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The World Bank

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Report No: RES24120

Restructuring PAPER

ON A

PROPOSED Project restructuring

of

KOSOVO FINANCIAL SECTOR STRENGTHENING AND MARKET INFRASTRUCTURE

PROJECT (P108080)

LOAN NO. IDA-50060 AND GRANT NO. IDA-H3410

APPROVED BY THE BOARD ON DECEMBER 13, 2007

TO THE

Republic of Kosovo

June 16, 2016

Finance & Markets Global Practice (GFMDR)

Europe and Central Asia Vice-Presidency (ECAVP)

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ABBREVIATIONS AND ACRONYMS

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| RVP  CBK  BCC RTGS | Regional Vice President  Central Bank of Kosovo  Business Continuity Center  Real Time Gross Settlement System |
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| Regional Vice President: |  | Cyril E Muller |
| Country Director:  Senior Global Practice Director: |  | Ellen A. Goldstein  Gloria M. Grandolini |
| Practice Manager/Manager: |  | Aurora Ferrari |
| Task Team Leader: |  | Johanna Jaeger |

**REPUBLIC OF KOSOVO**

**Kosovo Financial Sector Strengthening and Market Infrastructure Project (P108080)**

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| **DATA SHEET** | | | | | | | | | | | | | | | | | | | | | | | |
| *Kosovo* | | | | | | | | | | | | | | | | | | | | | | | |
| *Kosovo Financial Sector Strengthening & Market Infrastructure Project (P108080)* | | | | | | | | | | | | | | | | | | | | | | | |
| *EUROPE AND CENTRAL ASIA* | | | | | | | | | | | | | | | | | | | | | | | |
| *Finance & Markets* | | | | | | | | | | | | | | | | | | | | | | | |
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| **Basic Information** | | | | | | | | | | | | | | | | | | | | | | | |
| Project ID: | | | | | | P108080 | | | | | Lending Instrument: | | | | | | | Technical Assistance Loan | | | | | |
| Regional Vice President: | | | | | | Cyril E Muller | | | | | Original EA Category: | | | | | | | Not Required (C) | | | | | |
| Country Director: | | | | | | Ellen A. Goldstein | | | | | Current EA Category: | | | | | | | Not Required (C) | | | | | |
| Senior Global Practice Director: | | | | | | Gloria M. Grandolini | | | | | Original Approval Date: | | | | | | | 13-Dec-2007 | | | | | |
| Practice Manager/Manager: | | | | | | Aurora Ferrari | | | | | Current Closing Date: | | | | | | | 30-Jun-2016 | | | | | |
| Team Leader(s): | | | | | | Johanna Jaeger | | | | |  | | | | | | |  | | | | | |
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| Borrower: | | | Ministry of Finance | | | | | | | | | | | | | | | | | | | | |
| Responsible Agency: | | | Central Banking Authorities of Kosovo, Kosovo Banking Association, Association of Microfinance Institutions of Kosovo (AMIK), Deposit Insurance Fund of Kosovo, | | | | | | | | | | | | | | | | | | | | |
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| **Restructuring Type** | | | | | | | | | | | | | | | | | | | | | | | |
| Form Type: | | | | | Short Form | | | | | | Decision Authority: | | | | RVP Decision | | | | | | | | |
| Restructuring Level: | | | | | Level 2 | | | | | | Explanation of Approval Authority: | | | | The proposed closing date extends the project by two years or more from the original closing date and required RVP's approval. | | | | | | | | |
| . | | | | | | | | | | | | | | | | | | | | | | | |
| **Financing ( as of 14-Jun-2016 )** | | | | | | | | | | | | | | | | | | | | | | | |
| **Key Dates** | | | | | | | | | | | | | | | | | | | | | | | |
| Project | Ln/Cr/TF | | | Status | | | Approval Date | | | Signing Date | | | Effectiveness Date | | | Original Closing Date | | | | | Revised Closing Date | | |
| P108080 | IDA-50060 | | | Effective | | | 14-Jun-2011 | | | 03-Aug-2011 | | | 25-Jan-2012 | | | 30-Jun-2014 | | | | | 30-Jun-2016 | | |
| P108080 | IDA-H3410 | | | Effective | | | 13-Dec-2007 | | | 14-Dec-2007 | | | 03-Jan-2008 | | | 30-Jun-2010 | | | | | 30-Jun-2016 | | |
| **Disbursements (in Millions)** | | | | | | | | | | | | | | | | | | | | | | | |
| Project | Ln/Cr/TF | | | Status | | | Currency | | Original | | Revised | | | Cancelled | Disbursed | | | | Undisbursed | | | | % Disbursed |
| P108080 | IDA-50060 | | | Effective | | | XDR | | 4.30 | | 4.30 | | | 0.00 | 3.22 | | | | 1.08 | | | | 75 |
| P108080 | IDA-H3410 | | | Effective | | | XDR | | 1.30 | | 1.30 | | | 0.00 | 1.17 | | | | 0.13 | | | | 90 |
| . | | | | | | | | | | | | | | | | | | | | | | | |
| **Policy Waivers** | | | | | | | | | | | | | | | | | | | | | | | |
