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Report No: PADHI01040

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF EUR 49.3 MILLION
US$52 MILLION EQUIVALENT

TO THE

REPUBLIC OF KOSOVO

FOR A

KOSOVO FINANCIAL SECTOR DEVELOPMENT
(P507881)

DECEMBER 16, 2024

Finance, Competitiveness, and Investment
Europe and Central Asia

CURRENCY EQUIVALENTS

(Exchange Rate Effective November 30, 2024)

Currency Unit =	EURO (EUR)
EUR 0.95 =	US$1
EUR1 =	US$1.06

FISCAL YEAR
January 1 - December 31

Regional Vice President:	Antonella Bassani
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ABBREVIATIONS AND ACRONYMS

AFM	Available Financial Means
BRRD	Bank Recovery and Resolution Directive
CBAM	Carbon Border Adjustment Mechanism
CBK	Central Bank of Kosovo
CEO	Chief Executive Officer
CGS	Credit Guarantee Scheme
CSD-IDP	Central Support Division for the Implementation of Development Project
DA	Designated Account
DFIL	Disbursement and Financial Information Letter
DGSD	Deposit Guarantee Schemes Directive
DIF	Deposit Insurance Fund
DIFK	Deposit Insurance Fund of Kosovo
E&S	Environmental and Social
EBA	European Banking Authority
ERP	Economic Recovery Package
ERR	Economic Rate of Return
ESCP	Environmental and Social Commitment Plan
ESMS	Environmental and Social Management System
ESF	Environmental and Social Framework
EU	European Union
FIF	Financial Intermediary Financing
FinSAC	Financial Sector Advisory Center
FM	Financial Management
FPS	Fast Payment Systems
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
IA	Implementing Agency
IADI	International Association of Deposit Insurers
IFI	International Financial Institution
IFR	Interim Financial Report
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IPF	Investment Project Financing
KCGF	Kosovo Credit Guarantee Fund
LB	Law on Banks
LDI	Law on Deposit Insurance
M&E	Monitoring and Evaluation
MFD	Maximizing Finance for Development
MoFLT	Ministry of Finance, Labour, and Transfers

MSMEs	Micro, Small, and Medium Enterprises
NDB	National Development Bank
NPV	Net Present Value
PBC	Performance-Based Condition
PCE	Private Capital Enabling
PCG	Partial Credit Guarantee
PCM	Private Capital Mobilization
PDO	Project Development Objective
PFI	Participating Financial Institution
PFS	Project Financial Statement
PIU	Project Implementation Unit
POM	Project Operations Manual
PPDO	Project Procurement Development Objective
PPP	Purchasing Power Parity
PPSD	Project Procurement Strategy for Development
PSP	Payment Service Provider
RoE	Return on Equity
SEP	Stakeholder Engagement Plan
SEPA	Single Euro Payments Area
SMEs	Small and Medium Enterprises
SOE	State-Owned Enterprise
TA	Technical Assistance
UMIC	Upper-Middle-Income Country
UN	United Nations
USAID	US Agency for International Development
WB6	Western Balkans 6

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DATASHEET

BASIC INFORMATION

Project Beneficiary(ies)	Operation Name		
Kosovo	Kosovo Financial Sector Development		
Operation ID	**Financing Instrument**	**Environmental and Social Risk Classification**	
P507881	Investment Project Financing (IPF)	Moderate	

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[✓] Fragile State(s)
[✓] Performance-Based Conditions (PBCs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternative Procurement Arrangements (APA)	[ ] Hands-on Expanded Implementation Support (HEIS)

Expected Approval Date	Expected Closing Date
16-Jan-2025	30-Jun-2030
Bank/IFC Collaboration	
No	

Proposed Development Objective(s)

To enhance financial stability and inclusion in Kosovo through strengthening capacity of the deposit insurance fund, financing underserved firms, and catalyzing faster payments.

Components

Component Name	Cost (US$)
Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund	25,000,000.00
Component 2a: Providing Partial Credit Guarantees to MSMEs	5,000,000.00
Component 2b: Establishing a National Development Bank	16,000,000.00
Component 3: Catalyzing Faster Payments	5,000,000.00
Component 4: Project Management	1,000,000.00

Organizations

Borrower:	Republic of Kosovo		
Contact	Title	Telephone No.	Email
Dije Rizvanolli	Director, Ministry of Finance, Labor, and Transfers	+383 (0) 38 200 215-05	dije.rizvanolli@rks-gov.net

Implementing Agency:	Central Bank of Kosovo, Deposit Insurance Fund of Kosovo-DIFK, Kosovo Credit Guarantee Fund (KCGF)		
Contact	Title	Telephone No.	Email
Dardan Fusha	Vice Governor	+381 38 222 055	Dardan.Fusha@bqk.kos-org
Shqipe Devaja	Managing Director	38610355	shqipedevaja@fsdk.org
Besnik Berisha	Managing Director	38610000	besnik.berisha@fondikgk.org

PROJECT FINANCING DATA (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Operation Cost	**231.00**
Total Financing	**231.00**
of which IBRD/IDA	**52.00**

Financing Gap	**0.00**

DETAILS

World Bank Group Financing

International Development Association (IDA)	52.00
of which IDA Recommitted	4.80
IDA Credit	37.00
IDA Shorter Maturity Loan (SML)	15.00

Non-World Bank Group Financing

Commercial Financing	179.00
Unguaranteed Commercial Financing	179.00

IDA Resources (US$, Millions)

	Credit Amount	Grant Amount	SML Amount	Guarantee Amount	Total Amount
National Performance-Based Allocations (PBA)	37.00	0.00	15.00	0.00	52.00
Total	**37.00**	**0.00**	**15.00**	**0.00**	**52.00**

Expected Disbursements (US$, Millions)

WB Fiscal Year	2025	2026	2027	2028	2029	2030
Annual	0.05	29.50	13.50	2.80	5.60	0.55
Cumulative	0.05	29.55	43.05	45.85	51.45	52.00

PRACTICE AREA(S)

Practice Area (Lead) **Contributing Practice Areas**

Finance, Competitiveness and Innovation

CLIMATE

Climate Change and Disaster Screening

Yes, it has been screened and the results are discussed in the Operation Document

SYSTEMATIC OPERATIONS RISK- RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Overall	Moderate

POLICY COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

ENVIRONMENTAL AND SOCIAL

Environmental and Social Standards Relevance Given its Context at the Time of Appraisal

E & S Standards	Relevance
ESS 1: Assessment and Management of Environmental and Social Risks and Impacts	Relevant
ESS 10: Stakeholder Engagement and Information Disclosure	Relevant
ESS 2: Labor and Working Conditions	Relevant
ESS 3: Resource Efficiency and Pollution Prevention and Management	Relevant
ESS 4: Community Health and Safety	Relevant
ESS 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement	Not Currently Relevant
ESS 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources	Not Currently Relevant
ESS 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities	Not Currently Relevant
ESS 8: Cultural Heritage	Relevant
ESS 9: Financial Intermediaries	Relevant

NOTE: For further information regarding the World Bank’s due diligence assessment of the Project’s potential environmental and social risks and impacts, please refer to the Project’s Appraisal Environmental and Social Review Summary (ESRS).

LEGAL

Legal Covenants

Sections and Description

Conditions

Type	Citation	Description	Financing Source
Effectiveness	Article 4.01. (a)	The Recipient has adopted the Project Operations Manual, in accordance with the provisions of Section I.C.1(b)ii of Schedule 2 to this Agreement.	IBRD/IDA
Effectiveness	Article 4.01. (b)	The Recipient has recruited into its Project Implementation Unit: a procurement specialist, an	IBRD/IDA

		environmental specialist, a social specialist and a financial management specialist, each with qualifications and experience and terms of reference, and in a manner satisfactory to the Association.	
Effectiveness	Article 4.01. (c)	The respective Subsidiary Agreements have been duly executed and delivered between the Recipient and respectively the Central Bank of Kosovo, the Deposit Insurance Fund of Kosovo and the Kosovo Credit Guarantee Fund, in accordance with the provisions of Section I.B of Schedule 2 to this Agreement.	IBRD/IDA
Disbursement	B.1.D	Recipient has: (i) enacted a law establishing the National Development Bank consistent with internationally accepted good practices as detailed in the Project Operations Manual and receipt by the Bank of a legal opinion by a legal counsel, acceptable to the Association, confirming that NDB has been duly established and has the mandate and capacity to perform the functions and obligations assigned to it under the Project;	IBRD/IDA

I. STRATEGIC CONTEXT

A. Project Strategic Context

1. **Kosovo has experienced solid economic growth over the last decade, but as a small, unilaterally Euroized, and open economy, it remains vulnerable to shocks.** With a population of just below 1.7 million, Kosovo transitioned to upper-middle-income status in 2018 and has shown significant resilience in the face of multiple shocks since 2020. Labor formalization has recently gained momentum, and the unemployment rate dropped significantly to 10.9 percent in 2023,[1] driven by higher activation but also outmigration. Female labor force participation remains a binding constraint, with about one in four women participating in the labor market in 2023. Consumption, service exports, and real estate investment—driven partly by diaspora financing inflows—have provided the highest contribution to growth; recent increases in manufacturing and information and communication technology (ICT) service exports are encouraging. Structurally high levels of trade deficit underscore the significant need for improved competitiveness. Furthermore, Kosovo is exposed to multiple natural hazards (for example, wildfire and flash floods), and unpredictable extreme events are expected to increase, making Kosovo vulnerable to the impacts of climate change.[2] Kosovo has a proven track record in prudent macro-fiscal management and, with the lowest public debt levels in Europe and Central Asia, can carefully leverage its available fiscal space to address its structural development needs.

2. **Kosovo has enacted reforms aimed at fostering a dynamic economy and aligning with its goal of joining the European Union (EU).** Despite a decade of economic progress, Kosovo's gross domestic product (GDP) per capita in purchasing power parity (PPP) terms remains at one-fourth of the EU member country average in 2023,[3] and an acceleration in the implementation of structural reforms is needed to enhance competitiveness and close the income gap with comparable peers faster.[4] Limited firm dynamism and access to finance hamper competitiveness, and labor productivity in Kosovo is one-third of the average country in the EU. The business environment is predominated by small firms. As a potential candidate to the EU,[5] Kosovo pursues greater economic integration within Europe with the goal of addressing structural constraints and unlocking higher growth. Kosovo is part of the Western Balkans Six (WB6) countries pursuing digitalization of their economies and greater economic integration with each other and the EU, including through trade and transport facilitation, payment systems, and access to the Single Euro Payments Area (SEPA). Kosovo is not a member of the United Nations (UN),[6] underscoring the importance of the Berlin Process and the EU integration path for further trade integration, institutional development, and enhanced competitiveness.

