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INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP FRAMEWORK

FOR

REPUBLIC OF KOSOVO

FOR THE PERIOD FY23-FY27

April 10, 2023

**Western Balkans Country Management Unit
Europe and Central Asia**

**The International Finance Corporation
Europe**

The Multilateral Investment Guarantee Agency

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ABBREVIATIONS AND ACRONYMS

ADA	Austrian Development Agency	MIGA	Multilateral Investment Guarantee Agency
AFD	<i>Agence Française de Développement</i> (French Development Agency)	MoFLT	Ministry of Finance, Labor, and Transfers
AS	Advisory Services	MSME	Micro, Small, and Medium Enterprise
ASA	Advisory Services and Analytics	MTEF	Medium-Term Expenditure Framework
CCDR	Country Climate and Development Report	MW	Megawatt
CE	Citizen Engagement	NATO	North Atlantic Treaty Organization
CEB	Council of Europe Development Bank	NBFI	Non-Bank Financial Institution
CEM	Country Economic Memorandum	NDS	National Development Strategy
CLR	Completion and Learning Review	NEET	Not in Education, Employment, or Training
CO ₂	Carbon Dioxide	OPEC	Organization of the Petroleum Exporting Countries
COVID	Coronavirus Disease	PBA	Performance-Based Allocation
CPF	Country Partnership Framework	PCE	Private Capital Enabled
CRW	Crisis Response Window	PCF	Private Capital Facilitation
DPO	Development Policy Operation	PCM	Private Capital Mobilization
DPF	Development Policy Financing	PDO	Project Development Objective
EBRD	European Bank for Reconstruction and Development	PEFA	Public Expenditure and Financial Accountability
ECD	Early Childhood Development	PER	Public Expenditure Review
EIB	European Investment Bank	PHC	Primary Healthcare Center
ER	Execution Rate	PIAKOS	Public Information and Awareness Services for Vulnerable Communities
ESG	Environmental, Social, and Governance	PISA	Programme for International Student Assessment
EU	European Union	PIU	Project Implementation Unit
FAO	Food and Agriculture Organization	PLR	Performance and Learning Review
FDI	Foreign Direct Investment	PM _{2.5}	Fine Particulate Matter
FLAWS	Fostering and Leveraging Opportunities for Water Security	PPA	Performance and Policy Actions
FSAP	Financial Sector Assessment Program	PPG	Public and Publicly Guaranteed
GCRF	Global Crisis Response Framework	PPP	Public–Private Partnership
GDP	Gross Domestic Product	PSW	Private Sector Window
GHG	Greenhouse Gas	RAE	Roma, Ashkali, and Egyptian
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit</i> (German Agency for International Cooperation)	REGIP	Real Estate and Geospatial Infrastructure Project
GoK	Government of Kosovo	RRA	Risk and Resilience Assessment
GPSA	Global Partnership for Social Accountability	RSF	Risk Sharing Facility
HEIS	Hands-On Expanded Implementation Support	SSA	Stabilization and Association Agreement
HLO	High-Level Outcome	SAS	Social Assistance Scheme
		SCD	Systematic Country Diagnostic

IBRD	International Bank for Reconstruction and Development	SDC	Swiss Agency for Development and Cooperation
IDA	International Development Association	SDG	Sustainable Development Goal
IFC	International Finance Corporation	SECO	State Secretariat for Economic Affairs (Switzerland)
IP	Implementation progress	SDR	Special Drawing Rights
IMF	International Monetary Fund	SIDA	Swedish International Development Cooperation Agency
IPF	Investment Project Financing	SME	Small and Medium Enterprise
KAS	Kosovo Agency of Statistics	SML	Shorter-Maturity Loan
KEEF	Kosovo Energy Efficiency Fund	SPI	Supplementary Progress Indicator
KEEREP	Kosovo Energy Efficiency and Renewable Energy Project	SUW	Scale-Up Window
KFOR	Kosovo Force (NATO peacekeeping mission)	TA	Technical Assistance
KfW	<i>Kreditanstalt für Wiederaufbau</i> (Credit Institute for Reconstruction)	TF	Trust Fund
KODE	Kosovo Digital Economy	UN	United Nations
LGBTQI+	Lesbian, Gay, Bisexual, Transgender, Questioning/Queer, and Intersex	UNDP	United Nations Development Programme
LuxDev	Luxembourg Development Cooperation Agency	UNICEF	United Nations Children's Fund
LVV	Lëvizja Vetëvendosje party	USAID	United States Agency for International Development
M4Y	Municipalities for Youth in Kosovo	US\$	United States Dollar
MAC DSA	Market Access Country Debt Sustainability Analysis	WBG	World Bank Group
MCC	Millennium Challenge Corporation	WHO	World Health Organization
MFI	Microfinance Institution		

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**FY23-FY27 COUNTRY PARTNERSHIP FRAMEWORK FOR THE
REPUBLIC OF KOSOVO**

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I. INTRODUCTION

1. **The Kosovo Country Partnership Framework (CPF) outlines the priorities for the World Bank Group (WBG) engagement in the Republic of Kosovo for FY23–FY27.** It builds on the CPF FY17–FY22 that ended in June 2022 and is underpinned by an analysis of Kosovo’s overall development challenges, as outlined in the FY22 Systematic Country Diagnostic (SCD) Update,¹ as well as the Kosovo Risk and Resilience Assessment (RRA)² and the Country Economic Memorandum (CEM), both prepared in 2021.³ The CPF is also informed by the consultations with the government, private sector, civil society, and development partners.

2. **The proposed WBG program builds on the One-WBG and Cascade approaches and seeks to support the acceleration of Kosovo’s competitiveness for higher job creation and living standards.** The CPF is articulated along three high-level outcomes (HLOs): (i) greater public service efficiency and quality, (ii) more formal private sector jobs, and (iii) increased environmental resilience. Aligned with the Government of Kosovo (GoK) National Development Strategy (NDS) 2030, the CPF selectively supports three of the four NDS priorities: sustainable economic development, equal human development, and good governance. It also aligns with the digital, green growth, and inclusiveness agendas that cut across the NDS. Moreover, the CPF builds on the GoK’s Program for 2021–25, which sets out the most urgent priorities to be tackled, with a focus on minimizing the public health impact of the COVID-19 pandemic and mitigating its economic and social consequences. The Program regards the post-pandemic recovery as an opportunity to reorient the economy toward production and exports, while increasing decent employment for all and ensuring sustainable development that protects the environment for future generations. The Program reiterates Kosovo’s aspiration to fully integrate within regional, European, and international institutions.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

2.1 Sociopolitical and Institutional Factors

3. **Kosovo has made considerable progress in institution building in recent decades.** It consolidated the functioning of its democratic institutions of government, held free and peaceful elections, built legal frameworks to respect the rights of different ethnic and religious communities, and made progress in the fight against corruption, as evidenced by the latest ranking by Transparency International (see paragraph 7 below). Moreover, in the short time since gaining independence, Kosovo has established a creditable reputation for prudent macro-fiscal management. The country’s track record includes consistently high output growth rates, prudent fiscal deficits supported by fiscal rules, and one of the lowest public debt levels among peers.

4. **The country continues to face critical social, economic, and political vulnerabilities, however.** The 2021 RRA identified three main challenges: (i) contested statehood, linked to regional geopolitical uncertainty; (ii) economic and political disenfranchisement, particularly among youth; and (iii) institutional weaknesses in the rule of law that hamper public investment in building the human resources and physical capital needed to stimulate job creation and incorporate the country’s youth into the labor market.

5. **Kosovo is still not universally recognized as a sovereign state.** Since Kosovo’s declaration of independence on February 17, 2008, more than 100 United Nations (UN) member countries and 22 of the 27 European Union (EU) member states recognized it as a sovereign country. Contested statehood remains the key reason preventing Kosovo from becoming a member of the UN or other international and regional organizations such as the EU, the North Atlantic Treaty Organization

¹ Report No. 169605-XK

² Report No 167851-XK

³ Report No. 168104-XK

(NATO),⁴ Interpol, and the Council of Europe. Despite tangible progress in the functioning of Kosovo’s democratic processes and institutions, as well as in the implementation of legal frameworks to respect the rights of different ethnic and religious communities, a NATO-led peacekeeping force (KFOR) is still present in the country to help maintain a safe and secure environment and freedom of movement. Russia’s invasion of Ukraine has prompted a revamping of the diplomatic efforts to achieve the full normalization of the relations between Kosovo and Serbia, building on the EU-facilitated dialogue (Box 1).

Box 1. The EU-facilitated Dialogue Between Kosovo and Serbia

Since March 8, 2011, Kosovo has been engaged in an EU-facilitated dialogue with Serbia. Meetings take place in Brussels, Belgium, at both the chief negotiator (technical) and prime ministerial/presidential (political) levels. As the EU explains, this dialogue “aims to achieve a comprehensive legally binding normalization agreement between Kosovo and Serbia addressing outstanding issues in order for both Parties to progress on their respective European path, create new opportunities and improve the lives of their citizens.”^{*} The dialogue was launched following the adoption of the UN General Assembly Resolution 64/298 (2010): “The General Assembly welcomes the readiness of the European Union to facilitate a process of dialogue between the parties; the process of dialogue in itself would be a factor for peace, security, and stability in the region, and that dialogue would be to promote cooperation, achieve progress on the path to the European Union and improve the lives of the people.”

The first stage of the dialogue, during 2011–2012, was referred to as the “Technical Dialogue” and resulted in several agreements on issues of mutual concern, such as regional cooperation, freedom of movement, and the rule of law. The second phase, which began in 2013, is referred to as the “High-Level Dialogue” and has resulted, among others, in the “First Agreement of Principles Governing the Normalization of Relations,” referred to as the “Brussels Agreement,” signed on April 19, 2013, implementation thereof currently being discussed.

^{*} European Union External Action; Belgrade-Pristina Dialogue; 16.03.2022; https://www.eeas.europa.eu/eeas/belgrade-pristina-dialogue_en

6. Kosovo’s path to EU accession presents an important opportunity for stabilization, universal recognition, and institutional development.

Kosovo signed a ten-year Stabilization and Association Agreement (SAA) in 2015 and is a Potential Candidate for EU membership. Unlike those of other Western Balkan countries, Kosovo’s citizens are still subject to EU visa entry requirements, at least until 2024, when this requirement is expected to be lifted. The country’s formal request for EU membership was submitted by the GoK on December 15, 2022. While EU membership remains a distant goal, the accession process serves as an important anchor for

democratization, rule of law, public administration, and market economy reforms. Nevertheless, the full alignment and implementation of domestic policies relating to European integration remains weak.⁵

7. After a period of repeated changes in government,⁶ a new phase of relative stability started after the last parliamentary elections in February 2021, when the Vetëvendosje, or LVV (Self-Determination Movement) party won over 50 percent of the vote. As a result, the first mostly one-party government was formed in March 2021, led by Prime Minister Albin Kurti, with the aim of tackling some of the country’s perennial development challenges, notably eradicating corruption, increasing transparency, promoting a better-functioning justice system, and creating more jobs. Although Kosovo has made progress in the fight against corruption with the adoption of significant

⁴ Following Russia’s invasion of Ukraine, Kosovo is seeking accelerated membership into NATO.

⁵ OECD. 2021. *Kosovo Monitoring Report: The Principles of Public Administration* (November). Available at: <https://www.sigmaxweb.org/publications/Monitoring-Report-2021-Kosovo.pdf>.

⁶ Four different coalition governments have been elected since 2017.

anticorruption legislation, as confirmed by the EU, the implementation of laws still needs to improve.⁷ Transparency International's Corruption Perceptions Index for 2022⁸ ranked Kosovo 84th out of 180 countries, up from 87th in 2021. The latest country-level polling provides encouraging signs of growing trust in the government's action, with an approval rating of 68 percent in 2022 (up from a high of 35 percent over the previous five years).⁹

2.2 Recent Economic Developments

8. Kosovo has experienced steady economic progress since independence, allowing its transition to upper-middle-income status in 2018. Growth in gross domestic product (GDP) averaged 4.6 percent between 2010 and 2019, translating into a nearly 50 percent increase in per-capita income and a 35 percent reduction in the poverty rate. Over the past decade, the country successfully transitioned away from a growth model based on high dependence on foreign aid inflows, outperforming peer countries of similar per-capita income thanks to a steady expansion in consumption and investment, with a strong impetus from diaspora inflows, public investment in infrastructure, and financial deepening, amid a stable fiscal stance and an environment of low inflation.

9. In 2022, GDP growth moderated to an estimated 3.5 percent, after reaching a record of almost 11 percent in 2021. The negative terms-of-trade shock driven by Russia's invasion of Ukraine continued to impact economic recovery in 2022, but the economy showed signs of resilience. Growth reached 3.5 percent for the year, driven by exports and private consumption. Growth was stronger during the first quarter of 2022, decelerating thereafter as elevated price pressures eroded disposable incomes and private demand. As a net importer of food and energy, Kosovo remains highly vulnerable to imported inflation. During 2022, the rise in energy and food prices caused inflation to peak in July, weighing on private demand throughout the year. Private consumption, increasing by 4 percent (y/y), was the main contributor to growth, supported by positive nominal credit growth, remittances, and crisis-related fiscal support. Investment contracted amid higher construction prices and uncertainty, and low execution of the capital investment program. Nominal merchandise export growth was strong, reaching 29.7 percent on a year-on-year basis. Similarly, growth in services exports remained high, driven by travel, telecommunications, and information services.

10. Inflation peaked in July 2022, and price pressures remained elevated thereafter. The Harmonized Index of Consumer Prices reached a historic high of 14.2 percent on a year-on-year basis in July 2022, and remained above 11 percent until December 2022, bringing annual inflation up to 11.6 percent. The key inflation drivers were transport and food, with a disproportionate impact on the poor and most vulnerable. Core inflation reached its yearly peak of 5.8 percent in June 2022 and has been on a decreasing trend since. In 2022, import prices were elevated. The annual change of the import price index in 2022 reached 18.7 percent. Data from the agricultural sector show that, in 2022, input prices remained elevated, although pressures eased in the second half of the year. The annual price index for goods and services consumed in agriculture in 2022 increased by 31.5 percent compared to 2021.

11. In 2022, the external current account deficit increased to -10.1 percent of GDP from -8.2 percent in 2021. This increase was driven by higher import prices, which more than offset the significant nominal export growth. The trade balance worsened further, reaching 32.1 percent of GDP. Annual export growth reached 29.7 percent, supported by increases in merchandise exports, diaspora-driven

⁷ European Commission. 2022. Kosovo 2022 Report (October). Available at: https://neighbourhood-enlargement.ec.europa.eu/kosovo-report-2022_en.

⁸ Transparency International. 2022. Corruption Perceptions Index. Available at: <https://www.transparency.org/en/cpi/2022/index/ksv>.

⁹ Regional Cooperation Council. 2022. *Balkan Barometer 2022 Public Opinion Analytical Report* (June). Last accessed December 8, 2022.

service exports, and a notable increase in IT service exports. In parallel, the value of imports grew by 22 percent on the back of higher prices for mineral products and food and beverages. Remittance growth eased in 2022, reaching 6 percent on a year-on-year basis. Foreign Direct Investment (FDI) recorded a significant spike of more than 80 percent in 2022, driven primarily by diaspora dominated real estate investment, but also with notable increases in mining and quarrying, financial and insurance activities, and manufacturing.

12. The fiscal position improved in 2022. A combination of positive tax revenue growth, restraint in public wage bill management, rationalization of goods and service spending, combined with capital underspending, compensated for the increases in current transfers associated with crisis-response measures over both 2021 and 2022. By the end of 2022, the fiscal deficit reached 0.5 percent of GDP, reflecting continued positive revenue growth (14 percent) on account of inflation effects and formalization gains. The implementation of crisis-response measures boosted spending for current transfers by 26.3 percent on a year-on-year basis. Public capital investment remained at 2021 levels but reached only 60 percent of the initial budgeted amount.

13. Total public and publicly guaranteed (PPG) debt remains low, and well below Kosovo's own statutory debt limits. Kosovo has no access to international capital markets, and the average maturity of debt is 5.5 years. In 2022, PPG debt reached close to 20 percent of GDP, down from 21.5 percent at the end of 2021. The total stock of PPG debt comprises mostly domestic debt (63.4 percent of total PPG debt, or 12.9 percent of GDP), held predominantly by the Kosovo Pension Savings Trust, commercial banks, and the Central Bank of Kosovo. Diversifying Kosovo's financing sources and extending debt maturities remains a policy priority. Based on the latest Debt Sustainability Analysis (January 2023), Kosovo's PPG debt is judged to be sustainable in both baseline and stress test scenarios over the forecast horizon. Gross financing needs for 2023–27 are projected to range between 4 and 5 percent of GDP, below the sustainability threshold, assuming an increase in the absorption of new capital investments. Given its eligibility for International Development Association (IDA) financing, Kosovo is subject to IDA's Sustainable Development Finance Policy. Kosovo prepared and successfully completed Performance and Policy Actions in FY21 and FY22, showing the authorities' efforts to strengthen debt transparency and fiscal sustainability. In FY23, Kosovo was excluded from the requirement to prepare Performance and Policy Actions based on its low debt vulnerability.

14. The outlook for the CPF period is positive but characterized by high uncertainty. Medium-term growth is expected to converge toward potential but is subject to significant risks. Continued uncertainties related to the wider impact of Russia's invasion of Ukraine, including on international food and energy prices, entail significant downside risks. A rebound in energy prices could lead to significant fiscal and external sector pressures, negatively impacting growth. A further slowdown in EU growth could erode the incomes of the diaspora, with detrimental impacts on remittances, investment, and diaspora inflows. Timely implementation of the new energy strategy, and an acceleration in public investment execution, also represent upside potential.

15. Inflation risks remain elevated given Kosovo's high import dependency, but the current account balance is expected to improve by the end of the CPF period. While decreasing in line with international trends, consumer price inflation is projected to average 6 percent in 2023 and converge toward 2 percent over the medium term. Kosovo's high dependency on imports exposes the country to international price fluctuations. Despite an expected slowdown in service exports and remittance growth, easing import price pressures are expected to lead to a minor improvement in the current account deficit in 2023. Over the medium term, increased investment in energy and enhanced private sector competitiveness are expected to improve the trade and current account balances.

16. Over the medium term, the fiscal deficit should remain stable and consistent with the legal ceiling on the budget deficit. In 2023, public wages and capital investment are expected to increase,

widening the fiscal deficit to 1.1 percent of GDP. Further spending needs for energy subsidies could increase the deficit beyond what is expected. Over the medium term, public debt is projected to remain below 25 percent of GDP, given historic bottlenecks to implementing capital projects financed by international financial institutions, maintaining the GoK's compliance with the 40 percent legal debt ceiling.

Table 1: Key Macroeconomic Indicators and Projections

KOSOVO	2020	2021	2022^e	2023^f	2024^f	2025^f	2026^f	2027^f
Real GDP growth (percent)	-5.3	10.7	3.5	3.7	4.4	4.2	4.2	4.5
<i>Composition (percentage points):</i>								
Consumption	2.4	8.2	3.2	2.6	3.5	2.8	2.6	2.9
Investment	-2.8	4.4	-2.3	1.8	1.8	1.9	1.9	1.8
Net exports	-4.9	-1.9	2.6	-0.7	-0.8	-0.5	-0.2	-0.2
Exports	-8.5	16.7	5.7	1.2	1.3	1.4	2.9	2.8
Imports (-)	-3.6	18.7	3.2	1.9	2.1	1.9	3.1	3.0
Consumer price inflation (percent, period average)	0.2	3.4	11.6	6.0	3.3	2.5	2.5	2.5
Public revenues (percent of GDP)	25.4	27.4	27.6	27.9	26.7	26.9	26.8	26.8
Public expenditures (percent of GDP)	33.0	28.8	28.2	29.0	29.0	29.8	29.4	29.4
<i>Of which:</i>								
Wage bill (percent of GDP)	9.8	8.4	7.3	7.8	7.8	7.9	7.8	7.8
Social benefits (percent of GDP)	7.7	7.3	7.1	6.2	6.4	6.9	6.7	6.7
Capital expenditures (percent of GDP)	5.6	5.3	4.7	5.7	6.3	6.8	6.6	6.6
Fiscal balance (percent of GDP)	-7.6	-1.3	-0.5	-1.1	-2.3	-2.9	-2.7	-2.7
Primary fiscal balance (percent of GDP)	-7.2	-0.9	-0.1	-0.7	-1.9	-2.5	-2.2	-2.2
Public debt (percent of GDP)	22.0	21.2	19.5	19.7	20.5	22.0	23.0	24.2
Public and publicly guaranteed debt (percent of GDP)	22.4	21.5	19.8	20.0	20.8	22.3	23.2	24.5
Goods exports (percent of GDP)	6.6	8.9	10.4	11.1	11.9	12.9	13.2	13.5
Goods imports (percent of GDP)	51.0	51.2	58.0	62.6	66.3	70.3	69.0	68.0
Net services exports (percent of GDP)	5.5	12.3	15.5	16.9	17.8	19.4	20.0	20.5
Trade balance (percent of GDP)	-38.9	-30.0	-32.1	-34.6	-36.6	-38.1	-35.8	-34.0
Remittances, net inflows (percent of GDP)	13.7	13.3	12.7	12.2	12.2	11.7	11.7	11.7
Current account balance (percent of GDP)	-6.6	-8.2	-10.1	-9.9	-9.7	-9.2	-7.0	-5.2
Net foreign direct investment inflows (percent of GDP)	4.0	3.8	6.6	5.7	5.5	5.5	5.5	5.5
Nonperforming loans (percent of gross loans, end of period)	2.5	2.3	2.0	-	-	-	-	-
Unemployment rate (percent, period average)	25.9	20.7	-	-	-	-	-	-
Youth unemployment rate (percent, period average)	49.4	38.0	-	-	-	-	-	-
Labor force participation rate (percent, period average)	38.3	39.3	-	-	-	-	-	-
GDP per capita (US\$)	4,314	5,267	5,760	6,327	6,854	7,327	7,957	8,673
Poverty rate (percent of population)	32.4	27.0	25.3	23.6	22.2	20.3	n.a.	n.a.

Sources: Country authorities, World Bank estimates and projections.

2.3 Poverty and Shared Prosperity

17. According to the latest SCD Update, despite a decade of progress, poverty remains high. Growth rates achieved in the decade before the pandemic (2010–19) translated into a nearly 50 percent increase in per-capita income and a 35 percent reduction in poverty. Yet, in 2019, almost three in ten Kosovars still lived on less than US\$6.85 per day.¹⁰ Owing to a contraction in GDP in 2020, estimated poverty rates rose by 4.7 percentage points. With the rebound in growth in 2021, poverty reduction is estimated to have resumed. The shared prosperity premium was at 0.47 for 2012–17, implying that the incomes of those in the bottom 40 percent of the distribution grew half a percentage point more than those of the total population, compared to the Europe and Central Asia average of 0.91.

18. Labor earnings and pensions are the main sources of household income across all households, though social assistance income is also significant among poor households. In 2017, labor earnings and remittances represented a lower share of total income for poor households than for the total population (60 percent vs 65 percent and 6 percent vs 10 percent, respectively). The share of pensions was higher for the poor relative to average households (19 percent vs 17 percent), although urban poor households had a larger share of pension income relative to rural poor households (22 percent vs 18 percent) and to the urban population (17 percent). In contrast, social assistance represented 4 percent of average household income, but 10 percent for poor households. The decline in poverty between 2012 and 2017 was driven largely by wages, which explained 76 percent of total poverty reduction (5.8 out of 7.6 percentage points), and more markedly so in urban areas. Aside from pensions, non-labor income did not play a substantial role in poverty reduction.

19. Despite recent gains in formalization, Kosovo’s labor markets reflect structural vulnerabilities. Low labor force participation and employment, especially among women, are key binding constraints to poverty reduction. Only 31.1 percent of the working-age population was employed in 2021. The labor force participation rate is among the lowest in the region, at 39.3 percent, with a gender gap of 34.6 percentage points in 2021. The unemployment rate in 2021 stood at 20.7 percent of all workers (38 percent for those aged 15 to 25). More than 32 percent of young people are not in education, employment, or training (NEET). Although labor market information remains limited to 2021,¹¹ administrative data for the first half of 2022 show a 5 percent acceleration in formal employment and a decreasing trend in registered unemployment, reflected in a lower number of jobseekers registered with employment centers. Quarterly labor market information for January–March 2022 also confirms a positive trend in employment growth. Yet, the labor market continues to be characterized by significant gender imbalances, skills mismatches, and labor outmigration, as firms increasingly report difficulties filling vacancies despite the high unemployment rate and the considerable number of NEET youths.

20. Socio-economic challenges and past migration legacy fuel emigration today. Slow employment growth, especially pre-2021, limited public services, and strong family ties with a sizable diaspora, have contributed to a steady outflow of workers to the EU and elsewhere, as illustrated by the rising number of first residence permits granted by EU28 countries to emigrants from Kosovo between 2014 and 2018, and a reportedly high number of new EU work permit applications.¹² Social norms and proximity to host countries have kept remittance inflows steady, at about 12 percent of GDP from

¹⁰ This international upper-middle-income poverty line is calculated in 2017 purchasing-power-parity terms. Using this line, Kosovo’s poverty headcount rate in 2017 (the last year for which data are available) was 34.2 percent. The official poverty headcount rate for 2017 was 18 percent, based on a lower national poverty line of €1.85 per adult-equivalent per day.

¹¹ The latest available annual Labor Force Survey data are for 2021. Data for the first quarter of 2022 was released on March 30, 2023 but is not sufficient to provide annual comparisons given the seasonality in the labor market.

¹² According to the 2011 Census, 380,826 Kosovars (21.4 percent of the population) were living outside Kosovo at the time. Others put the number closer to 800,000 more recently (<https://balkaninsight.com/2019/11/01/kosovo-failing-to-protect-diaspora-rights-and-tap-potential/>). Between 2010 and 2020, over 250,000 Kosovar citizens were granted EU residence permits (including for studies, family reunification, and other reasons).

2010 to 2019, with an increase during the pandemic. Overall, Kosovo's economy continues to depend on the financing inflows from the diaspora, which accounted for a combined 27 percent of GDP in 2020 and over 30 percent of GDP in 2021.¹³

21. A largely rural country that is slowly urbanizing, Kosovo faces the double hurdle of improving rural livelihoods and ensuring environmental sustainability. A sizeable rural population faces falling agricultural productivity and few alternative economic opportunities. At the time of the 2011 Census, about six in 10 people in Kosovo lived in rural areas, and few municipalities had an urban share of more than 80 percent. By 2019, aside from a handful of municipalities that have expanded, including Prishtina and Prizren, most municipalities have either shrunk or remained roughly the same, according to official estimates. Economic opportunities are limited in rural areas, because of a highly unproductive agricultural sector and because natural resources such as water and land are threatened increasingly by unmanaged pollution and deteriorating infrastructure.

22. Gains in gender equality have been modest in Kosovo. Despite some progress in education, where women have gained in tertiary education enrollments and girls outperformed boys in reading and science literacy, important gender gaps persist. Women's health has improved along certain dimensions, but the burden of family responsibilities is disproportionate, with women being 3.1 times more likely than men to spend time on household and family care activities. Economic opportunities for women are lagging, and there is a clear segregation in economic activities and occupations, resulting in a gender wage gap. The lack of accessible and affordable preschool facilities, especially in rural areas, holds many women back from participating in wage employment. Women's ownership of enterprises is centered mainly in less profitable activities (agriculture, education, and social services), while medium and large enterprises are owned almost exclusively by men and concentrated in more profitable activities, such as mining, electricity, gas, steam supply, water supply, sewerage, waste management and repair activities, transportation and storage, and manufacturing. Despite the existence of a legal framework on gender equality and women's increasing political participation, gender-based violence remains a source of concern and a policy priority.

2.4 Main Development Challenges

23. The 2021 SCD Update confirmed that the structural drivers of growth and the constraints to Kosovo's development identified in the 2017 SCD remain valid. In essence, promoting a shift in the economy toward a more competitive model based on manufacturing and tradables would require a more efficient public sector that invests in people and creates the space for sustainable private sector growth. Kosovo needs to preserve fiscal prudence, enhance the conditions for private sector development, promote greater inclusion, and harness the environment as an opportunity for, rather than a constraint, to growth. Moreover, COVID-19 and external risks underscore the importance of fostering socioeconomic resilience and preventing inequality and social exclusion from worsening.

24. The effectiveness of public financial management is closely linked to sustained domestic resource mobilization efforts, fight against informality and the implementation of critical reforms. Prospects for expanding public expenditure and enhancing its effectiveness are limited by a lack of access to international debt markets, exhausted privatization proceeds, prolonged multiyear investment projects, limited revenues combined with growing entitlement benefits, and limited administrative capacity.

25. Low firm dynamism and access to finance hamper private sector development and employment creation. Kosovo remains a country in transition. Despite efforts to promote domestic private sector growth, attract FDI, and formalize private sector employment, the structure of the economy continues to rely on micro, small, and medium enterprises (MSMEs), while firm-level productivity and greenfield

¹³ Including remittance inflows, exports of travel services, and inflows of real estate FDI.

FDI have grown modestly. Small firms face difficulties in gaining access to finance and may fail to grow or survive. Private sector investments and FDI are not at their full potential, owing to Kosovo's limited access to regional and global markets, limited connectivity, lack of access to capital markets, and red tape. Energy supply remains unreliable, and employers struggle to hire and retain skilled workers.

26. The human development sectors in Kosovo are not prepared to sustain a healthy, productive, and resilient population that can meet the challenges posed by climate change. The health sector is failing to address the impacts of increasing urbanization and climate change on health outcomes. The education sector has not managed to build the skills needed for the current and future workforce to access green and technologically advanced jobs. The social protection system lacks mechanisms to help workers transition out of less sustainable and low productivity sectors, while protecting their incomes. Moreover, social protection mechanisms are not effective in protecting poor and vulnerable households, nor in responding quickly to disasters.

27. Unsustainable use of resources, high levels of pollution, and disaster exposure elevate Kosovo's environmental vulnerability. Kosovo is a water-stressed country. More than 4,000 sites across the country are highly contaminated by heavy metals, mining tailings, hazardous waste, and so on. The country is prone to natural disasters because of deforestation and poor territorial management, and it faces serious air quality issues due to intense use of fossil fuels for energy production and heating.