| Does the project depart from the CAS/CPF in content or in other significant respects? | | | | | | | | | | | | | | | | | Yes [ ] | | | | | No [ X ] | |
| Does the project require any policy waiver(s)? | | | | | | | | | | | | | | | | | Yes [ ] | | | | | No [ X ] | |
| . | | | | | | | | | | | | | | | | | | | | | | | |
| **A. Summary of Proposed Changes** | | | | | | | | | | | | | | | | | | | | | | | |
| The closing date of the project is being extended by six months from June 30, 2016 to December 31, 2016 to complete the two remaining activities: achieving a fully-automatic, operational Real Time Gross Settlement System (RTGS) and completing refurbishment of the Business Continuity Center. In addition, savings accumulated under IDA 50060-XK of XDR 80,000 from Category 1 (Part I) and XDR 50,000 from Category 2 (Part IV) will be re-allocated to Category 3 (Part V) to accommodate additional costs associated with BCC implementation. | | | | | | | | | | | | | | | | | | | | | | | |
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| **B. Project Status** | | | | | | | | | | | | | | | | | | | | | | | |
| The original US$2 million IDA technical assistance grant was approved on December 13, 2007. Additional Financing of US$6.85 million IDA credit was approved on June 13, 2011, with a closing date of June 30, 2014.    The original project was called the Financial Sector Technical Assistance Project and had three components:  1. strengthening the Central Bank of Kosovo (CBK)'s institutional capacity and the regulatory and supervisory framework for banks and non-banks  2. strengthening the microfinance industry to achieve sustainability and expand outreach  3. strengthening the capacity of the Kosovo Bankers Association to provide adequate training to local banks    A level 1 restructuring and additional financing in June 2011 introduced three new components, increased IDA financing to US$8.85 million, extended the closing date, and changed the name of the project to Financial Sector Strengthening and Market Infrastructure Project. The following new components were introduced:  4. establishment of a Real Time Gross Settlement System (RTGS)  5. establishment of a Business Continuity Center (BCC)  6. provision of seed funding to the Deposit Insurance Fund of Kosovo    In 2014, the project was extended for additional two years due to delays faced in three (Component 1, 4 and 5) out of six components.    To date, four of six components have been implemented satisfactorily, with lengthy delays in the other two. Specifically:    - Component 1 - the majority of the activities in this component have been completed successfully. The final activity, a feasibility study for the establishment of a Training Center will be completed by the Fall 2016.  - Components 2 and 3 have achieved their objectives and have fully disbursed.  - Components 4 and 5 have been delayed and have shown slow progress. Delays under these components are the reason for the proposed extension.  - Component 6, which is the largest part of the project (US$4m), and involved providing the Deposit Insurance Fund of Kosovo with seed capital, has satisfactorily disbursed.    Continued progress has been made to ensure that activities are completed within the period of the proposed extension. Specifically, the following activities were completed:    - Component 1: Implementation of the off-site supervision software completed by May 15, 2016.  - Component 4: CBK agreed to cover the costs for the IT interface from its own funds as the supplier was not able to agree to all elements of the Bank’s standard contract provisions by end-March 2016.  - Component 5: Usage and construction permits have been issued by the Municipality of Prizren by June 13, 2016 and refurbishment works restarted by June 14, 2016.    Component 4 (Establishment of a Real Time Gross Settlement System (RTGS)) has been significantly delayed in its two-stage bidding process which included a first stage bid evaluation phase which lasted from September 2014 to March 2015. Implementation started on June 29, 2015 with the aim to launch a fully operational RTGS on June 3, 2016. However, a necessary IT interface could not be purchased under the project as the supplier was not able to agree to all elements of the Bank’s standard contract provisions. CBK therefore agreed to cover the costs for the IT interface from its own funds in March 2016. With this issue resolved, the RTGS testing and pilot run phase is currently being completed with the aim to achieving a fully-automatic, operational RTGS by July 2016.    