B. Sectoral and Institutional Context

3. **Kosovo faces challenges to build a stable, inclusive, and modernized financial system that can leverage opportunities for growth and minimize financing gaps.** Financial stability is important to support the efficient allocation of resources, help maintain employment levels and reduce relative price movements of assets that can affect monetary stability. While Kosovo's financial sector remains resilient post pandemic, key financial stability indicators and aspects of financial safety net development lag regional and income peers, making this non-crisis period an opportune time for strengthening. Opportunities to enhance credit exist to the private sector, by addressing constraints that inhibit the

[1] From a pre-pandemic average of above 25 percent. Kosovo Labor Force Survey.
[2] Western Balkans 6 CCDR (https://www.worldbank.org/en/region/eca/publication/western-balkans-6-ccdr).
[3] World Development Indicators, GDP per capita, PPP (constant 2021 international $).
[4] World Bank. 2021. *Kosovo Country Economic Memorandum*. https://hdl.handle.net/10986/36896.
[5] https://neighbourhood-enlargement.ec.europa.eu/enlargement-policy/glossary_en#potential-candidates.
[6] For more information, see the 2021 World Bank Kosovo Risk and Resilience Assessment.

efficient financing of key segments of the economy; small business, women-owned[7] and exporting firms; green projects such as renewable and energy efficiency projects and projects to deal with the effects of increased temperatures and droughts;[8] sustainable infrastructure projects; and new industries. Opportunities also exist to enhance payments systems, including the introduction of fast payment systems (FPS) that allow for the immediate or near-real-time transfer of funds between accounts. FPS can improve financial sector efficiency by leveraging transactional data and enabling revenue-based lending that helps foster access to finance, including to small businesses lacking collateral. It can also help modernize financial systems, particularly the digitalization of payments, which have served as an entry point for many as a more efficient and inclusive entry point into formal finance. A recent World Bank Group report noted that investments in payments will be needed in Kosovo to enable a rapid expansion in social protection programs to allow quicker financial response to disasters and access to social protection payments by households when climate shocks and other adverse events occur.[9]

Table 1. Key Financial Stability Indicators for Kosovo and Regional Peers

Economy	***Capital***			***Liquidity***			***Profitability***		***Exposures***	
	Regulatory capital / RWA	Tier 1 capital / RWA	Tier 1 capital / total assets	Liquid assets / total assets	Liquid assets / short-term liabilities	Deposits / total noninterbank loans	Return on assets	Return on equity	NPLs net of provisions / capital	NPLs / total gross loans
Kosovo	15.8	14.1	10.2	23.1	31.7	118.8	2.8	21.0	4.2	2.1
Average: Western Balkans	19.2	18.0	10.7	26.6	39.1	139.3	2.6	19.6	5.4	3.6
Average: EU peers	22.0	20.3	8.6	29.9	41.2	123.3	2.1	17.1	7.2	2.9

Sources: International Monetary Fund (IMF) Financial Soundness Indicators, supplemented with statistics from the National Bank of Romania and National Bank of Serbia.
Note: RWA = Risk Weighted Asset, Western Balkans refer to Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia, and Serbia. EU peers refer to Bulgaria, Croatia, Poland, and Romania. The curves depict 10-year trends with the general cutoff date of 2024 Q2.

4. **Kosovo's financial sector is dominated by private commercial banks, with the banking sector lagging regional peers with respect to capitalization and liquidity buffers.** Currently, 11 private banks operate in Kosovo, holding 66.3 percent of total financial sector assets, with pension funds (25.7 percent), non-bank financial institutions (5 percent), and insurance (3 percent) making up the remainder. Eight banks are foreign owned, and their assets comprise 83.1 percent of total banking system assets.[10] Assets by the largest three banks amounted to 51.2 percent of the system. For the commercial banking sector,[11] the capital adequacy ratio has declined from 17.4 percent in 2020 to 15.5 percent in 2023 (table 1), remaining above the regulatory minimum of 12 percent but lagging regional peers. Liquidity buffers, including measured by the liquid assets to short-term liabilities ratio (34.7 percent as of end-2023), have also reduced in recent years. However, nonperforming loans (NPLs) have remained stable at 2.1 percent in July 2024, and loan loss provisions to NPLs were 125.1 percent, both of which are in line with regional peers. As of July 2024, 10.5 percent of the banking sector balance sheet is allocated to securities, mostly euro-denominated and with limited exposure to the Kosovo government.

[7] Lack of reliable credit history information and problems with property and land registration also constrain smaller firms' access to credit. Exporting firms, particularly in manufacturing, face challenges accessing finance, with firms noting in surveys that they use their own financial resources to fund their export contracts, often due to difficulty attaining collateral from banks.
[8] Western Balkans 6 CCDR (https://www.worldbank.org/en/region/eca/publication/western-balkans-6-ccdr).
[9] World Bank Group. Western Balkans 6 Kosovo Country Compendium. Country Climate and Development Report (CCDR). September 2024
[10] CBK Financial Stability Report 2023.
[11] CBK Monthly Information Report of the Financial System.

Direct interbank exposures in the local system are similarly limited, although monitoring bank-level risks remains important to assess vulnerability to credit and liquidity shocks.

5. **While institutional capacity to manage Kosovo's financial safety net has strengthened, challenges remain in the financial and operational aspects of the crisis management framework.** Kosovo has improved its banking regulation regime as part of financial sector modernization, with the Central Bank of Kosovo (CBK) issuing regulations to align with Basel III on bank liquidity risk management including on liquidity coverage ratio and net stable funding ratio requirements.[12] A risk-based banking supervisory approach has been adopted by the CBK in 2022. A Financial Stability Committee based on a Memorandum of Understanding signed between the Ministry of Finance, Labour, and Transfers (MoFLT); the CBK; and the Deposit Insurance Fund of Kosovo (DIFK) was established in 2020. However, without independent monetary policy instruments, emergency liquidity assistance to solvent banks may only draw upon the CBK and MoFLT reserve funds, which in the CBK case is augmented with the European Central Bank (ECB) and IMF contingency lines. A draft Law on Banks (LB) is expected to introduce the framework for bank resolution according to the EU Bank Recovery and Resolution Directive (BRRD), while leaving room for existing intervention modalities in the bank liquidation and official administration framework.

6. **As part of the financial safety net, DIFK has improved its operational capacity in recent years, but the deposit coverage limit is no longer adequate as the economy develops.** DIFK is an independent public institution established in 2011 with the legal mandate (Law No. 03/L-216) to protect deposits by natural and legal persons in all deposit-taking institutions and support the CBK in fostering the soundness, solvency, and efficient functioning of a stable, market-based financial system**.** As of end-2023, 1.467 out of 1.474 million depositors in Kosovo received deposit insurance by DIFK. Under the current legal framework, eligible deposits shall be compensated up to the coverage limit of EUR 5,000 within 30 days of an insurance event, that is, upon the revocation of license and the initiation of receivership of DIFK member institutions, a far longer time frame than the seven days recommended by the Deposit Guarantee Schemes Directive (DGSD). Furthermore, the EUR 5,000 coverage limit lags regional peers and is far from the EU limit of EUR 100,000 (figure 1). Since the last increase in coverage in 2018, the rate of deposit growth has averaged 12.9 percent, reducing the share of depositors benefiting from full coverage to 82.3 percent, below the range recommended by the standard-setting International Association of Deposit Insurers (IADI) (figure 2). Deposit insurance now covers less than the per capita Gross National Income (GNI).

Figure 1. Deposit Insurance Coverage (EUR)

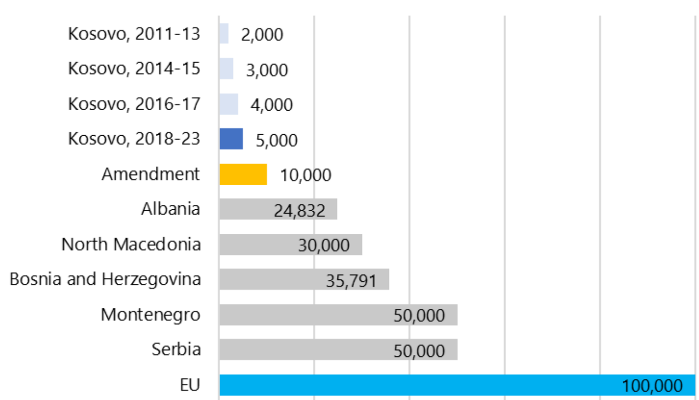
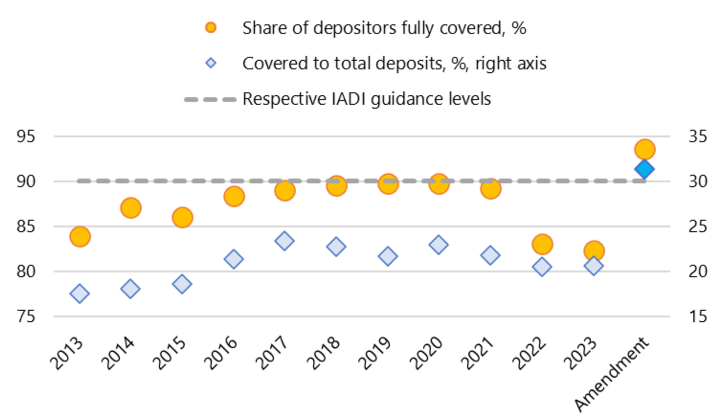


Figure 2. Benchmarking Adequacy of Deposit Protection



Sources: Applicable laws and directive in corresponding jurisdictions; DIFK Annual Reports.

[12] Central Bank of Kosovo. https://bqk-kos.org/legal-framework/regulations/banks/?lang=en.

7. **While ongoing legal reforms aim to bolster deposit insurance and the crisis management framework including for resolving systemic institutions, the foreseen coverage increase to EUR 10,000 in 2025 will strain DIFK financial capacity.** At EUR 69.0 million, DIFK's available financial resources as of end-2023 are equivalent to 5.47 percent of insured deposits or 3.73 percent in relation to the expanded insured deposit base. From its regular assessment of risk exposures, DIFK requires about up to 9 percent of insured deposits to be sufficient to respond to payouts of non-systemic member institutions, due to high concentration in the banking sector and limited ex post funding options that can be credibly and readily deployed during a severe crisis. As part of this amount, a minimum target for DIFK capital of 5 percent of insured deposits is required by law, with the remainder expected to be buttressed with contingent financing arrangements. A new LB, pending second round approval by the legislature, is expected to provide a framework for resolving larger financial institutions according to EU Directives which will introduce the role for DIFK with a possibility to provide financing in resolution.

8. **Credit to the private sector is in line with regional peers, but firm finance remains limited and expensive for key contributors to the economy.** Kosovo's domestic credit to the private sector in 2023, as a share of GDP, was 55.4 percent, in line with Western Balkans countries but lower than the Europe and Central Asia and upper-middle-income country (UMIC) averages of 85.0 and 144.3 percent, respectively. Micro, small, and medium enterprises (MSMEs) are 99.84 percent of all registered commercial entities in Kosovo, and while credit to households and firms increased, smaller firms have long identified access to finance as a constraint. Data indicate 47 percent of firms identified access to finance as a major constraint, much higher than the Europe and Central Asia average of 13 percent and Western Balkan average of 15 percent and that the ratio of collateral to loan value often exceeds 200 percent for non-guaranteed credit, well above the Europe and Central Asia average collateral of 61.8 percent (World Bank Enterprise Surveys 2019). The MSME finance gap, calculated as the difference between current MSME credit supply and potential demand, is estimated at 5.5. percent of GDP, which is comparable to regional peers. At around 4.5 percent in 2024,[13] the interest rate spread in Kosovo is the highest in the region, with credit disproportionally more expensive for smaller businesses. Credit and programs to support credit have historically been less utilized by women. Both the banking sector and local commercial enterprises face challenges to have sufficient capital available to finance large investment projects.