28. To achieve sustained progress in poverty reduction and shared prosperity, Kosovo needs to transition to a competitive growth model that creates more and higher-quality jobs in an increasingly competitive private sector. Notwithstanding the remarkable tenfold improvement in per-capita GDP, from US\$400 in the early 1990s to above US\$4,000 today, and key achievements in digitalization (Kosovo currently ranks 40th in the world in terms of internet penetration and literacy),¹⁴ the current growth model is insufficient to create enough high-quality jobs for Kosovo's young population and, with that, to bridge the income gap with the EU. At current growth rates, and with per-capita GDP representing only 15 percent of that of the EU as a whole and 20 percent of that of its aspirational peers (Latvia, Estonia, Lithuania, the Czech Republic, and Slovenia), it will take at least three decades for Kosovo to bridge the income gap with peer countries.

29. Achieving this growth model will require an accelerated transition from a consumption-based economy to one driven by exports. Remittances, together with diaspora travel spending and FDI, have contributed to boosting living standards in Kosovo, but have also led to high trade deficits, reflecting inhibited export competitiveness, and low investments in research and development and in machinery (8 percent of total FDI went to research and development and machinery vs 92 percent, or 5 percent of GDP, in real estate).

30. Kosovo's strengths—a young population; proximity to a large, affluent, and aging market; good digital connectivity; low labor costs; a resilient and liquid financial sector; and strong ties with its diaspora—could carry the country to higher living standards faster. This will require the implementation of an ambitious reform agenda that creates and enhances the conditions needed to transition to a growth model that: (i) capitalizes and builds on Kosovo's human capital potential; (ii) enables firms and farms to grow and increase their productivity to maximize returns on investment in physical capital; and (iii) leverages higher connectivity through exports, increased competition, and foreign investment. Kosovo's firms need to operate at higher levels of efficiency, with deeper efforts to remove regulatory barriers, ensure efficient allocation of scarce financial and natural resources, and embrace digitalization. Only by improving trade and connectivity, strengthening market competition, and promoting high-quality investment can Kosovo take full advantage of the opportunities provided by its location. Finally, a fundamental requirement for sustainable and

¹⁴ World Bank data (August 2022) show that 100 percent of Kosovo's villages are connected digitally. In 2020, more than 90 percent of people aged 16 to 90 reported using the internet daily, of which 79 percent accessed it via mobile phone.

inclusive growth is a stable macroeconomic environment and the effective rule of law.

31. Long-term prosperity will also require a strategy to promote environmental sustainability, support climate-change adaptation, and accelerate Kosovo’s transition to low-carbon growth. The government has committed to implementing policies that promote environmental sustainability but achieving its objectives—and retaining access to environmental funds from the EU and other sources—will require faster progress in energy generation, transportation, waste management, and climate adaptation. In addition to strengthening environmental sustainability, a well-implemented green-growth strategy can promote employment generation and economic inclusion by creating new opportunities for the private sector.

32. The modernization of Kosovo’s energy sector is a precondition for more sustainable growth. Although Kosovo achieved its target share of energy consumption from renewable sources in 2020 (25.7 percent),¹⁵ its energy mix should shift progressively away from lignite toward a heavier reliance on renewable sources, in line with commitments to the Energy Community Treaty and EU Directives and in anticipation of the implementation of the EU Carbon Border Adjustment Mechanism on Kosovo’s exports. That would require rebalancing the country’s energy supply to include more renewable sources (including through regional integration) and revised targets for 2030 and beyond, to be included in the National Energy and Climate Plan. It will also require funded programs to ensure a “just transition” from coal by mitigating social impacts in coal mining regions and on vulnerable consumers. In the meantime, reducing energy demand should be promoted through the implementation of energy efficiency investments across the board, accompanied by greater data collection to monitor, verify, and disseminate progress on energy savings.

33. The availability of good-quality data is key to inform any serious reform effort. A lack of micro-data availability and low data quality hamper effective evidence-based policy making in Kosovo. The last census dates to 2011, although a new one is expected to be carried out by the end of 2023. Poverty assessments so far have been based on the 2017 Household Budget Survey, as data collection was suspended in 2020 due to the pandemic, although it resumed in 2022. This has posed substantial limitations: (i) the poverty rate is estimated based on assumptions on poverty’s elasticity to growth; and (ii) while it is possible to project aggregate changes in the numbers of poor people, it is impossible to assess the severity of poverty and to estimate changes to the profile of the poor. New census data, analysis of 2022 Household Budget Survey data, and timelier Labor Force Survey data should provide a solid underpinning for evidence-based policy making and evaluation.

III. WORLD BANK GROUP PARTNERSHIP FRAMEWORK

3.1 Government Program and Medium-term Strategy

34. The proposed CPF aligns closely with the GoK’s Program for 2021–25, the Kosovo NDS 2030, and selected sector strategies. The NDS 2030 sets sustainable economic development, high quality of life, and effective institutions as longer-term objectives. It reiterates the key role of the EU integration process in the country’s vision. The NDS and its implementation plan were approved in March 2023, following public consultations. Both documents will feed into an integrated National Development Plan, to be approved by the legislative toward mid-2023.

35. The GoK Program for 2021–25 sets out two main, interrelated priorities for the medium term: minimizing the public health consequences of COVID-19, while alleviating its economic and social consequences. It identifies these objectives within a broader focus on combatting crime and

¹⁵ The 2020 renewable energy target was met largely due to significant use of biomass (firewood) for heating, which is unsustainable given its significant impact of solid fuel combustion on air pollution and adverse impacts on deforestation. Considering that, energy sector modernization efforts need to improve the sustainability and efficiency of heating supply.

corruption and facilitating the country's economic and social transformation. The Program is complemented by several sector strategies and programs, notably the Education Strategy for 2022–26, the Economic Reform Program for 2022–24, the Strategy for Agriculture and Rural Development 2022–28, and the Climate Change Strategy for 2019–28.

36. The NDS 2030 is built on four pillars: (i) sustainable economic development, (ii) equal human development, (iii) security and the rule of law, and (iv) good governance. The first pillar prioritizes a circular and competitive economy, high-quality infrastructure, and efficient use of natural resources. The second pillar highlights the need to strengthen education, employment, health, along with promoting culture and sports. The third pillar focuses on readiness for peace and security and effective justice. The fourth pillar aims to promote effective and accountable government and a stronger regional and global role for Kosovo, its citizens, and the diaspora. In addition, the strategy articulates four horizontal agendas: digital, inclusiveness, green, and diaspora and migration. The HLOs and objectives of the proposed CPF are well aligned with the NDS pillars, as well as with the horizontal agendas. Exceptions are areas related to security and the rule of law (third pillar) and diaspora and migration (horizontal), as these do not reflect the WBG's comparative advantages, or the priorities identified in the 2021 SCD Update.

3.2 Proposed WBG Country Partnership Framework

37. The proposed WBG CPF for FY23–FY27 seeks to support Kosovo in accelerating its competitiveness for higher job creation and living standards. The CPF applies several selectivity filters (Figure 1) to identify the CPF objectives and the proposed WBG program. These filters include: (i) alignment with Kosovo's long-term strategic objectives and country development goals (Section 3.1); (ii) development priorities, as identified in the SCD Update and verified by subsequent analytical work, such as the CEM and the 2021 RRA; (iii) optimization of the WBG's instrument toolbox to maximize the limited concessional resources available, while promoting private sector-led opportunities and leveraging resources from other development partners, in line with the One-WBG and Cascade approaches; and (iv) focus on areas where the WBG has a comparative advantage. The CPF builds on the lessons learned in implementing the FY17–FY22 CPF, as captured in the Completion and Learning Review (CLR) (Annex 2). The CPF program contributes to advancing Kosovo's strategy for achieving the Sustainable Development Goals (SDGs) (Annex 1). Finally, the CPF aligns with all four pillars of the Global Crisis Response Framework (GCRF), as described in greater detail under each HLO section below.

38. The Kosovo CPF for FY23–FY27 is well aligned with the pathways and policy priorities proposed by the SCD Update for the achievement of the WBG's twin goals (Section 2.4 and Figure 2). The proposed program objectives speak to all four of the pathways but focus only on those priorities for which the application of the four selectivity filters demonstrates a compelling case for the WBG support. For that reason, under this CPF, the WBG does not envisage to provide support via IDA investment lending operations in the areas of basic education, school-to-work transition, and tax reform. The CPF draws and expands on the WBG's positive past engagement in the health and education sectors, extensive knowledge built in the water sector, an understanding of private sector challenges and opportunities, and experience in creating a trusted relationship with the client, including through a recent Public Finance and Growth Development Policy Operation (DPO, P170113). In the energy and agriculture sectors, this CPF proposes to combine different WBG instruments to promote sector modernization and prepare the ground for future potential concessional lending under the IDA21 Replenishment cycle to accompany the country's future growth and integration in regional and global markets. Under IDA20, the CPF endeavors to leverage the resources needed to accompany this process through private sector participation and collaboration with other development partners.

Figure 1: HLOs, CPF Objectives, and Selectivity Filters

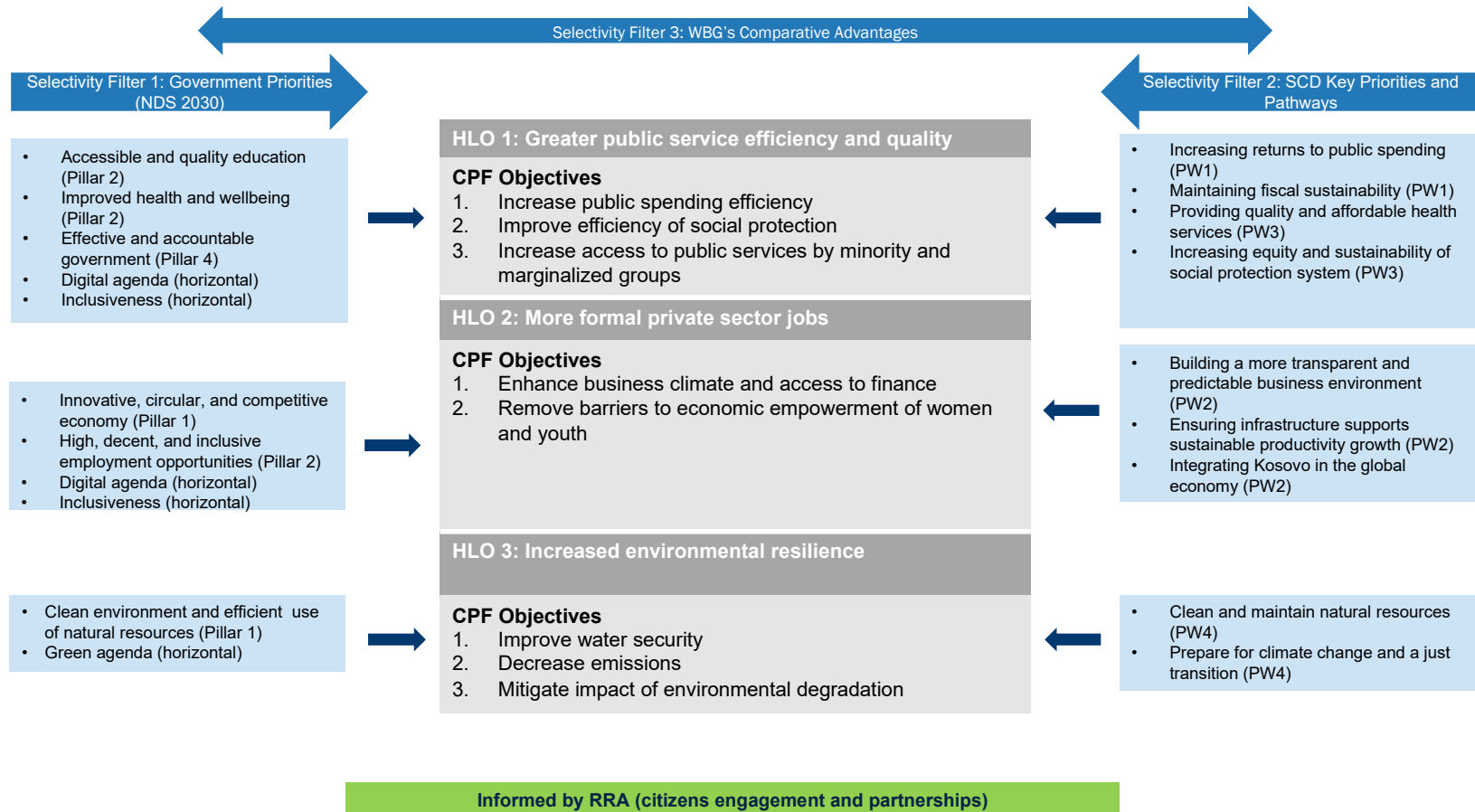


Figure 2: Key Pathways and Policy Priorities Outlined in the SCD



39. **The WBG’s comparative advantage stems from its ability to combine financial products, global knowledge applied to the local context, and convening services, as well as from its continuous implementation support.** The WBG will continue its high level of alignment and cooperation with development partners in their priority areas of engagement (Annex 9).

40. **The proposed CPF reflects key lessons learned in implementing the CPF for FY17–FY22.** Since becoming an IDA-eligible country, and except for a handful of DPOs,¹⁶ Kosovo has traditionally borrowed for investment project financing (IPF) funded out of its IDA country allocation. Kosovo has rarely used any other IDA window for which it is eligible and has not pursued any opportunity to support transformational sector reforms bringing together the instruments of IDA, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). The excessive reliance on IPFs has limited Kosovo’s opportunities to maximize private capital mobilization; as a result, Kosovo did not fully capitalize on upstream engagement with the private sector and exposed the IDA portfolio to implementation delays. As highlighted in the CLR (Annex 2), implementation of the previous CPF was hampered by shifting development needs and government priorities. Frequent political changes, coupled with shortcomings in interinstitutional coordination, weakened the ownership of project-supported interventions. Complex project design, along with institutional capacity gaps across ministries, undermined the government’s absorptive capacity. Going forward, this CPF seeks to take better advantage of the full array of instruments in the WBG toolbox, building on the successful implementation of FY22 DPO under the previous CPF, which enhanced the conditions for private capital mobilization and green transition funded through traditional IDA IPFs, as well as IFC and MIGA transactions. This CPF also proposes greater flexibility in the indicative program for the outer years, leaving room for course corrections, if needed, under the mid-term Performance and Learning Review (PLR). Furthermore, the program envisages simpler and clearer design for operations in the pipeline, paired with more extensive technical assistance (TA) and capacity building interventions to strengthen portfolio implementation performance in the context of a more structured collaboration with the Ministry of Finance, Labor, and Transfers (MoFLT) and other development partners. The WBG continues to engage in structured outreach to parliament, including through the CPF consultations, at the level of both the overall program and individual projects to secure ownership and help manage any bottlenecks that may arise in response to political changes. Finally, building on recent progress in citizen engagement (CE), this CPF deepens the WBG’s focus on

¹⁶ First Sustainable Employment DPO (P112227) and Second Sustainable Employment DPO (P129327).

activities that promote the integration of representatives from minority and marginalized groups in policy dialogue and project implementation. It also fosters participatory approaches to help tackle institutional and social challenges, enhance citizen trust, and increase ownership.

41. Stakeholder consultations were undertaken in November 2022 to discuss Kosovo’s main challenges and opportunities and the proposed program of engagement under the new CPF. These face-to-face consultations involved representatives from the government, private sector, civil society, academia, parliament, and development partners. Participants confirmed the country’s key priorities and the WBG’s main proposed areas of support, as presented in the CPF. Consultations with the authorities validated the CPF’s focus on most of the government’s priorities and acknowledged overall good collaboration with the WBG. Civil society representatives endorsed the proposed strategic direction for WBG engagement with respect to the focus on jobs and inclusion and expressed interest in engaging at the later stages of CPF implementation. The business community reiterated the importance of financial stability, digitalization, and export promotion as key factors for private sector development and adherence to international standards. Development partners emphasized the importance of the CPF in supporting Kosovo’s development along the peace, humanitarian, and development continuum; seconded the complementarity of the proposed CPF program with their respective programs; and committed to enhancing collaboration to minimize duplication and improve absorption of funding. This CPF document takes on board specific and pertinent suggestions provided by the stakeholders during the consultation process. These include: (i) explicitly addressing the issue of outmigration; (ii) focusing on foundational skills through engagement in early childhood development (ECD); (iii) updating the narrative on the status of the energy sector and considering options for adaptive engagement through both existing and new WBG programs; (iv) tackling statistics and data challenges; and (v) strengthening selectivity, while promoting the absorption of funds through simpler, better-designed, and better-coordinated programs.

42. In applying the selectivity filters, the CPF identifies three HLOs that will guide the WBG’s partnership with Kosovo over the long term. The CPF for FY23–FY27 supports nine objectives across three HLOs: (1) greater public service efficiency and quality, (2) more formal private sector jobs, and (3) increased environmental resilience (Table 2). The proposed HLOs also capture several of IDA20 special themes and cross-cutting issues. Namely, the HLO 1 speaks to the cross-cutting issue of Governance and Institutions, HLO 2 to the Jobs and Economic Transformation, and Gender and Development special themes, and HLO 3 to the Climate Change theme.

Table 2: HLOs and CPF Objectives

CPF HLOs	HLO 1: Greater Public Service Efficiency and Quality	HLO 2: More Formal Private Sector Jobs	HLO 3: Increased Environmental Resilience
CPF Objectives	<i>Objective 1.1:</i> Increase public spending effectiveness	<i>Objective 2.1:</i> Enhance business climate and access to finance	<i>Objective 3.1:</i> Improve water security
	<i>Objective 1.2:</i> Improve efficiency of social protection	<i>Objective 2.2:</i> Remove barriers to the economic empowerment of women and youth	<i>Objective 3.2:</i> Decrease emissions
	<i>Objective 1.3:</i> Increase access to public services among minority and marginalized groups		<i>Objective 3.3:</i> Mitigate the impact of environmental degradation

43. For each of the HLOs and related objectives, the CPF proposes to pursue a more explicit blending of the WBG instruments, in line with the One-WBG and Cascade approaches. The WBG will invest more in upstream analytical work and support to the business enabling environment; make the

Cascade concept central to the country engagement cycle to inform diagnostics, country dialogue and programming; also, where relevant and feasible, it will further develop joint programs to maximize the One-WBG approach and scale up Private Capital Facilitation (PCF¹⁷). More concretely, key diagnostics and a series of programmatic IDA DPOs will help strengthen the country's fundamentals and thereby promote stronger human capital and more dynamic private sector development, as well as the green transition. The use of DPOs will also enable more impactful use of other WBG instruments (including IDA's Program for Results and IFC's and MIGA's products and services) and enhance the implementation of the country's broader reform agenda in collaboration with other development partners. For example, synergies are expected to be generated in the green transition by aligning the proposed DPOs with potential International Monetary Fund (IMF) support¹⁸ and by tapping into blending and innovative financing opportunities provided by other development partners.

44. HLO 1, on greater public service efficiency and quality, aims to improve human development outcomes as well as economic sustainability and resilience through more efficient public spending and increased domestic revenue mobilization. The CPF specifically speaks to the priorities related to increasing returns on public spending and maintaining fiscal sustainability under the SCD pathway 1 on increasing returns and equity of fiscal policy. It also supports health and social protection priorities under the SCD pathway 3 on investing in human capital and increasing inclusion. To achieve improved social outcomes and build resilience, the CPF will support efforts to sustain efficient fiscal and debt management policies as a precondition to generate resources to deliver critical basic services in health, education, and social protection; to create opportunities for private sector investment; and, with those, to generate employment for greater inclusion of women, youth, and vulnerable and marginalized groups. The CPF program contributes to this HLO through a new proposed programmatic DPO series, building on interventions supported under the previous CPF's focus area on strengthening public service delivery and macro-fiscal management. Increased attention will be given to inclusiveness, equity, and sustainability of service delivery through new operations focusing on ECD, primary health systems, and social assistance reform. This HLO aligns with the long-term development goals included in the NDS on: (i) accessible, good-quality education and improved health and well-being under the equal human development pillar; (ii) effective and accountable government under the good governance pillar; and (iii) digitalization and inclusiveness under the horizontal agenda.

45. HLO 2, which seeks to ensure more formal private sector jobs, builds on previous progress toward strengthening the business-enabling environment, while re-emphasizing the critical need for high-quality jobs to boost Kosovo's competitiveness and productivity. The CPF contributes to the policy priorities under the SCD pathway 2 on improving the business environment and trade integration, which aim to establish a more transparent and predictable business environment and improved conditions for sustainable productivity growth and integration into the global economy. In practice, the CPF program will accompany ongoing reforms in the business-enabling environment, access to credit, and financial market development by supporting innovative and green financing, and land titling, with a focus on promoting the inclusion of women, youth, and marginalized groups. This HLO aligns with the sustainable economic development pillar of the NDS, which strives for an innovative, circular, and competitive economy, as well as the equal human development pillar's focus on expanded, decent, and inclusive employment opportunities and efforts to boost digitalization and inclusiveness under the horizontal agenda.

46. HLO 3, on increased environmental resilience, seeks to support Kosovo's transition toward a future that safeguards the sustainability of economic growth and citizens' quality of life. The CPF's commitment to improving water security and mitigating the impact of environmental degradation

¹⁷ PCF covers Private Capital Mobilization (PCM) through private co-financing of WBG operations and Private Capital Enabled (PCE) by policy reforms and public sector investments supported by World Bank operations.

¹⁸ See <https://www.imf.org/en/News/Articles/2023/03/28/pr2397-kosovo-statement-at-the-conclusion-of-an-imf-mission-to-kosovo>

responds to the policy priority on cleaning and maintaining natural resources under the SCD pathway 4. The CPF also contributes to the policy priority on climate change preparedness by aiming to decrease emissions. In practice, the CPF program will support additional investments in water infrastructure to increase service network capacity and coverage and address risks exacerbated by climate change. It will continue to advance the energy efficiency and energy transition agendas through: (i) analytical work, with a focus on decarbonization, regional integration, and a just transition; (ii) ongoing WBG energy efficiency operation and transactions; and (iii) transformative operations that aim to maximize private capital mobilization in a modernized regulatory framework. It will support an innovative approach to contaminated land remediation and repurposing and contribute to better and more efficient management of urban areas, with the goal of improving livability while reducing air pollution—currently among the leading causes of death in the country. This HLO corresponds to the objective of ensuring a clean environment and efficient use of natural resources under the sustainable economic development pillar of the NDS.

3.3 Objectives Supported by the WBG Program

HLO 1: Greater Public Service Efficiency and Quality

Objective 1.1 Increase public spending effectiveness

47. Public expenditure effectiveness remains a key policy priority. Public expenditure increased by more than 40 percent between 2014 and 2019 and has grown even more since then. The share of current spending in total expenditure grew to over 75 percent in the last five years, driven primarily by increases in transfers and employee compensation. The SCD Update highlights the historic proliferation of untargeted social transfers and pensions, the ineffective agricultural subsidy scheme, and health expenditures without a proper financing mechanism as examples of inefficient current expenditure. Amid a rapid increase in spending on social transfers in the last ten years, its composition deteriorated over time due to the introduction of additional categorical benefits without proper consideration of the poverty impact, welfare needs, or the overall fiscal burden. Spending on social transfers is dominated by old-age pensions, benefits for veterans, and other related benefits, with disproportionately low spending on social services and labor market programs. Public investment is undermined by weak management, procurement bottlenecks, and budget entrenchment on multiyear road infrastructure projects with high expropriation costs. Overall, expenditure decisions are not fully consistent with strategic priorities, and the budget process remains untied to performance. Fiscal risks generated by the weak performance of publicly owned enterprises intensified during the 2020 pandemic-induced recession. The SCD Update emphasized the importance of a sustainable, effective, and equitable fiscal policy to mitigate the impact of shocks in a unilaterally Euroized economy, support productivity growth, safeguard environmental quality, and narrow socioeconomic gaps.

48. The CPF objective is aligned with the GoK's financial and economic priorities. The National Economic Reform Program for 2022–24 highlights the importance of a rule-based fiscal policy for public finance stability and support to economic growth, while the State Debt Program for 2023–25 identifies as a key objective financing the budget deficit at the lowest possible cost and with an acceptable level of exposure to financial risks. The objective's focus on macro-fiscal and financial sustainability also aligns with the GCRF pillar on strengthening resilience. WBG interventions related to this objective will benefit from dialogue and partnership with the IMF, EU, United States Agency for International Development (USAID), and German Agency for International Cooperation (GIZ).

49. The proposed WBG program promotes adequate fiscal and debt management through IDA policy-based lending combined with IFC and MIGA products and services that would aim to create space for investments in human capital, private sector development, and the green transition. The implementation of DPOs (both the active one approved by the Board of Executive Directors under the previous CPF, and the programmatic series proposed under this CPF) will help address key structural

constraints to development, while laying the foundation for transformational investments. In turn, these are expected to lead to the creation of more, higher-value private sector jobs and, by extension, less poverty and more shared prosperity across Kosovo. The DPOs will build on extensive advisory services and analytics (ASA), including the ongoing Public Expenditure Review (P178218), a regional study on Strengthening Fiscal Governance in the Western Balkans (P180191), the Western Balkans Pensions ASA (P179828), Western Balkans Six Energy Crisis Response (P179826), and IFC's upstream support to the GoK to explore opportunities to crowd in private capital in areas such as education and energy sector development. Working closely with the World Bank and IFC, MIGA will seek opportunities to de-risk cross border investments that will support job creation, green and resilient transition. The DPOs will complement and enhance the implementation of traditional IPFs in energy efficiency, health system reform, and ECD. The World Bank will also support the authorities with TA on statistical capacity as a precondition for informed, better targeted, and more effective policy making and execution.

Objective 1.2 Improve efficiency of social protection

50. Kosovo's social protection system is largely unbalanced and ineffective. Spending on social protection is high (7.7 percent of GDP in 2020) and focused on non-contributory social assistance programs. Only a small fraction of non-contributory spending reaches the poor through the Social Assistance Scheme (SAS). However, the SAS relies on categories to identify the poor, making the scheme inefficient at including the poorest families and creating disincentives for work. The scheme lacks a flexible mechanism to support households affected by shocks, including energy tariff increases. This lack of flexibility is due to a combination of factors, including the use of stringent criteria to determine eligibility and weak delivery systems. There is no social registry, and the management information system needs strengthening. The SAS relies on a burdensome administrative process to deliver benefits and has not yet capitalized on the advantages of digitization. Finally, the scheme does not provide adequate cash benefits and activation measures, implying that SAS beneficiaries lack opportunities to engage in productive activities and move out of social assistance.

51. The CPF objective is aligned with the GoK's priorities. As stated under the equitable human development objective in the NDS 2030, "people in need will have better social protection that helps reduce poverty and inequality."¹⁹ The CPF objective is also aligned with the GoK's Concept Document for the reform of SAS through a new law. By supporting a more adaptive social protection system, the objective links to the GCRF pillar on strengthening resilience. WBG support to Kosovo's social protection system will be coordinated through established and emerging partnerships with the EU, IMF, and relevant UN agencies, such as United Nations Development Programme (UNDP) and United Nations Children's Fund (UNICEF).

52. The CPF program envisages a combination of ongoing IPF and ASA interventions to support this objective. The Kosovo Social Assistance System Reform Project (SASRP, P171098) will select SAS beneficiaries based on poverty status (rather than categories), providing more adequate benefits, and ensuring that beneficiaries who are able to work gain from adequate activation measures. It will also help lay the necessary legal and regulatory foundation to allow the SAS respond to shocks. While the active FY22 DPO has supported enhanced fiscal discipline in planning social spending, the forthcoming programmatic DPO series will explore ways to further strengthen social protection mechanisms for those who do not have sufficient access to energy services. The proposed program includes the completion of the Kosovo Poverty and Equity Assessment (P179090), conducted as part of the Western Balkans Poverty and Equity Program, and regional ASA on Social Protection and Jobs

¹⁹ Available at: <https://kryeministri.rks-gov.net/en/national-development-strategy-2030/>.

Situational Analyses (P176230), on Promoting Jobs and the Care Economy (P180684), and on the energy crisis response to fill knowledge gaps and inform evidence-based policy making.

Objective 1.3 Increase access to public services among minority and marginalized groups

53. Kosovo continues to grapple with challenges related to economic and social exclusion. The SCD Update identifies several groups that are more likely to experience exclusion and vulnerability in Kosovo: women; members of Roma, Ashkali, and Egyptian (RAE) community; the Kosovo Serb community; LGBTQI+ people; internally displaced persons; and people with disabilities. Members of the RAE community are among the most marginalized, with lower-than-average health and social outcomes owing to reduced access to health and education services and inadequate living conditions in informal settlements, including limited access to water, sanitation, and electricity. Their life expectancy is almost 10 years below the national average. The probability of a child dying before turning five is almost twice as high for RAE communities than for the general population. Moreover, with high rates of unemployment and informal employment, poverty is widespread among the RAE community. As many as 55 percent of those in the RAE community cite financial difficulties in paying for medical treatment and outpatient drugs as a reason for not visiting health care providers more frequently. Persons with disabilities also encounter barriers in accessing public services and economic opportunities and, thus, are more affected by poverty.

54. Kosovo's education system struggles to deliver the skills needed for a productive life, and low access to and poor coverage of preschool education, exacerbated by equity and quality issues, have a negative impact on school readiness. Only 25 percent of children aged 36–59 months are developmentally on track for literacy and numeracy,²⁰ a rate that is 4–12 percentage points lower than that in neighboring Montenegro, North Macedonia, and Serbia. By age 15, four out of five students have not attained basic baseline proficiency in reading and writing, according to the Programme for International Student Assessment (PISA) 2018, with the lowest performance among students that lack pre-primary education. Access to pre-primary education and care services remains a challenge, however, particularly for marginalized populations. There is no government financing scheme that targets the most vulnerable families to help them access the ECD services. Access is particularly low in rural areas, where children are three times less likely to be enrolled than their peers in cities, owing to a lack of preschool facilities and limited understanding of the value of ECD among parents. Access to early childhood education programs is twice as low in the RAE community, with an enrollment rate of 6 percent at age of three and 9 percent at age of four, compared to 12 percent and 18 percent, respectively, in the general population. Moreover, the lack of high-quality learning materials and resources in ECD facilities limits the impact of ECD services on children's foundational literacy. The situation is particularly concerning for RAE children, of whom just 4 percent own at least three children's books, compared to 27 percent in the general population.

55. Access to land and property can promote inclusion. While numerous public services exist in Kosovo for property registration, sales, and transactions, many Kosovar citizens—especially ethnic minorities, women, and youth—are unaware that these services are available or why they are beneficial. Consequently, rates of informality of land tenure remain high, and access to services that support socioeconomic development and mitigate unemployment is limited, particularly for the youth population.

