Project Information Document/ Identification/Concept Stage (PID)

Concept Stage | Date Prepared/Updated: 14-Jun-2017 | Report No: PIDC111649

BASIC INFORMATION

A. Basic Project Data

Project ID	Parent Project ID (if any)	Environmental Assessment Category	Project Name
P163532		C - Not Required	Improving Financial Protection and Quality of Care (P163532)
Region	**Country**	**Date PID Prepared**	**Estimated Date of Approval**
EUROPE AND CENTRAL ASIA	Kosovo	14-Jun-2017	31-Jul-2017
Financing Instrument	**Borrower(s)**	**Implementing Agency**	**Initiation Note Review Decision**
Investment Project Financing	Republic of Kosovo	Ministry of Health, Ministry of Labor and Social Welfare	The review did authorize the preparation to continue

PROJECT FINANCING DATA

FINANCING

FINANCING SOURCES

Select all that apply

[ ] Counterpart Funding [✓] Trust Funds [ ] Parallel Financing

SUMMARY (USD)

Total Project cost	**287,400**
Total Financing	**287,400**
Trust Funds	287,400
Financing Gap	**0**

DETAILS

Trust Funds

Source	Currency	Amount	USD Equivalent

Free-standing TFs for ECA HD Sector Unit(F7HD)	USD-US Dollars	287,400	287,400

B. Introduction and Context

Country Context

Growth has helped to reduce poverty in Kosovo, but the country remains one of the poorest in Europe. Kosovo's GDP per capita grew from US$1,088 in 2000 to US$3,562 in 2015 (11 percent of the EU average). Despite this tripling of income per capita, however, Kosovo remains the third poorest country in Europe. The World Bank's first poverty assessment for Kosovo estimated that 50 percent of Kosovo's population lived below the national poverty line in 2000, a figure that fell to 30 percent by 2011. The national poverty line was set in 2002/03 and has been updated over time for inflation using the CPI. The poverty line is €1.72 per adult equivalent per day in 2011 prices. The specific poverty estimates from year to year are not strictly comparable because of frequent changes in survey methodology, but extensive sensitivity analysis confirms the downward trend from 2000 to 2011. The years 2009 through 2011 offer the most robust comparisons, and indicate a decline in poverty from 34 percent in 2009 to 30 percent in 2011. Preliminary poverty estimates indicate that poverty fell significantly between 2012 and 2013.

Economic growth in Kosovo has been largely equitable as it helped reduce poverty and raise the incomes of "the bottom 40 percent" (The poorest 40 percent of the consumption distribution of the population.). As roughly 30 percent of Kosovo's population lives below the national poverty line according to the latest available data (2011), considerable overlap exists in the goals of eliminating poverty and promoting the income growth of the poorest 40 percent of the population. Thus, constraints and policy opportunities are similar for both goals of reducing poverty and strengthening shared prosperity. In particular, limited access to public services, including quality health services, have an important impact on poverty.

Sectoral and Institutional Context

Kosovo's public health spending as a share of GDP is low relative to the region and global per capita income comparators. In 2015, public health expenditure in Kosovo was 2.9 percent of GDP. This is considerably lower than the EU average of 7.8 percent and compared to most countries in South Eastern Europe and global per capita income comparators. This contributes to low total health expenditure (4.0 percent of GDP) compared to regional standards.

Public health expenditures account for 71.1 percent of total health expenditures and the share of out-of-pocket payments is relatively high. Private spending, in the form of out-of-pocket (OOP) payments at the point of service, contributes an estimated 28.9 percent in 2015 of total spending in the sector. This proportion of OOP payments is similar to the average for SEE countries, but high in comparison with the EU average. In 2014, the OOP expenditure represented on average 29.6 percent of total spending in SEE countries, 17.8 percent in Turkey, and 16.7 percent share in the EU.

Kosovo does not protect its citizens from the financial costs associated with OOP payments on health according to the World Health Organization (WHO) guidelines. Financial protection is usually measured in terms of OOP payments against a household budget threshold. If out-of-pocket health spending exceeds this certain threshold of total household or total nonfood consumption, then it is considered "catastrophic". Health spending large enough to make a household cross the poverty line is considered "impoverishing". Kosovo fails to meet the WHO's criterion for financial protection, as its share of OOP payments in total health spending exceeds the recommended upper limit of 15-20

percent.

OOP payments are moderately progressive, but this may reflect self-rationing by the poor. The Kakwani index measures financing progressivity as the difference between the concentration index and the gross consumption Gini coefficient. In 2015, the Kakwani index was approximately 0.06, indicating that the rich spent a slightly greater share of their income on OOP payments for health than the poor. OOP payments totaled 3.5 percent of total consumption expenditure for the bottom quintile, and 4.2 percent for the top quintile. This suggests that the poor may forgo treatment due to limited payment capabilities.

Catastrophic spending incidences are more common among the poor. In 2015, 8.6 percent of households exceeded the 10 percent threshold of total household consumption on health. Relative to nonfood consumption, the share was 25.5 percent in 2015. The concentration index indicates how concentrated catastrophic spending was between different wealth groups. In 2015, catastrophic payments were somewhat more concentrated among the poor.

Health expenditures are impoverishing a number of households. In 2015, 17.2 percent of the population of Kosovo was below the poverty line. However, if health expenditures are considered as essential and the poverty threshold is adjusted accordingly, the poverty rate increases to 18.8 percent. This indicates that about 2 percent of the population is not counted as living in poverty but would actually be considered poor if health payments were taken into account, which represents a 9 percent increase in the poverty headcount for 2015. The estimated poverty gap in 2015 also increases – by about 17 percent – when health payments are taken into account. Deducting health payments from non-food expenditures, the normalized mean positive gap increases by about 6.6 percent – from 21.2 percent to 22.6 percent.