9. **Kosovo has substantial financing needs to support its sustainable development goals, including transition to a lower-carbon economy.** Kosovo has committed to an ambitious agenda of decarbonization by signing the Sofia Declaration on the Green Agenda for the Western Balkans in 2020, committing to achieve net-zero emissions by 2050 aligned with the ambitions of the European Green Deal. National strategy documents including National Development Strategy to 2030, Energy Strategy 2022–2031, and 2019–2028 Climate Strategy provide a road map to a lower-carbon economy. However, transition requires significant amount of investment and financing exceeding the current supply. Kosovo's additional annual adaptation and mitigation investment needs are an estimated 1.4 percent and 2.9 percentage points of GDP, respectively, for 2025–2050 with more than 85 percent of the capital investment likely needed to be mobilized from the private sector.[14]

10. **Kosovo currently does not have an operative development bank or one recently created by law.** The EU Guidance for National Promotional Banks[15] recommended that member states consider such an institution to address market failures and intermediate EU funds for regional priorities (for example, jobs, growth, and climate), and most Western Balkan countries have an operative development bank or one created by law. Specialized funds, such as the World Bank-supported Kosovo Energy Efficiency Fund, were created to channel donor funding for specific investment purposes, while the MoFLT executes functions akin to those of a development bank, including lending to state-owned

[13] CBK Quarterly Assessment of the Economy, Q1 2024.
[14] World Bank Group. Western Balkans 6 Kosovo Country Compendium. Country Climate and Development Report, 2024.
[15] European Commission Communication 361. 2015. "Working Together for Jobs and Growth: The Role of National Promotional Banks (NPBs) in Supporting the Investment Plan for Europe."

enterprises (SOEs) for renewable energy projects. A specialized institution could realize economies of scale, particularly in a small country such as Kosovo. The Kosovo Credit Guarantee Fund (KCGF), strengthened with World Bank support, provides MSME access to partial credit guarantees (PCGs) and it is considered a best practice in the region. Outstanding guaranteed MSME credit through the KCGF amounts to about 2.3 percent of GDP as of August 2024. Unpublished World Bank research indicates that the KCGF guarantees enhance access to finance for MSMEs, including those without credit history and collateral.

11. **Despite improvements in recent years, more than 40 percent of the Kosovo population are not financially included, and less than half use digital payments.** World Bank Findex data (2021) show Kosovo financial account ownership increased from 44 percent in 2011 to 58 percent in 2021 but remains lower than the Europe and Central Asia and UMIC averages of 78 and 84 percent, respectively. Just 48 percent of those surveyed made or received a digital payment in the last year, with women even less likely to use both financial accounts (47 percent) and digital payments (38 percent) or borrow (11 percent of women versus 24 percent of males). Digital financial services can provide individuals with convenient and affordable channels to save, borrow, and make payments (including fast payments), which are often the entry point to formal financial services.

12. **Kosovo is still cash intensive and costly for cross-border transactions, although it is working towards legal and regulatory reforms to align its payment systems with EU standards.** For domestic financial transactions, cash is still dominant even if significantly more expensive than digital options. According to World Bank calculations, transfer costs for micro and small businesses trading between Western Balkans economies can be as high as six times more than those incurred in by their peers in the EU. Furthermore, the cost of sending remittances to the WB6 economies is 6.71 percent of the total transaction amount, far above the global target of 3 percent set by the UN.[16] The CBK has worked to improve its regulatory frameworks to align with the relevant EU legislative payments framework with the support of the World Bank. Modern payments infrastructure would also make it easier for Kosovo to join the European TARGET Instant Payment Settlement (TIPS), after SEPA membership, as indirect participants even before becoming EU members. These steps would contribute to cheaper, more efficient, more secure, and faster domestic and cross-border digital payments in Kosovo.

II. PROJECT DESCRIPTION

A. Project Development Objective

13. The Project Development Objective (PDO) is to enhance financial stability and inclusion in Kosovo through strengthening capacity of the deposit insurance fund, financing underserved firms, and catalyzing faster payments.

[16] This translates into an estimated half a billion euros of possible savings.

B. Theory of Change and PDO Indicators

Figure 1. Theory of Change for Kosovo Financial Sector Development Project

• Kosovo as a small open and Euroized economy needs a strong financial safety net. The deposit insurance fund lacks sufficient capital to effectively insure deposits, which undermines financial stability and depositor confidence.	**Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund** • Providing funds to the deposit insurance scheme to ensure it has adequate reserves	• Increased reserve fund for the deposit insurance scheme which would provide enough capital to support increased deposit coverage level by the new Deposit Insurance Law. • Increased capacity of DIS to finance resolution under project outputs	• Deposit coverage level increased from EUR 5,000 to EUR 10,000 • The ratio of DIFK available financial means to cover deposits reaches 5% at the EUR10,000 coverage level by the end of the project. • More women-owned businesses, start-ups, and exporters receiving loans and financial support.	<u>**PDO: To enhance financial stability and inclusion in Kosovo through strengthening capacity of the deposit insurance fund, financing underserved firms, and catalyzing faster payments.**</u> **Increased depositor confidence and a more stable financial sector that contributes to overall economic growth**
• There is a need to enhance access to finance for the private sector, and especially for women-owned businesses, start-up businesses, and exporters, thereby promoting economic growth and gender equality	**Component 2: Financing Underserved Firms** • ***Component 2a - Providing Partial Credit Guarantees to MSMEs.*** Disbursement of increased capital to the credit guarantee fund to support lending underserved segments of the economy • **Component 2b - *Establishing a National Development Bank.*** Develop strategy for establishing a National Development Bank (NDB). Support legal and regulatory framework development, as well as institutional setup and governance structure for the new NDB. Provide funding for capitalization of the bank.	• Availability of financial products specifically designed for women-owned businesses, start-ups, and exporters • Strategy for the new NDB prepared, undergone public consultation and approved. Legal and regulatory framework for NDB established. NDB operational with a robust governance structure and initial capital injected.	• Increased access to financial services for MSMEs and underserved sectors, as well as sustainable development projects.	**Contribution to overall economic growth through increased financing and the success and expansion of women-owned businesses, start-ups, exporters, and sustainable development projects**
• There is a need to modernize the national payment infrastructure to enhance financial inclusion, reduce transaction costs, and improve the efficiency and speed of financial transactions.	**Component 3: Catalyzing Faster Payments** • Acquiring and installing the technical architecture and software for the fast payment system.	• A fully functional and secure fast payment system is in place.	• Individuals and businesses have access to fast and reliable payment services.	**Faster payment transactions at lower cost for both individuals and businesses within the country and cross-border.**

Main Assumptions
1. Continued commitment and support from the authorities to advance reforms agenda to strengthen financial sector stability and inclusion.
2. Timely enactment of satisfactory primary legislation (LDI, law on banks, law on NDB)
3. Stable economic conditions to support the effectiveness of the deposit insurance scheme and efforts to improve access to finance.
4. Sustained public interest and trust in (i) public programs/initiatives to support access to finance for firms and (ii) payment systems operated by CBK, (iii) deposit insurance scheme operated by DIFK.
5. Sustained demand for credit from MSMEs and long-term financing from businesses and development projects.
6. Availability of the necessary technology and infrastructure to support the fast payments system.

14. **The results indicators in table 2 will measure the achievement of the PDO. Additional intermediate indicators for each component are indicated in Annex 1.**

Table 2. Components and PDO Outcome Indicators

Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund	Ratio of DIFK available financial means (AFM)[17] to covered deposits, if deposit coverage level is raised to EUR 10,000 (Percentage)
Component 2: Financing Underserved Firms	(i) Businesses using debt financing - Number of MSMEs financed through loans guaranteed under women in business, start-up and exporting windows of KCGF (Number) • of which women led MSMEs (Number) (ii) National Development Bank (NDB) has approved its first financing or refinancing transaction (Yes/No)
Component 3: Catalyzing Faster Payments	(i) People using payment services - Number of adults (15+) who made or received a digital payment • of which female adults (Number)

C. Project Beneficiaries

15. **Through funds provided directly to public entities DIFK, KCGF, MoFLT, and CBK, the project benefits households and firms for whom financial sector stability and inclusion are critical enablers of economic opportunity.** This project increases the financial capacity of DIFK so it can more fully perform its legally mandated functions as a key part of the

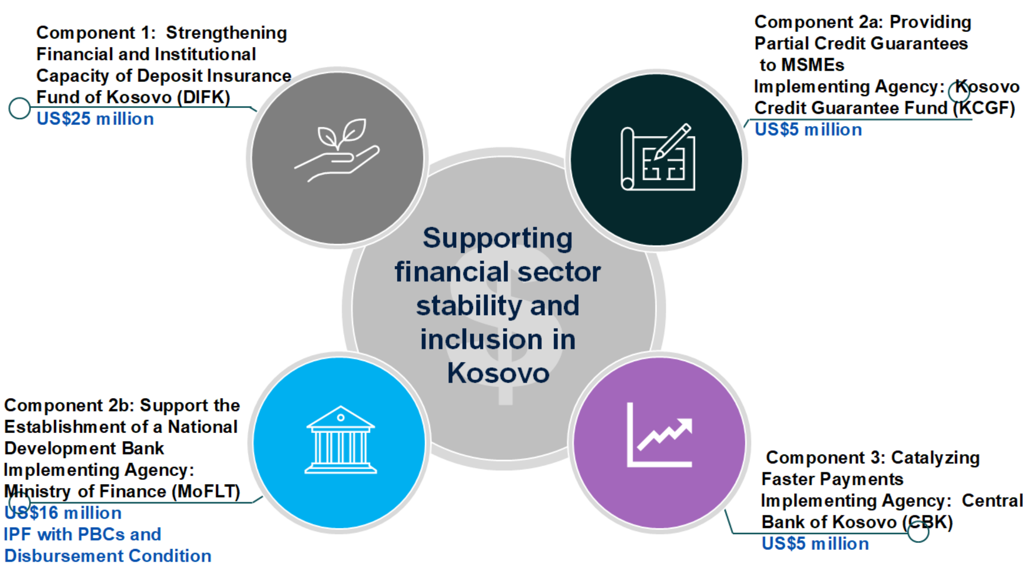
[17] AFM can be defined as cash, deposits, and low-risk assets which can be liquidated within a period not exceeding that referred to in Article 8(1) and payment commitments up to the limit set out in Article 10(3) of the DGSD.

Kosovo financial sector safety net. Households and firm that have deposits in the financial system will be the main beneficiaries from the project: an expected 150,000 depositors to benefit initially upon approval of additional coverage from EUR 5,000 to 10,000 and an estimated 166,000 depositors by the close of the project. According to surveys, 58 percent of adults in Kosovo have an account in financial institutions (Findex 2021). Enhancing the financial capacity of DIFK will ensure that these customers' savings are more fully protected. Banks will also benefit from the strengthening of financial sector safety net under the project as a stronger safety net will help reduce the risk of contagion and bank runs due to failure of individual financial institutions, as the public will be aware that their deposits are protected. In addition, the project will benefit the range of Kosovar firms, including MSMEs such as start-ups, women-managed businesses and exporting firms through KCGF, and the spectrum of MSMEs and corporates through the proposed NDB. Finally, the project will benefit those individuals and firms who make or receive digital payments (48 percent in 2021, World Bank Findex) by supporting systems to increase their speed and affordability, as well as the banks who intermediate those payments.