56. The CPF objective is well aligned with the GoK's focus on increased integration of marginalized groups, including girls and women, members of the RAE community, and persons with disabilities. Relevant strategies spell out this commitment, including the Kosovo Program for Gender Equality

²⁰ UNICEF. 2020. "MICS Statistical Snapshot: 2019-2020 MICS in Kosovo & 2019-2020 MICS with Roma, Ashkali and Egyptian Communities in Kosovo." <https://www.unicef.org/kosovoprogramme/media/1936/file/MICS%20Snapshots%20.pdf>

2022–24, the Strategy for the Advancement of the Rights of the Roma and Ashkali Communities in the Republic of Kosovo 2022–26, and the Action Plan for the Rights of Persons with Disabilities in the Republic of Kosovo 2021–23. In addition, the Strategy for Agriculture and Rural Development 2022–28 aims to increase social inclusion of vulnerable communities in rural areas, while the Education Strategy 2022–26 emphasizes increased access and inclusion in ECD. Finally, the GoK is revising its e-government strategy to advance the digital transformation agenda as central to the delivery of services to citizens, with a particular emphasis on improving access among vulnerable groups. The objective connects to the fourth pillar of the GCRF, on strengthening policies, institutions, and investments for rebuilding better, by focusing on institutional strengthening in the health and education sectors and on supporting digital governance. WBG interventions in support of this objective will be strengthened through dialogue and coordination with other donors and development partners supporting the ECD sector (UNICEF, EU), the digital agenda (EU, USAID, GIZ), and land property management (GIZ, Norway), among others.

57. The CPF will address the inclusion agenda through sector-specific interventions under ongoing and new IPF operations. The proposed Strengthening Digital Governance for Service Delivery Project (P178162) will help upgrade and enhance the e-Kosova platform to host an expanded number of e-services for citizens, adding value by expanding access to public services among minority and marginalized groups and people living with disabilities. The project will systematically address issues of exclusion by raising awareness among vulnerable groups that are not familiar with the e-Kosova portal; operationalizing multichannel access for the vulnerable without smartphones, information technology devices, and/or an internet connection at home; and modernizing customer service to support excluded groups that are unable to apply for or process e-services. The proposed Early Childhood Development for Kosovo’s Human Capital Project (P179656) will support the country in aligning ECD standards with global standards by expanding access to ECD services; sensitizing families on the importance of such services, particularly for vulnerable populations; and improving the quality of service delivery at scale. The project will be complemented by the proposed regional ASA on promoting jobs and the care economy, which will examine the supply and demand constraints affecting childcare services for the most vulnerable. The upcoming Health System Improvement Project (P179831) will focus on improving access to good-quality health care and reducing the financial burden of health services. The project will emphasize improving the quality of primary health care (possibly with specific outreach to vulnerable groups, including RAE), financing, service delivery, and governance of the health care system. The ongoing Real Estate and Geospatial Infrastructure Project (REGIP, P164555) and the Public Information and Awareness Services for Vulnerable Communities ASA (PIAKOS, P179554) will help advance Kosovo’s land sector-specific public services and cadastral reconstruction process, which will provide complete land record documentation for all land and property owners in the country, including for vulnerable and marginalized communities.

[HLO 2: More Formal Private Sector Jobs](#)

Objective 2.1 Enhance business climate and access to finance

58. Kosovo’s business landscape is dominated by micro and small enterprises and characterized by low productivity, poor survival, and lack of dynamism.²¹ During 2010–18, more than 98 percent of firms were micro (fewer than 10 employees) and small (10 to 49 employees), and many failed to grow. The share of medium and large companies has held steady, while the share of micro enterprises fell from 95 percent to 90 percent between 2010 and 2018, as the share of small firms increased from 4 percent to 8.3 percent during the same period. Despite improvements in the business environment, barriers persist. Business representatives cite informality, constraints in accessing credit, and electricity supply challenges as top concerns, along with regulatory uncertainty, inspections

²¹ World Bank. 2021. *Boosting Foreign Direct Investment: Kosovo Country Economic Memorandum*. Washington, DC: World Bank. Available at: <http://hdl.handle.net/10986/36900>.

compliance, skilled worker shortages, and delayed implementation of the legal framework for electronic identification. Kosovo's per-capita merchandise and service exports are the lowest in the region, with the former concentrated in a limited number of products.

59. The proposed WBG program builds on the Cascade approach and blends IDA lending with targeted analytics and advisory program, and IFC's and MIGA's instruments to support private sector development. The legal reforms supported by the Public Finances and Sustainable Growth DPO (P170113), such as reducing the cost of business inspections, and the proposed programmatic DPO series, together with IFC advisory and upstream engagement on investment climate, are expected to contribute to a more conducive environment for private sector development. Under active IDA Competitiveness and Export Readiness Project (P152881), specific attention will be given to export-oriented companies, given the increasing contribution of exports to growth and the associated potential for creating higher-value jobs. A potential Western Balkans Trade and Transport Facilitation Project, combined with the ongoing IDA/IFC joint Western Balkans Trade Facilitation Advisory Phase II Project (P179241), will improve the digitalization of trade and transport processes to increase efficiency and predictability and reduce business processing cost and time. Building on the IFC's Western Balkan's Manufacturing Value Chain Advisory Program, and with a view to improving the integration of domestic manufacturing firms into intra-regional and European value chains, IFC will engage in Kosovo's real sector on higher value-added and higher technology manufacturing, and services sectors. In addition, this CPF proposes to continue supporting Kosovo's financial institutions to increase access to credit for domestic private sector companies and expand IFC lending to MSME finance institutions, with a focus on agribusinesses, farmers, rural companies, and female-owned firms. It will also continue to provide trade finance. In parallel, the World Bank will focus on regional TA to modernize payment systems for cost-efficient cross-border payments, strengthen the regional investment promotion and retention program, align investment policies with EU standards, and improve financial inclusion by increasing uptake of digital financial services. MIGA will continue to seek opportunities to complement IDA and IFC by providing capital optimization guarantees in the financial sector and support increased access to finance.

Objective 2.2 Remove barriers to the economic empowerment of women and youth

60. Growth has not translated into sufficient job creation, and labor force participation is low, especially among women. Employment rates increased only marginally in the last decade, reaching 45.9 percent for men and 16.5 percent for women in 2021, from a low base of 40 percent and 11 percent, respectively, in 2012. Low labor force participation among women and young people reduces the country's growth potential and hinders young people's ability to transition into jobs.

61. Increased labor force participation among women and youth is a government priority. The GoK's commitment is highlighted in several sectoral national strategies, notably the: (i) Economic Reform Program for 2022–24, which focuses on promoting inclusive economic growth; (ii) Kosovo Program for Gender Equality 2020–24, which aims to create equal opportunities to contribute to and benefit from economic development; (iii) Youth Strategy 2019–23, which seeks to enhance the skills agenda to provide and promote opportunities for young people to join the labor market; and (iv) Strategy for Agriculture and Rural Development 2022–28, which promotes women's participation and overall gender equality in the agriculture sector. By addressing women's employment challenges, this objective also speaks to the GCRF's second pillar on protecting people and preserving jobs.

62. The CPF will contribute to this objective by addressing some of the barriers that prevent women and youth from exercising their economic rights and participating actively in the domestic job market. The CPF program will focus on: (i) filling the knowledge gap on women's economic agency; (ii) removing constraints to economic agency; (iii) enhancing skills; and (iv) supporting concrete investment opportunities led by women and youth. The Country Gender Assessment Update

(P179260) will explore opportunities to foster women’s entrepreneurship and labor market participation, complemented by proposed ASA on Making Employment Service and Support Work for Women and Youth to identify needed reforms and programs. The REGIP (P164555) aims to promote awareness of land and property registration services, particularly among women and youth, to help women fully exercise their property rights, including by engaging in commercial activities. The Kosovo Digital Economy (KODE) Project (P164188) finances digital skills training for youth and women, as well as improved access to online knowledge sources and labor markets, to increase employability and job opportunities. IFC’s current and proposed future investments in the real sector help create and sustain good-quality jobs, targeting female employment, while its financial sector operations contribute to the economic inclusion and empowerment of women entrepreneurs. IFC’s Risk Sharing Facility (RSF) and microfinance institution (MFI) products target underserved economic segments, including women entrepreneurs and small-scale agribusinesses.

HLO 3: Increased Environmental Resilience

Objective 3.1 Improve water security

63. Kosovo’s future development is linked directly to marked improvements in water management to reduce water stress and increase sustainability. Kosovo has low water availability and storage, and its water basins will experience mounting stress owing to increased demand from agricultural, industrial, and population growth, as well as climate change. Inadequate investments in infrastructure, decision making based on limited or unreliable data, uncoordinated planning, and uneven enforcement of regulations exert added pressure. Water resources are often heavily polluted, and services are poorly managed, with low financial sustainability. While access to drinking water has increased, nonrevenue water reached 58 percent in 2017, preventing utilities from improving service quality and sustainability. Sewage and wastewater treatment need improvement. Water resource mismanagement jeopardizes sustainability in rural areas. Agricultural use of water resources is high, with irrigation accounting for 41 percent of total water use. A lack of modern irrigation infrastructure reduces efficiency and exacerbates water stress. A major challenge is weak and fragmented institutional arrangements and capacity, as responsibility for resource management, utilities, and pollution control is shared between the national and local levels. Furthermore, a severe lack of funding for these activities limits the capacity to implement policy or strategy. Finally, the delivery of irrigation services is undermined by inadequate complementarity of existing public and private sector schemes.

64. Accelerated implementation of Kosovo’s Water Strategy for 2017–36, with a focus on building institutional capacity and upgrading infrastructure, will improve water sustainability. The strategy envisages operationalizing the river basin district authority, finalizing flood risk and hazard maps, increasing data collection, and implementing monitoring mechanisms and green engineering programs for groundwater and water protection zones. The CPF objective is aligned with the water strategy, as well as with the GoK’s objectives of promoting the sustainable management of natural resources and improving natural resource management, as defined in the Climate Change Strategy 2019–28 and the Strategy for Agriculture and Rural Development 2022–28. WBG activities in the water sector will benefit from established partnerships with relevant international donors, notably the EU and the Swiss cooperation agencies.²² Development partners’ upstream TA supporting the water resource management agenda complements and informs the World Bank’s engagement in the sector.

65. The CPF will contribute to this objective with an integrated support package, including sizeable investments in water infrastructure, donor coordination at the policy level, and ASA to improve the efficiency of water utilization and enhance citizen engagement. During the CPF implementation period, the Water Security and Canal Protection Project (P133829) will finance the restoration of the

²² These include the Swiss Agency for Development and Cooperation (SDC) and the State Secretariat for Economic Affairs (SECO).

Iber Canal to its original capacity, serving water users in Central Kosovo. In addition, this CPF proposes to support the country in strengthening its national capacity for water management, improving the efficiency of water resource use, and enhancing adaptation by financing the construction of a new dam in southeastern Kosovo through the IDA Fostering and Leveraging Opportunities for Water Security Project 1 (FLOWS1, P169150), the EU TF-financed Improvement and Rehabilitation of Irrigation Systems Project, and the pipeline FLOWS2 (P175624). The WBG will also engage in policy dialogue with the GoK and development partners to identify possible areas of intervention and synergy on the wastewater agenda. Finally, the Global Partnership for Social Accountability (GPSA) on Climate Action and Civic Technology (P179084) will help to improve the accountability of relevant Kosovo public institutions in implementing the Green Agenda.

Objective 3.2 Decrease emissions

66. The country's legacy of coal-based energy, outdated infrastructure, and unplanned urban development has rapidly increased air pollution and undermined sustainability. Kosovo's power sector is one of the most reliant on coal globally, with around 93 percent of domestic power generation capacity coming from coal-fired power plants. As the EU moves toward implementing its Green Deal to curb emissions, reduce dependence on natural resources, and foster more inclusive economic progress, Kosovo faces a unique opportunity to break with the past and shift to a path marked by more efficient and sustainable resource use and energy mix, thereby creating new economic development opportunities. Notwithstanding Kosovo's relatively low urbanization rate, its negative effects—including increasing emissions—are growing much faster. The air quality in Pristina and other cities is already among the worst in Europe²³ and the world, with concentrations of PM_{2.5} exceeding World Health Organization (WHO) guidelines throughout the year.²⁴ The problem will only worsen if residential heating does not become cleaner and more efficient and if expanding urban sprawl forces continued reliance on private vehicles.

67. The Climate Change Strategy 2019–28 aims to reduce greenhouse gas (GHG) emissions by preventing and directly reducing emissions, together with sustainable mobility planning targeted to the most populated cities. Moreover, the Energy Strategy 2022–31 identifies decarbonization as a strategic objective linked to the promotion of renewable energy, noting that 88 percent of Kosovo's total GHG emissions come from energy transformation processes, including transport. Previous studies financed under the Kosovo Energy Efficiency and Renewable Energy Project (KEEREP) identified decarbonization options for the power sector that included scale-up of solar, wind, and battery storage. The Energy Strategy is consistent with the conclusions of this study, and an estimated €3 billion worth of investments is planned under various donor support programs (€300 million has been mobilized to date). The CPF objective is, thus, well aligned with the GoK's priorities. Moreover, it links to the GCRF pillar on strengthening resilience from a climate resilience perspective.

68. Transforming and decarbonizing Kosovo's energy system will require leveraging scarce budget and donor funding with private sector investments. To contribute to this objective, the CPF will support the establishment of a consistent legal framework for promoting renewable energy and energy efficiency, laying essential groundwork for scaling up investments through IFC's engagement in renewable energy, MIGA's guarantees, and IDA's ongoing engagement in energy efficiency. In the immediate future, IDA and IFC will jointly support the GoK to attract private sector participation on a competitive basis for development, financing, and operation of solar photovoltaic plan and wind parks. New WBG investments could be contemplated for the latter part of the CPF period to support a private sector-led renewable energy agenda, actively seeking alignment and leveraging

²³ World Bank. 2019. *Air Quality Management in Kosovo*. Washington, DC: World Bank. Available at: <https://openknowledge.worldbank.org/handle/10986/33041>.

²⁴ IQAir. 2022. *World Air Quality Report 2021*. Available at: <https://www.iqair.com/world-most-polluted-cities>.

complementarities between IDA, IFC, and MIGA, in line with the PCM approach. Additional engagements will be determined against progress made in upgrading the regulatory framework under the IDA DPOs and IFC advisory engagement on the private sector-led renewable energy agenda, implementation of ongoing projects financed by the WBG and other development partners, and the findings of ongoing and planned ASA, including the Regional Country Climate and Development Report (CCDR, P179205) and Western Balkans Six Energy Crisis Response (P179826). The CCDR will help assess challenges and opportunities for climate action, while identifying policy measures, reforms, and investments to address binding constraints to climate-ready development, now and in the future. Additional ASA to support the energy transition may also include: (i) facilitating investment in and integration of renewable energy; (ii) developing and implementing incentives for residential energy efficiency investments; (iii) supporting the Just Transition agenda, particularly around coal mining regions and vulnerable energy consumers; and (iv) improving the sustainability of heating. Additional lending opportunities under the Livable Cities framework are also being contemplated to address the main source of emissions leading to poor air quality in cities.

Objective 3.3 Mitigate the impact of environmental degradation

69. Land contamination poses serious health risks, threatens Kosovo’s relatively scarce water resources, and prevents the use of land for agriculture and urban development. Contaminated land sites are largely unmanaged. Kosovo lags behind peer countries in addressing industrial pollution and risk management, leading to considerable delays in aligning with the EU acquis as part of the integration process. The absence of legislation on pollution prevention and control, and polluter accountability, undermines efforts to prevent future industrial pollution. Meanwhile, hazardous mine waste, industrial discharge into rivers, and industrial dumpsites continue undisturbed, threatening the country’s natural resources and the health of its residents. Around 200 sites (out of 4,000) require remediation from mining and industrial activities, tailings, and ash dumping. Partially controlled or uncontrolled landfills are often located near agricultural areas, and although the number of illegal landfills decreased between 2019 and 2021 (from 2,529 to 1,189), it remains high. In addition, Kosovo faces high disaster vulnerability, as it is exposed to floods, mudflows, landslides, heavy snowfall, drought, forest fires, and earthquakes.

70. The CPF objective is well aligned with the Strategy on Integrated Waste Management 2021–30. This strategy aims to: (i) develop a new generation of integrated waste management services and infrastructure; (ii) professionalize the waste management and recycling sectors; (iii) strengthen waste management regulation and control; and (iv) promote a circular economy. The new Law on Integrated Prevention and Control of Pollution is pending parliamentary approval. The objective’s focus on climate-smart policies and incentives aligns with the fourth GCRF pillar on institutional strengthening. Increased dialogue with international donors will strengthen coordination among actors active in the sector, and WBG engagement will complement initiatives funded by the EU, KfW, EBRD, and others.

71. The CPF will contribute to this objective through a combination of IDA IPFs and ASA that, while helping to address some of the most pressing environmental challenges, will also contribute to Kosovo’s alignment with the EU, particularly with the Green Agenda for the Western Balkans. The proposed Cleaning and Greening Land Project (P172992) aims to launch a long-term approach to land decontamination and reduction of pollution and industrial waste. It is expected to generate substantial economic value and opportunities for a resilient, inclusive, and sustainable recovery, while promoting circular economy approaches to prevent and reduce industrial waste. GPSA-supported ASA provides capacity building for implementing the latter. Additional analytical support will be provided through the Regional CCDR, while the Western Balkans Green Transformation ASA (P177777) will help to develop a framework for greening the finance sector.

3.4 Implementing the CPF for FY23–FY27

Financial Envelope

72. **Delivering on the CPF objectives will require blending the various instruments in the WBG’s toolbox to maximize the use of limited concessional IDA resources, while creating space to promote private sector investments, strengthen domestic resource mobilization, and leverage additional funding from development partners.** While the following sections present indicative program amounts for IDA, IFC, and MIGA separately, the CPF’s overall envelope and expected outcomes are foreseen to result from close coordination through a One-WBG approach.

73. **The indicative CPF program during the first three years (FY23-FY25) of CPF implementation period amounts to approximately US\$637.9 million of IDA lending and trust funds (TFs)** (Table 3). The CPF inherits an active IDA portfolio of US\$365.2 million in commitments, comprising one DPO and ten IPF operations. Kosovo’s standard Performance-Based Allocation (PBA) under IDA20, at around SDR94.3 million (equivalent to US\$127 million as of end-February 2023),²⁵ covers the first three years of the CPF period. The fourth and fifth years will fall under the IDA21 cycle.

Table 3: IDA Active and Proposed²⁶ CPF Lending During FY23-FY25
(US\$ millions)

HLO	Project	Active IDA Portfolio	New IDA20 Lending			TF Financed
			FY23 (PBA)	FY24-25 (PBA)	SUW	Active & Pipeline
Cross-cutting	Real Estate and Geospatial Infrastructure; P164555	16.5				
	Social Assistance System Reform; P171098	55.9				
	Kosovo Digital Economy; P164188	25.0				
	Energy Efficiency and Renewable Energy; P143055	31.0				10.5
	Improvement and Rehabilitation of Irrigation Systems; P179737					10.0
HLO 1: Greater public service efficiency and quality	Public Finance and Sustainable Growth DPO; P170113	56.4				
	Programmatic DPO Series; P179944			30.0	90.0	
	Strengthening Digital Governance for Service Delivery; P178162	20.0				
	Health System Improvement; P179831			20.0		
	Early Childhood Development; P179656			20.0		
	Emergency COVID-19; P173819	68.2				
HLO 2: More formal private sector jobs	Public Information and Awareness Services for Vulnerable Communities; P179554					3.0
	Competitiveness and Export Readiness; P152881	15.3				
	Financial Sector Strengthening; P165147	25.0				
HLO 3: Increased environmental resilience	Municipalities for Youth in Kosovo; P165485					2.8
	Fostering and Leveraging Opportunities for Water Security Program 1; P169150	27.4				0.4
	Fostering and Leveraging Opportunities for Water Security Program 2; P175624			40.0		
	Water Security and Canal Protection; P133829	24.5				
	Livable Cities; P177506			25.0		
Totals		365.2	21.0	135.0	90.0	26.7
Overall Total						637.9

²⁵ References to IDA20 volumes are indicative. Actual country allocations are determined at the beginning of each fiscal year, based on: (i) total IDA resources available for the fiscal year; (ii) the number of IDA-eligible countries; (iii) the respective country’s performance rating, per-capita gross national income, and population; and (iv) the performance and other allocation parameters of other IDA borrowers.

²⁶ Projects with Active Initiation Note

74. New IDA20 lending proposed for FY23–FY25 amounts to US\$246 million. The indicative pipeline depends on Kosovo’s access to overall IDA lending volumes and may require adjustments in view of changing government priorities. If all the proposed pipeline projects materialize, the available PBA envelope would fall short of financing needs and the country team would consider drawing on the IDA windows for which Kosovo is eligible²⁷ to bridge the financing gap. In IDA20, 76 percent of Kosovo’s PBA is on blend terms, with the remaining 24 percent being in the form of shorter-maturity loans (SMLs). The CPF also envisages potential access to IDA SUW resources on SML terms, to finance the programmatic DPO series in FY24 and FY25.

75. A PLR will provide an opportunity to introduce corrections to the CPF program, as needed, after the parliamentary elections (due in 2025) and in view of the financial resources expected under IDA21. The WBG will explore partnerships to leverage additional external resources and mobilize grant resources, when possible, to accompany new lending operations.

76. IFC’s committed portfolio in Kosovo stands at US\$13.6 million as of March 31, 2023. In the face of the post-COVID recovery and geopolitical risks, IFC will leverage conventional and innovative lending and advisory instruments to support the financial sector, build resilience, and help develop an export-oriented manufacturing sector. IFC will work with domestic and regional/global sponsors, with a particular focus on underserved segments. In addition, IFC will aim to further develop the financial sector, including MFIs, in key areas such as agribusiness financing, resolution of nonperforming loans, digital transformation, sustainable finance, and environmental, social, and governance (ESG) standards. IFC advisory services (AS) will seek to improve the regulatory framework to strengthen insolvency practices and develop the non-bank financial sector, to introduce affordable housing, and to support local manufacturing to improve capacities and enter new markets. Leveraging private sector expertise in developing of new renewable energy capacities will be of high financing priority.

77. MIGA will continue to support Kosovo’s financial sector by providing guarantees. MIGA has provided capital optimization guarantees to three international financial institutions operating in Kosovo, enabling increased access to credit, particularly among small and medium enterprises (SMEs), and climate finance-related activities. These operations were part of MIGA’s COVID-19 response program and are expected to contribute to a green, resilient, and inclusive recovery. Going forward, MIGA will continue to explore opportunities to provide political risk guarantees to facilitate cross-border investments in strategic sectors identified under the CPF.

78. Advisory services and analytics will continue to form an integral part of the WBG program (Annex 3). The CPF will maximize national and regional ASA to advance knowledge, support policy reforms, and lay the groundwork for lending. Engaging upstream through IDA ASA and IFC AS will help the GoK put in place appropriate sectoral policies and regulatory frameworks in critical sectors, such as energy, finance, health, and agriculture. IDA and IFC will enhance collaboration to foster a better business environment, improve access to finance for firms and farms, and foster new public–private partnerships (PPPs) in infrastructure. These efforts will be central to crowding in private finance in support of each CPF objective. Regional ASA on investment promotion, trade and transport facilitation, skills, climate, and the Green Agenda will inform policy deliberations on strategic priorities.

Financial Management and Procurement

79. World Bank investment lending in Kosovo relies on country systems in almost all areas of financial management. These include budgeting and planning, treasury, flow of funds, accounting and

²⁷ Kosovo is currently eligible to access the Regional Window, Crisis Response Window (CRW), and Private Sector Window. As Kosovo is subject to a Market Access Country Debt Sustainability Analysis (MAC DSA), its access to regular Scale-Up Window (SUW) resources will be assessed on a case-by-case basis.

financial reporting, the internal control framework, and, more recently, external audit. Key strengths include the sound legal framework, the integrated central treasury system, strong budget classification, a comprehensive and reliable accounting and financial reporting system, and an increasingly effective external audit office. The 2022 Public Expenditure and Financial Accountability (PEFA) assessment recognized some improvements in revenue projections, internal controls (payroll and commitment controls), and internal audit. Weaknesses persist, however, in the fiduciary environment: (i) multiyear perspective in fiscal planning and policy formulation, including poor alignment of strategic plans with medium-term budgets; (ii) weaknesses in public investment management, including weak planning of capital spending; (iii) poor management of assets and liabilities; (iv) lack of legislative scrutiny of budgets and external audit reports; and (v) low response and follow-up to audit recommendations. The World Bank will continue to support system strengthening, with scope to extend the use of other elements of country systems for World Bank investment lending. Moreover, the comprehensive Public Financial Management Strategy articulates the country's efforts to improve its public financial management systems and provides the basis for further support from the EU, IMF, and other partners.

80. Kosovo's public procurement legislation and institutional framework are in place, but there is scope for improvement. Alignment with the EU acquis provides a strong incentive for the authorities to strengthen Kosovo's public procurement systems. The Public Procurement Regulatory Commission is preparing a new Procurement Strategy, part of which includes implementing a new procurement law. This sound basis is offset, however, by the lack of experienced procurement specialists in government institutions, which necessitates hiring external procurement specialists as part of project implementation units (PIUs). In addition, the pool of experienced procurement specialists is too small to accommodate the growing number of active World Bank-funded projects over the years. To address these capacity gaps, the World Bank will maintain Hands-On Expanded Implementation Support (HEIS) arrangements for complex projects and deliver training on World Bank procurement guidelines. The World Bank will also explore alternative solutions in the context of broader capacity building at the portfolio level in collaboration with the MoFLT and other development partners.

Monitoring and Evaluation

81. The CPF will contribute to enhancing the GoK's monitoring and evaluation capacity. Delays in census implementation, a lack of micro-data availability, and low data quality constrain efforts to monitor and document changes in poverty and equity to inform effective, evidence-based policy making in Kosovo. The World Bank will support Kosovo Agency of Statistics (KAS) staff in gaining familiarity with international best practices and building technical capacity for processing, analysis, and reporting using modern data management systems.

82. Strengthened CE and partnerships will underpin the implementation of the CPF program. Experience with the previous CPF proved the importance of meaningful engagement with citizens and stakeholders throughout the project cycle to ensure accurate targeting and program effectiveness. The CPF will build on the recommendations of the CLR, strengthening the WBG's emphasis on the role that civil society organizations can play in overcoming capacity gaps among government agencies, particularly with respect to outreach and engagement with vulnerable groups and minorities. For example, local civil society organizations will be engaged to support the Kosovo Cadaster Agency in conducting public outreach and to help vulnerable groups navigate the land registration process across the country. A specific recommendation entails adopting participatory and blended approaches, including the use of e-services and interactive e-government platforms, to improve programming in non-majority municipalities, but also to broaden engagement with other minorities. Community participation should be at the center of any activity in non-majority areas, and WBG teams should ensure that citizens have opportunities to express their views on funding priorities and implementation mechanisms. The co-development of solutions to support implementation of the Green Agenda, through solutions-oriented multistakeholder dialogues, should also be incorporated

into projects, in line with HLO 3 on increased environmental resilience. With the support of the GPSA grant on Climate Action and Civic Technology, public institutions will increase the public use of datasets and evidence-based assessments of climate issues, and stakeholders will have opportunities to engage with public institutions on climate priorities through project-created platforms and initiatives. Concrete actions to strengthen CE in the CPF program are outlined in Annex 8.

Partnerships and Donor Coordination

83. Coordination and dialogue with the EU remain key to the WBG’s engagement in Kosovo. Under the framework of the SAA, the EU is supporting Kosovo on the path toward possible future membership. In this context, the WBG’s close collaboration with the EU in areas such as water, energy, environment, agriculture, business environment, and public sector reform will be critical in helping to address Kosovo’s development challenges.

84. The WBG will maintain and strengthen dialogue and cooperation with development partners in all priority areas. The IMF will remain the WBG’s main partner in the dialogue on macro, fiscal, energy, and social sector policies. Dialogue with the UNDP on the environment, energy, and transport sectors, and with UNICEF on education, will continue to be critical. Partnering with other multilateral development banks, such as EBRD, European Investment Bank (EIB), Council of Europe Development Bank (CEB), and OPEC Fund for International Development will be essential to advancing reforms in public finance and business regulation, as well as the energy and transport sectors. Continued collaboration with selected bilateral donors—the United States (USAID, MCC), Switzerland (SDC, SECO), Germany (GIZ), Austria (through the Austrian Development Agency, or ADA) and France (through the *Agence Française de Développement*, or AFD)—will strengthen the WBG support in such areas as the business environment, urban development, the digital agenda, sustainable energy and transport, land administration, and the water sector.

IV. MANAGING RISKS TO THE CPF PROGRAM

85. The overall risk to implementing the CPF program is assessed as moderate. The established partnership between the GoK and the WBG, along with continuity in key strategic and policy directions, provide firm ground from which to achieve the CPF objectives. Three of the eight categories in the WBG’s Systematic Operations Risk-Rating Tool warrant a substantial rating (Table 4). These risks will be monitored throughout the CPF period and mitigation measures will be applied as needed.

Table 4: Risks to the CPF Program

Risk Categories	Rating
Political and governance	Substantial
Macroeconomic	Moderate
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	Moderate
Environmental and social	Substantial
Stakeholders	Moderate
Overall	Moderate

86. Political and governance risks are substantial. The outcome of parliamentary and local elections in 2021, together with ensuing political stability for the foreseeable future, provides the conditions for accelerated CPF implementation. However, the overall impact on Eastern Europe of Russia’s invasion of Ukraine has made the current state of relations between Kosovo and Serbia precarious and a potent source of instability, should the ongoing normalization efforts come to a halt, thus undermining the

GoK's commitment to the WBG-supported reforms and weighing on private investment and FDI inflows. The WBG will continue to engage with relevant stakeholders and will update risk assessment in response to political economy shifts, if warranted.

