foreign markets, despite some improvements. The entry into force of the SAA with the EU on April 1, 2016, will place additional pressures on Kosovar companies. In 2015, exports declined by 0.2 percent to €322.5 million, a price effect from declining metal prices by

[1] IMF Country Report No. 16/22, January 2016.

end-year, while imports increased by 2.1 percent to €2.43 billion, widening Kosovo's already large trade deficit.

Rule of Law and the Business Climate

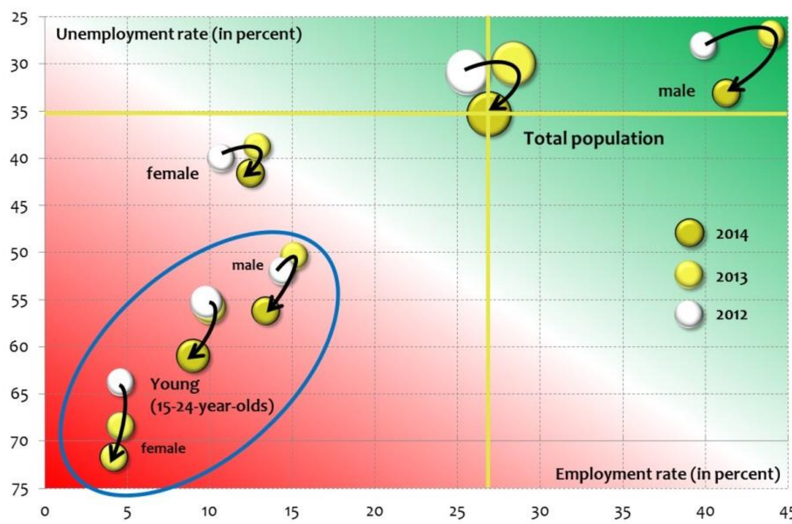
Since the second quarter of 2011, Kosovo has made significant progress on strengthening its basic legal framework and institutional structures, with a view to reinforcing the necessary foundations for a functioning market economy. These reforms (partially supported by World Bank–financed projects and a multi-donor, World Bank–led budget support operation) have begun to be reflected in improved rule of law and business climate indicators, and Kosovo's ranking in the most recent *Doing Business* survey improved by 40 positions in two years. Several features in the overall business environment compare favorably to those of Kosovo's neighbors (such as flexible labor markets, an open trade regime, and a healthy banking sector); however, weak institutional capacity, unclear property rights, and a complicated and fragmented licensing and inspection regime continue to create disincentives for formal private sector activities.

Fair competition is not necessarily ensured, for several reasons: First, the large informal economy significantly distorts the market and harms those businesses that comply with the laws. Second, regional, family, or political connections have an important impact on market outcomes, weakening the informative powers of the price and quality signals that emanate from the marketplace.

Kosovo needs to maintain a focus on improving the business environment. The Government has taken measures to speed up business registration through the establishment of one-stop shops that have, among other measures, integrated business registration, value added tax (VAT), and the fiscal numbers into one document. Recently, the authorities adopted new fiscal reforms involving the differentiation of VAT from a flat 16 percent to 18 and 8 percent, with the reduced rate for a list of "basic" products (bread, water, oil, energy, and heating). The Government aims to shorten the VAT repayment period for those companies that pay their contributions regularly.

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

Poverty and Unemployment



Unemployment and Employment Rates, 2012–14

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

Widespread unemployment and a lack of quality jobs have contributed to poverty and income insecurity. With an estimated unemployment rate of 35.3 percent in 2014 and an employment rate of only 26.9 percent, Kosovo has one of the weakest employment records in Europe. Kosovo's 41.6 percent labor force participation rate is substantially below the 70 percent average estimated for the countries represented in the World Bank's Europe and Central Asia (ECA) region. The lack of jobs has direct consequences on income, as households with unemployed heads have the highest extreme poverty indices. In addition, many households with adult members in precarious or unsteady jobs are below the poverty line, depending on small, informal enterprises offering uncertain employment for the majority of their income.