D. Project Components

16. The proposed financing instrument comprises a US$52 million (EUR 49.3 million), with private capital expected to be mobilized equivalent to US$179 million. The operation is structured as an Investment Project Financing (IPF) with some funds provided as results-based financing in the form of Performance-Based Conditions (PBCs) and Financial Intermediary Financing (FIF). The project components are displayed in figure 4.

Figure 2. Proposed Project Components and Implementing Agencies



Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund (US$25 million)

17. **This component would fund DIFK to strengthen its financial and institutional capacity to meet its deposit insurance and bank resolution obligations.** DIFK faces an estimated capital shortfall of US$25 million (EUR 22 million) by end-2025 in meeting the statutory funding requirement of 5 percent of covered deposits upon increasing the general limit for fully covered deposits from EUR 5,000 to 10,000 in alignment towards the EU level of EUR 100,000. The World Bank intervention complements higher industry contributions that will begin in 2025 supporting DIFK financial sustainability. Further World Bank funding will be provided conditional on the achievement of reducing simulated payout periods to

depositors, in alignment towards EU DGSD. The possibility of an emergency liquidity mechanism for DIFK such as an Investment Project Financing-Deferred Drawdown Option (IPF-DDO) could also be explored in future interventions. A set of technical assistance (TA) activities to support DIFK financial and operational capacity are expected to be supported by the World Bank Financial Sector Advisory Center (FinSAC) TA that would complement the funding provided. TA activities are expected to include modernizing fund investment policy and practices, revising the CBK-DIFK cooperation agreement, standardizing operational stress test activities in line with European Banking Authority (EBA) Guidelines, and developing a fiscal backstop mechanism to manage any contingency of capital shortfall.

Table 3. Illustrative PBCs for Support to Financial and Institutional Capacity of Deposit Insurance Fund (DIF)

PBC	Description	Funding/Timeline
PBC 1: Amendment to the Law on Deposit Insurance that increases deposit insurance coverage from EUR 5,000 to 10,000	The first tranche of funds will disburse upon enactment of the Law on Deposit Insurance (LDI), containing language that increases deposit insurance coverage for individuals and entities from EUR 5,000 to EUR 10,000 to support the financial capacity of DIFK	US$23 million (EUR 21.8 million) /Period 1
PBC 2: Reduction in simulated payout period to depositors from 30 days to 7 working days following occurrence of insured event	The second tranche of funds will disburse upon achievement of improved institutional capacity to provide payouts to depositors from 30 days to 7 working days as evidenced during DIFK simulation exercises.	US$2 million (EUR 1.9 million) /Period 4

18. **Funds for this component would be linked to the progress in deposit insurance reform and efficiency of payouts.** As described in table 3, the component will disburse against the planned update to the LDI expanding deposit insurance coverage (PBC 1) and improved institutional capacity to pay depositors more quickly in the case of an insured event as evidenced by a reduction in simulated payout to depositors from 30 days to 7 days (PBC 2). The enhanced coverage policy is expected to raise the share of depositors fully protected to above 90 percent, the minimum benchmark for adequate coverage level recommended by IADI, benefiting depositors with account balances above EUR 5,000. The eligible expenditure will be represented by IDA funds transferred to fund DIFK via the MoFLT.

Component 2: Financing Underserved Firms (US$21 million)

19. **This component aims to mobilize private sector funding to support Kosovo's underserved firms and national development goals.** The first subcomponent (US$5 million), implemented by the KCGF, will provide capital to KCGF to provide PCGs to PFIs on their loans to eligible MSMEs. This will target firms facing access to finance constraints due to market gaps, including women-led enterprises, start-ups, and exporters, by expanding existing financial support channels through partner financial institutions. The second subcomponent (US$16 million), implemented by the MoFLT, focuses on establishing an NDB for Kosovo. It will provide TA to design the bank's legal and regulatory framework, strategy, institutional structures, and procedures aligned with international best practices. The NDB's mandate will focus on filling funding gaps and promoting national development goals, while aiming to crowd-in private capital. In a second phase, the IPF operation will capitalize the NDB upon achievement of PBCs.

Subcomponent 2a: Providing Partial Credit Guarantees (PCGs) to MSMEs (US$5 million)

20. **This subcomponent will finance the provision of PCGs to MSMEs, expanding the KCGF capacity to de-risk finance for firms which show evidence of market gaps, including women headed enterprises, start-ups and exporting firms, particularly manufacturers.** The objective of this subcomponent is to address high collateral requirements and the heightened risk aversion of financial institutions through PCGs, to unlock financial intermediation to MSMEs. The KCGF has funding windows supported by the previous financial sector operation (Kosovo Financial Sector Strengthening Project, P165147) to channel funds through participating financial institutions (PFIs) for women in business and start-up firms, and

for exporting firms in line with government goals to increase access to finance and trade integration, which can be scaled up through this operation. The guarantee windows provide risk sharing to PFIs to support underserved firms in the priority areas.

21. **This subcomponent will expand the support of guarantee windows to key MSME segments with improved terms and coverage of their financing needs.** Building on experience from the Kosovo Financial Sector Strengthening Project for the women in business window, the maximum amount of guaranteed loans will increase from EUR 50,000 to EUR 250,000, and the maximum maturity will extend from 84 months to 120 months. For the start-up window, the maximum loan amount will double to EUR 100,000 and the maximum term increase from 60 months to 84 months. This component will also support exporting firms (guarantees for loans up to EUR 3 million and maturity up to 120 months), including those which invest in renewable or energy efficiency projects. This activity will provide funding in alignment with the World Bank Financial Intermediary Financing (FIF) Guidelines (2024) and the World Bank Partial Credit Guarantee Principles as further detailed in annex 2.

Table 4. Illustrative PBCs for Enhancing Capital of KCGF

Performance Based Condition	Funding/Timeline
PBC 3: KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering **twice greater** the 2024 baseline.	US$2.5 million (EUR 2.35 million) /Period 3
PBC 4: KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering **5 times greater** than the 2024 baseline.	US$2.5 million (EUR 2.35 million) /Period 5

22. **Funding for this subcomponent is conditional upon expanding outreach to underserved MSMEs.** The subcomponent will reimburse up to US$5 million upon the achievement of outcomes for the program windows supporting women in business, start-ups, and exporting firms. The disbursement will be in two stages, to capitalize the KCGF using PBCs upon achievement of milestones to support MSMEs under the three target guarantee windows, with the first financing of US$2.5 million disbursed when the KCGF doubles the number of MSMEs guaranteed under the three windows relative to the 2024 baseline as detailed in table 4 (PBC 3), and the second tranche disbursed when the number of MSMEs guaranteed is five times higher than the 2024 baseline number of MSMEs (PBC 4). The eligible expenditure for the PBCs would be the capitalization of the KCGF in two tranches against the achievement of conditions.

Subcomponent 2b: Establishing a National Development Bank (NDB) (US$16 million)

23. **This subcomponent would support the establishment of an NDB to mobilize private capital for sustainable development.[18]** This subcomponent would respond to the request of the MoFLT for TA and capital to establish an NDB to support development projects aligned with government priorities. The EU Commission recommends that EU countries establish a national promotional bank to channel finance to support the implementation of EU supported policies, while Kosovo does not have such an institution. The NDB would be a non-deposit taking institution focused on providing financial additionality relative to commercial sources of finance. This would include efforts to narrow financing gaps to underserved populations, including women and support priority areas with the potential to foster economic opportunities, such as digitalization and innovation. The NDB would also play a key role in bridging the financing gap in Kosovo by catalyzing private capital for transition to a lower-carbon economy by prioritizing mitigation and adaptation financing including in renewable energy, energy efficiency, exporters' Carbon Border Adjustment Mechanism (CBAM) related investments, and

[18] UNDESA (United Nations Department of Economic and Social Affairs). 2024. *Report of the Inter-Agency Task Force on Financing for Development 2024 Financing for Sustainable Development Report: Financing for Development at a Crossroads.* United Nations Research Institute for Social Development.

companies' investments to build climate change resilience. The NDB will focus on financing underserved segments, based on the study in the first phase to identify funding needs and a project pipeline for the institution. Financing modalities are expected to complement the KCGF's current support to MSMEs, such as second-tier finance through banks, microfinance institutions, and other non-bank financial companies. While financial products will be developed in phases, co-lending, syndicated loans, wholesale funding, and co-investments with private financial institutions are expected to constitute the majority of its portfolio to crowd-in private capital and to ensure viability of the projects.

24. **This subcomponent would fund two phases: TA to establish the NDB and capitalization of the institution.** The establishment phase (US$1 million) would include key TA activities such as: development of the legal and regulatory framework for the operation of the NDB, inputs for preparation of an Environmental and Social Management System (ESMS), identification of funding needs and a project pipeline, creation of an institutional organizational structure and support in hiring of qualified professionals for the Board and management, drafting of operational manuals and institutional policies, and design of a monitoring and evaluation (M&E) framework. This TA will also be used to provide inputs to set up policies on climate change mitigation and adaptation for the ESMS. In the second phase (US$15 million), after the institution is legally created as a disbursement condition.

Table 5. Illustrative PBCs for Establishment of a Proposed NDB

PBC	Description	Funding/Indicative Timeline
Disbursement Condition: Enactment of law establishing the NDB. The Recipient has enacted a law establishing the National Development Bank of Kosovo (NDB), consistent with internationally accepted good practices.	This component will disburse following enactment of the law establishing the NDB and receipt by the World Bank of a legal opinion by a legal counsel, acceptable to the Association, confirming that the NDB has been duly established and has the mandate and capacity to perform the functions and obligations assigned to it under the Project, all of the above in form and substance satisfactory to the World Bank.	Period 1
PBC 5: The NDB board of directors has been duly constituted in accordance with the parameters detailed in the Project Operations Manual (POM) including having majority independent members; and (b) the NDB board has appointed the NDB chief executive officer (CEO)	The first tranche of capital will be disbursed upon appointment of Board members and a CEO consistent with internationally accepted good practices as detailed in the POM.	US$5 million (EUR 4.75 million)/ Period 2
PBC 6: The Central Bank of Kosovo has issued prudential regulations governing NDB consistent with Basel Accord Principles and proportional to the risk profile of the NDB; (b) the NDB Board has approved the NDB strategy and adopted the NDB operations manual.	The second tranche of capital will be disbursed upon issuance of prudential regulations consistent with Basel Core Principles and proportionate to the risk of institutions and adoption of operation manuals of the NDB	US$5 million (EUR 4.75 million)/ Period 3
PBC 7: The NDB has approved its first financing or re-financing transaction.	The third tranche of capital will be disbursed upon NDB approval of financing and/or refinancing.	US$5 million (EUR 4.75 million) / Period 4

25. **This subcomponent would utilize results-based financing (PBCs) to capitalize this new development bank through the MoFLT against achievement of agreed milestones.** PBCs would include the appointment of a Board of Directors, aligned with internationally accepted good practices, such as the OECD Corporate Governance Guidelines for

SOEs (PBC 5), the issuance of prudential regulations aligned with non-deposit taking institutions relevant Basel standards for financial institutions oversight and proportional to the risk profile of the institution and financial regulation in the country, the approval of an institutional strategy and operational manuals aligned with best practices and the financing or refinancing of sustainable development projects (PBC 6) with the third tranche of capital to be disbursed upon the approval of the first financing provided by the institution to a beneficiary (PBC 7). The eligible expenditure for the PBCs would be the capitalization of the NDB in three tranches against the achievement of conditions described in table 5. The capital provided to the NDB would be made available for establishing the institution and meeting regulatory requirements and soundness tests, but it will exclude any financial intermediation activities.

