

**INTEGRATED SAFEGUARDS DATA SHEET
CONCEPT STAGE**

Report No.: AC1096

Date ISDS Prepared/Updated: October 19, 2004

I. BASIC INFORMATION

A. Basic Project Data

Country: Kosovo	Project ID: P078674
Project Name: Economic Policy / Public Expenditure Mgmt	Task Team Leader: William R. Dillinger
Estimated Appraisal Date: February 1, 2005	Estimated Board Date: May 19, 2005
Managing Unit: ECSPE	Lending Instrument: Specific Investment Loan
Sector: Central government administration (60%); Health (20%); Transport (20%)	Theme: Administrative and civil service reform (P)
Safeguard Policies Specialists in the task team:	
Loan/Credit amount (\$m.): IDAP: 5.5	
Other financing amounts by source:	(\$m)

B. Project Objectives [from section 2 of PCN]

The project aims to improve efficiency and transparency in key areas of Government operations. These include budget formulation and execution, internal audit, procurement, and civil service. The project also supports key policy and procedural reforms in the transport and health sectors.

C. Project Description [from section 3 of PCN]

Budget Formulation While substantial support is being provided by international advisers to the central institutions involved in the budget process (including particularly the Ministry of Economy and Finance (MEF), the quality of budget submissions prepared by line agencies is poor. Submissions are well outside initial ceilings provided by the MEF. Within the MEF, the budget department lacks the capacity to analyze and challenge budget users' proposals in any depth. This component of the project would focus on two major areas of budget formulation. The first would be a consultancy and training program to build capacity in budget preparation in the four major line ministries (Labor and Social Welfare, Education, Health and Transport). It would pay for long term consultants with specific knowledge of policy and technical issues in the area of each ministry, in addition to experience in budget preparation. To ensure the

transmission of knowledge to local staff, terms of reference would include specific handover provisions and would require the use of local consultants. The second part would focus on building capacity among the budget analysts in the Ministry of Finance. This would include the counterparts of the four major line ministries and the counterpart of the UNMIK-entity responsible for public utilities (KTA). Again, this work would be carried out by long term consultants with specific knowledge in these fields as well as in budget preparation and analysis, supported by local consultants.

Budget Execution Budget execution, performed by the Treasury Department, is relatively efficient and transparent. The Treasury uses a specialized software system to record commitments and payment orders. While municipalities are able to enter data on the system, line ministries are not. Instead, they are required to submit paper copies of commitments and payment orders, which are then entered into the system at Treasury. This delays budget execution and deprives budget managers of real time data on spending. They therefore depend on their own parallel accounting and reporting systems, which are often based on simple spreadsheets. Improvements are in train. The Treasury is in the process of extending its software system to the line ministries. It is likely that much of the technological infrastructure will be in place within the next six months. But the extension of the software system to the line ministries is not simply a matter of technology. It requires extensive training of agency personnel in accounting and financial management, and the development of appropriate guidelines, reporting formats and management procedures. The proposed grant would be used to finance these activities.

Procurement A new Law on Public Procurement (LPP) establishes open tendering as the main procedure for awarding public contracts and imposes controls over the use of other, less competitive procedures. But the new oversight bodies it mandates are not yet operational. Nor have the implementing regulations and standard bidding documents which are required to underpin the new LPP been promulgated. The PISG intends to establish the regulatory authorities shortly. The EAR is financing the drafting of regulations and bidding documents. But even when these activities have been completed, technical assistance will be required to enable the major spending ministries to implement procurement efficiently and cost-effectively. The grant would finance such activities. To improve transparency and accountability in procurement, the grant would also finance the development of a management information system to collect and publish information on public procurement. This would include automated systems for communicating procurement information between the contracting authorities and key executive and oversight bodies, a public procurement website for publication of legislation, regulations, standard forms, invitations to bids, contract award notices, as well as comprehensive information on public procurement operations and performance measurement statistics.

Audit Internal control including internal audit is underdeveloped in Kosovo. There is a lack of comprehensive written procedures for financial management and control processes. Basic control activities, such as reconciliation of accounting and transaction data from different sources, are not performed. The EAR is currently financing a €1.9 million, two-year project aimed at strengthening public internal financial control and internal auditing throughout the PISG. Given the comprehensiveness of the EAR project, Bank assistance in this area would be limited.