Kosovo's difficult labor market conditions have been especially severe for youth and women. Estimates suggest that unemployment among 15–24-year-olds exceeds 61 percent. The generally poor quality of the education system, coupled with limited employment opportunities, makes it difficult for young people to access and retain jobs; those who do succeed in finding employment are typically hired into low-skilled, low-productivity positions, often in the informal sector. According to the 2014 labor force survey, 30.2 percent of 15–24-year-olds are neither employed nor in education or training—foreshadowing considerable development impacts over the medium- to long-term horizon.

Education

Education is an essential part of Kosovo's efforts to boost economic growth, increase productivity and wages, and reduce high unemployment. Kosovo is a young country, with 38 percent of the population under 19 years of age (2012). This youthful structure, if exposed to high-quality education, provides an opportunity to increase tangibly the productivity of the workforce. In recent years, wide-ranging reforms have been initiated and progress has been achieved, including (i) improvements in access to preprimary and upper secondary education, with enrollment rates in 2012 of 72 percent and 92 percent, respectively;[2] (ii) strengthened financing of education systems for a more equitable distribution of resources across the country; (iii) improved teacher management by setting up a mandatory teacher licensing/certification system and enhancing teacher training opportunities as well as increasing teacher salaries; (iv) curriculum reform to make curricula more modular and relevant, including introducing new approaches to schooling, promoting learner-centered and outcomes-based teaching methodologies, and developing teaching and learning materials in line with the new social, economic, labor market, and technological developments; and (v) improved learning conditions and school infrastructure by expanding school buildings and improving the conditions of existing buildings, thus eliminating triple-shift schools and reducing the number of schools operating in two shifts to 70 percent.

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

Moreover, Kosovo's quality of education is weak and inequitable and does not succeed in providing students the skills necessary to transition to a rapidly changing labor market and economic environment. Although reliable data on student achievement are poor and there are no internationally comparable data, the low passing rates

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

and achievement levels of students on the national Matura demonstrate a need for improvements. The initial results of the Grade 5 sample-based test, undertaken in 2010 as a precursor to Kosovo's entry into the Program for International Student Assessment (PISA) 2015, suggested large differences between girls and boys (especially on the language test) and rural and urban students. Overall results show significant municipal disparities, calling for action in order to alleviate and mitigate these differences. In Kosovo, the inadequately skilled workforce remains a major or even severe obstacle for firms, especially the large and fast-growing ones.

The Government has started the implementation of the *Kosovo Education System Improvement Project*, supported by the World Bank through a US$11 million credit, to strengthen selected systems that contribute to quality, accountability, and efficiency improvements in education in Kosovo. More specifically, the project looks to strengthen planning, financial management, and evaluation capacities at different levels of the education sector, including the national, municipal, and school and university levels, as well as to enhance and modernize the systems and practices of data management and analysis in the education sector. It is also supporting and institutionalizing the teacher career system, facilitating the use of international best practices in student assessment and evaluation, and enhancing the capacities of tertiary education institutions and their responsiveness to the labor market.

Health

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

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

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

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

Energy and Mining

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

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

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

Several studies of Kosovo's energy options have been conducted over the past decade. The World Bank conducted a study entitled, "Development and Evaluation of Power Supply Options for Kosovo," to assess ways of meeting current and future energy needs and balancing corresponding economic, financial, and environmental costs. The study found that the lowest-cost reliable energy supply that would meet Kosovo's base load and peak demand was a mix of thermal and renewable sources of energy. The Government of Kosovo has requested a World Bank partial risk guarantee (PRG) for attracting private investors to build a new, efficient 600 megawatt (MW) coal-fired power plant.