26. **The NDB will be established based on the principles of good governance, financial sustainability, and appropriate risk management.** The NDB will be created by special law as a joint stock company enabling development partners to acquire minority stake shares. While the MoFLT would exert shareholding functions, the NDB's Board of Directors would be consisting of majority independent directors meeting the CBK's fit and proper criteria. Financial sustainability will be ensured through (a) setting a target return on equity (RoE), that is, preserving the capital; (b) pricing financial products to cover cost of funding, operational costs, credit risk, and RoE; and (c) conducting credit assessment based on the borrower's repayment capacity. The NDB will be prudentially regulated by the CBK with a framework aligned with Basel standards for banking oversight proportional to its risk profile.

Component 3: Catalyzing Faster Payments (US$5 million)

27. **This component will finance investments and operational costs for the establishment of a modern and interoperable FPS to promote more efficient digital payments.** FPS are being implemented in many countries around the world to facilitate instant access to funds for the payee, in a cost-efficient way for the end users. Fast payments benefit the demand side (for example, consumers, merchants, and government agencies) and the supply side (for example, payment service providers, PSPs) of the economy by promoting cashless payments, facilitating financial inclusion, and helping firms better manage day-to-day liquidity. Under its social assistance scheme, the Kosovar Government has recently moved from a payment system relying on post offices, to a payment system relying only on banks.[19] Within this context, the project will further enhance the government's objective of having a system that can quickly distribute relief payments to households when adverse events such as climate shocks (e.g. floods and wildfires) occur.

28. **Implemented by the CBK, the subcomponent will finance investments in three areas:**

(a) Core platform provision and operations (for example, core software application, licensing costs, IT infrastructure and connectivity costs, platform deployment services, fraud monitoring and anti-money laundering and countering the financing of terrorism (AML/CFT), cybersecurity infrastructure, and maintenance)

(b) Vendor management (for example, technical specifications, request for proposal preparation, project implementation support, preparation of scheme rules, FPS participants training, and FPS market promotion)

(c) Additional functionalities (for example, overlay services software applications, API hub, capabilities for SEPA operationalization, and interlinking to other FPS for cross-border payments).

Component 4: Project Management (US$1 million)

29. **This component will be implemented by the MoFLT and fund project management support.** The Central Support Division for the Implementation of Development Projects (CSD-IDP), under the MoFLT Department of Financing, will serve as an overarching and centralized project implementation mechanism. This component would also fund project management costs to coordinate across the four implementing agencies (IAs) to execute this operation efficiently and

[19] World Bank. Western Balkans Social Protection Situational Analyses Kosovo. 2022.

support to contract key consultancies needed under the project Until this unit is fully staffed and operational by civil servants, this component will finance establishment and operation of a Project Implementation Unit (PIU) under the CSD, including consultants responsible for financial management (FM), procurement, M&E, and environmental and social (E&S) support, in collaboration with other World Bank projects, such as the proposed Western Balkans Trade and Transportation Facilitation Project (P507659). Their roles and responsibility would include capacity building for the nascent MoFLT Unit and staff hired and would gradually be phased out and replaced by the MoFLT Unit staff. The Director of the MoFLT Financing Department could assume an explicit role with the PIU in ensuring that the transfer of capacity is seamlessly implemented. The component will also finance the verification agency to assess achievement of PBC implementation, outreach, information activities, workshops, and training and operational expenses related to the project.

Corporate Priorities

30. **Paris Alignment.** This project is aligned with the mitigation and adaptation goals of the Paris Agreement. Proposed activities support capitalization of deposit insurance and expenditures to fund credit guarantee funds, TA, capacity building, and digital payments infrastructure, which for mitigation have little impact on decarbonization on account of having negligible greenhouse gas (GHG) emissions. Further, digitalizing financial and government services are activities that support digital technologies that are on the universally aligned list[20] and likely to reduce GHG emissions. The project is also aligned with the Paris Agreement's adaptation and resilience goals. Kosovo is vulnerable to climate change impacts due to increased precipitation and extreme heat events leading to flash floods in mountains, river floods in urban areas, and wildfires.[21] Given the activities proposed, risks from climate hazards are found to be moderate and not likely to materially affect the proposed project and its PDO. The project's soft components are expected to enhance the adaptive capacity of Kosovo and reduce the identified risks to acceptable levels.

31. **The operation will support both adaptation and mitigation climate goals.** Project activities contribute to leveraging digital financial services to address climate risks by facilitating access to insurance payouts and credit thus improving resilience and recovery capacity in the event of extreme climate events and disasters such as flash floods and wildfires. Subcomponents 2a and 2b will both contribute to adaptation and mitigation efforts—Subcomponent 2a will support exporting firms that consider climate resilience in their businesses, while the future development bank of Kosovo financed under Subcomponent 2b will support lending to greening businesses and mobilize private capital for sustainable development projects including in renewable anergy, energy efficiency, exporter's CBAM-related investments, and companies' investments to build climate change resilience. Component 3 enables more efficient digital financial services, namely FPS which would be the first system of its kind in Kosovo and facilitate emission reductions, as it reduces the number of in-person visits to access the service or conduct a transaction, which will reduce travel-related GHG emissions. In addition, FPS would allow quicker, more inclusive relief assistance mechanisms by allowing payments to be made in seconds relative to the current baseline of one day. This will support adaptation by reducing the vulnerability of those populations affected by climate events and other disasters and increasing their readiness to respond to them.

32. **Gender engagement. Activities to address gender disparities in access to finance and service delivery will be incorporated into the operation.** A PDO indicator on access to credit guarantees will feature use by women-led businesses. Women entrepreneurs in Kosovo face significant barriers, including high collateral requirements, limited financial history, and restrictive societal norms. Building on the Kosovo Financial Sector Strengthening Project (P165147), the project will expand the KCGF women in business window,[22] aiming to increase women's share of credit guarantees and loan volumes.

[20] List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned with the Mitigation Goals (https://documents1.worldbank.org/curated/en/099220306162369703/pdf/IDU00ef11f9807471044870b9c6041d5dda75c78.pdf),
[21] World Bank's Climate and Disaster Risk Screening tool was used to identify climate-related impacts on the project's components.
[22] KCGF Women in Business Window. https://fondikgk.org/en/women-in-business-window/.

33. **Women-led businesses in Kosovo face significant barriers to accessing finance, mainly due to collateral requirements and perceived risk by financial institutions.[23]** Data from World Bank 2019 Enterprise Surveys show 90.1 percent of firms in Kosovo require collateral for loans, compared to 61.8 percent regionally. This burden falls heavily on women, who often lack property ownership. With 11 percent of businesses owned by women, and 90 percent of firms requiring collateral, women are disproportionately affected by limited property ownership. Financial disparities compound this: women-owned businesses hold 2.4 times less debt and 14.2 times less deposits than men-owned businesses. In comparison, women with personal bank accounts hold 3.2 times less debt and 2.4 times less in deposits than men.[24] Financial limitations restrict access to credit, worsened by limited credit histories, leading to higher perceived risk for women-led businesses. For instance, 26.7 percent of women-led firms cite unfavorable loan conditions as a barrier, compared to 15.8 percent of male-led firms, and 19.8 percent of women-led businesses report access to finance as their primary growth obstacle, compared to 5.6 percent for men.[25] Both demand- and supply-side factors contribute to financing gaps.[33] Women are often deterred from applying for credit due to low perceived creditworthiness, financial barriers, fear of rejection, and low financial literacy. On the supply side, men own over 80 percent of inherited properties, limiting women's collateral access. Women are also underrepresented in the formal financial system, holding 16 percent of business bank accounts versus 82 percent for men. In 2022, women were 19.2 percent of business owners (1,813 women) versus 80.8 percent for men (7,615 men),[26] underscoring a gender gap in entrepreneurship and financial inclusion that restricts women's access to networks and growth resources.

34. **To address these barriers, the KCGF's women in business window,[27] established through the Kosovo Financial Sector Strengthening Project*[28]* in 2023, offers guarantees of up to 70 percent for loans up to EUR 50,000.** These guarantees reduce the perceived risk for financial institutions, making them more willing to lend to women-led MSMEs. By April 2024, women-led businesses received 19 percent of the total number of guarantees—well above the 5 percent target. The project also provided financial literacy and business formalization training to 250 women in 30 cities, providing skills needed to access finance more effectively. Comprehensive outreach with organizations such as the Community Development Fund (CDF) included social media, videos, and testimonials, ensuring widespread participation.

35. **Building on this success, the proposed project will raise the loan cap fivefold from EUR 50,000 to EUR 250,000, facilitating larger loans, promoting long-term growth for women entrepreneurs, and increasing the number of women-led MSMEs supported with guarantees under the Women in Business window from 191 in November 2024 to 1,000 at the close of the project.[29]** Raising the loan cap will expand access for small and larger women-led businesses, helping address persistent barriers even for larger firms. The proposed project will also improve loan terms, increasing the repayment period from 84 to 120 months, expected to increase credit demand by providing larger, longer-term financing options to support medium-term investments, reduce costs, and enhance budgeting stability. Although the women in business window envisaged a mentorship and networking component, the high demand for financial support left these underdeveloped. Recognizing this need, KCGF will implement a targeted mentorship and networking program, building on financial literacy and formalization training programs. This program will focus on business scaling, market expansion, capital access, digitalization, peer support, and personalized mentoring through 1:1 and group sessions at networking

[23] Women-led businesses or MSMEs are owned or managed by women within the project's context.
[24] GAP Institute/USAID. 2023. *The Quest for Financial Equity: Access to Finance for Women and Ethnic Minority-Owned Businesses.* GAP Institute/USAID 2023.
[25] World Bank Enterprise Surveys. Kosovo. 2019.
[26] World Bank Group Entrepreneurship Database. 2022.
[27] KCGF's Women in Business Window webpage.
[28] ICR: Kosovo Financial Sector Strengthening Project (P165147).
[29] The Women in Business window was established under the support of the previous World Bank Project (Financial Sector Strengthening Project) and the baseline of 191 refers to MSMEs supported under this window by November 2024, since its establishment in 2023.

events to enhance skills, foster connections, and support women entrepreneurs' growth. While KCGF will fund this program other donors, it will continue to expand non-financial support originally initiated with World Bank support.

36. **Citizen engagement.** The project will incorporate citizen engagement mechanisms to ensure active participation and feedback from the beneficiaries. Project design will be informed via regular (at least annual) meetings and focus group discussions with numerous stakeholders including business, sector and financial industry associations, in addition to government counterparts. The stakeholders will make use of the functioning public consultation platform (https://konsultimet.rks-gov.net/) to consult major legislation pieces related to the DIFK component and NDB subcomponent. The KCGF will assess MSMEs beneficiaries' satisfaction with the project's interventions aimed at improving access to finance through surveys administered at the midterm and project end (tracked with a correlated citizen engagement indicator in the Results Framework). The KCGF will publish the survey results. In addition, the KCGF will organize meetings each year of the project with PFIs and target MSME beneficiaries to gather their feedback which will serve to address concerns and take concrete actions to address project issues. In addition to PFIs' existing complaint mechanisms, the KCGF will make use of the already established grievance redress mechanism (GRM). Project implementing partners including the MoFLT, the KCGF, and the CBK have a strong track record of active community engagement to develop programs and strategies. In ordinary times, DIFK addresses public inquiries and concerns via phone and email. It has also developed operational procedures including with payout agent and call center services to respond to crisis events. The project will build on these capabilities to seek input from the local communities to inform project design, implementation, and monitoring. Regular feedback loops—both online and offline—will be established to ensure that the concerns and suggestions of the citizens are addressed and incorporated into project activities. Members of the PIU team will receive citizen engagement capacity building as part of their training on E&S management and monitoring of the environmental outcomes of their investments.