The Health Insurance Law (HIL), which was approved in 2014, provides the legal basis for the creation of a social insurance scheme and the associated Health Insurance Fund (HIF). The scheme is expected to raise additional revenues for the health sector, increase financial protection (particularly of the most vulnerable) through risk pooling, and present opportunities to improve service delivery. It will be financed through a combination of payroll tax revenues and flat-rate citizen premiums. The coverage will be mandatory, with penalties for those who do not contribute, though households receiving last resort social assistance and other categories of the population will be exempt from premiums and co-payments. Introducing mandatory health insurance will create opportunities to implement purchasing reforms that could create stronger incentives to improve the quality and efficiency of health services (capitation-based performance payments at the primary health care level and diagnostic-related groups-based payments at the hospital level).

These reforms are supported by the Bank under the Kosovo Health Project (KHP – P147402) and the "Improving Financial Protection and Quality of Care" Trust Fund (TF072309). The Financial Agreement between the Kosovo Government and the International Development Association that supports the Kosovo Health Project (KHP) is worth US$25.5 million. The KHP supports improvements in financial protection from health spending for the poor, and quality of care for priority maternal and child health and non-communicable disease services in Kosovo. The project consists of three components: (i) improvement of financial protection and quality of care through (a) the introduction of mandatory health insurance and investment in priority maternal and child health equipment, and (b) support strategic purchasing of primary health care services and health information system reforms; (ii) strengthening of primary health care through the development of capitation- based performance payments; and (iii) project management. The "Improving Financial Protection and Quality of Care" Trust Fund includes a Bank-Executed component that is already up and running and this Recipient-Executed component. The Bank-Executed component (P150300) amounts to US$1,712,600. It includes technical support for the design, implementation and monitoring of health sector reforms in

Kosovo in three major areas: (i) Procurement systems for drugs and supplies; (ii) Targeting mechanisms to direct health insurance subsidies to the poor; and (iii) Mandatory health insurance and purchasing & service delivery reforms.

Relationship to CPF

Kosovo's development agenda is outlined in the National Development Strategy 2016-2021 (NDS) and the 2016 Economic Reform Program (ERP). The NDS is divided into four thematic pillars: human capital, good governance and rule of law, development of competitive industries and development of infrastructure. Through the activities under these pillars, the strategy aims to support Employment, the Rule of Law, Business Development and Competitiveness and Infrastructure Development.

The Country Partnership Framework (CPF) for Kosovo complements and supports the activities outlined in the NDS that will most effectively contribute to eradicating poverty and improving shared prosperity. The CPF covers the period from July 1, 2016 to June 30, 2021 (fiscal years 2017-21). The CPF has three main areas of focus: (i) Promoting Reliable Energy and Natural Resource Management; (ii) Strengthening Public Service Delivery and Macro-Fiscal Management; and (iii) Enhancing the Conditions for Accelerated Private Sector Led Growth and Employment. Under Focus Area 2, the CPF aims to contribute to broaden the coverage of health services and improve equity of health service delivery as an essential input to strengthen human capital, reduce poverty, and enhance social inclusion. The CPF Results Framework includes the "Improving Financial Protection and Quality of Care" Trust Fund.

C. Project Development Objective(s)

Proposed Development Objective(s)

The proposed Project Development Objective (PDO) is to contribute to the design and implementation of the health sector reforms that aim to improve financial protection and quality of care in the Republic of Kosovo.

Key Results

The key results include:

a) Improved poverty targeting mechanism;

b) Improved client's capacity in areas of policy design and reform implementation, including the number of staff receiving training about the new poverty targeting system.

D. Preliminary Description

Activities/Components

The grant will support two components:

1. Technical support for an improved poverty targeting system. The objective of this component is to support the

design and the implementation of an improved poverty targeting mechanism to target health insurance subsidies. The existing poverty targeting mechanism in Kosovo or the “Last Resort Social Assistance” scheme is already based on a proxy-means test, which is relevant in Kosovo given the high level of informality; however it needs to be fine-tuned as it involves substantial exclusion errors and cumbersome procedures. The improvement of the poverty targeting instrument are also supported under the Bank-Executed component (P150300). The Bank-Executed component supports in particular the development of a new formula based on the latest household budget survey and of a new questionnaire, as well as technical support to further integration of databases of key stakeholders such as the HIF’s Information System, municipal centers for social work, various departments of the MoLSW, and the tax administration. This Recipient-Executed component will include capacity building of institutions that will be in charge of implementing the improved poverty targeting instrument.

2. Study tours and workshops. The objective of this component is to ensure that international best practices are incorporated by the client into policy design and implementation of reforms in procurement systems for drugs and supplies; targeting mechanisms to direct health insurance subsidies to the poor; and mandatory health insurance and purchasing & service delivery reforms. Direct beneficiaries of workshops and study tours will include: MoH, HIF, Kosovo University Clinical and Hospital Services of Kosovo (KUCHS), MoF, and MoLSW staff to support the incorporation of international best practices into the design, implementation, and dissemination of best practices within these institutions. TF audit(s) will also be financed under this component.

SAFEGUARDS

E. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

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Borrower/Client/Recipient

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Implementing Agencies

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