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

Environment and Water

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

Key health impacts from air pollution are related to the high levels of particulate matter (PM). Particulate matter (PM10) in central Pristina in January 2015 was 51.7 µg/m3 compared to 74.7 in 2010**.** The key sources of fine particle emissions in Prishtina and neighboring communities are the antiquated power plants and the household use of wood and coal heating during winter. High PM levels are responsible for increases in cardiopulmonary and lung cancer mortality (in cases of long-term exposure), chronic bronchitis, and respiratory diseases, particularly in children. During 2012–14, Kosovo's energy corporation (i) replaced the open system of ash transport with a closed hydraulic system; and (ii) installed electrostatic precipitators (or dust filters) in all three units of the oldest power plant. Both investments have resulted in a noticeable reduction in local pollutants. Three air monitoring stations in the most affected areas near the power stations are currently monitoring the air quality on a continuous basis.

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

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

Agriculture and Rural Development

Agriculture plays a significant role in Kosovo's economy. It is an important contributor to GDP, accounting for about 14 percent of GDP in 2011. The sector is the largest private employer, accounting for about 18–20 percent of total employment, although primarily on an informal basis. Beyond economic considerations, Kosovo's reliance on agriculture also has a crucial social dimension: agricultural activity is pervasive in Kosovo as a safety net for much of the population. Approximately 60 percent of the country's poor lives in rural areas and depends, directly or indirectly, on the agriculture sector for its livelihood.

Despite a steady growth in the sector since independence, the overall balance of trade in agricultural products is substantially negative. With 53 percent of its territory characterized as good, arable land and endowed with generally good agro-climatic conditions, the agriculture sector in Kosovo has a high potential for development. Yet, the country remains the largest importer of food per capita in Europe, with agricultural products accounting for about 10 percent of all imports; of this, 30 percent comprises food products. In 2011, the value of exports of agricultural products was €26.2 million while the value of imports was approximately €561.4 million. Exports of agricultural products thus generated revenues to pay for only 4.6 percent of the cost of importing them.

The agriculture sector is predominantly subsistent/semi-subsistent in nature and faces several diverse and inter-related challenges that are reducing competitiveness and preventing it from meeting its production potential. The sector is characterized by fragmented land holdings averaging 1.5 hectares each (often spread across an average of seven smaller plots, further exacerbating economies of scale), outdated farm technologies and a lack of effective technological innovations, a lack of adequate investments in irrigation, limited access to credit and investment capital, limited market access, weak backward and forward value chain linkages, and the low capacity of institutional structures (municipal advisory offices, the Managing Authority, and the Paying Agency). Moreover, agricultural imports from trading partners, who receive production and export subsidies, place Kosovo farmers at a disadvantage. Agricultural subsidies in these countries facilitate the entrance of better-quality products at lower prices into the Kosovar market.

Poverty among the agri-rural population is high, and about 40 percent of the rural population is unemployed. Most of the labor force is unskilled or semi-skilled, and the lack of job opportunities is putting a strain on social cohesion and encouraging out-migration (as well as emigration). In most cases, agriculture forms only a part of rural household incomes; most families depend on remittances from abroad (which have declined since the 2008 economic crisis) to supplement their farming incomes. It is estimated that an average of 48 percent of the rural household budget is used for the consumption of food and non-alcoholic beverages, leaving little for other necessities and leisure.

The agriculture sector can potentially be an effective source of growth and poverty reduction over the short to medium term. The horticulture and dairy subsectors in particular provide strong opportunities for growth and competitiveness and have been identified as a priority sectors for support. With its relatively abundant and under-utilized labor, Kosovo has competitive potential in the horticulture and livestock subsectors, since domestic demand for horticultural and livestock products is expected to grow as purchasing power increases. Over the past decade, demand for high-value horticultural products has surged more than any other food category. Exploiting the competitive potential in these two subsectors has the potential to contribute to the country's objectives of: (i) increasing the import substitution of food products; and (ii) promoting exports in niche or high-value products. The development of these subsectors would not only contribute to transforming agriculture into a dynamic and vibrant sector but also serve to reduce rural poverty for a significant segment of the rural population by providing both long-term and seasonal employment as well as improving wages/incomes.