37. **Private capital facilitation.** Project activities have significant potential to mobilize private capital particularly through PCGs as well as establishing digital financial infrastructure for FPS. The Kosovo Financial Sector Strengthening Project supported the KCGF to mobilize significant private capital. World Bank funds provided as capital to the KCGF (EUR 21.4 million) mobilized 6.7 times more private finance in the form of loans from private banks (EUR 141 million through April 2024). The KCGF component under this project is expected to incentivize and leverage increased lending through guarantees under the women in business, start-ups, and exports windows. The new accumulated lending supported under the three windows is expected to reach US$200 million by the end of the project compared to a baseline of US$21 million in November 2024. Thus, US$179 million of private capital will be mobilized over five years, with this amount tagged under component 2a of the project as maximizing finance for development (MFD) private capital mobilization (PCM) indicator. Once it is operational, the NDB is expected to co-finance private investment projects in green activities and other priority sectors for which funding gaps have been identified. Investments in the FPS are expected to enable private capital, including investments by banks and other financial institutions for technology infrastructure to leverage the FPS. By the end of the project, at least 11 financial institutions are expected to invest private money to upgrade their infrastructure to the new FPS. This is tagged as non-monetary private capital enabling (PCE) result indicator under component 3.

E. Role of Partners

Name of Partner	Nature of Involvement/Description
IMF	Provides TA to the CBK on improving governance and builds capacity in supervision and regulation to maintain financial stability; provides overarching advice on economic governance in the context of a Precautionary Stand-by Arrangement program.
EU/EUD	As Kosovo's largest donor, provides primarily grant financing to support fundamental structural reforms, including on firm competitiveness and digitalization. Under the recent EU Reform and Growth Facility (the Growth Plan), Kosovo has committed to further expand capitalization of the KCGF.
US Agency for International Development (USAID)	Through grant-financed TA, supports the Central Bank in developing the legal framework for capital markets and overall Government efforts to expand access to diversified financing sources. Recently supported Kosovo to obtain its first sovereign rating. One of the key donors supporting the establishment of the KCGF and—in the past—establishment of banks and non-banking financial institutions.
Kreditanstalt fur Wiederaufbau (KfW)	Through bilateral grant financing and lending operations, supports financial sector development in Kosovo. KfW is one the key donors supporting the establishment of KCGF. Previous cooperation record with the World Bank on DIFK in providing initial capital.
European Bank for Reconstruction and Development (EBRD)	Engaged in support to publicly owned enterprises, including direct lending to the transmission and market operator. Also, through lending operations, direct engagement with private financial institutions on expanding access to finance.
*Agence Française de Développement (*AfD)	Global engagement partner on NDB issues and collaborative support to clients in the Western Balkans region.

F. Lessons Learned and Reflected in the Project Design

38. **This project builds on lessons learned from recent World Bank experiences in Kosovo and other developing countries addressing similar development challenges involving the financial sector:**

- **The project reflects the lessons learned from previous World Bank projects aimed at safeguarding financial stability and strengthening deposit insurance schemes and draws upon international standards to inform design.** The design elements in deposit insurance financial capacity strengthening projects including Bulgaria (Deposit Insurance Strengthening Project, P154219), Serbia (Deposit Insurance Strengthening Project, P146248), and Lao PDR (Financial Sector Safety Net Strengthening, P169194) were considered. In addition, IADI Core Principles 8 (Coverage), 9 (Sources and Uses of Funds), and 14 (Failure Resolution) as well as corresponding articles in EU DGSD and BRRD informed the quantitative approaches for assessing the adequacy of coverage, funding, premium, and backstop policies. For example, aggregated single-customer view depository data were benchmarked against IADI recommendations on the share of fully covered depositors and the ratio between covered to eligible deposit amounts. Additionally, bank balance sheet structures, supervisory ratings, and potential resolution strategies were considered in the empirical scenario analysis underpinning the internal fund size target assessment.
- **The project reflects the lessons learned from previous World Bank projects to finance firms PCGs and high-quality data analysis on project outcomes.** Findings of the impact assessment study by the KCGF, supported by the World Bank under the Kosovo Financial Sector Strengthening Project (P165147), were used to design the parameters of the KCGF activity proposed under this project. The impact study, backed by high-quality data, analyzed tax and credit registry data to assess the economic impact of KCGF guarantees and access to finance for MSMEs. Additionally, it shed light on the determinants of access to finance in Kosovo as well as the existing population of MSMEs not served by banks and KCGF guarantees but deemed equally viable and

potential target group, which led the team to focus on women in business and start-up windows. Another lesson from the previous project is the importance of clearly defined eligibility and qualification criteria for the guarantee windows. Based on this lesson, the KCGF is reviewing its eligibility criteria regularly and collecting feedback from PFIs to be more responsive to the demand from the MSMEs. This project also drew on the World Bank's Principles for Public Credit Guarantee Schemes (CGSs) for small and medium enterprises (SMEs).

- **The NDB intervention leverages results-based financing to implement reforms in a way that builds institutional and technical capacity.** The project builds on the experience from recent IPFs, which capitalized or bolstered the reserves of funds, with disbursements linked to PBCs aimed at strengthening their institutional capacity. These projects have shown that a combination of TA and results-based financing can be an effective instrument for achieving change in a sustainable manner. TA can support IAs in achieving the PBCs, which offer a financial incentive to initiate and implement reforms, including the establishment of an institution with strong independent governance and the mobilization of private capital. To inform the project design and selection of PBCs, the project considers minimum requirements for operations in relation to international good practice, while also considering the specific country circumstances. The standards and principles applied in this project for the design of the NDB are informed both by principles developed by standard setters (for example, OECD Corporate Governance Guidelines for SOEs, Basel Accord Principles, and EU Guidance) and extensive knowledge produced by the World Bank.[30]
- **The project design accounts for the dual challenge of working in a smaller economy with limited capacity and working with several IAs.** Experience has shown that positive outcomes are more likely when projects focus on targeted objectives with substantial preparatory support. This project focuses on core financial sector development activity, the majority of which the World Bank has engaged in TA support or prior IPF activities for more than five years. To mitigate challenges across the Kosovo portfolio with the timelines of procurement activities, the proposed implementing structure offers two tiers of support (project-specific and higher-level PIU) with an emphasis on the sustainability of capacity within the MoFLT and the IAs. The size of the project management component reflects the prioritization of project implementation support.

III. PROJECT IMPLEMENTATION

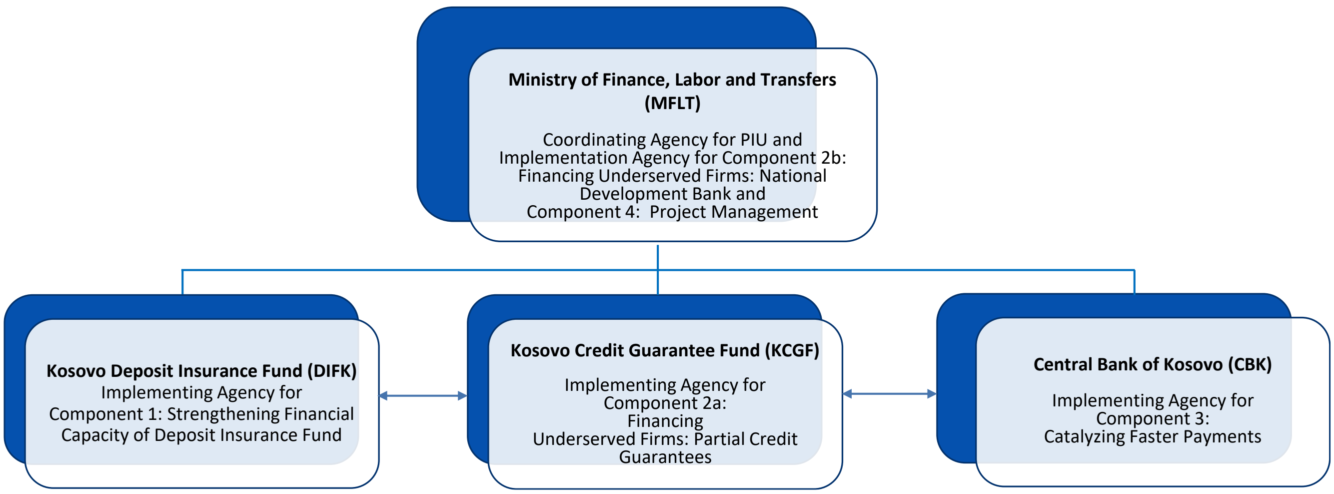
A. Institutional and Implementation Arrangements

39. **The MoFLT Central Support Division (CSD) will ensure overall effective management of the project and implement its Subcomponent 2b, while DIFK (Component 1), KCGF (Subcomponent 2a), and CBK (Subcomponent 3) will be responsible for implementing their specific component activities.** As indicated in figure 5, the MoFLT CSD will serve as an overarching and centralized project implementation mechanism, and finance—through Component 4—the required project management activities. Until the CSD is fully staffed and operational by civil servants, this component will finance—in cooperation with other World Bank projects such as the proposed Western Balkans Trade and Transportation Facilitation Project (P507659)—the establishment and operation of a PIU under the CSD, including at a minimum the hiring of (a) FM, (b) procurement, (c) environmental, and (d) social experts. The CSD will also include M&E arrangements needed to monitor and assess the achievement of project results. Roles and responsibilities of these experts would also include capacity building for the nascent MoFLT Unit and staff hired and would gradually be phased out and replaced by the MoFLT Unit staff. The Director of the MoFLT Financing Department could assume an explicit role with the PIU in ensuring the

[30] 2017 Survey of National Development Banks (2017); National Development Financial Institutions: Trends, Crisis-Response, Activities, and Lessons Learned (2022); Financial Solutions to Support the Social and Solidarity Economy and the Role of Development Banks (2022); Global Financial Development Report: Rethinking the Role of the State in Finance (2013); and The Role and Impact of Development Banks (2017).

transfer of capacity is carefully implemented. The CSD will provide coordination and support to IAs on FM, procurement, M&E, and E&S safeguards. At the same time, the CSD will implement all activities on Subcomponent 2b within the MoFLT. Support will be provided by the World Bank throughout the project and will include regular implementation support missions and a midterm review. Details on roles and responsibilities within the PIU and between the PIU and IAs will be outlined and detailed in the POM.

Figure 3. Institutional Arrangements for Kosovo Financial Sector Development Project



40. **The MoFLT has maintained close collaboration with the World Bank and has experience serving as both the executing and implementing agency (Subcomponents 2b and 4) for this project.** The MoFLT is the regular partner for the World Bank for lending operations and has experience with fiduciary and E&S procedures of the World Bank. The MoFLT will also engage a third-party entity to verify the PBCs.