Certification can be a strong motivating factor for internal auditors. The grant would finance the costs of sending trainees to take the exams required to become Certified Internal Auditors. External audit of the KCB is currently outsourced to the Netherlands's Court of Audit. An Auditor General's Office (OAG) has been established by UNMIK and an Auditor General has recently been appointed, along with a deputy and twenty local trainees. Funding for the development of the OAG's will be provided from a □2.8 million EAR-financed grant over a period of 44 months. As a result, the need for additional Bank resources is limited and will again be limited to certification.

Public Employment The PISG's ability to improve performance in public expenditure management--and to prepare for the phase out of external assistance—is constrained by the difficulty of recruiting and retaining highly skilled local staff. This is in part due to compressed pay scales within the public sector. Those who are willing to work for the PISG are not always qualified, as cronyism is common and civil service hiring regulations are not observed. At the same time, a significant part of the wage bill is said to be wasted on overstaffing, particularly in support positions in the health and education ministries. A recent EAR-funded review of the pay and grading system recommended a substantial increase in the spread between wages in senior positions and those at lower levels. Although implementation of decompression has been repeatedly delayed, it is now scheduled to go into effect in January 2005. To complement this reform, the proposed grant would focus on improving the enforcement of civil service regulations, both in terms of quantity (to confine hiring to authorized positions) and in terms of quality (to assure that new staff meet the qualifications of the positions they seek.) Addressing the larger problem of overstaffing would be a considerably more ambitious task. A thorough analysis of the staffing needs in each of the major ministries would consume a disproportionate share of the grant's resources. The grant could, however, finance such efforts on a pilot basis.

Health Sector Reforms

The transport and health ministries, as major spending entities, will be targets of assistance in budget formulation and procurement. As noted in the Kosovo TSS, additional support is warranted.

Kosovo inherited a system of publicly financed universal health care from the former Yugoslav regime. This has now crumbled under the combined effects of neglect by Belgrade, ethnic disagreements, and chaos after the break up of the former Yugoslavia. The result is a system that fails to provide basic health care in some jurisdictions, is extremely inefficient in its use of human and physical resources and relies heavily on out-of-pocket payments for financing. Since the end of the conflict, Kosovo has initiated important reforms in the health sector aimed at improving financial sustainability and improving the quality of care. These include the development of an interim health care financing strategy and the development and implementation of new curricula for family doctors, nurses and health care managers. One of the key remaining sources of inefficiency is the excessive use of secondary and tertiary facilities. Primary care physicians are trained in a narrow range of fields. Referrals to more expensive secondary and tertiary facilities are therefore common, imposing costs on both the health care system and on patients (through queuing and increased out-of-pocket costs). The existing financing system is unsustainable and weaknesses in efficiency, equity, and quality of

health services remain. The government intends to address this problem by introducing the family medicine model of primary care. Under this model, doctors receive training in a broad range of primary health care fields, limiting the need for referrals. With support from the EAR and the Finnish Government, over 400 doctors have already completed the 2-3 year training program. But because trainees return to their former organizational environment, the model has yet to take hold. Family doctors have neither the mandate nor the incentive to adopt the family medicine approach.

To address the first of these constraints, the proposed project would support (1) a review of legislation and the drafting of necessary amendments to allow for family medicine implementation; (2) change management training to support micro and macro organizational changes; (3) a media campaign to encourage patients to register with the doctor of their choice; (4) the development of guidelines for disease management and disease prevention for use in primary health care; (5) the development of standards for use of family medicine teams; and (6) the development of clearer referral protocols between the primary and secondary levels of health care. To provide incentives for family physicians to serve their clientele and improve the quality of services, the project would provide support to further define, design, pilot test, evaluate and plan for possible roll-out a new provider payment system, which harbors incentives to improve effectiveness and efficiency of patient treatment at the primary health care level and reduces unnecessary referrals to specialists and hospitals. Patients would be encouraged to register with a physician of their choice, who would then be reimbursed on the basis of the number of registrees (capitation basis). This mechanism has already been tested in one municipality under the Bank-financed Education and Health Project. The proposed project would finance technical assistance for: (1) preparation of a detailed proposal for the new provider payment system, which would build on the experience in the pilot municipality; (2) identification of information needs and flows and the design of a simplified information system to support the preparation, implementation and evaluation of the new mechanism at pilot sites; (3) training for HCCA and participating providers in the essentials of the new system, including development of training programs and materials and delivery of formal and on-the-job training; (4) guidance and support during pilot implementation; and (5) the evaluation of pilots at six month intervals, with a final evaluation during the last year of project implementation. This component could also fund communication campaigns to inform the public, policy makers, and healthcare providers of the rationale for the reforms and the details of its implementation.