The World Bank supports the Government's strategy to promote growth and competitiveness in the agriculture sector, with a view to overcoming identified bottlenecks that hold back sustainable rural development. Through the support provided by the World Bank and other development partners, the Government has sought to align Kosovo's rural sector with the four axes of EU's Instrument for Pre-Accession Assistance for Rural Development (IPARD). The Government is undertaking several significant and strategic initiatives in this direction, including by establishing institutional structures consistent with EU accession requirements. The SAA with the EU will open EU markets to exports but will also put pressure on local farms to meet and be certified for EU food quality standards.

THE WORLD BANK PROGRAM

Since 1999, the World Bank has provided and/or managed roughly US$400 million to Kosovo through more than 30 operations, including trust funds. As of March 15, 2016, the active lending portfolio amounted to US$131 million across eight projects in the areas of energy, education, public sector reform, cadastre, agriculture, health, and the financial sector. Since Kosovo joined the World Bank Group as a full member only in June 2009, all previous Bank-supported projects had been financed through grants from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund, and International Development Association (IDA).

The World Bank's program in Kosovo is anchored in its Country Partnership Strategy (CPS) FY2012–16, following a series of Interim Strategy Notes. This document provided the Word Bank Group and Kosovo with a framework of cooperation. In support of Kosovo's EU integration objective, the CPS helped to enable the authorities to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management. The World Bank Group has now begun preparations for a new Country Strategy Framework for Kosovo for the period 2017–2021.

World Bank–financed projects have been designed to strengthen the business climate and improve competitiveness. These activities fit into broader CPS objectives that seek to support the business environment and good governance and address the issue of skills, while continuing to implement reforms in the agriculture sector, financial sector, and the cadastre. The active projects are: (i) the *Financial Sector Strengthening and Market Infrastructure Project*; (ii) the *Public Sector Modernization Project*; (iii) the *Real Estate Cadastre and Registration Project*; (iv) the *Agriculture and Rural Development Project*; (v) the *Energy Sector Clean-Up and Land Reclamation Project*; (vi) the

Energy Efficiency and Renewable Energy Project; (vii) the *Kosovo Health Project*; and (viii) the *Education System Improvement Project*.

Support to alleviate Kosovo's energy constraints is one element of the World Bank's broader strategy to support economic development as well as improve competitiveness and environmental management. The provision of a reliable and sustainable energy supply is a key challenge to meeting Kosovo's socioeconomic development objectives. The support from the World Bank is aimed at addressing Kosovo's energy crisis in a comprehensive way. This involves seeking to balance energy security and energy affordability with efforts to minimize socio-environmental externalities in order to mitigate the adverse environmental, public health, and economic impacts on affected citizens. 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 power plants and for which Additional Financing has been approved. It also includes an *Energy Efficiency and Renewable Energy Project*, which aims to reduce energy consumption and fossil fuel use in public buildings and to support Kosovo in enhancing the policy and regulatory environment for renewable energy and energy efficiency.

Four more projects are in the pipeline for FY17: the *Water Security and Canal Protection Project*, the *Environmentally and Socially Sustainable Mining Project*, the *Competitiveness and Jobs Project*, and Additional Financing for the *Agriculture and Rural Development Project*.