87. Substantial institutional capacity risk reflects inadequate ownership of and limited capabilities for implementation of World Bank-financed projects. Protracted procurement processes for World Bank-financed projects, related contract management issues, and weak planning and budgeting could slow down the CPF implementation. Implementation performance is aggravated by turnover among key government counterparts and PIU staff and by the limited availability and accuracy of data to support monitoring and introduce needed adjustments. The CPF will address these shortcomings by pairing lending operations with more extensive TA, as well as through proactive portfolio management. The World Bank will continue to build fiduciary capacity in the GoK and PIUs to help strengthen project budgetary processes, including data collation, validation, and analysis underpinning the projects' spending forecasts. It will explore alternative portfolio management solutions in collaboration with the MoFLT and development partners to address existing and emerging weaknesses in institutional capacity.

88. Environmental and social risks remain substantial. Environmental risks are linked to the nature of active projects in the energy and health sectors, and the pipeline engagement on contaminated land. Social risks are associated with the potential need for resettlement under the planned water, land, and urban sector projects. These risks will be mitigated through the full application of the WBG's Environmental and Social Framework and due diligence in project preparation.

Annex 1: Results Matrix for the Kosovo CPF for FY23–FY27

High-Level Outcome 1 (HLO 1) – Greater public service efficiency and quality		
This HLO is a continuation of Focus Area 2 of the previous CPF for FY17–FY22, on strengthening public service delivery and macro-fiscal management, with a stronger focus on the inclusiveness, equity, and sustainability of service delivery.		
HLO Indicators	Data Sources	Current Value
<ol style="list-style-type: none"> Government effectiveness index PEFA: PI8, PI-11, PI-17 Per-capita social expenditure 	<ol style="list-style-type: none"> Bertelsmann Transformation Index: Governance Country authorities; World Bank staff estimates and projections MoFLT 	<ol style="list-style-type: none"> 5.5 (2022) D+, C+, B+ (2022) EURO 317 (2022)
<p>High-Level Outcome Description</p> <p>Rationale: As a unilaterally Euroized economy, with no access to international financial markets, fiscal sustainability is a precondition for macroeconomic stability and socioeconomic development in Kosovo. The country has traditionally had low debt levels. It has maintained a stable fiscal stance, further enhanced rules-based fiscal policy making, and strengthened debt management. This allowed the GoK to conduct countercyclical fiscal policy to mitigate the pandemic shock, though it had to temporarily relax its fiscal rules. However, public expenditure efficiency and equity remain key challenges. Current spending as a share of total spending has grown over time, to 75 percent, driven primarily by increases in transfers and employment compensation. This trend has crowded out capital spending, which is necessary to support future economic growth. Digitalization of public services remains low, despite Kosovo having one of the best digital networks in the region. Health and education outcomes are below regional averages, as evidenced, for example, by annual PISA scores in education, life expectancy, incidence of noncommunicable diseases, and so on. Social protection is often not poverty-targeted, and even programs that are exclude most of the poor. The social protection system is heavily skewed toward categorical pensions, whose eligible population continues to rise, while the targeted social assistance scheme’s coverage declined by almost half between 2005 and 2020, to only about 7 percent of the population, far below the poverty rate. As a result, the contribution of the social protection system to poverty reduction is limited, despite high rates of expenditure. Employment services and labor market programs remain limited, fragmented, and too often disconnected from labor demand, limiting their potential to help improve employment prospects and labor productivity. Overall, services too often fail to effectively reach the most vulnerable, notably women, youth, and minority and marginalized groups. Enhancing public service delivery, in the broader context of more efficient public spending and increased domestic revenue mobilization, would improve human development outcomes, as well as the sustainability and resilience of the economy.</p> <p>Lessons learned and new knowledge at the program level: Based on findings from the SCD update, important policies and investments in macroeconomic stability, socioeconomic development, and access to good-quality, affordable basic services are still pending, while the scope for expanding public expenditure and enhancing its effectiveness is limited. Despite a certain degree of policy continuity over time, the alternation of administrations has impacted overall reform speed and content, and, in turn, the effectiveness of reform efforts supported by traditional investment lending. The implementation of a Public Finance and Growth DPO (P170113) in a context of political stability has proven to be key in advancing critical reforms to enable more equitable and efficient public spending and create conditions for private sector development. Moreover, lessons learned from previous projects and the observation of best practices at the global level point to the need to build data and evidence-based system reforms to guarantee their sustainability over time, as well as to strengthen interlinkages across sectors. The experience with COVID-19 highlights the importance of building systems that are resilient in the face of shocks to avoid losses that can set back hard-won gains. Furthermore, while a necessary complement to them, digital technologies are no substitute for many of the hard reforms and capacity building needed to improve service access, equity, efficiency, and effectiveness.</p>		

The design and implementation of complex reforms requires strong political commitment, vision, and consensus building, as well as data and feedback systems to identify issues early on, learn from reforms, and build ownership and support among stakeholders.

WBG engagement: The WBG program will support HLO 1 by addressing key constraints to sustainable service delivery. To achieve improved social outcomes and build resilience, the CPF objectives will sustain efficient fiscal and debt management policies, as well as delivery of critical basic services in health, education, social protection, and employment services for greater inclusion of women, youth, and vulnerable and marginalized groups. To that end, the full array of WBG instruments will be mobilized and partnerships with other development partners will be actively pursued.

Associated SDGs: SDG1 (No Poverty); SDG 3 (Good Health and Well-Being); SDG 4 (Quality Education); SDG5 (Gender Equality); SDG10 (Reduced Inequality).

CPF Objective 1.1: Increase public spending effectiveness

This objective is a continuation of the previous CPF's objective of improving the sustainability of public finance and public sector management but concentrates more on the efficiency and equity of public expenditure.

Intervention Logic

Rationale: Since independence, Kosovo has demonstrated commitment to headline macro-fiscal sustainability by building a comprehensive rule-based fiscal framework. Together with a sound financial sector, adoption of the Euro as the national currency, and sustained improvements in the banking sector, macro-fiscal sustainability has helped create fiscal buffers that proved to be essential to weather the consequences of the 2008 financial crisis and the COVID-19 pandemic. Both the fiscal deficit and the debt-to-GDP ratio are among the lowest in the region, although they have increased recently in the wake of government interventions to address the health and economic impacts of COVID-19. **Maintaining macro-fiscal sustainability is key to: (a) rebuild adequate buffers in the budget; (b) create appropriate fiscal space to accompany the country's transition to a greener and more competitive growth pattern; and (c) curb poverty and boost shared prosperity by investing more for growth.** Achieving a sustainable, effective, and equitable fiscal policy will require: (i) Improving revenue management by increasing collections, reducing exemptions, and fighting informality; (ii) curbing fiscal risk and liabilities; and (iii) promoting public expenditure effectiveness, while enhancing equity.

Lessons learned and new knowledge at the program level: According to the CLR, mainstreaming the medium-term expenditure framework (MTEF) as part of Kosovo's public budgeting cycle shows that improvements in fiscal management require: (a) binding obligations and deadlines in primary legislation, and (b) civil service capacity enhancements and commitment to implementing such improvements in a credible manner. Further ASA and support focused on Kosovo's statistical capacity can amplify the impact of the MTEF as a strategic planning tool that facilitates the reorientation of public resources toward policies with the highest development impact. The SCD Update emphasized the importance of a sustainable, effective, and equitable fiscal policy to mitigate the impact of shocks in a unilaterally Euroized economy and to support productivity growth, safeguard environmental quality, or narrow socioeconomic gaps.

Ongoing and planned WBG support to this CPF objective: IDA lending, combined with IFC and MIGA products and ASA, aims to create space for investments in human capital, private sector development, and the green transition. The active and pipeline development policy financing program will help address key structural constraints to development. The DPOs will complement the implementation of IPFs in the energy, health, and social protection sectors to allow for more efficient and high-quality delivery of services. Extensive ongoing ASA and proposed statistical capacity TA will inform the policy dialogue and contribute to evidence-based decision making. IFC's upstream work will help identify opportunities for the state to leverage private capital and expertise, and sustainably provide good-quality services in social and environmental infrastructure.

Key risks and mitigation: The ongoing energy and food price crises, as well as the instability linked to spillovers from Russia's invasion of Ukraine, could affect macro-fiscal stability. The persistence of inflationary pressures could in turn undermine reform momentum. The political/electoral cycle could impact the consistency of

reforms. Mitigation includes continued open dialogue with GoK counterparts and the opposition to ensure broad support for reforms, as well as close coordination with the IMF and other development partners on fiscal stability and debt sustainability.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1.1.1: Public investment execution rate; o/w capital spending on education and health Baseline [2021]: 68%; o/w education ER=68%, health ER=72% Target [2026]: 90% Source: MoFLT, National Budget</p> <p>Indicator 1.1.2: Number of primary health care outpatient visits per person per year Baseline [2021²⁸]: 1.80 Target [2026]: 2.20 Source: KAS/Health statistics</p> <p>Indicator 1.1.3: Annual energy costs savings in public sector (US\$ million) Baseline [2022]: 3.57 Target [2026]: no less than 4.5 Source: MoE and KEEF</p>	<p>SPI 1.1.1: Biannual increase in education and health capital expenditure execution rate Baseline [2021]: education ER=68%, health ER=72% Target [2025]: 10% increase Source: MoFLT, National Budget</p> <p>SPI 1.1.3: Annual energy costs savings in public sector (US\$ million) Baseline [2022]: 3.57 Target [2025]: 4.5 Source: MoE and KEEF</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> Public Finances & Sustainable Growth DPO [P170113] Energy Efficiency and Renewable Energy Project [P143055] Social Assistance System Reform Project [P171098] <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> Programmatic DPO Series [P179944] Health System Improvement [P179831] <p>IFC Financing Pipeline:</p> <ul style="list-style-type: none"> Potential new PPPs in housing, education, and renewable energy sectors <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> Public Expenditure Review [P178218] Improving Financial Protection and Quality of Care [P150300] Strengthening Fiscal Governance in Western Balkans [P180191] Western Balkans Pensions ASA [P179828] <p>IFC Ongoing ASA:</p> <ul style="list-style-type: none"> 606511 Affordable housing 602204 Pristina Schools PPP <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> Statistics and Modelling Capacity Building
<p>CPF Objective 1.2: <i>Improve efficiency of social protection</i></p>		
<p>This is a new CPF objective, based on lessons learned, new knowledge, government demands, and evolving partnerships.</p>		
<p>Intervention Logic <i>Rationale:</i> Kosovo spent 7.7 percent of GDP on social protection in 2020. However, the bulk of the expenditure is for costly, inefficient, and unequal non-contributory pensions and pension schemes for war veterans. Just one-third of the working-age population contributes to the second pillar, and contributory pensions provide only temporary support until the account is depleted. Only 7 percent of total transfers are targeted to the poorest and most vulnerable through the Social Assistance Scheme (SAS), which lacks the flexibility to effectively respond to shocks. Efforts are needed to improve the linkages between social assistance and employment support. With a poverty rate hovering around 26 percent in 2021, the SAS needs to be reformed to contribute effectively to eliminating poverty and promoting a more equitable</p>		

²⁸ Latest data available; 2022 data expected by April 2023

society. SAS reform should be complemented by far-reaching pension reforms.

Lessons learned and new knowledge at the program level: The SCD Update highlighted that the contribution of the social protection system to poverty reduction is limited, despite relatively high rates of expenditure. It has become more heavily skewed toward categorical pensions, whose eligible population continues to rise, while the targeted social assistance scheme’s coverage declined by almost half between 2005 and 2020, to only about 7 percent of the population, far below the poverty rate. The proposed engagement will build on previous operations, including experience acquired through sustained TA provided to the Department of Social Policy and Family, which allowed for the rapid preparation of the social protection component of the COVID-19 emergency project, and the SASRP. Reliance on existing government systems, selected innovations, and continued TA to the client proved equally important in ensuring continuity despite changes of government and reshuffling of critical ministry staff.

Ongoing and planned WBG support to this CPF objective: The Kosovo SASRP will support the introduction of a poverty targeting mechanism along with activation measures to enhance system adequacy and its ability to respond to shocks. The active DPO supports enhanced fiscal discipline in planning social spending. The new programmatic DPO series will explore ways to further strengthen social protection mechanisms for energy-vulnerable consumers. The Poverty and Equity Assessment, along with regional ASA on social protection and jobs, will accompany lending and help address knowledge gaps, thus informing evidence-based policy making. Regional ASA on promoting jobs and the care economy will inform policies to strengthen and expand the quality of both public and private childcare services.

Key risks and mitigation: The protracted impasse in the ratification of the SASRP could delay the implementation of social assistance system reform. Mitigation measures include continuous dialogue with MoFLT counterparts and members of parliament on the SARS structure and objectives in the broader context of social assistance reforms.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1.2.1: SAS beneficiary families assessed for eligibility using the new poverty test Baseline [2023]: 0 Target [2026]: 90% Source: SAS administrative data</p> <p>Indicator 1.2.2: Number of SAS beneficiaries that participate in activation measures specified in the Activation Manual; o/w female, youth, and RAE beneficiaries Baseline [2023]: 0 Target [2026]: 1,000; o/w 500 female, 50 youth (aged <25), 120 RAE beneficiaries Source: SAS administrative data</p>	<p>SPI 1.2.2: Implementation of activation measures specified in the Activation Manual of the SASRP Baseline [2023]: 0 Target [2025]: TBD upon launch of the SASRP Source: SAS administrative data</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> • Public Finances & Sustainable Growth DPO [170113] • Social Assistance System Reform Project [P171098] <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • Programmatic DPO Series [P179944] <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> • Poverty and Equity Assessment [P179090] • Western Balkans Social Protection and Jobs Situational Analyses [P176230] <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> • Promoting Jobs and the Care Economy in the Western Balkans [P180684]

<p>Indicator 1.2.3: SAS program has the capability to adjust coverage in response to shocks</p> <p>Baseline [2023]: No Target [2026]: Yes Source: Law on SAS; SAS Operations Manual</p>		
<p>CPF Objective 1.3: <i>Increase access to public services among minority and marginalized groups</i></p>		
<p>The previous CPF included an objective on improving quality, coverage, and equity in the delivery of education and health services. The current objective emphasizes the inclusiveness aspects of the engagement and broadens the focus to other services provided at both national and municipal levels.</p>		
<p>Intervention Logic</p> <p>Rationale: Although there have been some improvements in several health and education indicators (such as life expectancy and access to primary education), according to Kosovo’s human capital index, a child born in Kosovo today will be 57 percent as productive when she grows up as she could be if she enjoyed complete education and full health. This gap signals persistent system inefficiencies that contribute to widening inequalities, increasing the sense of disenfranchisement among some groups in society, and slowing down the country’s transition to a more competitive economy. Women, youth, and members of minority groups (such as the RAE) are at a particular disadvantage, as confirmed by key human development indicators. Addressing the challenges faced by these groups is not just a moral imperative, but also smart economics.</p> <p>Lessons learned and new knowledge at the program level: This engagement area will build on lessons learned from previous operations in education and public health. The CLR highlighted the importance of supporting complex reforms and strengthening efforts to build ownership, while moderating the degree of ambition and ensuring simplified project design, as complex reforms take time, especially in politically complex contexts. According to analytical work on Municipalities for Youth and Finding Solutions to Youth Unemployment in Kosovo, insufficient job creation and a skills mismatch largely exclude young people from the labor market or place them in a vulnerable position. Youth have been disproportionately affected by the COVID-19 pandemic. In addition, flexibility and proactivity in project reconstructing have been crucial to build client ownership and facilitate success. The 2021 RRA recommended supporting the authorities in analysis and planning of national and local investments to target vulnerable or underserved areas. It highlighted the importance of adopting participatory approaches (tailored to specific projects) to improve programming in Serb-majority municipalities and engaging more broadly with other minorities.</p> <p>Ongoing and planned WBG support to this CPF objective: In the active portfolio, the Real Estate and Geospatial Infrastructure Project (REGIP) will support activities to increase access among marginalized groups to the services of the Kosovo Cadaster Agency. Investments through the pipeline Kosovo Digital Governance (KODE) project will help modernize and expand public services offered through the e-Kosova platform to make them more accessible for vulnerable customers. Proposed early childhood development and health sector projects, together with IFC’s ongoing Pristina Schools PPP project, will focus on expanding access to good-quality basic services, with particular attention to ensuring that vulnerable and minority groups benefit fully. Lending and investment operations will be complemented by TA to build awareness among vulnerable communities and to analyze the supply and demand constraints affecting childcare services for the most vulnerable populations.</p> <p>Key risks and mitigation: Lack of up-to-date, evidence-based assessments and statistical data on spatial inequalities is an important risk. Delays in operationalizing electronic information systems risk undermining data collection for monitoring. Mitigation measures include targeted analytical services and TA to relevant central and municipal institutions, supporting the establishment of Hands-On Expanded Implementation Support (HEIS) under pipeline projects, and citizen engagement tools.</p>		

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 1.3.1: Number of annual home visits by health care workers in minority / marginalized / underserved communities Baseline [2022]: 1,588 Target [2026]: 2000 Source: Ministry of Health/PHC Division</p> <p>Indicator 1.3.2: Children ages 3 to 4 attending early childhood education program; o/w children from families representing marginalized groups Baseline [2022]: 15%; o/w 7.6% Target [2026]: 25%; o/w 15% Source: MICS and/or EMIS.</p> <p>Indicator 1.3.3: Women, and members of minority groups (RAE) accessing services through eKosova Baseline [2023]: to be set as per first year survey planned under the Digital Governance IPF Target [2026]: to be set Source: e-Kosova</p> <p>Indicator 1.3.4: Number of beneficiaries from minority and marginalized groups informed of and/or assisted with dispute resolution mechanisms for</p>	<p>SPI 1.3.2a: Study of early childhood education quality based on recognized instruments conducted on a representative sample in Kosovo Baseline [2022]: No Target [2025]: Yes Source: ECD project</p> <p>SPI 1.3.2b: Number of people receiving access to improved services through PPP-financed schools Baseline [2023]: 0 Target [2025]: 4300 Source: IFC Pristina Schools PPP (#602204)</p> <p>SPI 1.3.4: Number of land record documents completed through targeted counseling services Baseline [2023]: 0 Target [2027]: 30,000 Source: PIAKOS</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> • <i>Real Estate & Geospatial Infrastructure [P164555]</i> <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • <i>Strengthening Digital Governance for Service Delivery [P178162]</i> • <i>Early Childhood Development for Kosovo’s Human Capital [P179656]</i> • <i>Health System Improvement [P179831]</i> <p>TF Financing</p> <ul style="list-style-type: none"> • <i>Public Information and Awareness Services for Vulnerable Communities [P179554]</i> <p>IFC Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>602204 Pristina Schools PPP</i> <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> • <i>Promoting Jobs and the Care Economy in the Western Balkans [P180684]</i>

addressing property disputes Baseline [2023]: 0 Target [2026]: 450,000 Source: PIAKOS		
High Level Outcome 2 (HLO 2) – More formal private sector jobs		
This HLO builds on Focus Area 1 of the previous CPF for FY17–FY22, on enhancing conditions for accelerated private sector growth and employment, emphasizing the jobs agenda while maintaining focus on the business-enabling environment.		
HLO Indicators	Data Sources	Current Value
<ol style="list-style-type: none"> 1. Employment rate in (overall; female; NEET for youth) 2. Private sector employment 3. Labor force participation 4. SME Policy Index 5. Informality rate (% of employed working without a contract) 	<ol style="list-style-type: none"> 1. Labor Force Survey 2. Labor Force Survey; administrative data on public employment 3. Labor Force Survey 4. OECD – SME Policy Index 5. Labor Force Survey 	<ol style="list-style-type: none"> 1. Overall 31.1%; Female 16.5%; NEET 32.1% (2021) 2. 300,258 (2021) 3. Female 22%; Male 56.6% (2021) 3. 3.65 (2019) 4. 8.6% (2021)
High-Level Outcome Description		
<p>Rationale: Kosovo has advanced toward creating a more conducive environment for private sector development. Improvements in access to credit, transport and fixed broadband infrastructure, trade facilitation, contract enforcement, and regulatory barriers, together with incipient progress in land titling, have helped increase formal private sector employment and export dynamism. However, firm-level productivity and greenfield foreign direct investment have grown only modestly, constraining job creation. At the same time, employers struggle to hire and retain skilled workers. Despite progress, small firms, among others, face difficulties in accessing financing and securing a reliable energy supply. In contrast, farm-level productivity has decreased while employment levels have remained relatively steady, suggesting a considerable misallocation of resources that—if remedied—could boost growth and job creation.</p>		
<p>Lessons learned and new knowledge at the program level: As highlighted in the SCD Update, job creation in Kosovo is still constrained and low labor force participation among women and young people remains a key challenge. The CEM finds that low labor participation is driven largely by women’s low activity rates and that lack of jobs is a major impediment to inclusive growth, while sustained productivity growth is the most important driver of convergence in living standards over the long term. Sustained job creation will depend on the country’s ability to foster an environment in which productive firms and farms can thrive. Moreover, increased foreign investment and international integration—given Kosovo’s location—are significant opportunities for creating new and better jobs. This engagement area will build on findings from the SCD Update and CEM to address factors limiting job creation.</p>		
<p>WBG engagement: The WBG program will support HLO 2 by accompanying the ongoing reforms in the business-enabling environment, access to credit, and financial market development—in particular, innovative and green financing, and land titling—with a focus on inclusion of women, youth, and vulnerable and marginalized groups. Implementation of this HLO will require blending investment and TA through the full spectrum of instruments in the WBG toolbox.</p>		
<p>Associated SDGs: SDG 5 (Gender Equality); SDG8 (Decent Work and Economic Growth); SDG9 (Industry, Innovation, and Infrastructure); SDG12 (Responsible Consumption and Production); SDG17 (Partnerships to Achieve the Goal).</p>		

CPF Objective 2.1: Enhance business climate and access to finance

This objective is the continuation of the previous CPF's objective of improving the business environment and access to finance. It builds on achievements supported under the CPF for FY17–FY22 and continues engagement on reform implementation, with a stronger focus on competitiveness.

Intervention Logic

Rationale: Despite recent developments in the regulatory environment for competition, many obstacles remain because of distortions introduced by state involvement in the economy (for example, public ownership of firms and preferential treatment granted to publicly owned enterprises), trade and investment laws discriminating against foreign firms in certain product markets, and entry barriers and restrictions on competition in service sectors, particularly for professional services. Addressing these distortions will promote greater firm-level productivity growth. Along with greater formalization and more modern infrastructure to support trade and integration, a more competitive economy could boost job creation in Kosovo and access to foreign markets and capital. Despite improvements in the business environment over the past decade, Kosovo's economy still faces persistent structural challenges that hinder private sector development, including high informality, unreliable electricity supply, lack of knowhow, low FDI attraction, low merchandise exports, high import dependency, an underdeveloped domestic manufacturing sector, large gaps in hard and soft trade infrastructure, and challenges in gaining access to finance. Kosovo needs to address these constraints to increase firm productivity, boost private sector development, and thereby create more sustainable jobs.

Lessons learned and new knowledge at the program level: The 2021 CEM concluded that only a more dynamic private sector can carry Kosovo to higher living standards. Sustained job creation and economic growth will depend on the country's ability to create an environment in which productive firms can thrive. To this end, it identifies a conducive regulatory framework, connectivity, and trade facilitation as critical ingredients. The CLR highlighted the importance of having realistic expectations about the speed of regulatory reforms, since these are cultural and political processes. However, legislative reforms aiming to resolve property ownership disputes are key in supporting enhanced land tenure security, spurring the land market, and further contributing to the country's business environment and access to finance. Building on activities supporting the digital sector, three factors have been identified for the satisfactory progress made in this area: (a) the government's strong technical expertise, which helped it properly engage and leverage the private sector; (b) the private sector's confirmed willingness to invest and commit; and (c) high interest among the population in subscribing to internet services.

Ongoing and planned WBG support to this CPF objective: The DPOs will support reforms to strengthen the business-enabling environment and improve the investment climate. The potential Trade and Transport Facilitation Project, in close coordination with IFC's Trade Facilitation Advisory, will support increased efficiency of trade and transport processes and help eliminate restrictions on market access and service trade. IFC investment and advisory engagements will support firms' productivity, efficiency, access to markets, institutionalization/standardization, and job creation. World Bank TA will help enhance the quality and scope of the taxpayer register, support implementation of key financial sector reforms, and help improve access to finance and the adoption of e-commerce. In the real sector, IFC will primarily support value-added production, particularly in export-oriented manufacturing industries. In the financial sector, IFC will continue supporting MFIs and seek opportunities for traditional credit lines to SMEs (banks and non-bank financial institutions (NBFIs)) to improve access to finance among the underserved (for example, agribusinesses and female-owned firms). IFC's AS will focus on investment climate, trade facilitation (including the national single window), manufacturing global value chains, debt resolution, agri-finance, microfinance, and ESG. MIGA will continue to support access to finance in critical sectors of the economy (including SMEs) by providing political risk guarantees. This will contribute to closing the large financing gap and stimulating private sector productivity, growth, and job creation.

Key risks and mitigation: Increased inflationary pressures and the energy crisis could further hamper private sector development. The WBG will remain flexible and adjust its interventions to respond to emerging needs.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 2.1.1: Number of people and MSMEs reached by participating financial institutions, with a breakdown on farmers Baseline [2021]: 51,500 (farmers: 13,000) Target [2026]: 115,000 (farmers: 20,000) Source: IFC IS and AS Program</p> <p>Indicator 2.1.2: Reduced number of business inspectorates Baseline [2022]: 36 Target [2026]: 15 Source: IFC Investment Climate AS</p> <p>Indicator 2.1.3: Number of administrative procedures improved or eliminated through IFC advisory support Baseline [2021]: 140 Target [2026]: 300 Source: IFC Investment Climate AS</p> <p>Indicator 2.1.4: Volume of manufactures exports Baseline [2023]: TBC Target [2026]: 15% increase Source: MoFLT</p>	<p>SPI 2.1.1: Volume of lending to MSMEs Baseline [2021]: US\$120 million Target [2025]: US\$170 million Source: IFC IS and AS Program</p> <p>SPI 2.1.2: Number of inspectorates performing risk-based inspections Baseline [2021]: 0 Target [2025]: 5 Source: IFC Investment Climate AS</p> <p>SPI 2.1.4: Share of beneficiaries of the matching grants program that increase their export value relative to firms of similar size in same sector (15%) Baseline [2022]: 10% Target [2025]: 15% Source: CERP ICR</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> • <i>Competitiveness and Export Readiness Project [P152881]</i> • <i>Financial Sector Strengthening [165147]</i> • <i>Public Finances & Sustainable Growth DPO [170113]</i> <p>IFC Ongoing Financing:</p> <ul style="list-style-type: none"> • <i>42580, 44909, 46065 AFK Agri</i> • <i>39885, 42368, 46275 KRK Agri</i> • <i>42572, 46064 KEP Agri</i> • <i>41672 SLGP RSF TEB</i> • <i>44794 Newko Balkan II</i> • <i>38274 FCS RE VF Kosovo</i> • <i>39993 FCS RE Apetit</i> <p>MIGA Ongoing Financing</p> <ul style="list-style-type: none"> • <i>NLB Banka sh.a, Prishtina (Project ID 14541)</i> • <i>NLB Banka sh.a, Prishtina (Project ID 14770)</i> • <i>ProCredit Mandatory Reserves (Project ID 14780)</i> • <i>Raiffeisen Bank Kosovo J.S.C. (Project ID 12894)</i> <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • <i>Programmatic DPO Series [P179944]</i> • <i>Financial Sector Strengthening AF (TBC)</i> • <i>Trade and Transport Facilitation Project (TBC)</i> • <i>Next generation private sector project (TBC)</i> <p>IFC Financing Pipeline:</p> <ul style="list-style-type: none"> • <i>New financing facilities with MFIs, NBFIs, and Banks</i> • <i>Potential investment in export-oriented manufacturing, and services companies</i> <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>Enhancing the Quality and Scope of Tax Registration [P173730]</i> • <i>FSAP Follow Up [P176121]</i> • <i>Support to Western Balkan’s Common Regional Market Initiative [P178854]</i> • <i>Railway Network Resilience Assessment [IDA TFOB9965]</i> • <i>Regional Trade Facilitation Advisory [P179241]</i>

		<ul style="list-style-type: none"> • <i>Western Balkans Common Regional Market Initiative (IDA P178854)</i> • <i>Regional Investment Agenda (IDA P163168)</i> • <i>Financial Sector Deepening and Diversification in Western Balkans (IDA P179998)</i> <p>IFC Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>606474 MF Institutions Reforms</i> • <i>606029 Agri finance</i> • <i>606311 Agri-Insurance</i> • <i>747867 Debt Resolution and Exit</i> • <i>601446 National Single Window</i> • <i>602281 Environmental and Corporate Governance</i> • <i>601638 Investment Climate II604496 Western Balkans Manufacturing Value Chain</i> <p>Joint IDA/IFC Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>Trade Facilitation and Support Project (P179241)</i> <p>IFC ASA Pipeline:</p> <ul style="list-style-type: none"> • <i>IFC Crop and Warehouse Receipts</i>
<p>CPF Objective 2.2: <i>Remove barriers to the economic empowerment of women and youth</i></p>		
<p>The previous CPF included an objective on enhanced social inclusion and employment opportunities for youth and women. Based on lessons learned, the current objective is adjusted to address structural constraints faced by women and youth in fully contributing to growth.</p>		
<p>Intervention Logic</p> <p>Rationale: Limited economic empowerment resulting in low labor force participation and high unemployment, together with disappointing educational outcomes, have limited the contribution of human capital to growth. Constant economic growth since independence has not translated into a commensurate number of jobs. The latest available data from the Labor Force Survey show that in 2021, only a third of the working-age population was employed (31.1 percent). The labor-force participation rate in Kosovo is among the lowest in the region at 39.3 percent, with a gender gap of 34.6 percentage points in 2021. The unemployment rate in 2021 stood at 20.7 percent of all workers (38 percent for 15–25-year-olds). Nevertheless, tax data from 2015 to 2018 show 10,000 formal jobs were added to the labor market each year, on average—twice the rate observed between 2011 and 2014. Moreover, according to administrative data on pension contributions, formal employment increased by 4.9 percent compared to 2021.</p> <p>Lessons learned and new knowledge at the program level: Lessons identified in the CLR point to the importance of targeting women and youth in all projects with direct job creation potential and tracking contributions to improving labor market prospects for youth and women. The CLR also emphasized the benefits of strengthened strategic partnerships with development partners that have strong engagements in this area (such as the EU, GIZ, and SDC), with the aim of better leveraging each other’s programs.</p>		

Ongoing and planned WBG support to this CPF objective: IDA investment projects will support this objective through digital skills training for women and youth, helping them access productive resources by better exercising their property rights and freeing up women to pursue employment opportunities by increasing access to preschool services. IFC’s interventions on enabling access to finance have contributed to the economic inclusion and empowerment of women entrepreneurs. IFC’s RSF and MFI products have targeted underserved economic segments, including women entrepreneurs and agribusinesses. IFC will continue to support and expand lending and advisory engagement with banks, MFIs, and NBFIs, while seeking to invest directly in manufacturing companies that support and prioritize female employment. The Country Gender Assessment will help shed light on levers for fostering women’s labour market participation and female entrepreneurship. ASA on public and private employment services will identify specific reforms and programs necessary to improve the labour market prospects of women and youth.