41. **DIFK (Component 1) has implemented a successful deposit insurance project with the World Bank.** DIFK is an independent public institution established in 2011 with the LDI and has served as an implementing agency for a prior operation where it was capitalized by the World Bank. DIFK manages the DIF used for compensating insured depositors in case of an insured event.

42. **The KCGF, who would implement Subcomponent 2a, has a strong track record as an IA for the World Bank and has shown its understanding and commitment to sector issues.** The KCGF will be responsible for implementation of Subcomponent 2a. It is a local, independent, and financially sustainable, credit guarantee facility established in 2016 that enjoys full operational and administrative autonomy and functions outside the framework of the Kosovo governmental structures and the Kosovo Civil Service. KCGF, supported by international financial institutions (IFIs) including the World Bank, has been an IA for the Kosovo Financial Sector Strengthening Project (P165147), including the 2021 Covid response window.

43. **The CBK has strong sectoral experience as well as experience with World Bank-financed operations and would be responsible for implementing Component 3.** CBK, which will be responsible for implementing Component 3, was one of the key IAs under the Financial Sector Strengthening and Market Infrastructure Project (2011–2016) to build capacity and establish the core infrastructure for Real Time Gross Settlement (RTGS) payment system, and a business continuity center while also providing seed funding to DIFK. In addition, the CBK has worked closely both with the World Bank and

regional counterparts on many aspects of payment systems reform including preparation of the legal framework adopting the EU Payments Directive.

44. **PIU roles and responsibilities.** The MoFLT CSD, in coordination with the IAs, will manage the implementation of the project and will be responsible for policy coordination, operating costs, consolidation of periodic financial reports and annual project financial statements (PFSs), M&E of the project, and ensure citizen engagement mechanisms and GRM function at the project level. The MoFLT CSD will also contract and appoint an independent agent with technical competencies to credibly assess whether targets for the PBCs have been met. The POM will define in detail the coordination between the MoFLT CSD and DIFK, KCGF, and CBK. Budgeting for the project will be executed centrally through the MoFLT and channeled to other IAs as a granct or sub-loan, in line with applicable subsidiary agreements. With respect to the Environmental and Social Framework (ESF) and Stakeholder Engagement Plan (SEP), the authorities have prepared and disclosed a draft Environmental and Social Commitment Plan (ESCP), the latest version of which was disclosed December 2024.[31] The elements of the SEP, such as GRM, disclosure, and consultation process, will be integrated in the ESCP and POM. The ESCP and SEP were disclosed at appraisal and consulted with the public. The MoFLT CSD-IDP will support the IAs in the execution of activities. The World Bank will support this process, provide advice on the content, and help with the consultation process.

B. Results Monitoring, Evaluation, and Verification Arrangements

45. **Annex 1 lists the main outcome indicators for the project and the principal results, which will serve as the basis for results monitoring and evaluation.** DIFK, KCGF, and CBK will be responsible for collecting the data required for monitoring, evaluation, and verification of the results indicators related to Component 1, Subcomponent 2a, and Component 3, respectively. The MoFLT will oversee measuring and verifying the results related to the development and impact of the NDB. The independent verification entity will be contracted under Component 4 and will assess achievement of targets for the PBCs based on verification protocols identified for each PBC. The centralized PIU, operating under the MoFLT, will prepare the project progress reports on an annual basis, based on the data provided by all implementing institutions. These progress reports will include the project's interim unaudited financial statements.

C. Disbursement Arrangements

46. **Disbursements under the proposed project will be carried out in line with the World Bank Disbursement Guidelines for IPF (February 2017).** The project would be financed entirely by IDA financing. The project funds will be disbursed in euros through (i) PBC-based disbursement for Component 1, Component 2.a, and Component 2.b(ii) and (ii) traditional IPF disbursement methods for the rest of activities. The financing proceeds will be disbursed through two Designated Accounts (DAs) one managed by the MoFLT, for advances related to Component 2.b (i) and Component 4 and one by the CBK for advances related to Component 3. Both DAs will be maintained in CBK. Retroactive financing will be provided for payments made for eligible expenditures paid by the borrower before the date of the Financing Agreement, up to an aggregate amount of US$5 million (EUR 4.7 million). The procurement for such expenditure will be conducted according to the World Bank's Procurement Regulations for IPF Borrowers. The eligible period for retroactive financing will be defined in the Financing Agreement. The prefinanced funds will be provided by the MoFLT and the CBK and reimbursed after the project becomes effective. Detailed disbursement arrangements are set out in table 6.

[31] Disclosure published December 2024 on MoFLT website. https://mfpt.rks-gov.net/Page/68

Table 6. Disbursement Arrangements

Proposed Expenditure Categories	Retroactive Financing	PBCs	Disbursement Conditions	Disbursement Arrangements
Capitalization under Component 1 and Component 2 (a)	No	Yes	No	Disbursement managed by the MoFLT. The disbursement may be made based on reimbursement basis or direct payments directly to beneficiary account upon achievement of the respective PBC. See DFIL Attachment 3 Form.
Capitalization of NDB under Component 2.b(ii)	No	Yes	Yes	
Goods, NCS, CS, Training, IOC under Component 3	Yes	No	No	Disbursement managed by the CBK. DA managed by the CBK, maintained at the CBK. DA ceiling variable based on the 6 months forecast. Disbursement methods: Direct Payment, Advances, and Reimbursements. Reporting on use of funds based on SOE or records. Subsidiary Agreement to discuss budgeting and disbursement arrangements.
Goods, NCS, CS, Training, IOC under Component 2.b(i) and Component 4	Yes	No	No	Disbursement managed by the MoFLT. DA, managed by the MoFLT, maintained at the CBK – optional. Preferred disbursement method is Reimbursement (based on SOEs) and Direct Payment (based on records).

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

47. **Based on the economic and financial analysis of project benefits related to costs of select components, the net present value (NPV) is estimated at US$9 million at a 12 percent discount rate,[32] and the economic rate of return (ERR) at 37 percent based on the project investments to support underserved firms under Subcomponent 2a.** For this analysis, these economic benefits are considered as the income of the project investments—therein applying the discounted cash flow model for financial analysis of private investments within the context of a World Bank project. Key variables used as assumptions in this analysis have been tested for sensitivity to ensure robustness of the overall analysis and the potential project interventions.

48. **Additional spillover effects and growth of project investments is likely to amplify the impact of project investments**. This amplified impact will essentially create a multiplier effect related to the investments under this project. However, this multiplier effect has not been included in the project economic analysis for several reasons: (a) to be conservative in estimations; (b) difficulties in attribution and measurement associated with using a sweeping multiplier; and (c)) difficulties in determining the correct size and timing of the multiplier effect. Given this exclusion, the impacts from this project, especially social benefit spillovers, will likely be underestimated in the analysis.

49. **These social benefits include increased financial resilience, expanded access to credit for firms, and more efficient payments**. The project investments are also likely to spur positive externalities for the wider population beyond

[32] A 12 percent discount rate is estimated as the risk-adjusted opportunity cost of capital. Additional NPV estimates at other discount rates have also been provided as a measure of the sensitivity of the analysis.

these direct beneficiaries. Such externalities also include increased economic and trading activity, enabled by digital payments, and increased female empowerment and reduction in entrepreneurial barriers for women due to enhanced access to credit due to guarantees.

Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund

50. **Deposit insurance.** As part of the financial safety net, a stronger and well-designed deposit insurance system as supported by this IPF provides a multitude of benefits to financial and broader economic development. Given that improved financial security and resilience are difficult to quantify using a counterfactual, this component has not been included in the economic analysis calculation. The technical analysis in support of this component is described below, referencing standard setters (for example, IADI[33] and EBA[34]) and leading deposit insurers (for example, United States Federal Deposit Insurance Corporation[35]).

- **Promoting financial stability by reducing the vulnerability of banks to deposit outflows.** By increasing account coverage to EUR 10,000, the ratio of covered to eligible deposits is estimated to increase from 23.2 to 35.1 percent based on end-2023 data. This translates to a 46.8 percent increase in the volume of covered deposits (EUR 590 million) with lower liquidity funding risks for the banking system.
- **Protecting small depositors including households and SMEs against losses due to financial crises.** This intervention supports the increase of deposit coverage, expected to benefit an estimated additional 166,000 deposit account holders in Kosovo, with the share of fully covered depositors estimated to increase from 82.3 to 93.6 percent.
- **Supporting financial inclusion and market deepening**. Stronger confidence afforded by improved deposit protection can incentivize participation by the formerly financially excluded and deepen national savings for financial intermediation and economic development. Increases in deposit supply may further contribute to lowering the deposit interest rate and offsetting bank premium contributions.
- **Deepening the pool of financial resources to handle systemic crises.** The increase in the coverage limit expands the relative composition of covered deposits in bank balance sheets, supporting the use of DIFs to contribute to bank resolution or alternative measures to address bank failures on a lesser cost basis.

Component 2: Financing Underserved Firms

51. **For Subcomponent 2a, the NPV is estimated at US$6.3 million with an ERR of 37 percent.** This ERR calculation does not include activities under Subcomponent 2b to support establishment of the NDB as the institution is still to be established. That said, the NDB is expected to further mobilize private capital financing for future sustainable development projects.

52. **The economic analysis assumes that the 2,600 MSME beneficiaries estimated in the Results Framework able to access financing via the project supported KCGF windows.** The analysis assumes they have a lower failure rate and higher revenue growth rate than they would otherwise because of project support. An impact evaluation carried by the World Bank with support of the KCGF demonstrated that firms participating in KCGF programs increased their employment and grew their sales compared to those not covered by the KCGF. Participating firms had an increase in turnover of almost 10 percent higher than the comparison group. The results also indicated that firms that benefited from the KCGF became

[33] IADI. 2013. "Financial Inclusion and Deposit Insurance". https://www.iadi.org/uploads/2013-06_Financial_Inclusion_and_Deposit_Insurance_publication-clean.pdf.
[34] EBA. 2023. *EBA Report on Deposit Coverage in Response to European Commission's Call for Advice*. https://www.eba.europa.eu/sites/default/files/2023-12/cfe9c89f-23ec-42d0-88fd-fc873ff26c76/EBA%20Report%20on%20deposit%20coverage%20in%20response%20to%20EC%20CfA.pdf.
[35] FDIC. (2023). Options for Deposit Insurance Reform. https://www.fdic.gov/analysis/options-deposit-insurance-reform.

more productive (5.8 percent) and expanded employment (2.8 percent). Also, firms included in the KCGF were nearly 5 percent less likely to end their operations.

(a) **Reduction in failure rate.** SMEs and start-up beneficiaries are expected to have a high failure rate of 50 and 70 percent, respectively, in the absence of access to finance via the project. The impact of the KCGF (and thereby the project) is expected to reduce this by 5 percent.

(b) **Revenue growth.** The analysis assumes an additional revenue growth of 10 percent for beneficiaries over a baseline of 3 percent over two years.

(c) **Baseline revenues.** Baseline annual revenues are assumed to be three times the average loan value. Average loan values are estimated as part of the project pipeline as US$28,000, US$25,000, and US$147,000 for women in business, start-ups, and exporting firm beneficiaries, respectively.