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

Key Dates:

Approved: June 13, 2006
Effective: Feb 28, 2007
Closing: August 31, 2016

Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	10.5	10.9	0
Additional IDA Credit	4.2	3.3	0.6
Dutch Gov. Grant	4.3	4.3	0.0
Additional Dutch Grant	1.0	0.9	0.
Total Project Cost	**20**	**19.4**	**0.6**

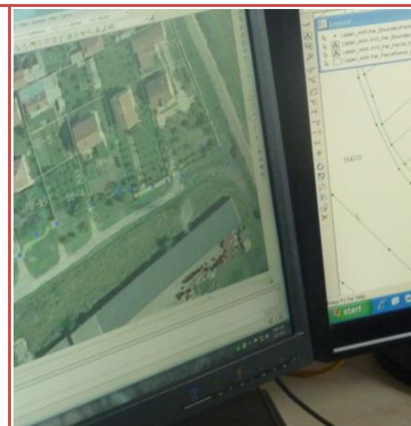
*** Source Client Connection as of March 11, 2016.** ***Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement***

Air pollution, particularly from the dust generated by the power stations and ash dumps near the capital Prishtina, has been a critical problem. Soil and groundwater contamination from the ash dumps have left a negative environmental impact 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 were the main factors behind the high exposure to environmental health risks. The sizable overburden dumps from lignite mining occupy large areas near the mines, sterilizing land for other productive uses, while the former gasification plant consists of numerous structures that contained hazardous chemicals. The project seeks to (i) address the environmental legacy problems from the open dumping of ashes on land; (ii) enable the Kosovo Energy Corporation (KEK) to free land for community development purposes currently taken by overburden material and to remediate Kosovo A ash dump; and (iii) support KEK and the Ministry of Environment and Spatial Planning (MESP) to implement continued cleanup operations and environmental good practices in the mining and energy sector. The second Additional Financing further scaled up the existing cleanup and land reclamation activities, aiming to fully remove the hazardous chemicals found on the gasification site of KEK, as well as financing a component with MESP to fund additional activities associated with an environmental and social impact assessment for the proposed Kosovo Power Project.

Results achieved. The depleted mine has been prepared to receive the sanitary disposal of ashes from power plant Kosovo A. The conversion of the current system of dry ash transportation to hydraulic transport has been functioning since November 2013 and was officially inaugurated in March 2014. The project contributed €1 million to the system. Currently, 85 percent of the projected remediation of the ash dumps has been completed and more than 650 hectares are available for community development in the overburden dumps, where more than 150,000 plants have been planted. The removal of the highest priority hazardous substances from the storage tanks and other containments at the gasification site (tars, benzene, phenols, methanol, oily compounds) has been implemented. 14,775 tons of low-level organic content liquids were locally treated and 5,109 tons of high-level organic content materials have been exported and disposed of in licensed disposal facilities. Also, the additional materials that were more recently discovered in an underground tank were exported together with the big bags of solid tar. Target works under the project have been completed. KEK staff is now fully responsible for cleanup and land reclamation operations in the area of ash and overburden dump rehabilitation. Regarding the activities under the Additional Financing implemented by MESP, progress has been as follows: The Environmental and Social Impact Assessment (ESIA) for the proposed Kosovo Power Project had public consultations for the scoping study in October 2014 and a draft ESIA is being prepared. Resettlement monitoring efforts for the Resettlement Action Plan (RAP) for the Shala neighborhood of Hade village, as implemented by MESP, have continued with the support of an internationally recognized resettlement consultancy firm as part of this second Additional Financing. The resettlement process is still ongoing.

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

KOSOVO: REAL ESTATE CADASTRE AND REGISTRATION PROJECT (RECAP)



Key Dates:
Approved: February 4, 2010
Effective: June 17, 2011
Closing: January 31, 2017
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	6.7	4.35.0	2.41.8
IDA Grant	5.5	2.7	3.42.9
Government of Kosovo	1.6	1.3	0.3
Total Project Cost	**13.8**	**79.0**	**65.0**

Source Client Connection as of March 10, 2016.** ***Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

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

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

Results achieved and expected:

- The textual component of the KCLIS has been rolled out in all MCOs except the politically sensitive northern municipalities.
- The Kosovo Positioning System (KOPOS), which receives satellite signals and provides data for GPS equipment, is operational and used by both private and public sector users.
- Mobile gender teams have been tested for the cadastre reconstruction process to ensure women are registered as owners.
- The legal analysis of KCA's sustainability and institutional reform has been completed and KCA is hiring international and local legal technical assistance to draft a new law.
- 20 municipal cadastral offices have been reengineered and four remaining offices are in the process of rehabilitation.
- The National Spatial Data Infrastructure Strategy (NSDI) has been approved.
- The Bank has completed a restructuring and the project has been extended by 18 months to January 2017.