Key risks and mitigation: Deficiencies in implementing the Kosovo Program for Gender Equality, owing to a lack of coordination among respective government institutions, coupled with persistent social norms and expectations regarding women’s roles, may undermine achievement of this objective. The WBG will mitigate these risks by strengthening the implementation capacity of relevant institutions and supporting targeted awareness-building efforts.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 2.3.1 Properties updated, validated, and registered in the name of women Baseline [2022]: 19.06% Target [2026]: 25 % Source: KCA; REGIP indicators</p> <p>Indicator 2.3.2 Number of women employed in ECD services (private or public) Baseline [2021]: 586 Target [2026]: 30% increase Source: GoK administrative data</p> <p>Indicator 2.3.3 Percentage of women-owned businesses using digital ID as a share of total number of women-owned businesses Baseline [2021]: 0 Target [2026]: 30% Source: GoK administrative data</p>	<p>SPI 2.3.1a Number of women informed of, and/or assisted with, property registration and other land administration services Baseline [2022]: 0 Target [2025]: 225,000 Source: PIAKOS indicator reporting; KCA/Municipal Cadaster Office data, REGIP customer satisfaction surveys</p> <p>SPI 2.3.2 Preschool education infrastructure investment plan approved Baseline [2022]: No Target [2025]: Yes Source: MESTI</p> <p>SPI 2.3.3: Female beneficiaries of improved access among higher education institutions to high-speed broadband through the KODE Project Baseline [2022]: 59% Target [2025]: 80% Source: KODE Project ICR</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> • <i>Real Estate & Geospatial Infrastructure Project [P164555]</i> • <i>Kosovo Digital Economy Project [P164188]</i> • <i>Kosovo Financial Sector Strengthening Project [P165147]</i> <p>TF Financing</p> <ul style="list-style-type: none"> • <i>Municipalities for Youth in Kosovo Project [P165485]</i> <p>IFC Ongoing Financing</p> <ul style="list-style-type: none"> • <i>44794 Newko Balkan II</i> • <i>38274 FCS RE VF Kosovo</i> • <i>39993 FCS RE Apetit</i> • <i>New IFC investments in export-oriented companies in manufacturing and services sectors</i> <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • <i>Early Childhood Development for Kosovo’s Human Capital [P179656]</i> <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>Country Gender Assessment Update [P179260]</i> <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> • <i>Making Employment Service and Support Work for Women and Youth [FY24/25]</i>

	<p>SPI 2.3.4: Number of marginalized youths gaining soft skills (foundational and transferable employability skills)</p> <p>Baseline [2022]: 1,500 Target [2025]: 3,000 Source: M4Y Project ICR</p>	
<p>High Level Outcome 3 (HLO 3) – Increased environmental resilience</p>		
<p>This HLO aligns with Focus Area 3 of the previous CPF for FY17–FY22 on promoting reliable energy and stewardship of the environment. It has been adjusted to further emphasize sustainability, based on SCD findings.</p>		
<p>HLO Indicators</p>	<p>Data Sources</p>	<p>Current Value</p>
<p>1. CO₂ intensity 2. Air pollution index: (a) Prishtina % air quality days/year; (b) Kosovo annual average PM2.5 concentration (µg/m³)</p>	<p>1. International Energy Agency https://www.iea.org/countries/kosovo 2.a European Environment Agency Viewer: https://airindex.eea.europa.eu/Map/AQI/Viewer/ 2.b IQAir 2021 World Air Quality Report: link</p>	<p>1. 1.22 kg CO₂/2015 US\$ (2020) 2.a 0.8% good; 21.5% fair; 31.7% poor; 12.1% very poor; 15.7% extremely poor 2.b 14.7 (2021)</p>
<p>High Level Outcome Description</p> <p>Rationale: Kosovo is a small, landlocked country that relies heavily on its natural resources for energy and food production. However, mismanagement of natural resources, especially water and land, coupled with overreliance on fossil fuels, despite the strong potential of renewables, hamper the sustainability of the economy, increase Kosovo’s exposure to natural disasters, and affect the health of the population. Moreover, urban areas face unplanned growth, congestion, and high air pollution levels, which are gradually worsening the quality of life and reducing the potential of cities to serve as Kosovo’s engines of economic growth. The lack of a comprehensive approach to natural resource management and climate change (the Climate Change Law 2019 has not yet been implemented), inefficient institutional coordination and capacity, and low investment in green and resilient infrastructure limit progress in managing natural resources in an efficient, effective, and sustainable manner.</p> <p>Lessons learned and new knowledge at the program level: This engagement area will build on findings from the SCD and on recommendations from relevant ASA, including Air Pollution Management in Kosovo; Green, Low-Carbon, and Climate Resilient Prishtina; Prishtina Infrastructure Assessment; and Healing Land for the Future. The SCD Update analyzed how mismanagement of natural resources (land and water, in particular) and unplanned urban growth hamper sustainability and economic growth and worsen quality of life. Water resources face threats from climate change and are often heavily polluted. Water services are poorly managed and have low financial sustainability. Contaminated land sites are largely unmanaged, which increases water pollution, including trans-boundary risks via surface water. Meanwhile, unplanned and unregulated growth in urban areas is already generating congestion and deteriorating quality of life. Preparation for climate change and a just transition, as well as cleaning and maintaining natural resources, are highlighted in the SCD as key priorities.</p> <p>Ongoing and planned WBG support to this CPF objective: The WBG program will support HLO 3 by accompanying the GoK’s efforts to move toward more sustainable use of natural resources to promote the country’s green transition while enhancing climate resilience. It will support additional investments in water infrastructure to increase service network capacity and coverage, as well as to address the risks exacerbated by climate change. The WBG will continue to advance the energy efficiency and energy transition agendas through existing World Bank operations, IFC and MIGA transactions. It will support an innovative approach to contaminated land</p>		

remediation and repurposing and contribute to better and more efficient management of urban areas, with the ultimate objectives of improving livability and reducing air pollution.

Associated SDGs: SDG6 (Clean Water and Sanitation); SDG7 (Affordable and Clean Energy); SDG11 (Sustainable Cities and Communities); and SDG13 (Climate Action).

CPF Objective 3.1: *Improve water security*

This is the continuation of the previous CPF objective on improving management of natural resources, with increased focus on water resources.

Intervention Logic

Rationale: Kosovo is a water-stressed country, and its water resources face increasing pressure from agricultural, industrial, and population growth, as well as climate change. Tariff collection is low, while water losses are high. Implementation of the water strategy for 2017–36 is lagging in terms of infrastructure development and institutional organization of the sector at both national and decentralized levels. The GoK is making substantial efforts to expand water infrastructure, but a more robust investment strategy and planning process are needed to prioritize investments and ensure cost-effectiveness. Kosovar water utilities have significant room to improve performance and expand access to safely managed services (especially sanitation). Interventions along the entire water chain (water resource management, institutions, policy, services, and so on) will help put Kosovo on the path to achieving water security.

Lessons learned and new knowledge at the program level: According to the Water Security Outlook, Kosovo faces a combination of low water resource availability, low storage, poor implementation of water resource management functions, and underperforming water utilities. Nevertheless, it has an adequate framework and strategies and high-level coordination to deliver tangible outcomes. As highlighted in the assessment, improving Kosovo’s water services would offer opportunities to reverse rural decline and job losses and can have an important economic impact, particularly for rural development. Moreover, integrated watershed management is critical to address environmental concerns and pollution management, including but not limited to urban and industrial wastewater treatment. The SCD Update confirmed the critical importance of strengthening water sustainability and expanding sustainable irrigation in sustaining commercial farming. Based on the findings of the CLR and on previous engagement in the water sector, government ownership of project activities has been a critical component for steady progress and achievement of targets. Critical investments should be undertaken following a clear intervention logic (including, for example, EU accession requirements and cost-effectiveness considerations).

Ongoing and planned WBG support to this CPF objective: IDA investments in the water sector will focus on rehabilitating the canal in central Kosovo; upgrading irrigation systems; installing SCADA, district meter zones, and SMART meters to strengthen national capacity for managing water security; and developing an investment pipeline for the sector. The EU TF-financed Irrigation Systems Project will work to boost the efficiency of water utilization. The ongoing water portfolio and associated World Bank TA are supporting Kosovo’s efforts to achieve water security by developing key planning instruments, strengthening institutions, and supporting the construction of key infrastructure. Future support along the same lines will continue to work toward water security in the country. The Climate Action and Civic Technology ASA will contribute by strengthening the accountability of relevant public institutions in Kosovo in the implementation of the Green Agenda.

Key risks and mitigation: The fragmentation of water sector-related responsibilities across different agencies in Kosovo prevents a coordinated approach and weakens ownership of the reform agenda. It may delay decision making on current and future WBG engagements and thus slow the pace of project implementation. Another risk relates to the availability of budget to recruit sufficient and adequate human resources in relevant institutions, such as the River Basin District Authority, Dam Safety Committee, and Hydromet Institute. The WBG will mitigate these risks by strengthening its dialogue with relevant partners and working closely with counterparts.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 3.1.1: Number of actual investments initiated as per the National Water Resources Investment Plan Baseline [2022]: 0 Target [2026]: 1 Source: Government of Kosovo</p> <p>Indicator 3.1.2: Number of customers with improved water services (at least 18 hours of water supply) Baseline [2022]: 60.000 Target [2026]: 76.000 Source: FLOWS</p> <p>Indicator 3.1.3: Area provided with improved irrigation Baseline [2022]: 0 Ha out of Radoniqi - Dukagjini command area of 13,600 Ha Target [2026]: 10,000 Ha out of Radoniqi - Dukagjini command area of 13,600 Ha Source: MAFRD/PIU</p>	<p>SPI 3.1.1: National Water Resources Investment Plan approved Baseline [2022]: No Target [2025]: Yes Source: Government of Kosovo</p> <p>SPI 3.1.2a: Number of new and refurbished hydromet stations informing decision making and planning Baseline [2022]: 0 Target [2025]: 35 Source: FLOWS</p> <p>SPI 3.1.2b: Number of Water and Sanitation Utilities supported to improve performance and service provided Baseline [2022]: 0 Target [2025]: 2 Source: Regional Water Companies Hidromorava and Prishtina</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> <i>Fostering and Leveraging Opportunities for Water Security Program Project 1 [P169150]</i> <i>Water Security and Canal Protection [P133829]</i> <p>TF Financing</p> <ul style="list-style-type: none"> <i>Improvement and Rehabilitation of Irrigation Systems (P179737)</i> <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> <i>Fostering and Leveraging Opportunities for Water Security Program Project 2 [P175624]</i> <p>IDA Ongoing ASA: <i>GPSA on Climate Action and Civic Technology [P179084]</i></p>
<p>CPF Objective 3.2: <i>Decrease emissions</i></p>		
<p>This is a continuation of the previous CPF objective on enhancing energy efficiency and scaling up renewable energy. The focus of the current objective has been broadened to introduce the air pollution agenda, with particular emphasis on urban areas.</p>		
<p>Intervention Logic <i>Rationale:</i> Haphazard urbanization, coupled with overreliance on old, polluting, and energy-inefficient fuels for energy production (lignite) and residential heating (coal)</p>		

and wood), in addition to an obsolete and highly polluting road vehicular fleet, are generating serious economic and health costs and threatening the quality of life in Kosovo. The urbanization paths followed by major cities have resulted in unplanned, congested, and polluted urban areas that are highly carbon-intensive and unsustainable, undermining the role of cities as drivers of economic growth. Air quality in Prishtina has been among the worst in Europe over the last decade. High concentrations of PM_{2.5} and other air pollutants are also observed in other cities in Kosovo. Moving toward more sustainable management of cities and promoting energy transition and energy efficiency would improve the livability of cities and health standards, while contributing to a less carbon-intensive urban development trajectory.

Lessons learned and new knowledge at the program level: This engagement will build on the Energy Efficiency and Renewable Energy Project, which supported the establishment of the Kosovo Energy Efficiency Fund (KEEF) in close partnership with the EU. One lesson for the CPF is to continue technical, management, and governance support to ensure that the KEEF will remain a sustainable financing mechanism beyond the WBG’s financing support. According to analytical work and TA on livable cities and an infrastructure assessment for Prishtina, municipal and national governments need a suite of investment, policy reform, and institutional strengthening measures that would enable cities in Kosovo develop along a greener, more sustainable, and livable urban development trajectory, with a focus on: (i) sustainable heating and energy efficiency investments to reduce heating demand in the residential sector; (ii) urban mobility investments that would decongest and improve the level of service of public transport, walking, cycling, and vehicular traffic; and (iii) urban development investments, including upgrading public spaces and public buildings in targeted core urban areas.

Ongoing and planned WBG support to this CPF objective: Investments under the ongoing Energy Efficiency and Renewable Energy Project will reduce energy consumption and fossil fuel use in public buildings. The proposed Livable Cities Project will improve the environmental footprint of urban spaces and mobility systems through improved public spaces and better conditions for walking, cycling, and public transport, while enhancing the efficiency of general traffic and reducing the energy intensity of residential buildings. IFC’s ongoing engagement is helping Kosovo to transition out of the costlier feed-in tariff model, working toward the development of a maturing energy market. In addition, IFC advisory, direct investment, and mobilization will support the GoK to attract private sector participation on a competitive basis for the development, financing, and operation of a first solar photovoltaic plant of 50 to 100 MW to be structured outside of the feed-in tariff framework. The regional CCDD will help assess challenges and opportunities for climate action in Kosovo and identify policy measures, reforms, and investments to address binding constraints to climate-ready development, now and in the future. Regional ASA on the Green Transformation will support the authorities in developing a framework for greening the financial sector. The ongoing GPSA will contribute by improving the accountability of relevant Kosovo public institutions in implementing the Green Agenda. MIGA will explore opportunities to support renewable energy by working closely with the World Bank and IFC. MIGA guarantees can de-risk projects and facilitate cross-border investments in the renewable energy sector and assist in scaling up renewable energy, enhancing energy efficiency, and supporting the overall energy transition

Key risks and mitigation: The main risk stems from the limited political buy-in for the municipal agenda, which—given the nature and complexity of the problem—calls for national approaches and leadership to address existing and emerging challenges. Given the nascent stage of KEEF’s development, there are risks related to the capacity of local institutions to implement projects using innovative approaches. Ongoing coordination with other donors would ensure continued support for KEEF’s internal capacity building and corporate development.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 3.2.1: Associated CO₂ emissions reductions Metric ton (tCO₂/year) Baseline [2022]: 27,400 Target [2026]: 30,000 Source: KEEREP ICR</p> <p>Indicator 3.2.2: Additional renewable energy generation capacity installed (MW) Baseline [2021]: 0 Target [2026]: 100 Source: IFC investment and advisory</p>	<p>SPI 3.2.1: Energy savings (MWh over 20 years lifetime) Baseline [2022]: 752,347 Target [2025]: 900,000 Source: KEEREP ISR</p>	<p>IDA Ongoing Financing:</p> <ul style="list-style-type: none"> • Energy Efficiency and Renewable Energy Project [P143055] <p>MIGA guarantees:</p> <ul style="list-style-type: none"> • NLB Banka sh.a, Prishtina (Project ID 14770) • ProCredit Mandatory Reserves (Project ID 14780) • Raiffeisen Bank Kosovo J.S.C. (Project ID 12894) <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • Livable Cities [P177506] <p>IFC Financing Pipeline:</p> <ul style="list-style-type: none"> • Renewable Energy Finance (Solar and Wind) <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> • GPSA on Climate Action and Civic Technology [P179084] • Livable Cities [TFOB7582] • Western Balkans Green Transformation [P177777] <p>IFC Ongoing ASA:</p> <ul style="list-style-type: none"> • 604079 Kosovo Solar CTA-PPP AS <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> • Regional CCDR [P179205] • Western Balkans Six Energy Crisis Response (P179826) • Coal Transition Roadmap
<p>CPF Objective 3.3: <i>Mitigate the impact of environmental degradation</i></p>		
<p>This objective builds on the previous CPF goal of addressing environmental contamination, which had been combined with the objective on managing natural resources in the previous CPF. The current objective has been narrowed down to center on the environmental agenda.</p>		
<p>Intervention Logic</p> <p>Rationale: Land contamination is a serious health issue in Kosovo and a strong impediment to the sustainable use of land and water resources for productive use, especially in agriculture. Kosovo has not yet adopted legislation on pollution prevention and control or polluter accountability, undermining efforts to control industrial pollution. Hazardous mine waste, industrial discharge into rivers, and industrial dumpsites continue unregulated. Out of 4,000 sites, 200 require remediation from mining, industrial tailings, and ash dumping. Illegal landfills, though decreasing in number, are still widespread in the country and their proximity to agriculture sites and riverbeds is of great concern. Implementing the 2018 strategy for land decontamination and investing in proper remediation of sites could improve both environmental and health standards, while making land available for productive purposes.</p> <p>Lessons learned and new knowledge at the program level: According to a recent WBG report, Kosovo’s land take is abnormally high compared to other countries, while the density of inhabitants per square kilometer is estimated to be among the highest in Europe. As land is a highly limited resource in Kosovo, promoting remediation</p>		

and bringing contaminated land back into production and use will generate significant economic, environmental, social, and climate co-benefits. However, existing challenges in the environment sector translate into constraints in the management of contaminated land in Kosovo, such as policy and regulatory constraints, information and data constraints, institutional and capacity constraints, and financial constraints. The CLR highlighted those frequent changes in government, low capacity in the line ministry, lack of ownership, and lack of coordination between the environment and finance ministries pose challenges to progress in this area. An additional lesson from the CLR focused on the role the WBG could play to help secure financing from the EU and its Western Balkans Investment Framework if the ministries and the EU improve cooperation.

Ongoing and planned WBG support to this CPF objective: The proposed Cleaning and Greening Kosova project will launch a long-term approach to land decontamination and reduction of pollution and industrial waste. The ongoing ASA on Climate Action and Civic Technology aims to improve the accountability of relevant Kosovo public institutions in implementing the Green Agenda. The Regional CCDR will help assess challenges and opportunities for climate action in Kosovo and identify policy measures, reforms, and investments to address binding constraints to climate-ready development, now and in the future. Regional ASA on the Green Transformation will support the authorities in developing a framework for greening the financial sector.

Key risks and mitigation: Limited implementation capacity in sector ministries and the lack of coordination among them are key risks. Mitigation measures include close support and advice to the ministries and ASA activities.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>Indicator 3.3.1: Hectares of reclaimed industrially polluted land Baseline [2022]: 0 Target [2026]: 100 Ha Source: Cleaning and Greening Land Project (P172992)</p> <p>Indicator 3.3.2: Number of people benefiting from reduced exposure to contaminated land; o/w % of women Baseline [2022]: 0 Target [2026]: 40,000; o/w 50% women Source: Cleaning and Greening Land Project</p>	<p>SPI 3.3.1: Legal and policy instruments to define pollution liabilities and cleanup responsibilities developed Baseline [2022]: No Target [2025]: Yes Source: Cleaning and Greening Land Project (P172992)</p>	<p>IDA Ongoing Financing: <i>None</i></p> <p>IDA Financing Pipeline:</p> <ul style="list-style-type: none"> • <i>Cleaning and Greening Land [P172992]</i> <p>IDA Ongoing ASA:</p> <ul style="list-style-type: none"> • <i>GPSA on Climate Action and Civic Technology [P179084]</i> • <i>Western Balkans Green Transformation [P177777]</i> <p>IDA ASA Pipeline:</p> <ul style="list-style-type: none"> • <i>Regional CCDR [P179205]</i>

Annex 2: Completion and Learning Report

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) assesses the design and implementation of the World Bank Group (WBG) Country Partnership Framework (CPF) FY17–FY22 for the Republic of Kosovo²⁹ and evaluates lessons learned to inform the development of the next CPF.** The CPF’s strategic objective was to support Kosovo in moving along a path toward more sustainable, export-oriented, and inclusive growth. It was built around three focus areas: (1) enhancing conditions for accelerated private sector growth and employment; (2) strengthening public service delivery and macro-fiscal management; and (3) promoting reliable energy and stewardship of the environment.

2. **A Performance and Learning Review (PLR) in February 2022³⁰ confirmed the relevance of the CPF development objectives and the program’s alignment with the government’s medium- and long-term strategies.** Considering the two most urgent priorities identified in the Program of the Government of Kosovo (GoK) 2021–2025,³¹ the PLR proposed a one-year extension of the CPF period to address the challenges prompted by the COVID-19 crisis and allow for full utilization of the remaining funds. The PLR aligned the portfolio with emerging needs, shifting the third focus area from energy generation toward energy efficiency, the water sector, and environmental stewardship, and adjusted the CPF results framework.

3. **The overall development outcome of the CPF is rated *moderately satisfactory*, and the WBG’s overall performance in designing and implementing the CPF is rated *good*.** The International Development Association (IDA) pipeline has been strong, with 11 operations approved since FY17, totaling US\$279.9 million in commitments. By meeting its FY21 Performance and Policy Actions (PPAs) on debt management and transparency, Kosovo secured full access to IDA19 funding. It made use of only its Performance-based allocation (PBA), however, leaving the IDA Regional Window and Scale-Up Window untapped. Direct long-term finance commitments of the International Finance Corporation (IFC) in Kosovo amounted to US\$34.8 million in own account, with 12 projects committed in the financial sector and three in the manufacturing sector, and advisory services (AS) helped create markets and support private sector development in Kosovo. During the CPF period, the Multilateral Investment Guarantee Agency (MIGA) issued four new guarantees in the financial sector, totaling US\$240.6 million³², to support increased access to finance, including for small, and medium enterprises (SMEs) and climate finance activities. After initial delays, implementation of the WBG portfolio accelerated in FY21, increasing the IDA disbursement ratio to 41.9 percent following the adoption, jointly with the government, of a dynamic portfolio improvement plan.³³

4. **Continuous engagement by the client at the technical level provided for solid achievement of CPF objectives.** Still, frequent alternation of short-lived coalition governments affected the pace of implementation and weakened the continuity of policy dialogue. A lack of progress on bilateral relations between Kosovo and Serbia undermined the integration of the Serbian minority community into Kosovo’s political and economic system. Partial international recognition of Kosovo as an independent country has continued to constrain Kosovo’s membership in international and regional organizations. Kosovo is still not a member of the United Nations, and its citizens do not enjoy visa-

²⁹ Report No. 112337-XK, discussed by the Board of Executive Directors on May 23, 2017.

³⁰ The PLR was delayed due to recurrent elections and frequent changes of government in the pre-COVID-19 period, the emergency response to the COVID-19, a new round of elections in February 2021, and subsequent formation of a new government.

³¹ Priorities were to manage the pandemic by minimizing public health consequences and alleviate its economic and social impact.

³² MIGA’s Outstanding exposure as of June 2022 stood at US\$166.4 million across four projects.

³³ Fast disbursements of COVID-specific components and projects contributed to these improvements in aggregate.

free travel within the European Union (EU), both considered important constraints to trade integration. Snap parliamentary elections in 2021 resulted in the formation of a government led by Lëvizja Vetëvendosje (Self-Determination Movement), bringing about relative political stability despite continued political polarization.

5. The last two years of the original CPF period (FY17–21) were marked by the outbreak of COVID-19, but its impact on CPF implementation was muted. Policy measures introduced to control the spread of COVID-19 initially introduced significant challenges, especially for the implementation of physical works. The Bank responded promptly, launching an Emergency COVID-19 project to support the government’s immediate response and strengthen public health preparedness. The WBG restructured projects to focus on saving lives, while supporting the authorities in guaranteeing sources of livelihood and providing project implementation support through virtual means. Active operations were restructured to support small and medium enterprises (SMEs) (Competitiveness and Export Readiness Project, CERP); provide remote learning opportunities to children from underserved communities (Kosovo Education System Improvement Project, KESIP); and frontload US\$21 million under the Financial Sector Strengthening Project (FSSP) to accompany implementation of the Economic Recovery Plan. As part of its COVID-19 response program, IFC provided a €100 million MSME loan to a leading regional bank (ProCredit), of which €10 million was allocated to the bank’s operations in Kosovo. As a result of these proactive responses, portfolio quality did not suffer.

6. For most of the CPF period, Kosovo enjoyed robust economic growth. Gross domestic product (GDP) grew at an accelerated rate during the first three years, averaging 4.2 percent between 2017 and 2019, half a percentage point above the 10-year average of 3.6 percent. Subsequently, the emergence of COVID-19 significantly scarred economic activity in 2020. Service exports plunged in response to travel restrictions that limited diaspora visits and coupled with weaker investment activity, led to a 5.3 percent contraction in GDP. In 2021, Kosovo’s economy experienced strong recovery, as GDP grew by 10.5 percent, supported by a rebound in domestic demand and record export growth. Growth is projected to reach 3 percent in 2022, but there are significant downside risks. While the post-COVID recovery is supporting a continued expansion in economic activity, strong inflation pressures and the consequences of spillovers from Russia’s invasion of Ukraine, especially if prolonged, could dampen economic prospects.

7. The country’s steady poverty reduction path prior to the COVID-19 crisis reversed in 2020 as the pandemic placed pressure on jobs and income. Poverty fell by 8 percentage points between 2012 and 2017. Although estimates show that poverty reduction persisted, almost 30 percent of Kosovars lived on less than US\$6.85 per day (in 2017 purchasing power parity) in 2019. In 2020, poverty is estimated to have increased by 3.5 percentage points, owing mainly to steep output losses in services and industry—and despite sizable fiscal support measures and an increase in remittances. Given a strong rebound in per-capita GDP, poverty is estimated to have decreased by about 6 percentage points to 26 percent in 2021.

II. PROGRESS TOWARD CPF DEVELOPMENT OUTCOMES

8. Overall, progress toward achieving the CPF objectives is rated *moderately satisfactory*. Two focus areas are rated *moderately satisfactory*, while the third focus area is rated *moderately unsatisfactory*. Of eight CPF objectives, five were achieved or mostly achieved, two were partially achieved, and one was not achieved (CLR Annex 1). Of 18 CPF indicator targets, 60 percent were achieved or mostly achieved, and 17 percent partially achieved. Notable progress was made in the health sector, including on strengthening the Health Insurance Fund (HIF) and expanding laboratory capacity to respond to public health emergencies in the context of COVID-19; in the agriculture sector, by expanding the adoption of improved technologies and irrigation; and in supporting Kosovo’s marginalized youth through training in essential skills. Work to strengthen natural resource

management and address environmental contamination was less successful, owing to delays in the approval of the Fostering and Leveraging Opportunities for Water Security (FLOWS) and Cleaning and Greening Kosova projects, together with the government's decision to halt construction of the Mihaliqi reservoir. At the PLR stage, the nine original CPF objectives were reduced to eight by merging work on "creating the foundations for reliable, cleaner, and more efficient energy supply" and "enhancing energy efficiency and renewable energy" to align with the revised program.

Focus Area 1: Enhancing Conditions for Accelerated Private Sector Growth and Employment

Moderately Satisfactory

9. Progress toward accelerated private sector growth and employment was moderately positive, with five of eight indicators achieved or mostly achieved over the course of the CPF period. Under this focus area, the CPF aimed to improve the business environment and access to finance, improve agriculture sector productivity, and enhance social inclusion and employment opportunities for youth and women.

Objective 1. Improve the business environment and access to finance. Partially achieved.

10. The CPF aimed to strengthen trade and investment in Kosovo through targeted improvements to the business environment and improved access to finance, especially for MSMEs. Targets included reducing the costs of inspection compliance, updating, and expanding the digital registry and cadaster, addressing key infrastructure constraints such as access to broadband internet, and boosting testing and certification of export products.

11. The Kosovo Public Finance and Sustainable Growth development policy financing (DPF) operation supported measures to improve the enabling environment for private sector development. These included the adoption of the Law on Business Inspections; amendments to the administrative instruction to reduce the regulatory burden on agriculture, agribusiness activities, and trade; and adoption of the Law on Electronic Identification and Trust Services to create a framework that fosters the use of digital services and reduces the time and travel costs involved in delivering services to citizens. Progress in reducing inspection compliance costs has been slower than predicted, however, given that the Law on Business Inspections was enacted late in the CPF period. The results are expected to materialize during 2023 as the Law consolidated the number of inspectorates from 36 to 15 thus easing the burden on firms.

12. IFC advisory program in Kosovo helped comprehensively address business environment constraints. Consecutive Investment Climate Projects (#597287 and #601638) helped upgrade the regulatory framework, simplify processes, and reduce administrative burdens. 4110 firms benefitted from reformed licensing requirements. Civil registry procedures, which affects more than 2 million applications annually, have been streamlined. IFC's regional Trade Facilitation Support Program (#601446) provided key advisory, technical assistance (TA), and capacity building support, contributing to increased efficiency, predictability, and transparency of trade procedures for Kosovar businesses, hence improving their competitiveness. For instance, project interventions yielded dramatic improvements in Kosovo's cross-border trading, with two subsequent border time release studies showing significant reduction (30 percent) in import time (from 5 hours to 3 hours and 20 minutes). In addition, the project helped align Kosovo's trade rules and regulations with the requirements of the Central European Free Trade Agreement (CEFTA) and the World Trade Organization Trade Facilitation Agreement while supporting their implementation through establishment and capacity building of key trade/customs agencies. A National Single Window readiness assessment, conducted in 2017, validated relevant agencies' preparedness.

13. Good progress was made in updating the digital registry and cadaster. Over 2 million properties were updated and registered during the CPF period, and an additional 300,000 properties are expected to be brought up to date under the Real Estate and Geospatial Infrastructure Project (REGIP), effective since September 2020, which supports expanded, inclusive land registration for private sector development.

14. The World Bank-financed Kosovo Digital Economy (KODE) project addressed digital connectivity constraints for firms (especially in rural areas) by enabling technology adoption and access to broadband services. As a result of investments totaling €9 million, including €3 million in private sector capital, 99.8 percent of households and 100 percent of enterprises in Kosovo had access to broadband internet in 2021, and almost 98 percent of the population was using digital services over broadband internet. Good progress in this area was supported by the government's technical expertise, strong private sector commitment, and high interest among the public.