In Component 5 (Establishment of a Business Continuity Center), implementation delay was primarily due to the unclear ownership of the building that was scheduled for renovation. As a result, the works had to be suspended in August 2015 due to complaints filed by interest groups to the Municipality of Prizren. The Municipality of Prizren has now issued the usage permit on April 28, 2016, followed by the construction permit issuance on June 13, 2016. This will allow the BCC contractor to continue refurbishment works with the aim to complete all works by mid October 2016.    The causes of the delays in the three components have been resolved, and the project is now back on track (with satisfactory ratings). Based on this progress, it is expected that the PDO can be achieved with an extension of the project for six months.  Financial management is rated satisfactory. There are no outstanding financial management issues and audits. The audit report for the year ended December 31, 2015 is expected by July 31, 2016. | | | | | | | | | | | | | | | | | | | | | | | |
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| **C. Proposed Changes** | | | | | | | | | | | | | | | | | | | | | | | |
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| **Financing** | | | | | | | | | | | | | | | | | | | | | | | |
| **Change in Loan Closing Date(s):** | | | | | | | | | | | | | | | | | | | | | | | |
| Explanation | | | | | | | | | | | | | | | | | | | | | | | |
| On June 10, 2016, the Ministry of Finance of Kosovo requested a six-month extension of the project in order to ensure sufficient time for implementation of the ongoing activities, most notably establishing a fully-automatic, operational RTGS and completing refurbishment of the Business Continuity Center (as described in details in the above section). Based on the government request and progress made on the project implementation to date, the loan closing date is being extended from June 30, 2016 to December 31, 2016. | | | | | | | | | | | | | | | | | | | | | | | |
| **Ln/Cr/TF** | | **Status** | **Original Closing Date** | | | | | **Previous Closing Date(s)** | | | | **Current Closing Date** | | | **Proposed Closing Date** | | | | | **Proposed Application Deadline Date** | | | |
| IDA-50060 | | Effective | 30-Jun-2014 | | | | | 30-Jun-2014, 30-Jun-2016 | | | | 30-Jun-2016 | | | 31-Dec-2016 | | | | | 30-Apr-2017 | | | |
| IDA-H3410 | | Effective | 30-Jun-2010 | | | | | 30-Jun-2011, 30-Jun-2014  , 30-Jun-2016 | | | | 30-Jun-2016 | | | 31-Dec-2016 | | | | | 30-Apr-2017 | | | |
| **Reallocations** | | | | | | | | | | | | | | | | | | | | | | | |
| Explanation | | | | | | | | | | | | | | | | | | | | | | | |
| Savings accumulated under IDA 50060-XK of XDR 80,000 from Category 1 (Part I) and XDR 50,000 from Category 2 (Part IV) will be re-allocated to Category 3 (Part V). CBK would like to utilize savings to cover the overdraft encountered in Category 3 (Part V) of the project due to higher than expected implementation costs related to the Business Continuity Center. | | | | | | | | | | | | | | | | | | | | | | | |
| **Ln/Cr/TF** | | **Currency** | **Cat.No.** | | | **Current Category of Expenditure** | | | **Allocation** | | | | | | | | | | **Disbursement % (Type Total)** | | | | |
|  | |  |  | | |  | | | **Current** | | **Actual Disbursements** | | | **Pending Commitments** | **Proposed** | | | | **Current** | | | | **Proposed** |
| IDA-50060-001 | | XDR | 1 | | | GO,CS,TR-Part I | | | 80,000.00 | | 0.00 | | | 0.00 | **0.00** | | | | 100.00 | | | | 100.00 |
|  | |  | 2 | | | G,CS-Part IV | | | 1,200,000.00 | | 447,137.73 | | | 0.00 | **1,150,000.00** | | | | 100.00 | | | | 100.00 |
|  | |  | 3 | | | G,W,CS-Part V | | | 540,000.00 | | 290,738.45 | | | 0.00 | **670,000.00** | | | | 100.00 | | | | 100.00 |
|  | |  | 4 | | | Initial contr.to DIFK-Part VI | | | 2,480,000.00 | | 2,479,961.17 | | | 0.00 | 2,480,000.00 | | | | 100.00 | | | | 100.00 |
|  | |  |  | | | **Total:** | | | 4,300,000.00 | | 3,217,837.35 | | | 0.00 | 4,300,000.00 | | | |  | | | |  |
| IDA-H3410-001 | | XDR | 1 | | | GO,CS,TR/A part | | | 955,000.00 | | 796,728.78 | | | 51,205.27 | 955,000.00 | | | | 100.00 | | | | 100.00 |
|  | |  | 2 | | | CS,TR/B part | | | 155,000.00 | | 156,054.85 | | | 0.00 | 155,000.00 | | | | 100.00 | | | | 100.00 |
|  | |  | 3 | | | CS,TR/C part | | | 145,000.00 | | 134,725.72 | | | 0.00 | 145,000.00 | | | | 100.00 | | | | 100.00 |
|  | |  | 4 | | | PMT TR,AUDIT | | | 45,000.00 | | 30,103.87 | | | 0.00 | 45,000.00 | | | | 100.00 | | | | 100.00 |
|  | |  |  | | | **Total:** | | | 1,300,000.00 | | 4,335,450.57 | | | 51,205.27 | 1,300,000.00 | | | |  | | | |  |