Key Partners: The Bank team works closely with the Ministry of Environment and Spatial Planning, MCOs, other municipal structures, and the KCA. The Government of Norway continues to support the KCA and a new U.S. Agency for International Development (USAID) project is providing support for legal reforms and capacity building for land administration activities.

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

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

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	1.8	1.5	0.3
IDA Credit	65.9	34.4	21.5
Total Project Cost	**7.7**	**5.9**	**1.8**

Source Client Connection as of March 11, 2016. *Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

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

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

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

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

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

KOSOVO: AGRICULTURE AND RURAL DEVELOPMENT PROJECT (ARD)

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

Financing in million US Dollars:

Financier	*Financing*	*Undisbursed* (approx)*
IDA Credit	20.15	75.5
Government of Kosovo	1.00	
Beneficiaries	16.00	
Government of Denmark	~~8.68~~	~~0~~
	10.50	1.83
Total Project Cost	**43.71**	

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

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

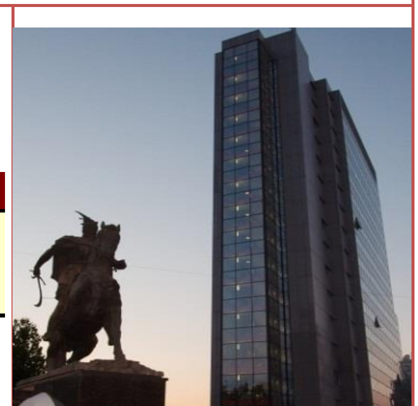
Under Component 1, training is being provided to farmers, agro-processors, municipal advisors, and national extension staff, as well private advisors to help farmers and agro-processors develop sound business plans for investment support under the project. Under Component 2, the project is supporting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

Key Expected Results:

- Increased number of farmers and agro-processors trained in the development of viable business plans for improving their operations
- Increased number of farmers and enterprises adopting improved products and/or techniques
- Improved agricultural productivity in livestock and horticulture subsectors
- Increased employment and improved incomes in agri-rural space
- Extension staff and municipal advisors trained in relevant agricultural production and processing techniques in the livestock and horticulture subsectors
- Increased capacity of Managing Authority and Paying Agency to develop and implement the National Agricultural and Rural Development Strategy 2014–2020 as well as implement/administer the Rural Development Grant Program approximating EU requirements

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

KOSOVO: PUBLIC SECTOR MODERNIZATION PROJECT (PSMP)



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

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Grant	3.5	3.1	0.1
IDA Credit	4.5	23.1	1.0
Total Project Cost	**8.0**	**6.2**	**1.1**

***Source Client Connection as of March 9, 2016.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

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

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

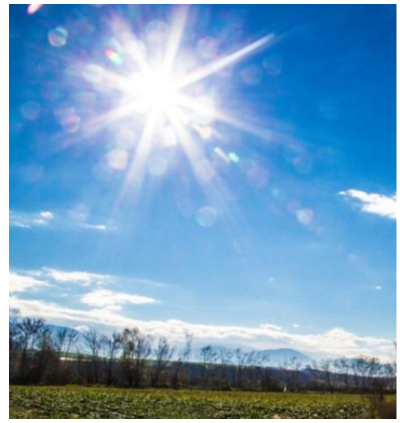
Results Achieved:

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

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

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

KOSOVO: ENERGY EFFICIENCY AND RENEWABLE ENERGY PROJECT (KEEREP)



Key Dates:

Approved: June 18, 2014
Effective: June 5, 2015
Closing: August 31, 2020
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	31.0	0.11	31.027.7
Government of Kosovo	1.5		1.5
Total Project Cost	**32.5**		**32.5**

***Source Client Connection as of March 3, 2016.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

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

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

Expected Results:

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

Key Partners: Ministry of Economic Development, Energy Regulatory Office, Ministry of Environment and Spatial Planning. **Key Development Partners:** KfW, European Commission, European Bank for Reconstruction and Development (EBRD), and United Nations Development Programme (UNDP).

KOSOVO HEALTH PROJECT

Key Dates:

Approved: May 13, 2014
Effective: June 5, 2015
Closing: October 30, 2019
Financing in million US Dollars*:

Financier	Financing	Disbursed	Undisbursed
IDA Credit	25.5	0.03	22.9
Total Project Cost	**25.5**	**0.03**	**222.9**

***Source Client Connection as of March 3, 2016.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

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

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

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

Expected Results:

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

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

KOSOVO EDUCATION SYSTEM IMPROVEMENT PROJECT (KESIP)

Key Dates:

Approved: September 10, 2015
Effective: Not yet effective
Closing: December 31, 2019
Financing in million US Dollars*:

Financier	*Financing*	*Disbursed*	*Undisbursed*
IDA Credit	11.0	0.0	11.0
Total Project Cost	**11.0**	**0.0**	**11.0**

***Source Client Connection as of March 4, 2016.**
Note: Disbursements may differ from financing due to exchange rate fluctuations at the time of disbursement.

Despite considerable progress in improving access to education, especially at the preprimary and upper secondary levels, the quality of education in Kosovo remains low. Grade 5 student assessment results reveal large gender and regional differences, with urban students and girls significantly outperforming rural students and boys. Firms in Kosovo also point to skills shortages as a major constraint to private sector growth. The public education system currently has limited resources with which to tackle these challenges. It is characterized by a low level of expenditures relative to neighboring countries, as well as non-transparent or unreliable mechanisms to make managerial and planning decisions within the sector.

The KESIP will support key reforms in the education sector to address these concerns while building on the successes and lessons learned from the previous Institutional Development for Education Project (IDEP).

The **Project Development Objective** is to strengthen selected systems that contribute to quality, accountability, and efficiency improvements in education in the Republic of Kosovo.

The project aims to achieve this objective through interventions grouped into two main components. First, the KESIP will strengthen planning and monitoring capacity within Kosovo's decentralized education system through support for the per capita financing formula, school development grants, and an expansion of the Education Management Information System. The second component will focus on improving accountability and capacity in pre-university education through improvements in teacher certification, professional development, and student assessment, and in higher education through support for professional licensing in priority fields.

Through these activities, the KESIP will strengthen key components of the education system in Kosovo, ultimately contributing to the broader goals of improved opportunities for teaching and learning and enhanced student outcomes.

Expected Results:

- Greater accountability and efficiency in the allocation of financial resources to schools through the use of a revised funding formula;
- Improved data collection capacity and accountability for results through the production and dissemination of school report cards;
- Strengthened school-level accountability and managerial capacity through the application for and management of school development grants; and
- Improved quality and accountability in higher education through the piloting of at least two professional licensing exams.

Key Partners: The project was prepared in close cooperation with the Ministry of Education, Science, and Technology (MEST), which will be responsible for project implementation in conjunction with municipalities, schools, and universities.
Key Development Partners: The European Commission (EC), GIZ, and USAID are key education sector partners in Kosovo. School-level capacity building interventions supported under the KESIP will build on work started by the EC Twinning Project, the USAID Basic Education Project, and the GIZ Basic Education Project. The KESIP will also build on work supported by USAID in the areas of teacher professional development and student assessment.

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