15. Two investment project financing (IPF) operations approved, and subsequently restructured, during the CPF period helped enable access to finance. First, the CERP's Matching Grants Scheme awarded about €9.4 million in grants to more than 150 MSMEs, leveraging approximately €4.8 million in co-financing from beneficiaries. The majority of MSMEs utilized funding for standards and certification as well as acquisition of machinery and equipment. Owing to delays in implementing the scheme, however, the CPF's export certification target was only partially achieved. Second, the FSSP supported the government's COVID-19 economic response by strengthening the financial capacity of the Kosovo Credit Guarantee Fund (KCGF). Frontloading FSSP proceeds in December 2020 enabled the KCGF to issue guarantees with up to 80 percent coverage, thus alleviating post-pandemic constraints in access to finance and helping viable companies continue and/or expand their operations and boost employment.

16. IFC ramped up its efforts to expand access to finance among MSMEs, particularly in microfinance. IFC committed US\$22.7 million directly in the financial sector with loans that targeted microenterprises, small farmers, agribusinesses, and women entrepreneurs. IFC developed relationships with three of the four largest microfinance institutions (MFIs), providing advisory services and repeat long-term loans (US\$17.3 million across 11 projects) and leveraging funds from the IDA Private Sector Window (PSW) of the Global Agriculture and Food Security Program on a 50 percent basis. IFC benefited from the PSW's Small Loan Guarantee Program (SLGP) to provide a risk-sharing facility (RSF) to the TEB Kosovo bank (#41672) for up to €10 million. As of 2021, number of MSMEs reached by IFC's participating financial institutions (FIs) amounted to 58,925 while the volume of lending to MSMEs reached US\$379 million. IFC's short-term trade finance program with TEB Kosovo reached US\$880 million in total.

17. IFC's advisory program contributed to reducing Kosovo's access to finance gap. It supported MFIs with corporate governance diagnostics and implementation, agri-finance diagnostics, and micro and small enterprise diagnostics focused on risk management, operational risk, and small business lending. IFC's MFI seed project delivered a blueprint for transforming the sector. By updating insolvency and pre-insolvency mechanisms, the Western Balkans Debt Resolution Program (# 603482) contributed to the government's initiative to alleviate the impact of the COVID-19 crisis on firms. The program helped design the concept note for amending the Insolvency Law and provided advisory support on developing solutions for viable firms to overcome the financial distress caused by COVID-19. Following the creation of a specialized Commercial Court, the program launched extensive training for the court's 25 newly appointed judges.

18. In the real sector, IFC investments in light manufacturing (Newko Balkan; #44794) supported domestic production capacity and reduced reliance on imports, while boosting the productivity and competitiveness of domestic export-oriented companies. IFC's Western Balkans Manufacturing

Value Chain advisory program (#604496) sought to spur competitiveness by connecting manufacturing firms with intraregional, regional (pan-European), and global value chains through a digital matchmaking platform. A total of 199 companies, including 17 suppliers from Kosovo, have participated in the platform pilot.

19. MIGA's political risk insurance helped increase lending to SMEs and climate finance activities.

MIGA was active in the financial sector, complementing the World Bank and IFC, by providing capital optimization guarantees to three international FIs (Raiffeisen Bank International, ProCredit, and NLB) with banking operations in Kosovo to support strategic lending to the SME sector and climate finance activities. In particular, of the US\$240 million new guarantees issued during the CPF period, US\$76 million were directed towards increasing headroom for climate finance projects and around US\$40 million increased headroom in support to lending to SMEs, with the remainder supporting domestic credit to corporates. MIGA guarantees helped reduce the regulatory risk weighting applied to these banks' mandatory and voluntary cash reserves at the FI group consolidated level, freeing up regulatory capital for the Kosovo subsidiaries to continue lending, including to SME and climate finance activities.

20. The CPF period saw considerable progress toward improving the business environment and increasing access to finance in Kosovo. These efforts were underpinned by a strong World Bank–IFC–MIGA program of support, although the narrowly defined CPF indicators were not fully achieved.

Objective 2: Improve productivity of the agriculture sector. Mostly achieved.

21. Building on work begun under the previous Country Partnership Strategy (CPS), the CPF aimed to promote productivity and growth in agricultural subsectors with competitive potential. The Agriculture and Rural Development Project (ARDP), approved in 2011, and subsequent additional financing operations supported farmers and processors in modernizing agriculture production units and processing facilities in the livestock and horticulture subsectors, fostering the development and adoption of enhanced technologies to increase sector productivity and enhance linkages along the horticulture value chain. The relevant CPF target was mostly achieved. In the project's final survey, grant recipients reported higher yields (63 percent), increased profits (60 percent), significant improvements in market access (55 percent), and expanded product sales (54 percent). The ARDP supported the preparation of a National Irrigation Strategy and Investment Framework Support for Irrigation. Rehabilitation of the Radoniqi and Dukagjini Irrigation Scheme exceeded CPF targets, thanks in part to meaningful engagement of the local community through extensive consultations and participatory monitoring mechanisms.

22. IFC interventions contributed to this objective area through direct investments, dedicated credit lines targeting farmers and agriprocessors, and advisory support.

In the real sector, IFC invested US\$2.8 million in a meat processing and distribution company (Apetit; #39993) in FY19, drawing on funding from the Creating Markets Advisory Window (CMAW). In addition to financing, IFC provided environmental and corporate governance advisory support to the company, which adopted and implemented an Environmental, Social and Governance (ESG) action plan prepared under the project. In FY20, IFC invested US\$5.6 million in Viva Fresh, a food and non-food physical retail service company (#38274), aiming to support job creation (as of 2021, 3,213 total direct employment, of which 2,024 is female) and introduce modern retail practices into underserved regions of Kosovo.³⁴ Under the project, advisory support was also provided to improve the company's environmental and corporate governance standards. In the financial sector, IFC agri-microfinance loans³⁵ (US\$10.2 million in total) boosted access to finance among farmers and agribusinesses (as of 2021, 11,247 farmers reached directly compared to the target of 18,947 by 2023). IFC complemented its financing with advisory

³⁴ IFC loan was disbursed in December 2021, and the impact on new retail stores in underserved areas is expected to have materialized in 2022 and beyond (outcome data reporting expected in March 2023).

³⁵ Includes 7 investments to 3 MFIs [Krk Agri (#42368), Krk Agri 2 (#46275), AFK Agri (#42580), AFK Agri 2 (#44909), AFK Agri 3 (#46065), KEP Agri 1 (#42572), KEP Agri 2 (#46064).]

engagement (Kosovo Agri-Finance Project #606029; Kosovo Agri-Insurance Project #606311) focused on building the capacities of FIs to increase access to finance for farmers (e.g., climate-smart agriculture financing), improving technology and financial instruments for risk management (e.g., agri-insurance), and raising awareness of agribusiness opportunities. IFC provided TA on developing a legislative framework, restructuring, and training an agriculture oversight entity and risk capital mechanism, and building capacity among insurance companies and supervisory bodies. Supported by IFC AS, the government introduced a subsidy scheme covering 50 percent of farmers' insurance policy costs and established a Risk Management Division to oversee the new agriculture insurance system.

Objective 3: Enhance social inclusion and employment opportunities for youth and women. Mostly achieved.

23. At its inception, the CPF aimed to provide economic opportunities for inactive youth and women across the portfolio, while addressing the drivers of youth exclusion and vulnerability through a municipal-level project. The latter has not materialized, however, as the government elected to focus on other priorities given the limited IDA envelope. Nevertheless, positive developments have taken place in strengthening the socioeconomic inclusion of marginalized youth, with support from the trust-funded Municipalities for Youth (M4Y) in Kosovo project. The first cohort of over 1,500 marginalized youth from 10 municipalities was fully trained and certified on soft and transferable project management skills, achieving the CPF target. Trained youth will implement 95 community development initiatives selected for financing under the first M4Y subgrant cycle. In addition, the Youth Online and Upward Program (YOU), under KODE, supported the employability of young people through training in high-demand advanced digital skills. Due to COVID-19, the first YOU round could only be launched in the fall of 2021. Uptake has been impressive, with around 2,000 people expected to graduate by June 2023. The KODE project helped establish the Kosovo Research and Education Network, which supports national and international connectivity in participating higher education institutions. The CPF target on the share of female beneficiaries accessing online knowledge, services, and labor markets through improved higher education access to high-speed broadband services cannot be verified, however, as the relevant survey has not yet been implemented. Work in this area is expected to be completed by end-2022.

24. IFC access to finance interventions contributed to the economic inclusion and empowerment of women entrepreneurs. Its RSF with TEB Kosovo (#41672) under the SLGP of IDA PSW facility supported lending to microenterprises, women-owned MSMEs (at least 25 percent of funds are earmarked for women-owned businesses), and agriculture SMEs. IFC microfinance loans to leading Kosovar MFIs have also targeted those most affected by COVID-19, including women-owned companies and small-scale agribusinesses.

Focus Area 2: Strengthening Public Service Delivery and Macro-Fiscal Management

Moderately Satisfactory

25. Progress toward strengthening public service delivery and macro-fiscal management was broadly positive, with four of six indicators achieved or mostly achieved over the CPF period. Restrictions associated with the COVID-19 pandemic slowed the pace of implementation and triggered several programmatic changes under this focus area. Analytical work and TA were critical to inform policy dialogue and underpin preparation of the COVID-19 emergency operation and the social assistance IPF. Moreover, the PPAs undertaken under IDA's Sustainable Development Finance Policy (SDFP) in FY21 and FY22 contributed to addressing debt vulnerabilities and ensuring intergenerational fiscal responsibility.³⁶

³⁶ In 2023, Kosovo applied for an exception on the basis of the country's limited debt vulnerabilities.

Objective 4: Strengthen systems to improve quality, accountability, and efficiency in delivery of education. Partially achieved.

26. The CPF sought to build on considerable progress in expanding access to education by working to strengthen the quality of schooling and school financing, and interventions supported through the KESIP generated notable accomplishments. The project helped improve efficiency through TA on revising the per-capita school financing formula. Moreover, the implementation of school development grants helped strengthen schools' capacity to plan and manage resources and the capacity of teachers, parents, and communities to participate in educational planning, implementation, and monitoring. The grants financed school management needs, such as teacher training and learning materials. School accountability was strengthened through support for the preparation and dissemination of reports on grant budget allocation and utilization, as well as the piloting of school report cards to inform the public about learning assessment results and other school statistics, in comparison with municipality averages. Finally, the KESIP supported the development and launch of a national student assessment framework. In alignment with project activities, IFC has been advising the government on structuring an innovative public-private partnership (PPP) model to attract private investment for construction and maintenance of new and existing schools in Pristina. This PPP, currently pending bid evaluation, marks the first such initiative in the Western Balkan region.

27. Despite positive progress in strengthening accountability and efficiency in education, however, the CPF outcome was only partially achieved. Allocation of municipal resources to schools under a revised formula has been held back by a lack of progress in adopting revisions. The government has established a working group to review options for revising the school financing formula for pre-university activities.

Objective 5: Broaden the coverage and improve equity of health services. Achieved.

28. The CPF aimed to strengthen the quality of care for high-priority services related to maternal and child health and non-communicable diseases, and to boost financial protection of the poor from health spending burdens. Both CPF targets in the health sector were achieved following satisfactory implementation of the restructured Kosovo Health Project, together with flexible support under the Emergency COVID-19 Response Project and Kosovo Pandemic Emergency Financing trust fund (TF). The health project successfully established the building blocks for introducing social health insurance, with the launch of a fully functional Health Insurance Fund Information System, including an e-prescription and patient service interface, a populated data registry, and an approved list of eligible drugs under the Outpatient Drugs Benefit Scheme, buttressed by TA and training. The Kosovo Health Project helped strengthen primary health care in selected regions through the establishment and operationalization of a system for allocating Capitation-Based Performance Payments in 18 of 20 targeted municipalities. Under the Emergency COVID-19 Response Project, the PLR-introduced CPF target on strengthening laboratory capacity for public health emergency response was achieved, with seven laboratories furnished with critical equipment and over 1,000 public health care professionals and laboratory technicians trained.

Objective 6: Improve sustainability of public finances and public sector management. Mostly achieved.

29. The CPF supported key steps to strengthen the sustainability of public finances and public sector management. The government approved a three-year Medium-Term Expenditure Framework (MTEF) for 2023–25 in April 2022, with binding fiscal rules, backward-looking evaluation, comparison with institutional forecasts, and examination of fiscal risks. The CPF target on pension planning was only partially achieved, as the actuarial analysis for existing pension programs has been completed, but not yet set out in a document or published online. The WBG hosted a virtual training session with selected participants in 2021, but follow-up coaching, and support will be required to ensure full uptake of relevant knowledge. Actions under IDA's SDFP aimed to strengthen fiscal risk management among centrally owned state-owned enterprises (SOEs) by publishing quarterly financial data based on a

detailed template containing information on financial flows, assets, and liabilities. Moreover, under the DPF, progress was made in enhancing the transparency and oversight of government debt management operations through the approval of the Law on State Debt and State Guarantees, which codifies annual and quarterly debt reporting requirements. Advisory services and analytics (ASA) on identifying priorities for the public sector modernization reform agenda, completed between 2018 and 2020, formed the basis for dialogue on digitalization as a critical enabler of improved public service delivery. This discussion laid the groundwork for preparing a digital governance project that will support the interoperability of government systems, including platforms required to run integrated and digitized financial, procurement, and human resource management systems.

30. The CPF target on expanding coverage of targeted social assistance programs, introduced at the PLR stage to buttress social support in the context of COVID-19, was mostly achieved. The Emergency COVID-19 Response Project reached 28,000 households with targeted social assistance; an additional 12,000 households were to be reached under the Social Assistance System Reform (SASR) Project, but ratification of this operation has been delayed as a result of complex political processes in the country. Despite these delays, the government, with support from the WBG, advanced the design of a new poverty targeting method, laying the foundation for the forthcoming reform of the Social Assistance Scheme.

31. IFC's Affordable Housing Upstream Project in Kosovo supports this objective by leveraging private capital and expertise to expand affordable housing. IFC is working closely with the government on Kosovo's first large-scale affordable housing model. The upstream initiative, designed jointly with IFC's Cross-cutting Transaction Advisory (CTA) and Creating Markets Advisory (CMA) departments, and the World Bank—aims to maximize finance for development by crowding in private capital and limiting the use of scarce public resources to deliver sustainable, affordable housing infrastructure.

Focus Area 3: Promoting Reliable Energy and Stewardship of the Environment

Moderately Unsatisfactory

32. Progress in promoting reliable energy and stewardship of the environment has been uneven, with indicators on enhancing energy efficiency mostly achieved and those on improving natural resource management and addressing environmental contamination not achieved. The PLR substantially realigned the third focus area to reflect Kosovo's emerging needs, shifting from energy generation toward energy efficiency, the water sector, and stewardship of the environment. This shift in focus was a response to not pursuing a proposed power sector lending operation and postponement of the Cleaning and Greening Kosova project, along with the mobilization of additional TF resources in support of the country's renewable energy and energy efficiency agenda. The WBG's engagement in the water sector expanded through the preparation of FLOWS program. Work on renewable energy and energy efficiency gained traction, but interventions aimed at strengthening water management capacity and reclaiming industrially polluted land were stymied by low ownership, limited capacity, and high turnover among relevant government counterparts.

Objective 7: Enhancing energy efficiency and scale-up renewable energy. Mostly achieved.

33. CPF support on enhancing energy efficiency and renewable energy, intensified at the PLR stage in line with the redirection of the third focus area, achieved good progress. Key achievements include over 750,000 megawatt hours (MWh) in lifetime energy savings, a reduction in fossil fuels of 2,620 metric tons of oil equivalent, and over 27,000 tCO₂ in GHG emission savings. Interventions under the Kosovo Energy Efficiency and Renewable Energy Project (KEEREP) supported the installation of 9.65 MW of renewable energy systems, including solar water heating systems and biomass boilers, exceeding project targets. During project implementation, the World Bank partnered with the

European Commission (EC) to support the establishment, operationalization, and capitalization of the Kosovo Energy Efficiency Fund (KEEF) to invest in energy efficiency retrofitting of municipal public buildings and public lighting. In addition to leveraging a €10 million EU grant to support KEEF initial capital channeled through KEEREP, the project developed a sustainable financing mechanism to continue investing beyond project closure.

34. IFC's ongoing engagement is helping the GoK transition out of the costlier feed-in tariff model, working toward the development of a maturing energy market, while MIGA guarantees support domestic bank lending to climate finance projects. IFC has been retained in 2021 by the Ministry of Economy to attract private sector participation on a competitive basis for the development, financing, and operation of a first solar photovoltaic plant of 50 to 100 MW to be structured outside of the feed-in tariff framework. MIGA's capital optimization guarantees in the financial sector continue to support international banks with subsidiaries in Kosovo with the guarantees enabling lending to climate finance projects (100 percent of the guarantee in the case of ProCredit, 25 percent for NLB, and 24 percent for Raiffeisen).

Objective 8: Improve management of natural resources and address environmental contamination. Not achieved.

35. The revised CPF targets on water management and reclamation of industrially polluted land were not achieved, as constraints in government ownership and capacity slowed the pace of progress. The 2018 Water Security Outlook Study provided the analytical underpinnings for shifting the WBG program from the energy sector to the water sector. The two-phase FLOWS program was approved in 2020, but only became effective in March 2022 following delays in meeting effectiveness conditions. The CPF target on increasing emergency back-up water storage capacity³⁷ through rehabilitation of the Ibër-Lepenc canal was not achieved, as the client decided to drop construction of the Mihaliqi reservoir. Implementation of Supervisory Control and Data Acquisition (SCADA) will become fully operational by August 2023.³⁸ At the same time, delivery of the World Bank-appraised Cleaning and Greening Land project, which aims to implement a risk-based approach to managing land contamination and to reduce air, land, and water pollution and waste from the country's industries, was postponed to FY24 following the government's decision to utilize the remaining IDA allocation for COVID-19 relief and response operations. Preparation for remediation and redevelopment of the first site under the project was completed, but the CPF target on reclaiming industrially polluted land has not been met due to the project's postponement.

III. WORLD BANK GROUP PERFORMANCE

36. The WBG's overall performance in CPF design and implementation is rated good. This assessment is based on: (a) the WBG's contribution to the successful completion of most of CPF targets; (b) the country team's proactive responses to changing global circumstances, country priorities, and implementation challenges; (c) the WBG program's resilience and flexibility in the face of a reform slowdown following the COVID-19; and (d) proactive portfolio management and oversight.

Design and Relevance

37. Design of the CPF—and key revisions undertaken at the PLR stage—considered key lessons learned during the implementation of the CPS for FY12–FY16. These lessons centered around the need to strengthen readiness for implementation in light of weak institutional capacity and poor

³⁷ The emergency back-up storage capacity in central Kosovo was planned to ensure uninterrupted water supply for the cooling towers of Kosova B Power plant.

³⁸ The reason for this timing is that the installation of one of the SCADA points at the Kosovo B power plant needs to be aligned with the timeline for that plant's planned major overhaul, during which time the power plant will be offline and there will be no need for running water in the canal.

interinstitutional cooperation; the importance of simple project design, underpinned by sound political economy analysis and intense implementation support; and the need for a more selective approach to setting outcomes in the results framework, with stronger links between outcomes and indicators. Moreover, the CLR for the previous CPS indicated the importance of obtaining firm agreement on possible further engagement on energy generation and efficiency. Dialogue in this area prompted the country team to shift the strategic focus from energy generation toward energy efficiency, the water sector, and environmental stewardship. Finally, the CLR called for a more strategic approach to promoting gender equality in access to economic opportunities and work with the government to find opportunities to expand operations in the northern part of the country. Considering the above lessons, the country team introduced more robust concept note reviews for new operations applying political economy, institutional capacity, and inclusion lenses.³⁹

38. Although the strategic objectives, focus areas, and mix of instruments remained relevant over the course of the CPF period, key course corrections introduced under the PLR helped to strengthen the design and, by extension, performance of the CPF program. Program adjustments allowed the WBG to respond swiftly to the impacts of COVID-19 and to align interventions with the government's new program for 2021–25. Targets were adjusted to reflect program feasibility more accurately in light of government ownership, political fluctuations, pandemic-related restrictions, and the portfolio of projects that would eventually go forward under the CPF—dropping indicators that relied on operations that were no longer in the pipeline, while adding indicators to capture progress under the Emergency COVID-19 Support Project, DPF, and SASR (although the latter is still pending ratification). These changes strengthened overall progress, although in some cases even the revised indicators did not take sufficient account of the time needed to accomplish reforms within Kosovo's complex political environment. Risks to the program were properly assessed at the time of CPF preparation, and the PLR made due adjustments to capture changing circumstances, especially on political and governance risks and environmental and social risks.

39. Design of the CPF's ASA program effectively underpinned implementation, promoting dialogue and knowledge generation in strategic areas. The relevance of ASA was particularly strong with respect to the business environment and investment climate, including the World Bank's 2019 Note on SME Constraints and IFCs' Investment Climate ASA. Coupled with continued engagement at the technical level, the ASA program helped to build understanding and ownership of the reform agenda, while maintaining focus and advancing solutions on critical issues. Several studies contributed substantially to closing knowledge gaps identified in 2017 Systematic Country Diagnostic (SDC), notably with regard to labor markets, informality, migration, minorities, gender, and political economy. Moreover, a strong ASA program helped to maintain policy dialogue in key sectors when reform momentum slowed. For example, the Water Security Outlook Study provided the analytical underpinnings for shifting the World Bank's program from the energy to the water sector. The Kosovo SASR ASA (completed in 2020) assessed the effectiveness of the social protection system, contributed to policy dialogue, and informed preparation of the related SASR Project. Work undertaken through the Debt Management Performance Assessment and under the Western Balkans Pension TA underpinned policy dialogue on Kosovo's first DPF operation.

40. During the CPF period, regional ASA on the Western Balkans contributed to key diagnostics and supported sector and policy dialogue that underpinned delivery of the CPF. For example, Kosovo benefitted from actuarial analysis of existing pension programs conducted under the regional ASA on pension reforms. In addition, regional ASA informed dialogue with government counterparts in Kosovo on education, social protection, poverty, disaster risk management, and subnational

³⁹ As a result, the policy reform agenda supported through the Public Finance and Growth DPO remained relevant and was endorsed by the authorities notwithstanding the government changes following the concept note decision meeting in 2018.

governance. In particular, Kosovo benefitted from regional ASA on digitalization, which informed the DPF and the KODE project.

41. The CLR for the previous Country Partnership Strategy FY12-16 suggested that IFC and MIGA adopt innovative approaches to increase their relevance in a fragile and conflict-affected context.

In an innovative application of its standard capital optimization product, applied to mandatory reserves, MIGA offered its capital optimization guarantees to cover, for the first time, voluntary cash reserves in Kosovo in the context of the NLB transaction. IFC strategically leveraged the IDA PSW and CMAW facilities to deliver on CPF targets that would otherwise not have been achieved. On the advisory front, IFC stepped up its upstream engagement on business climate and market creation, as well as transaction AS. For example, the affordable housing and schools PPP projects offered innovative solutions to addressing key structural development gaps.

Program Implementation

42. Delivery of the CPF pipeline was relatively strong, despite some implementation delays.⁴⁰ At the close of the CPF period, 11 operations (including the ARDP additional financing) had been delivered, for a total of US\$336.2 million. Overall performance was mixed, with relatively low disbursement rates, particularly in the first three years of the CPF, and an average of two problem projects per year (CLR Annex 4). Disbursements picked up in FY21 and FY22, owing in part to rapid disbursements in response to the COVID-19 crisis (US\$44 million) and to dynamic monitoring of the portfolio implementation.

43. Building on the 2017 RRA, the CPF attempted to embed key fragility risks, mitigation measures, and resilience factors across the portfolio. Analytical work was used to fill in critical knowledge gaps on youth disenfranchisement and unemployment (through a Country Economic Memorandum and work on Finding Solutions to Youth Unemployment, Growth and Jobs, and Early Childhood Development). In addition, the programmatic focus of the CERP and KODE investment projects boosted private sector job opportunities and skills training for young people. Revisions to the per-capita school budget allocation formula under the KESIP have strengthened efficiency and equity in school spending to support young people in remote and marginalized areas, including those living with disabilities. Economic interventions on water resources, land registration, and youth services indirectly affected the livelihoods of Kosovo Serbs and other minorities, although in some cases, due to the existence of parallel systems, as in the case of health facilities, it proved challenging to engage members of the Kosovo Serb minority directly in project activities. The REGIP team is exploring ways to work with civil society to strengthen awareness among beneficiaries in northern municipalities regarding their rights and available land registration services.

44. The complex political environment and weak institutional capacity were properly identified by the CPF as key risks to program implementation. Projects have faced implementation delays as a result of inadequate government ownership, delays in high-level strategic decision making, lack of adherence to agreed procurement processing schedules (including in launching bids, establishing evaluation committees, and meeting contract management deadlines), and inadequate national budget allocations for project-supported activities. Lack of quorum for parliamentary ratification of international agreements also led to effectiveness delays. Project readiness at entry has varied, with some delays caused by the failure to prepare feasibility studies, terms of reference, and bidding documents ahead of time so that project implementation could proceed quickly upon effectiveness. Currently, the Kosovo portfolio includes three problem projects: the Water Security and Canal Protection Project (US\$24.5 million), which has faced delays in the construction of a balancing

⁴⁰ As noted in the PLR, a combination of factors contributed to the slow start, including (a) political instability, with five governments in the last four years; (b) weak institutional capacity in some of the line ministries; and (c) complex design of, and overly ambitious goals set forth by the WBG-financed projects.

reservoir; REGIP (US\$16.6 million), which has endured effectiveness delays, pandemic-related limitations, and a procurement freeze during an internal ministry review of project activities; and CERP (US\$15.3 million), under which persistent implementation delays hamper prospects for achieving project development objectives before the closing date.

45. Program supervision has benefited from a strong presence of task team leaders and operational staff in the country office. Hand-in-hand operational and technical support on the ground helped ensure forward progress despite implementation delays and, critically, continuity of operations despite interruptions posed by the emergence of COVID-19. In-country presence allowed the country team respond flexibly to changes in the country environment. Still, more could be done to ensure the timely dissemination of ASA to enhance its impact on just-in-time knowledge generation. The country management unit's comprehensive response to key operational effectiveness constraints, launched in 2018-2019 included: (a) conducting an in-depth environmental and social stakeholder mapping and needs assessment to identify capacity gaps; (b) updating the CE roadmap for portfolio and pipeline projects, with concrete and project-tailored proposals to create greater space for exchange between citizens and the state using WBG operations as a vehicle; (c) preparing a political economy analysis to better reflect these dynamics in project design; and (d) implementing the portfolio improvement action plan⁴¹. These activities helped enhance task teams' proactivity on the ground as well as coordination with the MoFLT and among the line ministries.

46. Fiduciary and safeguards compliance-related risks were properly assessed overall. Procurement risk remained high throughout the CPF period. To mitigate this risk, the WBG intensified supervision efforts, including through hands-on expanded implementation support (HEIS) to projects with complex design components. The CPF rated environmental and social risks as high, due in large part to the planned engagement in the energy sector and associated mining resettlement. This risk did not materialize, as the Kosovo C project (to be financed by IDA) was not pursued.

47. IFC's committed portfolio, at end-June 2022, stood at US\$21.5 million, with an outstanding balance of US\$17.8 million (CLR Annex 5). The portfolio increased from US\$10 million committed and US\$8.9 million outstanding at the beginning of the CPF period. The CPF period saw US\$34.9 million in direct investment and US\$10 million through a regional bank, meeting the PLR-adjusted target of US\$45 million.

48. MIGA's outstanding portfolio, at end-June 2022, stood at US\$166.4 million (CLR Annex 6). The portfolio increased by 78 percent during the CPF period, from US\$93 million outstanding exposure at the beginning of the CPF period. Given relatively shallow credit conditions, with private sector credit in Kosovo at 51.6 percent of GDP in 2020, MIGA guarantees have proven effective in helping to de-risk banks' balance sheets, achieve regulatory capital relief, and thereby allowing for extra capacity to support increased lending, including during the worst of the COVID-19 pandemic.

49. Collaboration among the World Bank, IFC, and MIGA has been adequate. CPF support for business environment reforms capitalized on the complementarity of IDA and IFC instruments. Closely coordinated engagement with government counterparts through the World Bank's IPF and DPF operations and IFC's AS paved the way for simplifying the licensing regime and adopting the Law on Business Inspections. Moreover, the World Bank and IFC jointly launched corporate governance

⁴¹ The plan envisaged among others: (a) increased attention to problem projects and higher proactivity through restructuring of complex projects; (b) systematic integration of lessons learned in new operations; (c) enhanced fiduciary support; (d) capacity building on the WBG's rules, procedures, and new environmental and social framework; and (e) regular portfolio reviews jointly with the Ministry of Finance, Labor, and Transfers (MoFLT) and relevant line ministries.

training for newly appointed board members and executives in the country's larger SOEs. Opportunities for joint WBG operations promoting the mobilization of additional resources through the Maximizing Finance for Development and PCM did not materialize, mostly as a result of the abundance of grant resources crowding out the space for private sector interventions. However, the realization and commitment by the Kosovo authorities of the need to mobilize additional resources, beyond the traditional development financing, to support an ambitious development strategy, opens new possibilities for the WBG. In particular, in the future, exploring more opportunities to collaborate, particularly through the PSW, could strengthen interventions in, for example, education, agriculture and energy. The new CPF would benefit from further deepening collaboration, with IDA leading on policy dialogue to create openings for MIGA and IFC investments.

50. Intense and effective dialogue with other development partners allowed for better-targeted, more impactful delivery of the CPF program. The International Monetary Fund (IMF) remains the WBG's main partner in the dialogue on macro, fiscal, and social sector reform policies. Collaboration with United Nations agencies—in particular, the United Nations Children's Fund (UNICEF), World Health Organization (WHO), and United Nations Office for Project Services (UNOPS)—has been key in mobilizing emergency health support and coordinating donor support in the context of the ongoing COVID-19 pandemic. Dialogue with selected bilateral donors has allowed the WBG to remain engaged in key areas of support. Examples include Swiss-funded TA on health system financing governance and service delivery and grant funding from Switzerland in support of water sector reforms under FLOWS1. In partnership with the EC, the World Bank is supporting the operationalization of the KEEF and, drawing on €15 million (through the EU's Instrument for Pre-Accession (IPA) grant and an IDA credit), investing in energy efficiency retrofits of municipal public buildings (for example, schools and local health centers). The World Bank's collaboration with the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development in support of reforms to strengthen public finance and sustainable growth led the latter to co-finance a related development policy operation in the amount of US\$40 million (pending parliamentary ratification at the time of writing the CLR).