The project would also finance technical assistance for strategic planning and management within the Ministry of Health. One of the major barriers to implementation of proposals made through technical assistance provided by various donors has been limited stakeholder ownership of both the concepts and processes associated with reforms. This has been the result of frequent changes in leadership, especially at the centre in both top (Minister and Permanent Secretary) and in middle management. The limited capacity within the Ministry, coupled with the high turnover of key staff, delays in the appointment of staff in key positions, limited health information, statistics, and financial data, and lack of financing accounting and management capacity across health institutions, have jeopardized implementation of reforms. The skill development training would focus on management; policy development and evaluation; team work skills, communication and public relations; and computer competence.

Transport Sector Reforms

Long-standing neglect of maintenance and the recent conflict have had a significant impact on Kosovo's road network. In addition to bombed bridges and landslides, a significant part of the network is still in very poor condition. Road maintenance, now carried out through contractors, has been persistently under-funded, while funds are exhausted on new works, some of which are not economically justified. This has resulted in a continuous deterioration of the road network partially mitigated by the rehabilitation of the sections financed by the donor community in the past four years. The poor road network is hampering the regional integration of Kosovo and will keep the country outside of the regional trade flows. Traffic congestion in the main cities and at the border crossing with FYRMacedonia is also a problem. Pristina has experienced explosive growth due to the effects of the Kosovo conflict. The population of the city has more than doubled over the past decade to over 500,000 persons and now constitutes about ¼ of the total population of Kosovo. As the city is the dominant commercial and administrative center of the region, a functioning urban road system is crucial to the economy of Kosovo. Traffic safety is also an issue with 900 accidents involving 1,470 injured and 160 fatalities in 2001, according to UNMIK records. The Government's immediate strategy for the roads sector is to rehabilitate most of the damaged parts of the road network and reduce the road maintenance backlog as soon as possible. The long-term strategy is to build institutions which will be capable of administering and managing the road network, involving primarily the Ministry of Transport and the Department of Roads. Some initial steps have been taken, including the establishment of a regulatory framework in line with EU requirements. Technical capacity has also improved but still relies heavily on international support.

To support the Government's objectives, this component of the proposed project would support: (1) the development and implementation of a funding policy for road maintenance (based on the recently completed Road User Charge Study); (2) the introduction of a system for economic prioritization of projects; (3) the development of a traffic management capability for Pristina Municipality/urban area; and (4) a traffic safety awareness to reduce accident casualties (based on the recent Traffic Safety Study).

D. Project location (if known)

All but one component of the project supports national-level reforms in policies and procedures, with no specific geographical location. The traffic management component would benefit the city of Pristina.

E. Borrower's Institutional Capacity for Safeguard Policies [from PCN]

The project would be implemented by the Ministries of Finance, Health, and Transport.

II. SAFEGUARD POLICIES THAT MIGHT APPLY

Applicable?	Safeguard Policy If Applicable, How Might It Apply?
[n]	Environmental Assessment (OP/BP 4.01)
[n]	Natural Habitats (OP/BP 4.04)
[n]	Pest Management (OP 4.09)
[n]	Involuntary Resettlement (OP/BP 4.12)
[n]	Indigenous Peoples (OD 4.20)
[n]	Forests (OP/BP 4.36)
[n]	Safety of Dams (OP/BP 4.37)
[n]	Cultural Property (draft OP 4.11 - OPN 11.03)
[n]	Projects in Disputed Areas (OP/BP/GP 7.60)*
[n]	Projects on International Waterways (OP/BP/GP 7.50)

Environmental Assessment Category:

A B C FI TBD (to be determined)

As the project includes no civil works, it is given a C rating. The project includes no resettlement or land acquisition.

III. SAFEGUARD PREPARATION PLAN

- A. Target date for the Quality Enhancement Review (QER), at which time the PAD-stage ISDS would be prepared.
- B. For simple projects that will not require a QER, the target date for preparing the PAD-stage ISDS: February 7, 2005
- C. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing¹ should be specified in the PAD-stage ISDS. No studies will be needed.

* *By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas*

¹ Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in-country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.

IV. APPROVALS

<i>Signed and submitted by:</i>		
Task Team Leader:	William R. Dillinger	Date
<i>Approved by:</i>		
Regional Safeguards Coordinator:	Ronald Hoffer	Date
Comments		
Sector Manager:	Deborah Wetzel	Date
Comments		

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