51. Integrating trust-funded activities with lending has boosted development outcomes and broadened the knowledge base for future lending operations. In addition to the above-mentioned assistance from the EC on energy efficiency, the World Bank received support from the Western Balkans Investment Framework for the construction of the new water reservoir. The FLOWS1 operation leveraged two grants to support dam safety and additional assessments to better inform reservoir design (regarding flood risk and climate change impacts on water resources). The Pristina Infrastructure Assessment TF is expected to support a new project under the next CPF cycle (Livable Cities) to promote better policy and investment decisions on domestic heating and transport, thereby improving air quality and enhancing the livability and economic potential of the capital city.

IV. ALIGNMENT WITH CORPORATE GOALS

52. The CPF was well aligned with the WBG's key corporate commitments, including the two goals of ending extreme poverty and promoting shared prosperity, and Special Themes. These goals were underpinned by the CPF's strategic objective of assisting Kosovo in moving toward more sustainable, export-oriented, and inclusive growth, together with the three focus areas on private sector growth and employment, public service delivery and macro-fiscal management, and energy and environment. Kosovo delivered on DA19 Policy Commitments related to Climate Change and Governance and Institutions.

53. The CPF supported the climate change agenda through lending and ASA and showed efforts to boost the share of climate co-benefits. The SDC proposed a set of policy recommendations on climate action, with the aim of enhancing stewardship of the environment and natural resources for immediate social welfare advances and the long-term sustainability of inclusive growth. Following this

line, the CPF formulated the third focus area with three development objectives: (i) creating the foundations for reliable, cleaner, and more efficient energy supply; (ii) enhancing energy efficiency and renewable energy; and (iii) improving the management of natural resources and addressing environmental contamination. Despite significant achievements on lifetime energy savings, reduced fossil fuel use, and GHG emission savings, overall progress was limited by programmatic changes and implementation delays in operations targeting natural resources management and environmental contamination (paragraph 32). In addition, the DPF-supported reforms to lay the foundations for a green transition and contribute to climate mitigation. The operation possessed an important share of climate co-benefits, at 25 percent. The average rate of climate co-benefit across the CPF program⁴² was 22 percent, below the FY17–FY20 target of 28 percent.⁴³ Nevertheless, the adaptation share of climate co-benefits was significant, at 72.5 percent.

54. The CPF contributed to advancing the Jobs and Economic Transformation (JET) agenda (an IDA18 and IDA19 Special Theme) in Kosovo through an integrated set of interventions, including, among others, IDA lending in support of MSMEs development (CERP, FSSP), enhancement of business environment (Growth DPO), digital connectivity (KODE), entrepreneurship in the agriculture sector, with a focus on women’s entrepreneurship (ARDP), IFC support to TEB tailoring to MSMEs, MIGA’s guarantees in support of increasing access to credit to SMEs, the M4Y grant, and ASAs in the areas of social protection, with a focus to transition from social assistance to work. The complexity of the JET agenda in Kosovo requires interventions that span across several CPF cycles. While improvements have materialized in the area of access to finance, connectivity and job opportunities for the youth, more needs to be done in areas such as female employment.

55. Efforts under the CPF to narrow gender gaps in the labor market should be further strengthened. The female employment rate in Kosovo was among the lowest in the world, at 14 percent, in 2020. Over the CPF period, nine operations were gender-tagged in the areas of assets, labor segregation, labor force participation, and violence against women. For example, among the farmers who upgraded agricultural technologies with support from the ARDP, 16 percent were female.⁴⁴ About 25 percent of MSMEs funded through CERP’s Matching Grants Scheme were women-owned. The KODE project promoted women’s involvement in the information and communication technology sector through digital skills training. Under the M4Y project, 53 percent of those receiving skills training to support their entry into the labor market were female. The REGIP, SASR Project, and Growth DPO addressed barriers to women’s employment, promoting gender equality in property rights and labor legislation and removing disincentives and administrative restrictions embedded in the design of the social assistance scheme. Finally, additional financing for the Kosovo Emergency COVID-19 project sought to address the post-COVID increase in gender-based violence through training for health care workers on domestic violence and mental health support and additional staff support to provide counseling services for survivors.

56. Citizen engagement has seen considerable improvement over the CPF period. Between FY17 and FY22, the Kosovo portfolio reached 100 percent compliance in incorporating beneficiary feedback in all IPFs with clearly identifiable beneficiaries and on ensuring citizen-oriented design in projects. During the CPF period, the World Bank provided PIUs with capacity building on improving CE implementation in projects.⁴⁵ While feedback and grievance mechanisms are well established, and

⁴² Data for FY18 are not available.

⁴³https://tab.worldbank.org/t/WBG/views/Climate_Finance_Dashboard_V3_country/Country_View?%3Aembed=y&%3AshowShareOptions=true&%3Adisplay_count=no&%3AshowVizHome=no&%3Atoolbar=top

⁴⁴ This includes only direct beneficiaries of the grant program, which required that participants be registered farmers, with proven co-ownership of the land.

⁴⁵ PIU staff participated in Citizen Engagement Capacity Building Clinic focusing on the Theory and Practice of Citizen Engagement (2019) and the regional Western Balkans Citizen Engagement PIU Capacity Building Workshop (2020).

outreach, communication, and consultation activities are being implemented, CE tools and approaches need further strengthening.

V. LESSONS LEARNED

57. Kosovo’s changing environment—and global context—point to the importance of maintaining a high degree of flexibility in the CPF. Shifting development needs and government priorities call for adaptability in the CPF program, and in its component operations. The next CPF could usefully introduce greater flexibility in the indicative program for the outer years of the CPF period, leaving room for course corrections, if needed, under the PLR. In addition, a clear program of high-quality ASA, twinned with sustained engagement at the technical level, will help to build understanding and government ownership of the reform agenda, while maintaining focus and advancing solutions on critical issues. At the same time, it will be important to engage in more structured outreach to parliament and other key stakeholders to help manage any bottlenecks that may arise in response to political changes.

58. Going forward, it would be beneficial for the new CPF to more explicitly consider the country’s institutional and social challenges in project design. Shortcomings in interinstitutional coordination, gaps in institutional capacity across ministries, limited government authority over project implementation by SOEs, and sensitivities with regard to engagement in Serb-majority areas challenge the achievement of sustainable growth and economic development. Simplified project design, balanced with support for meaningful policy reform, improves project readiness and implementation performance. Capacity shortcomings within government institutions can be addressed by pairing lending operations with more extensive TA and capacity building support, which can also strengthen ownership and thus underpin success. Moreover, Kosovo’s complex legislative processes impeded attainment of targets that depended on the passage of legislation. This suggests the need to balance the choice of instruments under the CPF program, considering DPFs for reform initiatives that require new or upgraded legal underpinnings.

59. Promoting understanding of the broad array of available financing instruments will help maximize Kosovo’s limited utilization of the full menu of IDA and donor offerings. The authorities’ lack of interest in drawing on eligible resources beyond the PBA, except for IDA PSW, has largely been the result of the availability of grant financing. Exploring ways to better explain and promote the use IDA windows could help broaden and diversify funding options. A more structured upstream dialogue with the EU could help leverage EU resources to implement WBG-financed operations.

60. Leveraging new instruments and the new Upstream capabilities will help increase IFC’s role in Kosovo, while innovative application of MIGA products in the financial sector help increase access to finance for SMEs, and support climate investments. The IDA PSW has allowed IFC to engage in smaller transactions and offer competitive pricing that help broaden access to finance through MFIs. The benefit of the IFC/PSW financing at an affordable blended rate ultimately passed to disadvantaged micro-enterprises and farmers during the COVID-19 crisis. Recent upstream initiatives are delivering promising early results, creating space for IFC to respond swiftly to government needs with solutions that can generate opportunities for private investment, when appropriate. An emerging lesson from IFC’s Upstream initiative regarding the MFI Law reform highlights the important role of dialog with the government and civil society representatives through a transparent approach as a key success factor. Going forward, working upstream across industries will help to overcome the existing shortage of sustainable and impactful investment opportunities, thereby supporting sustainable and well-targeted increases in private investment. The innovative application of MIGA’s capital optimization to cover banks’ voluntary cash reserves has helped boost SME access to finance and climate finance activities.

61. Proactive portfolio management, together with hands-on operational support on fiduciary and legal aspects, and on environmental and social safeguards, improves implementation and helps achieve results. The introduction of a dynamic portfolio improvement plan helped to address key challenges, including by restructuring overly complex projects, increasing focus on problem projects, more systematically integrating lessons learned, providing hands-on procurement and financial management guidance and training, and conducting regular monitoring hand-in-hand with the client.

62. Design of the CPF results framework needs to achieve an equilibrium between specificity and feasibility that accurately captures the substantive objectives of the strategic approach. In some areas of the CPF program, despite significant progress toward the stated objective, the related CPF target was only partially achieved. In the first focus area, there was a mismatch between the broad thrust of the CPF objective and the narrowly defined results indicator. In other cases, as in business inspection compliance and school financing, progress toward CPF targets relied too heavily on underlying legislation for which approval is subject to political complexities outside the WBG's purview. Under the next CPF, specification of objectives, indicators, and targets will need to more carefully consider how best to capture meaningful progress and ensure support for the collection of data to allow for accurate assessment of that progress.

63. Advancing economic opportunities for youth and women will require multifaceted approaches. In addition to targeted interventions, the next CPF program can promote the economic inclusion of women and youth by: (a) introducing concrete, measurable targets for youth and women's employment in all projects with direct job creation potential; (b) leveraging TFs to demonstrate the effectiveness of novel employment methods for women and youth (for example, the Women in Online Work pilot, which showcased the potential of digital employment and was later incorporated into the KODE project); and (c) forging strategic partnerships with development partners that have a strong engagement on this agenda (including the EU, GIZ, and Swiss Development Agency) with the objective of achieving greater synergies. The next CPF can take a more strategic approach to empowering women and youth by engaging gender and social development colleagues upstream in the preparation of projects and ASA.

64. Citizen engagement is a powerful tool that could yield significant benefits in Kosovo. Building on the considerable progress made under the previous CPF, the next CPF could deepen the focus on activities that promote local-level action and involve citizens and beneficiaries in local service delivery, as a means to help tackle institutional and social challenges, enhance citizen trust, and increase ownership. More attention should be given to engaging civil society organizations, as well as integrating Serb-majority municipalities, minority group representatives, and target beneficiaries in dialogue, and to adopting participatory and blended approaches—including the use of e-services and interactive e-government platforms. Community participation should be at the center of any activity in non-majority areas, and WBG teams should ensure that citizens have opportunities to express their views on funding priorities and implementation mechanisms, as well as implementation quality and efficiency.

CLR Annex 1: Status of Kosovo FY17–FY22 CPF Results Matrix

CPF Outcome	Status at CLR	Overall Outcome Rating
Focus Area 1: Enhancing Conditions for Accelerated Private Sector Growth and Employment <i>Moderately Satisfactory</i>		
Objective 1. Improve the business environment and access to finance		
Indicator 1: Number of products with export potential tested and certified supported by CERP	Partially achieved	Partially achieved
Indicator 2: Percentage of cost reduction of inspection compliance per business	Not achieved	
Indicator 3: Number of properties updated and registered in the digital cadaster register (Kosovo Cadaster Land Information System, KCLIS)	Mostly achieved	
Indicator 4: Percentage of population with access to broadband Internet on national level (number of subscribers per 100 people)	Mostly achieved	
Objective 2. Improve productivity of the agriculture sector		
Indicator 5: Number of farmers adopting improved agricultural technologies, disaggregated by gender	Mostly achieved	Mostly achieved
Indicator 6: Hectares of area provided with improved irrigation services under Radoniqi and Dukagjini Irrigation Scheme	Achieved	
Objective 3. Enhance social inclusion and employment opportunities for youth and women		
Indicator 7: Number of marginalized youth gaining soft skills -project preparation, management & implementation	Achieved	Mostly achieved
Indicator 8: Percentage of female beneficiaries accessing online knowledge, services and labor markets through improved Higher Education Institutions (HEI) access to high-speed broadband	Not verified	
Focus Area 2: Strengthening Public Service Delivery and Macro-Fiscal Management <i>Moderately Satisfactory</i>		
Objective 4. Strengthen systems to improve quality, accountability, and efficiency in delivery of education		
Indicator 9: Percentage of municipalities that allocate resources to schools in accordance with revised formula and percentage of school report cards (SRC) distributed and publicly displayed at schools	Partially achieved	Partially achieved
Objective 5. Broaden the coverage, improve equity, and strengthen system preparedness for public health shocks		
Indicator 10: The Health Insurance Fund is strengthened and prepared for rolling out Social Health Insurance (SHI) – an information system functional, a strategic plan and transition plan for rolling out SHI developed	Achieved	Achieved
Indicator 11: Laboratory capacities for Public Health Emergency response is strengthened – public health lab staff trained in microbiology, central lab and all regional labs equipped with necessary equipment	Achieved	
Objective 6. Improve sustainability of public finances and public sector management		
Indicator 12: At least three-year medium-term expenditure framework (MTEF) applied across all budget users	Achieved	Mostly achieved
Indicator 13: Completed and published online actuarial analysis (long-run baseline simulations based on actual legislative framework) for all existing pension programs	Partially achieved	
Indicator 14: Expanded coverage of targeted social assistance	Mostly achieved	
Focus Area 3: Promoting Reliable Energy and Stewardship of the Environment <i>Moderately Unsatisfactory</i>		
Objective 7. Enhance energy efficiency and scale up renewable energy		

Indicator 15: MWh of lifetime energy savings and metric tons of reduced fossil fuel use for heating in public buildings	Mostly achieved	Mostly achieved
Indicator 16: GHG emission savings (in CO ₂ eqv per year)	Mostly achieved	
Objective 8. Improve management of natural resources and address environmental contamination		Not achieved
Indicator 17: Increase of emergency back-up water storage capacity (in days) in Central Kosovo	Not achieved	
Indicator 18: Hectares of reclaimed industrially polluted land	Not achieved	

CLR Annex 2: Kosovo FY17–FY22 CPF Results Matrix Evaluation

Objective	Indicator	Baseline/ target	Status at CLR	Lessons Learned and Suggestions for the New CPF	WBG Program instruments
FOCUS AREA 1: ENHANCING CONDITIONS FOR ACCELERATED PRIVATE SECTOR GROWTH AND EMPLOYMENT					
Objective 1: <i>Improve the business environment and access to finance</i>	<u>Indicator 1:</u> Number of products with export potential tested and certified supported by CERP	Baseline: 0 (2016) Target: 200 (2022)	Partially achieved Actual (June 2022): 12 Status: The 12 products certified were supported through the first round of matching grants. Additional products and 7 conformity assessment bodies will be supported through the second round of matching grants.	<ul style="list-style-type: none"> Case studies from the first round show that certification costs are often prohibitively high for firms and difficult to finance through a loan. Certification costs also pose critical barriers to entry in many international markets; firms are coping by exporting to new markets. 	Ongoing lending: <ul style="list-style-type: none"> Competitiveness and Export Readiness Project (P152881) Real Estate and Geospatial Infrastructure Project (P164555) Kosovo Digital Economy Project (P164188) Financial Sector Strengthening Project (P165147) Public Finance and Sustainable Growth DPO (P170113) IFC – Long-term financing to three leading MFIs ([KRK Agri (#42368), KRK Agri 2 (#46275), AFK Agri (#42580), AFK Agri 2 (#44909), AFK Agri 3 (#46065), KEP Agri 1 (#42572), KEP Agri 2 (#46064)]) for on-lending to microenterprises, rural businesses, agribusinesses, and small companies IFC Risk Sharing Facility (TEB Kosovo Bank; #41672) IFC real sector investments: Viva Fresh (#38274), Apetit
	<u>Indicator 2:</u> Percentage of cost reduction of inspection compliance per business	Baseline: 0 (2016) Target: 10% (2022)	Not achieved Actual: Overall compliance cost measured at 3.86 million Euro. Cost per business is being calculated. Status: Inspections Law was approved in December 2021. Full implementation of the law will take years, but the World Bank team is working with the government on identifying short-term, immediate actions to help reduce compliance costs, such as	<ul style="list-style-type: none"> It is important to have realistic expectations regarding the speed at which regulatory reforms can be concluded. Approval of the inspection law was delayed, and full implementation will take time. These are cultural and political processes. It is important to be precise in drafting indicators and targets, as some indicators can be achieved in different ways, and it can therefore be difficult to capture attribution. 	

		increasing transparency of inspection requirements.		(#39993), Newko Balkan (#44794)
<p><u>Indicator 3:</u> Number of properties updated and registered in the digital cadaster register (KCLIS)</p> <p>Baseline: 27500.00</p> <p>Target: 2,500,000 (2022)</p>	<p><i>Mostly achieved</i></p> <p>Actual (June 2022): 2,321,117</p> <p>Status: The breakdown of the properties is as follows: - parcels: 2,192,142 - buildings: 26,418 - parts of buildings: 86,095</p> <p>It is anticipated that another 300,000 properties will be updated and registered in the KCLIS as a result of the Real Estate and Geospatial Infrastructure Project (REGIP).</p>	<ul style="list-style-type: none"> • Ongoing legislative reforms to resolve disputes concerning property ownership (e.g., inheritance) are welcome and will support enhanced land tenure security, spur the land market, and further contribute to the country’s business environment and access to finance. • However, legislative change takes time and has delayed the launch of associated activities under REGIP. • A suggestion for the new CPF would be to include a prospective DPF trigger related to the Law on Cadaster (e.g., Cabinet approval of the draft law that will be submitted for full legislative procedure). 	<p><i>Completed lending:</i></p> <ul style="list-style-type: none"> • Real Estate Cadaster and Registration Project (P101214) <p><i>Completed ASA:</i></p> <ul style="list-style-type: none"> • Kosovo Country Economic Memorandum: firm productivity and trade policy background notes (P171951) <p><i>Ongoing ASA:</i></p> <ul style="list-style-type: none"> • IFC Trade Facilitation and Support Program (#601446) • IFC Regional ESG program • IFC Investment Water AS (#597287 and #601638) • IFC Debt Resolution AS (#603482) • IFC Western Balkans Manufacturing Value Chain AS (#604496) • IFC National Single Window AS <p><i>MIGA guarantees:</i></p> <ul style="list-style-type: none"> • Ongoing capital optimization operations (NLB Project. (14770 and 14541), RBI Project (12894), and ProCredit Project (14780) 	
<p><u>Indicator 4:</u> Percentage of population with access to broadband Internet on national level (number of subscribers per 100 people)</p> <p>Baseline: 11.9% of population 73.1% of households (2016)</p> <p>Target: 23.5% of population 135% of households (2022)</p>	<p><i>Mostly achieved</i></p> <p>Actual (December 2021): 20.5% of population/129% of households</p> <p>Status: 383,868 people in underserved areas provided with access to broadband internet. The infrastructure has been fully rolled out, and 98% of households and 100% of enterprises now have access to the internet. Nearly 98% of the population is using</p>	<ul style="list-style-type: none"> • Good progress was made in this area as a result of: <ul style="list-style-type: none"> – the government’s strong technical expertise, which helped it properly engage and leverage the private sector to deploy broadband networks in previously underserved areas; – on the supply side, confirmed willingness of the private sector to invest and commit in the digital sector; and – on the demand side, high interest among the population in subscribing to internet 		

		information and communication technologies.	services, with 80% of broadband service take-up in project areas.	
Additional evidence: The properties registered in KCLIS (parcels, buildings and parts of buildings) can be found on the official website Kosovo Cadaster Agency (KCA) dashboard that is regularly updated: https://akk-statistics.rks-gov.net/ .				
Objective 2: <i>Improve productivity of the agriculture sector</i>	Indicator 5: Number of farmers adopting improved agricultural technologies, disaggregated by gender Baseline: 650, of which 12 percent female (2016) Target: 1,250, of which 15 percent female (2022)	Mostly achieved Actual (June 2022): 1,152 farmers, o/w 16% females Status: The indicator was 92% achieved as the ARDP-supported activities contributing to achieving the target were not fully completed.	<ul style="list-style-type: none"> Aligning WB-funded support to increase farmers' productivity and competitiveness with future EU support ensures development of institutional capacity and long-term sustainability. Agriculture support benefits from synergies between capacity building, motivation and incentives to the community, training and certification of public and private advisers, and knowledge sharing both at the country and regional level. Going forward, it will be important to clarify the relationship between objectives and indicators. While the CPF objective focused on agricultural productivity, indicators were more input oriented. 	Ongoing lending: <ul style="list-style-type: none"> Agriculture and Rural Development Project (P112526), including AFs (P158710) IFC Long-term financing to three leading MFIs (KRR, AFK, KEP) and TEB Kosovo RSF IFC Apetit (#39993) IFC Viva Fresh (#38274) Completed ASA: <ul style="list-style-type: none"> Kosovo Country Economic Memorandum: agricultural productivity background note (P171951) Ongoing ASA: <ul style="list-style-type: none"> IFC Agrifinance AS (#606029) IFC Agri Insurance AS (#606311)
	Indicator 6: Hectares of area provided with improved irrigation services under Radoniqi and Dukagjini Irrigation Scheme Baseline: 4,500 ha (2016) Target: 6,833 ha (2022)	Achieved Actual (December 2021): 7,750 ha	<ul style="list-style-type: none"> Involvement of the local community through extensive consultations and participatory monitoring contributed to the success of irrigation rehabilitation works. 	
Additional evidence: 63% of the farmers who received grants recorded an increase in yield, 60% of the beneficiaries an increase in their profits, for 55% market access has significantly improved and for 54% product sales have improved because of the grant.				

<p>Objective 3: <i>Enhance social inclusion and employment opportunities for youth and women</i></p>	<p>Indicator 7: Number of marginalized youths gaining soft skills -project preparation, management & implementation</p> <p>Baseline: 0 (2018)</p> <p>Target: 1500 (o/w 50% are female) (2022)</p>	<p>Achieved</p> <p>Actual (June 2022): 1,596 marginalized youth trained (o/w 53% are female)</p> <p>Status: The Municipalities for Youth (M4Y) in Kosovo Project provides skills training to marginalized youth in 10 municipalities. The training empowers young people with soft and transferable project management skills, including problem solving, creativity, collaboration, communication, and leadership. The first round of training took place in April 2022. The four-day training program was successfully completed by 1,596 young people, exceeding the target. About 2/3 were teens (ages 15-18) and 1/3 were young adults (18-24). The second, final round of training will be organized in October 2022.</p>	<ul style="list-style-type: none"> • All projects with direct job creation potential should include targets for youth and women’s employment. • Given the importance of raising the quality of human capital (labor supply), it would be useful to track contributions and improvements to youth and women’s employability • Forge strategic partnerships with development partners that have a strong engagement on the youth and women employment agenda in Kosovo (including the EU, GIZ, Swiss Development Agency, and others), with the aim of better leveraging each other’s programs. 	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Municipalities for Youth in Kosovo Project (P165485) • Kosovo Digital Economy Project (P164188) • IFC financing to three leading MFIs (KRK, AFK, KEP) and TEB Kosovo Risk-Sharing Facility
	<p>Indicator 8: Percentage of female beneficiaries accessing online knowledge, services, and labor markets through improved HEI access to high-speed broadband</p> <p>Baseline: 0 (2018)</p>	<p>Not yet verified</p> <p>Actual (June 2022): No data</p> <p>Status: The internet connectivity of 29 campuses of 19 (out of 20) participating has been completed through the</p>	<ul style="list-style-type: none"> • There has been strong demand from higher education institutions (HEIs) to benefit from mutualized, cheap, and secure digital services like those offered by the KREN. • Solid infrastructure is now in place (for example, a data center) to cater 	

	Target: 60% (2022)	Kosovo Research and Education Network (KREN), and contracts have been signed for both national and international connectivity since April 2022. Beneficiaries can now access online services through the KREN, including research and educational tools and services. Training activities have been launched in parallel. No survey has yet been performed to assess actual take-up among female beneficiaries. This work will be reported by the end of calendar year 2022.	to the education sector's expanding digital needs in the future. <ul style="list-style-type: none"> • No clear gender gap has been observed so far in access or usage (to be confirmed) of digital services within HEI or beyond. 	
FOCUS AREA 2: STRENGTHENING PUBLIC SERVICE DELIVERY AND MACRO-FISCAL MANAGEMENT				
Objective 4: <i>Strengthen systems to improve quality, accountability, and efficiency in delivery of education</i>	<u>Indicator 9:</u> Percentage of municipalities that allocate resources to schools in accordance with revised formula and percentage of school report cards (SRC) distributed and publicly displayed at schools Baseline: 0 municipalities and 0 school report cards (2016) Target: 80 percent of municipalities (2022) and 20 percent of school report cards (2022)	Partially achieved Actual (June 2021): 0 percent of municipalities allocating resources to schools based on a revised formula; 20 percent of schools have SRCs Status: Revision of School Financing Formula is pending adoption/approval. Consultancy report and workshop delivered in May 2021, followed by series of	<ul style="list-style-type: none"> • Supporting complex reforms is important, together with efforts to build ownership. • In this context, however, it is critical to ensure simplified project design and moderate the degree of ambitiousness over a five-year term. 	Completed lending: <ul style="list-style-type: none"> • Education System Improvement Project (P149005) Completed ASA: <ul style="list-style-type: none"> • Education and Skills Policy Support (P152550) • Exploring Gender Gaps in Skills (STEP) • Early Childhood Development (P173501) • Kosovo Country Economic Memorandum: Enhancing Human Capital by Improving

		meetings with government working group to continue discussing details of formula and municipal-level implementation. The Ministry of Education, Science, Technology, and Innovation is committed to continue advancing, but still no consensus on options. As of March 2021, SRCs piloted in all 160 schools that received school development grants in 2018–2019 (equivalent to 20% of all primary schools, covering 27 of 38 municipalities). No further action has been taken.		Education Policy background note (P171951) <i>Ongoing ASA</i> <ul style="list-style-type: none"> • IFC Schools PPP AS (#602204)
Additional evidence: Improved education quality was achieved as a result of the improved monitoring of pre-university education quality through student assessments, including building the Ministry of Science, Education and Technology’s capacity to strengthen the quality, quantity, and use of student performance and learning assessments. The Kosovo National Framework for Student Assessment was developed, approved, published and is now being used to guide, design, and plan execution of high-quality national student assessment. The KESIP helped build the capacity of the Division for Standards, Monitoring and Evaluation (DSME) to design, administer and process high quality examinations, and large-scale student assessment surveys through trainings the DSME staff on the principles of assessment, item writing and test design, statistical analysis, and reporting. A new Matura 12 exam is now comparable over years and aligned with the competency-based curricula. Kosovo now participates in the international assessments and the DSME is capable of conducting in-depth analysis (PISA, TIMSS, PIRLS) produce reports, and disseminate findings. These outcomes contribute substantially to the objective of improved quality of pre-university education.				
Objective 5: <i>Broaden the coverage, improve equity, and strengthen system preparedness</i>	<u>Indicator 10:</u> The Health Insurance Fund is strengthened and prepared for rolling out Social Health Insurance (SHI) – an information system functional, a strategic plan and transition plan for rolling out SHI developed Baseline: No (2021)	Achieved Actual (June 2022): Yes Status: The fund’s Health Information System is technically functional and adheres to planned design specifications as of	<ul style="list-style-type: none"> • Ambitious and complex reforms take time, especially in volatile and politically uncertain contexts. In such circumstances, it is better to focus support on a few key pillars of complex reforms, with simpler design. • Project elements should avoid being dependent for their 	<i>Ongoing lending:</i> <ul style="list-style-type: none"> • Emergency COVID-19 Response Project (P173819), and AF (P176661) • Kosovo Pandemic Emergency Financing RETF (P174452)

for public health shocks	<p>Target: Yes (2022)</p>	<p>December 2019. The e-Prescription and Patient Service Interface has been installed, and the registry has been established with data loaded from members, providers, insurers, and institutional sources such as the Civil Registration Agency and Tax Administration of Kosovo.</p> <p>The project supported HIF staff in preparing annual work plans and annual financial statements, the HIF Planning and Development Strategy for 2020–22, and technical reports, and in strengthening financial management & accounting.</p>	<p>completion on other external funding, as this creates high risks to the achievement of project development objectives and timely completion.</p> <ul style="list-style-type: none"> • Flexibility and proactivity in project restructuring to ensure that projects support government priorities help to build client ownership and facilitate project success. 	<p><i>Ongoing ASA:</i></p> <ul style="list-style-type: none"> • Improve Financial Protection and Quality of Care in Kosovo (P150300) <p><i>Completed lending:</i></p> <ul style="list-style-type: none"> • Kosovo Health Project (P147402)
	<p><u>Indicator 11:</u> Laboratory capacities for Public Health Emergency response is strengthened – public health lab staff trained in microbiology, central lab and all regional labs equipped with necessary equipment</p> <p>Baseline: No (2021)</p> <p>Target: Yes (2022)</p>	<p><i>Achieved</i></p> <p>Actual (June 2022): Yes</p> <p>Status: Seven laboratories in the country (o/w six regional) have been equipped with refrigerators, freezers, PCR testing equipment, testing kits, and other relevant equipment. A total of 28 public health laboratory technicians and 978 health care professionals have been trained on public health-</p>	<ul style="list-style-type: none"> • The project has highlighted the importance of a quick response to help the government’s COVID-19 response. • Fast preparation under the Strategic Preparedness and Responses Multiphase Programmatic Approach helped the government’s national emergency plan. Nonetheless, the project was designed during a time of uncertainty, and during implementation some activities were identified as no longer relevant given rapid changes in the pandemic and vaccine situations. 	

		related topics, such as sampling, transportation, and contact tracing for communicable diseases; proper use of personal protective equipment (PPEs); and surveillance and prevention of the spread of respiratory infections in health care facilities.	<ul style="list-style-type: none"> • Use of the UNOPS for project implementation helped ensure faster disbursement and implementation of some project activities. However, implementation speed comes at the cost of building in-country institutional capacity. Still, building institutional capacity for public health emergency response takes time and may not be the highest priority during emergency situations. • Close coordination with UNICEF and WHO, is of utmost importance when supporting countries to respond to emergencies. • Simple project design is important when operating on a short implementation timeline. 	
	Additional evidence: A new funding scheme - Capitation-Based Performance Payments (CBPPs), introduced under the KHP and implemented in 18 municipalities, served as a mechanism to increase the utilization of primary care and helped improve access to and quality of priority services at the primary care level. Primary care level has now a better chance of reaching to rural population. The CBPP allows poorer municipalities to provide additional funds for primary healthcare service delivery. All 18 participating municipalities have signed the MoUs to participate in the scheme and adopted related web-application module.			
Objective 6: <i>Improve sustainability of public finances and public sector management</i>	<p>Indicator 12: At least three-year medium-term expenditure framework (MTEF) applied across all budget users</p> <p>Baseline: No (2016)</p> <p>Target: Yes (2022)</p>	<p>Achieved</p> <p>Actual (June 2022): Yes</p> <p>Status: MTEF 2023–25 approved in line with the legal deadline on April 30, 2022. Previous MTEFs approved on time and applied across all budget users. The MTEFs are prepared under the binding fiscal rules (except for the</p>	<ul style="list-style-type: none"> • The MTEF is now mainstreamed as part of Kosovo’s public budgeting cycle and represents the foundational mechanism to implement forward-looking fiscal strategies in support of long-term development goals. The MTEF has full coverage across central-level institutions and provides the financing framework for local finance three years ahead of the current year. 	<p>Ongoing lending:</p> <ul style="list-style-type: none"> • Emergency COVID-19 Response Project (P173819) • Social Assistance System Reform Project (P171098) • Public Finance and Sustainable Growth DPO (P170113) <p>Completed ASA:</p> <ul style="list-style-type: none"> • Credit Risk Management Framework

		<p>utilization of escape clauses/relaxation of the deficit rule in the face of the COVID-19 shock), and include backward looking evaluation, comparison to other institutional forecasts, and examination of fiscal risks.</p>	<ul style="list-style-type: none"> • The key lesson learned is that mainstreaming process improvements requires: (a) binding obligations and deadlines in primary legislation, and (b) civil service capacity enhancements and commitment to implementing such improvements in a credible manner. • For the next CPF, given that MTEF is now mainstreamed, it is important to focus on the credibility and timeliness of data that feeds the formulation of the MTEF. Further ASA and support focused on Kosovo’s statistical capacity (compilation of national accounts, labor statistics, poverty statistics) can amplify the impact of the MTEF as a strategic planning tool that facilitates the reorientation of public resources toward policies with the highest development impact. 	<ul style="list-style-type: none"> • Macro Modelling TA (as part of Western Balkans Strengthening Fiscal Institutions to Build Resilience ASA (P165530)) • Kosovo Macro-Fiscal Policy Notes (P162140) • Debt Management Performance Assessment (DeMPA) (P165071) • Medium-Term Debt Management Strategy (P157390) • Debt Reform Plan (P157390) • Public Administration Reform (P171846) • Supporting Implementation of Tax Administration Reforms (P170431) • Identification of Priorities for the Public Sector Modernization Reform Agenda (P165306)
	<p>Indicator 13: Completed and published online actuarial analysis (long-run baseline simulations based on actual legislative framework) for all existing pension programs</p> <p>Baseline: No actuarial analysis (2020)</p> <p>Target: Yes (2022)</p>	<p><i>Partially achieved</i></p> <p>Actual (June 2022): Actuarial analysis completed but not yet set out in a document nor published.</p> <p>Status: The World Bank pension team held a virtual training with selected participants in June 2021, which was the basis for transferring the model (Promise) to the government. This</p>	<ul style="list-style-type: none"> • The training was provided virtually given the COVID-19 situation. However, this format has limitations for transmitting detailed knowledge and skills. Follow-up coaching and support is required, particularly when starting from a low base. 	<p><i>Ongoing ASA:</i></p> <ul style="list-style-type: none"> • Greening Tax Policy Note • Pension Modelling and Policy in Kosovo (under Western Balkans Pensions ASA (P179828)) • Enhancing Quality and Scope of Tax Registration (P173730) • Public Expenditure Review (P178218) • IFC Affordable Housing AS (#606511)

		complemented the establishment of the legal basis for such analysis (and publishing) through the DPF.		
	<p><u>Indicator 14:</u> Expanded coverage of targeted social assistance</p> <p>Baseline: 0 households (2020)</p> <p>Target: 40,000 households (2022)</p>	<p><i>Mostly achieved</i></p> <p>Actual (June 2022): 32,803 Status (to date): 32,803 households reached through Emergency COVID-19 Response Project. Remaining households were to be reached through the Social Assistance System Reform Project, but ratification of the project was delayed as a result of complex political processes. The Department of Social Policy and Family has made some reform progress while awaiting ratification.</p>	<ul style="list-style-type: none"> • Sustained technical assistance to the Department of Social Policy and Family (first in the Ministry of Labor and then in the Ministry of Finance, Labor, and Transfers) provided a solid foundation for the task team to rapidly prepare, first the social protection component of the COVID-19 emergency project, and then the Social Assistance System Reform project, when a political opening emerged. • Under the COVID-19 project, the social protection component disbursed rapidly, providing much-needed income support to poor households affected by the pandemic. This was based on a pragmatic approach that used existing government systems and selected innovations. • The complexity of political processes in Kosovo has led to delays in the ratification of the Social Assistance System Reform project. • Continued technical assistance has supported the Department to advance reforms envisioned in the project, even as we wait for ratification, thus supporting broader reform of the sector. 	

FOCUS AREA 3: PROMOTING RELIABLE ENERGY AND STEWARDSHIP OF THE ENVIRONMENT

<p>Objective 7: <i>Enhance energy efficiency and scale-up renewable energy</i></p>	<p><u>Indicator 15:</u> MWh of lifetime energy savings and metric tons of reduced fossil fuel use for heating in public buildings</p> <p>Baseline: Lifetime energy savings - 0 MWh (2016); Reduced fossil fuel use for heating - 0 metric ton (2016)</p> <p>Target: Lifetime energy savings 900,000 MWh (2022); Reduced fossil fuel use for heating –2,500 metric tons (2022)</p>	<p><i>Mostly achieved</i></p> <p>Actual (May 2022): 752,347 MWh in lifetime energy savings; 2,620 metric tons in reduced fossil fuel use</p> <p>Status: The project is on track to meet this objective and targets for lifetime energy savings and reduced fossil fuel use for heating, but one extension will be required to ensure completion of works.</p>	<ul style="list-style-type: none"> • While the Energy Efficiency and Renewable Energy Project was the first WBG operation in Kosovo’s energy sector, it would have been useful from the outset to include the CPF objectives and indicators linked to the sustainability of the intervention. • Though not planned at the beginning due to limited resources and limited engagement, at advanced stages of implementation, the WBG supported the establishment of the Kosovo Energy Efficiency Fund (KEEF), in close partnership with the EU, as a sustainable and scalable mechanism for investments in energy efficiency. • Given that the KEEF is a nascent institution in a challenging environment, it will be critical to continue technical, management, and governance support under the next CPF to ensure that the KEEF will remain a sustainable financing mechanism beyond the WBG’s financing support. 	<p><i>Ongoing lending:</i></p> <ul style="list-style-type: none"> • Energy Efficiency and Renewable Energy Project (P143055) • MIGA guarantees – (NLB Project (14770), RBI Project (12894), and ProCredit Project (14780) <p><i>Completed ASA:</i></p> <ul style="list-style-type: none"> • Feasibility Study of Energy Efficiency and Implementation Measures in Public Buildings (P143132) • District Heating Sector Assessment (P161242) • Western Balkans Energy Transition Program (P169389) – Legal and Regulatory TA to introduce market-based mechanisms to support solar and wind energy
	<p><u>Indicator 16:</u> GHG emission savings (in CO₂eqv per year)</p> <p>Baseline: No measured GHG emission savings (2016)</p> <p>Target: Estimated GHG emission savings should reach 35,000 CO₂eqv per year (2022)</p>	<p><i>Mostly achieved</i></p> <p>Actual (June 2022): 27,040 tCO₂/year GHG emission savings</p> <p>Status: The project is on track to meet this objective and close to meeting the target for GHG emissions savings, but one extension will be required to ensure completion of works.</p>		
	<p>Additional evidence: The Energy Efficiency and Renewable Energy Project supported Kosovo Energy Regulatory Office to scale up renewable energy (RE) investments in the power sector through streamlining the licensing process for renewable energy projects. As a result of the improved licensing and investment environment for RE projects, the total capacity of RE licenses (final authorizations) grew from 35.8MW at the beginning of the Project to 259MW as of May 2022 (the end of the CPF FY17-22). The Project also financed investments in renewable energy systems of the central government buildings (solar water heaters and biomass heaters). The total installed capacity amounted to 9.65MW as of May 2022 (more details in <i>KEEREP ISR of May 2022</i>).</p>			

<p>Objective 8: <i>Improve management of natural resources and address environmental contamination</i></p>	<p>Indicator 17: Increase of emergency back-up water storage capacity (in days) in Central Kosovo</p> <p>Baseline: Back-up storage to maintain service during maintenance and emergency is 0 (2016)</p> <p>Target: At least 8 days of emergency storage capacity along the Ibër-Lepenc Canal to have uninterrupted service (2022)</p>	<p>Not achieved</p> <p>Actual (December 2021): 0</p> <p>Status: Following contract delays, the client decided to drop construction of the Mihaliqi reservoir. Funding for this activity was cancelled from the project.</p>	<ul style="list-style-type: none"> • Government ownership of project activities is a critical component of steady progress and achievement of targets. Without sufficient ownership, progress can be unstable and unpredictable, and ultimately, stall. • Assigning a CPF indicator to a specific project component can be risky and fail to capture broader progress. • COVID-19 and election-related disruptions aside, it would be more advantageous to prepare the PLR at the mid-term of the CPF, rather than late in implementation, to allow for meaningful adjustments. 	<p><i>Ongoing lending:</i></p> <ul style="list-style-type: none"> • Water Security and Canal Protection Project (P133829) • Fostering and Leveraging Opportunities for Water Security Program (Project 1) (P169150) <p><i>Pipeline lending:</i></p> <ul style="list-style-type: none"> • Cleaning and Greening Land Project (P172992)
	<p>Indicator 18: Hectares of reclaimed industrially polluted land</p> <p>Baseline: 0 ha (2017)</p> <p>Target: 18 ha (2022)</p>	<p>Not achieved</p> <p>Actual (June 2022): 0</p> <p>Status: Project appraised in April 2020; approval still pending the government’s decision to move forward.</p>	<ul style="list-style-type: none"> • Changes in government—especially turnover among ministers—have greatly affected progress. • Low capacity in the line ministry, lack of ownership, and lack of coordination between environment and finance ministries are key challenges. • Following project approval, the WBG may be able to help secure grant financing from the EU and its Western Balkans Investment Framework (WBIF). However, facilitating grant mobilization for a larger program will require improved cooperation between the ministries and the EU, as the government (MoFLT; Ministry of Environment, Spatial Planning, and Infrastructure; 	

			<p>and Office of the Prime Minister) would need to express interest in the project to the EU's Kosovo office and seek support for EU IPA grant funds and WBIF grant.</p> <ul style="list-style-type: none">• On the positive side, interest in the green agenda is growing and WBG interventions are appreciated in that context.	
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CLR Annex 3: IDA Lending Program FY17–FY22 – Planned vs. Actual

CPF FY17–FY21 LENDING SUMMARY				
PLANNED (in US\$, millions)		ACTUAL (in US\$, millions)		
FY17	IDA	FY17	IDA	TF
Water Security and Canal Protection	24.5	Water Security and Canal Protection	24.5	
Competitiveness and Export Readiness	15.3	Competitiveness and Export Readiness	15.3	
Agriculture & Rural Development AF	22.0	Agriculture and Rural Development AF	22.0	
Subtotal FY17	61.8	Subtotal FY17	61.8	
FY18–FY20 indicative program		FY19		
ICT/Kosovo Digital Economy		Kosovo Digital Economy	25.0	
Real Estate and Cadaster II		Real Estate & Geospatial Infrastructure	16.5	
Youth Entrepreneurship and Inclusion		Financial Sector Strengthening	25.0	
Irrigation Project				
Financial Sector Strengthening Project		FY20		
Public Administration Reform and PFM		FLWS	27.4	0.4
DPO		Municipalities for Youth in Kosovo		3.0
Kosovo Power Project – Partial Risk		Energy Efficiency and Renewables		10.5
Guarantee		Emergency COVID-19	50.0	2.0
Environmentally and Socially				
Sustainable Development		FY21		
Subtotal FY18–FY20	130.0	Emergency COVID-19 AF	18.2	
		Subtotal FY18–FY21	162.1	15.9
FY21 – indicative		FY22		
Early Childhood Development or Skills		Public Finances and Growth DPO	56.4	
for Employment Education Project		Social Assistance System Reform	55.9	
Subtotal FY21	48.2	Subtotal FY21–FY22	112.3	
TOTAL (planned)	240.0	TOTAL (delivered)	336.2	

CLR Annex 4: Portfolio Indicators over the CPF Period

PORTFOLIO AND DISBURSEMENT (FY17–FY22)

Data as of	2017	2018	2019	2020	2021	2022
	FY17	FY18	FY19	FY20	FY21	FY22
# Proj	7	6	9	11	10	11
Net Commitments Amt	161.7	149.4	215.9	293.3	300.5	387.4
Total Disbursement \$m	29.8	26.0	40.2	52.2	140.4	156.4
Total Undisbursed Balance \$m	124.5	116.5	158.6	224.8	162.6	222.7
Disbursement in FY \$m	8.9	6.4	14.2	12.0	92.1	28.3
Disbursement Ratio	12.8	4.9	12.8	7.6	41.6	17.7
IDA Net Commitment Amt	161.3	141.2	204.2	281.6	292.0	379.5
Comm IP/DO Prob	25.5	28.3	32.0	39.8	24.5	48.8
IDA Disb in FY	8.9	6.4	14.2	12.0	92.1	28.3
Flg Slow Disb	1	0	1	0	0	2

PORTFOLIO RISKINESS (FY17–FY22)

Data as of	2017	2018	2019	2020	2021	2022
	FY17	FY18	FY19	FY20	FY21	FY22
# Problem Projects	1	2	2	2	1	3
Problem Project %	14	33	22	18	10	27
Potential Problem Project #			1	1		
Potential Problem Project %			11.1	9.1		
Project At Risk #	1	2	3	3	1	3
Commitments At Risk \$m	25.5	28.3	47.3	56.3	24.5	48.8
Commitments at Risk %	15.8	20.0	23.2	20.0	8.4	12.8
Proact Projects	2	1	2	2	2	1

IEG RATINGS (FY17–FY22)

Data as of	2017	2018	2019	2020	2021	2022
	FY17	FY18	FY19	FY20	FY21	FY22
No. of Projects Evaluated by IEG	3	1			1	1
Bank Overall Performance % Satisfactory	100.0	100.0			100.0	100.0
ICR Quality % Sat	100.0	100.0			100.0	100.0
Net Disconnect	0.0	0.0			0.0	0.0
Bank Performance at Entry % Sat	66.7	100.0			0.0	0.0
Bank Performance at Supervision % Sat	100.0	100.0			100.0	100.0
Borrower Overall Performance % Sat	66.7					
% Substantial or Better M&E Quality	33.3	100.0			100.0	100.0

CLR Annex 5: IFC Committed and Outstanding Portfolio FY17–FY22



Statement of IFC's Committed and Outstanding Portfolio

(Amounts in USD Millions)

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Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2010/2022	Newko Balkan	3.64	4.93	0	0	0	0	3.64	0	0	0	0	0	0	0	0
2014/2011/2012 /2021/2015/2019/2022/2013/2018/2020	TEB Kosovo	0	0	0	0	0.16	0	0.16	0	0	0	0	0.16	0	0.16	0
2017/2016/2022 /2018/2020	KRK Kosovo	2.23	7.33	0	0	0	0.12	2.35	0	2.23	0	0	0	0.08	2.30	0
2019/2020	Apetit	1.30	1.45	0	0	0	0	1.30	0	1.30	0	0	0	0	1.30	0
2020	RSF TEB Kosovo	0	0	0	0	5.20	0	5.20	0	0	0	0	5.19	0	5.19	0
2020	Viva Fresh	4.98	0.22	0	0	0	0	4.98	0	4.98	0	0	0	0	4.98	0
2021/2022/2018 /2020	AFK	1.14	1.83	0	0	0	0.09	1.23	0	1.14	0	0	0	0.06	1.21	0
2022/2018/2020	KEP	2.50	3.43	0	0	0	0.15	2.65	0	2.50	0	0	0	0.13	2.63	0
Grand Total:		15.79	19.18	0	0	5.36	0.36	21.51	0	12.15	0	0	5.34	0.27	17.77	0

CLR Annex 6: MIGA's Guarantee Portfolio, FY17 to FY22
(outstanding exposure in million US dollars)

Proj ID	Capital Optimization Projects, Local Bank	Effective Date	Expiry Date	Sector	FY17	FY18	FY19	FY20	FY21	FY22
12894	Raiffeisen Bank Kosovo J.S.C.	3/31/2015	3/30/2024	Financial	50.0	51.0*	49.9	49.1	83.2*	72.8
9194	ProCredit Kosovo	12/22/2010	12/21/2020	Financial	43.3	44.2	43.3	42.6	-	-
14541	NLB Banka sh.a Prishtina	6/3/2020	6/29/2027	Financial	-	-	-	50.1	53.2	46.5
14780	ProCredit Kosovo	12/22/2020	12/21/2025	Financial	-	-	-	-	39.5	34.6
14770	NLB Banka sh.a Prishtina	12/31/2021	12/30/2024	Financial	-	-	-	-	-	12.5
Outstanding Exposure					93.3	95.2	93.1	141.9	175.9	166.4
Number of Projects					2	2	2	3	3	4

*In March 2018 (FY18), MIGA increased its exposure to Raiffeisen Bank Kosovo to US\$54 million (differences in amounts by end of the fiscal year are due to exchange rate fluctuations).

** In March 2021 (FY21), MIGA increased its exposure to Raiffeisen Bank Kosovo to US\$82.1 million (differences in amounts by end of the fiscal year are due to exchange rate fluctuations).

Annex 3: Active and Proposed ASA

(Italics = Regional)

HLO	Active ASA	Proposed ASA Program
HLO 1: Greater public service efficiency and quality	<ul style="list-style-type: none"> • Public Expenditure Review (IDA, P178218, FY23) • Improved Financial Protection and Quality of Care (IDA, P150300, FY24) • Poverty and Equity Assessment (IDA, P179090, FY24) • Affordable Housing (IFC, 606511, FY23) • Pristina Schools PPP (IFC, 602204, FY23) • <i>Western Balkans Pensions ASA (IDA, P179828, FY24)</i> • <i>Strengthening Fiscal Governance in the Western Balkans (IDA, P180191, FY24)</i> • <i>Western Balkans Social Protection and Jobs Situational Analyses (IDA, P176230, FY25)</i> 	<ul style="list-style-type: none"> • Statistics and Modeling Capacity Building (IDA) • Promoting Jobs and the Care Economy in the Western Balkans (IDA, P180684, FY26) • CEM (FY27)
HLO 2: More formal private sector jobs	<ul style="list-style-type: none"> • FSAP Follow up (IDA, P176121, FY23) • Country Gender Assessment Update (IDA, P179260, FY23) • Enhancing the Quality and Scope of Tax Registration (IDA, P173730, FY24) • Microfinance Institutions Reforms (IFC, 606474, FY23) • National Single Window (IFC, 601446, FY23) • Investment Climate (IFC, 601638, FY23) • Agri Finance (IFC, 606029, FY24) • Agri Insurance (IFC, 606311, FY24) • Debt Resolution and Exit (IFC, 747867, FY24) • Environmental and Corporate Governance (IFC, 602281, FY25) • <i>Western Balkans Manufacturing Value Chain (IFC, 604496, FY25)</i> • <i>Railway Network Resilience Assessment (IDA, P173620, TFOB9965, FY24)</i> • <i>Regional Investment Agenda (IDA, P163168, FY24)</i> • <i>Financial Sector Deepening and Diversification in Western Balkans (IDA, P179998, FY24)</i> • <i>Western Balkans Trade Facilitation Advisory (IDA, P179241, FY25)</i> • <i>Support to Western Balkan's Common Regional Market Initiative (IDA, P178854, FY26)</i> 	<ul style="list-style-type: none"> • Making Employment Services and Support Work for Women and Youth (IDA) • <i>Crop and Warehouse Receipts (IFC)</i> • CEM (FY27)
HLO 3: Increased environmental resilience	<ul style="list-style-type: none"> • GPSA on Climate Action and Civic Technology (IDA, P179084, FY27) • Kosovo Solar CTA-PPP (IFC, 604079, FY24) • <i>Western Balkans Green Transformation (IDA, P177777, FY23)</i> • <i>Payments Systems and Investment Policy (IDA, P177506 - TFOB7582, FY24)</i> • <i>Western Balkans Six Energy Crisis Response (IDA, P179826, FY25)</i> 	<ul style="list-style-type: none"> • <i>Regional CCDR (IDA P179205, FY24)</i> • Coal Transition Roadmap • CEM (FY27)

Annex 4: Selected Indicators of Bank Portfolio Performance and Management

As of Date 04/04/2023

Indicator	FY20	FY21	FY22	FY23 YTD
Portfolio Assessment				
Number of Projects Under Implementation	11	10	11	11
Average age of projects (years)	3.4	4.3	4.2	3.8
Percent of Problem Projects by Number ^a	18.2	10.0	27.3	36.4
Percent of Problem Projects by Amount ^a	14.1	8.4	12.8	29.3
Percent of Projects at Risk by Number ^b	27.3	10.0	27.3	45.5
Percent of Projects at Risk by Amount ^b	20.0	8.4	12.8	36.9
Disbursement Ratio (%) ^c	7.6	41.9	18.5	7.1
Memorandum Item	Since FY80		Last Five FYs	
Proj Eval by IEG by Number	30		2	
Proj Eval by IEG by Amt (US\$ millions)	121.3		20.7	
% of IEG Projects Rated U or HU by Number	6.7		0.0	
% of IEG Projects Rated U or HU by Amt	7.4		0.0	
<p>a. Problem Projects are projects that are rated unsatisfactory (unsatisfactory U, moderately unsatisfactory MU or highly unsatisfactory HU) in the progress towards achievement of the Project Development Objective (PDO) and/or the Implementation Progress (IP)</p>				
<p>b. Projects at risk include potential and actual problem projects. Potential problem project is a project which has risk factors historically associated with unsatisfactory outcomes although it has satisfactory ratings both for IP and PDO.</p>				
<p>c. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.</p>				

Annex 5: Operations Portfolio (IDA)

Active Projects as of 04/04/2023								
Project ID	Project Name	Supervision Rating		Approval Fiscal Year	Closing Fiscal Year	IDA (US\$ million)	Canceled	Undisbursed
		Development Objectives	Implementation Progress					
P143055	Energy Efficiency and Renewable Energy	S	MS	2014	2024	31.0	0.0	7.7
P152881	Competitiveness and Export Readiness	MU	MS	2017	2024	15.3	0.0	10.1
P133829	Water Security and Canal Protection	MU	MU	2017	2024	24.5	7.5	10.2
P164555	Real Estate and Geospatial Infrastructure	MU	MU	2019	2024	16.5	0.0	15.3
P165147	Financial Sector Strengthening	S	S	2019	2024	25.0	0.0	0.7
P164188	Kosovo Digital Economy	S	S	2019	2023	25.0	0.0	10.6
P173819	Emergency COVID-19	S	MS	2020	2024	68.2	0.0	10.2
P169150	Fostering and Leveraging Opportunities for Water Security 1	S	MS	2020	2026	27.4	0.0	28.1
P170113	Public Finances and Growth Development DPO	#	#	2022	2024	56.4	0.0	0.0
P171098	Social Assistance System Reform	MS	MU	2022	2027	55.9	0.0	54.6
P178162	Strengthening Digital Governance for Service Delivery	#	#	2023	2029	20.0	0.0	19.9
Overall Result						365.2	7.5	167.3

Annex 6: Statement of IFC's Held and Disbursed Portfolio

Statement of IFC's Committed and Outstanding Portfolio (Amounts in US\$ Millions)								Summary Date: March 31, 2023			
Commitment Fiscal Year	Institution Short Name	LN ^a Cmtd - IFC	GT ^b Cmtd - IFC	RM ^c Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part ^d	LN Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2010/2022	<i>Newko Balkan</i>	3.77	0.00	0.00	3.77	0.00	3.77	0.00	0.00	3.77	0.00
2014/2011/2012/ 2021/2015/2019/ 2022/2023/2013/ 2018/2020	<i>TEB Kosovo</i>	0.00	0.16	0.00	0.16	0.00	0.00	0.16	0.00	0.16	0.00
2017/2016/2022/ 2018/2020	<i>KRK Kosovo</i>	1.38	0.00	0.12	1.50	0.00	1.38	0.00	0.08	1.46	0.00
2019/2020	<i>Apetit</i>	0.84	0.00	0.00	0.84	0.00	0.84	0.00	0.00	0.84	0.00
2020	<i>Viva Fresh</i>	4.42	0.00	0.00	4.42	0.00	4.42	0.00	0.00	4.42	0.00
2021/2022/2018/ 2020	<i>AFK</i>	0.74	0.00	0.06	0.80	0.00	0.74	0.00	0.05	0.79	0.00
2022/2018/2020	<i>KEP</i>	2.02	0.00	0.09	2.11	0.00	2.02	0.00	0.08	2.10	0.00
Grand Total:		13.17	0.16	0.27	13.59	0.00	13.17	0.16	0.21	13.54	0.00

- a. LN Cmtd/Out – Loan committed/outstanding
- b. GT Cmtd/Out – Guarantee committed/outstanding
- c. RM Cmtd/Out – Risk management committed/outstanding
- d. Part - Partners

Annex 7: MIGA's Guarantee Portfolio

(As of March 31, 2023)

Project Name	Effective Date	Expiry Date	Investor	Sector	Gross Exposure (US\$ million)
NLB Banka sh.a., Prishtina	6/30/2020	6/29/2027	Nova Ljubljanska Banka d.d., Ljubljana (NLB)	Financial	48.63
NLB Banka sh.a., Prishtina	12/31/2021	12/30/2024	Nova Ljubljanska Banka d.d., Ljubljana (NLB)	Financial	13.04
ProCredit Mandatory Reserves	12/23/2020	03/20/2028	ProCredit Holding AG & Co. KGaA	Financial	74.35
Raiffeisen Bank Kosovo J.S.C.	3/31/2021	3/30/2024	Raiffeisen Bank International AG (RBI)	Financial	76.09
Total					212.11

Annex 8: Citizen Engagement Roadmap

INTENSIFY CITIZEN ENGAGEMENT ACROSS HIGH-LEVEL OUTCOMES AND OBJECTIVES

HLO 1: Greater public service efficiency and quality

- > Use ICT^a for feedback through digital governance for service delivery
- > Develop inclusive monitoring approaches to enable feedback on public services by minority and marginalized groups
- > Use e-services and interactive e-government platforms to improve programming at local level (including non-majority municipalities) and improve quality of service

HLO 2: More formal public sector jobs

- > Strategically engage private sector (particularly businesses led by women, youth and minorities) in decision-making process affecting business environment to ensure effective design and implementation of development actions
- > Establish public-private dialogue platforms to include women, minorities and other vulnerable communities through representative participation and voice in conversations with businesses

HLO 3: Increased environmental resilience

- > Leverage project-created platforms to strengthen multi-level, multi-sectoral partnerships and collaboration on green agenda priorities
- > Public institutions to increase public use of data sets and evidence-based assessments on climate issues
- > Civil society engagement on air quality and natural resources

CONCRETE ACTIONS

1. Strengthen CE across portfolio

- > **100% compliance on CE:** support quality at design by providing CE expertise directly to task teams during early stage of preparation
- > **CE capacity building:** strengthen government capacities for meaningful citizens/CSOs^b engagement in Serb-majority and other minority communities with emphasis on follow-up on CE recommendations
- > **Citizen partnerships:** adopt participatory approaches in decision-making, implementation, and monitoring to improve programming in the Serb-majority municipalities and in other minority communities

2. Ensure youth and minority participation in CE activities

- > **Inclusive private sector dialogue:** ensure youth, women, and ethnic minorities participation in business forums
- > **Youth-led social accountability at local and project levels:** maximize the JSDF^c to develop youth skills on oversight mechanisms in municipalities (e.g., capacity building of local Youth Action Councils, institutionalization of youth-led oversight mechanisms) for potential roll-out across the portfolio
- > **Youth education for climate action:** build youth debating skills to facilitate engagement in green transition dialogue and government decisions under the GPSA grant

3. Enhance Bank engagement with CSOs for improved service delivery

- > **Partner with CSOs to reach vulnerable groups:** identify and enhance government collaboration with CSOs in Kosovo-Serb communities and other minority communities to support outreach and better implementation of CE mechanisms to improve public services (e.g., land, education, and health sectors)
- > **Enable citizens and CSOs to monitor Green Agenda implementation:** with GPSA grant support facilitate multi-stakeholder dialogue and test ICT-enabled public monitoring tools for green transition progress and communication

Strengthening citizen engagement and partnerships underpins the CPF Objectives

a. ICT-information and communication technologies; b. CSO – Civil Society Organization; c. JSDF – Japan Social Development Fund

Annex 9: Priority Areas of Development Partners' Engagement

Priorities	Development Partners
Agriculture	EU, USAID, EBRD, GIZ, MCC, ADA, FAO
Business Environment	USAID, EU, EBRD, EIB, EU, GIZ, MCC, SDC
Digital Agenda	EBRD, EIB, EU, USAID, GIZ, SIDA
Education	EU, ADA, GIZ, UN (UNICEF), LuxDev, SDC
Energy	EU, USAID, MCC, EBRD, EIB, GIZ
Environment	UN (UNDP), EU, KfW, SIDA, EIB, EBRD, GIZ, MCC, USAID, SDC
Health	SDC, LuxDev, CEB, EU (Covid response), UN (UNICEF, WHO)
Public Sector Reform	EU, USAID, GIZ, IMF, OPEC, SDC
Social protection	UN (UNDP), EU, IMF, UN (UNICEF)
Land administration	EU, GIZ, USAID
Transport	EU, EBRD, EIB, GIZ, UNDP