53. The results of sensitivity analyses for this component are summarized in table 7.

Table 7. Results of Sensitivity Analysis

Sensitivity Condition	ERR (percent)
Reduce failure rate impact by 50%	29
Reduce growth rate impact by 50%	24

Component 3: Catalyzing Faster-Payments

54. **Support to establish and operationalize the FPS will improve efficiency of the national payments system and lower the cost of retail payments, thereby reducing the transaction costs for exchanging goods and services.** In doing so, the FPS can also effectively increase access to digital payments for more vulnerable and lower income groups within Kosovo. This gain in the use of digital payments (as opposed to cash) is also likely to support MSMEs. A study on retail payments costs and savings conducted in Kosovo in 2021 finds that annual payment costs amount to about 4.4 percent of GDP, with the cost of cash transactions amounting to 2.7 percent of GDP (approximately 60 percent of these costs). Transitioning even a portion of these cash transactions to digital payments could result in significant cost savings for Kosovar beneficiaries; these cost savings could total at close to 1 percent of GDP. For example, substituting 50 percent of remittance cash payments with electronic transfers are estimated to generate annual savings of EUR 30.7 million. This vastly exceeds the project investment in the FPS.[36]

B. Fiduciary

(i) Financial Management

55. **The overall FM arrangements meet the minimum requirements of the World Bank's Policy and Directive on Investment Project Financing (IPF).** Overall responsibility for the project's FM will remain with the MoFLT, while the CBK, DIFK, and the KCGF will remain responsible for respective components. The project will rely extensively on the various elements of Kosovo's public financial management (PFM) systems including organizational hierarchy, budget classification and formulation, budget execution, internal control, and external audit, as well as existing FM systems of participating agencies. The assessment indicates sound FM practices exist in KCGF, DIFK, and CBK. Though relatively new institutions, the KCGF and DIFK have established governance models adequate for their size and complex operations, including board oversight, management structure, risk management, and operational as well as financial and reporting policies. Their organization structure properly defines the authority line and roles and responsibilities. The CBK governance and internal control framework has improved over time, marked by the restoration of the functioning of its board in 2022, while there are ongoing efforts toward strengthening of the audit committee, internal audit function, and risk management. The

[36] World Bank and Central Bank of the Republic of Kosovo, *Retail Payments and Cost Savings in Kosovo,* February 2022.

quality of the recent audited financial statements demonstrates that these entities have implemented sound FM practices. On the other hand, more notable FM risks are associated with the MoFLT, given (a) risks associated with the budget allocation adequacy considering application of national budget framework, consistent with funds transfer arrangements between the MoFLT and other agencies; (b) limitation of the chart of accounts to report by expenditure category, component/activity, and contract; (c) FM staffing adequacy considering existing budget and finance staff fully utilized and lack of consistent modern practices on FM; and (d) no experience with the application of the PBCs.

56. **In response to the identified risks, the following measures have been agreed to strengthen the FM systems for the proposed operation**: (a) the POM will describe the FM and disbursement arrangements by considering the roles and responsibilities of each IA; (b) a qualified FM specialist hired as part of the PIU (or resourced by the CSP-IDP) to support the MoFLT Budget and Finance Department; (c) parallel financial schedules to be maintained to enable financial reporting for the project; and (d) periodic and on-the-job FM and disbursement training of the FM staff, budgeted under Component 4. To manage risk associated with the budget, the MoFLT is required to implement an effective and documented project planning and contract monitoring process, while the World Bank team will review the annual work plan and monitor the annual budget formulation process. As a prerequisite, the MoFLT needs to reflect project spending forecast into annual budget documentation. In addition, the budgeting arrangements will be agreed in the subsidiary agreements with each agency. The FM risk after mitigation measures is assessed as moderate.

57. **The project's interim financial reports (IFRs) and annual PFSs will be prepared on cash basis and will consolidate all project expenditure.** These reports will be prepared by the MoFLT; the CBK will provide periodically financial information on the transactions executed for the respective part, which will be consolidated by the MoFLT. The following financial reporting requirements are included in the Disbursement and Financial Information Letter (DFIL): (a) quarterly IFRs, in form and substance agreed with the World Bank, will be submitted to the World Bank no later than 45 days after the end of each quarter; (b) annual PFS will be audited by independent auditors under terms of reference acceptable to the World Bank; and (c) annual financial statements will be prepared based on International Financial Reporting Standards (IFRS) for the KCGF, DIFK, and NDB once it is incorporated. The audited PFS and other audit reports will be presented to the World Bank no later than six months after the end of the fiscal year and made publicly available in a manner acceptable to the World Bank.

(ii) Procurement

58. **The overall procurement arrangements meet the minimum requirements of the World Bank's Policy and Directive on Investment Project Financing (IPF).** The CBK, responsible for most of the procurement activity in this operation, was assessed in October 2024 and has sufficient capacities with minor concerns related to temporary staffing shortages the institution is currently facing. The project, in the event of persisting capacities gaps, may support additional procurement capacity as mitigation measures to manage risks of difficulties in filling the current vacant positions. These measures are stipulated in the Project Procurement Strategy for Development (PPSD). The MoFLT (being the implementer of Subcomponents 2b and 4) is assessed to have sufficient capacity as well, coupled with the fact that the MoFLT is in the process of establishing a central PIU that will comprise a mix of qualified consultants and existing 'in-house capacities to be mapped to this new PIU. With respect to the frequency of procurement supervision, in addition to the prior review supervision to be carried out by the World Bank team, the capacity assessment of the implementing agency recommends supervision missions every six months during the first year of implementation, and once every subsequent year. Post reviews will be carried out regularly with a minimum sampling of two in ten. Considering the specificities of this project's procurement packages related to technology, a Direct Selection approach may be selected for several procurement packages under Component 3. The Procurement Plan shall set forth those contracts which shall also be subject to the

World Bank's prior review. The project will utilize the approved thresholds for Procurement Approaches and Methods (July 2023).[37]

59. **Procurement will be conducted according to the World Bank Procurement Regulations for IPF Borrowers (the Regulations).** Under the Regulations, issued in July 2016, and revised September 2023, project procurement may be conducted using advance contracting and retroactive financing, subject to consistency with Sections I, II, and III of the Regulations. The Project Procurement Development Objectives (PPDOs) are the following: (a) to ensure procurement efficiency and value for money that contribute toward achieving the project's objectives; (b) to ensure appropriate market participation in relatively low-to-medium-value technical services that are critical for realizing the PDOs; and (c) effective contract management to ensure maximum quality of goods and services procured through the project.

60. **Project Procurement Result Indicators include the PPDO indicator which is timely completion of most contracts by 75 percent.** The FPS Platform including related activities is considered as key procurement under the project and includes procurement of goods (including licenses) and procurement of consultancy services. Market approaches and methods are to be stipulated in the PPSD and Procurement Plan. A General Procurement Notice (GPN) will be published online as an advertisement on the United National Development Business (UNDB) website. Specific Procurement Notices (SPN) will be published as the corresponding bid documents become available. All these advertisements shall be made through Systematic Tracking of Exchanges in Procurement (STEP) system. The borrower will respect debarment decisions by the World Bank and will exclude debarred firms and individuals from the participation in the competition for World Bank-financed contracts. The current listing of such firms and individuals can be found at the following website address: http://www.worldbank.org;/debarr.

C. Environmental, Social and Legal Operational Policies

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

V. GRIEVANCE REDRESS SERVICES

61. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by a project supported by the World Bank may submit complaints to existing project-level grievance mechanisms or the Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the Bank's independent Accountability Mechanism (AM). The AM houses the Inspection Panel, which determines whether harm occurred, or could occur, as a result of Bank non-compliance with its policies and procedures, and the Dispute Resolution Service, which provides communities and borrowers with the opportunity to address complaints through dispute

[37] World Bank. Procurement Approaches and Methods. July 2023. https://worldbankgroup.sharepoint.com/sites/ppfonline/PPFDocuments/3dae657ea430421fb34320cf5fc10d0c.pdf.

resolution. Complaints may be submitted to the AM at any time after concerns have been brought directly to the attention of Bank Management and after Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's Grievance Redress Service (GRS), visit http://www.worldbank.org/GRS. For information on how to submit complaints to the Bank's Accountability Mechanism, visit https://accountability.worldbank.org.

VI. KEY RISKS

Overall Risk and Explanation

62. **The overall risk is assessed as Moderate after mitigation measures have been put in place**. Mitigation measures will be identified during preparation. Technical risk and institutional capacity risk are rated Substantial. Additional risks are assessed as Moderate: macroeconomic, fiduciary, environmental, and social. It is expected that the potential benefits of the proposed operation outweigh residual risks and warrant IDA's assistance.

- **Technical design risk is rated as Substantial.** Although elements of technical design of this project have been tested in other jurisdictions (and in some cases in Kosovo), some activities requested by the Government require a more complex design involving a sequence of actions to achieve outcomes, including legislative action beyond the control of this project. Component 1 on Deposit Insurance and Subcomponent 2a on Credit Guarantees expand support provided in previous successful World Bank Kosovo financial sector operations. However, achievement of Component 1 outcomes depends on issuance of amendments to the Kosovo LDI, and outcomes could be affected by unexpected growth in deposits and the need for payouts or financial contributions to address bank failures reducing DIFK reserves, which are beyond the control of this project. Subcomponent 2b, on establishment of the NDB, requires extensive engagement with the client during preparation and implementation to ensure that objectives, plans, and legislation to establish the NDB are aligned with internationally accepted good practices, given that this is a new area of World Bank engagement in Kosovo and an opportunity to influence a high-priority area of the MoFLT work program. For Component 3, FPS entails risk that fees may not be reduced for consumers if PSPs do not pass cost savings to their customers and that the volume of fast credit transfers does not increase as expected if many consumers continue cash transactions. Risks are expected to be mitigated by the attractive value proposition for faster payments and increased market competition when the FPS becomes accessible to several banks.
- **Institutional risk is assessed as Substantial.** This reflects the complexity of implementation arrangements involving four IAs and the proximity of central elections (announced for February 9, 2025) against the preparation schedule of this operation**.** Institutional capacity of the Government to implement the activities may adversely affect the achievement of expected results. One challenge is coordination across the four IAs and a diverse set of stakeholders, which can be partially mitigated by the experience of DIFK, KCGF, the MoFLT, and CBK in implementing the World Bank IPF, shared capacity-building engagements, and appropriate procedures to be set forth in the POM. TA from the 2024–-26 World Bank FinSAC program for Kosovo and other donors will also provide complementary support to key activities. Another mitigating factor is the Government plans to enhance MoFLT central capacity for implementation of development projects through a centralized PIU.

63. **The E&S risks are rated as Moderate**. As a result of project implementation, no major E&S impacts are expected. The activities under Components 1 and 3 are assessed to have no or negligible E&S risk as they will be supporting TA, capacity building, and digital hardware and software, while the activities under Subcomponents 2a and 2b which are categorized as FI category, are expected to have E&S risks stemming from subprojects guaranteed by the funds of KCGF and projects to be supported by the NDB. Involved PFIs, based on the KCGF E&S policy, will be responsible that the project complies with the relevant national E&S regulation and ESMS according to the World Bank ESF. The existing KCGF ESMS will be enhanced/upgraded to meet the relevant requirements of the World Bank Bank ESF (including Environmental and Social Standard 9, ESS 9). The KCGF will include all necessary provisions into guarantee agreements with PFIs and require them to include the respective requirements into loan agreements to comply with ESMS and national legislation, including having a designated E&S staff (at the PFI level) to supervise project implementation and provide reports and feedback to the KCGF during the lifetime of the project. For Subcomponent 2b, TA is expected to support the preparation of the ESMS for the NDB. Small amount of e-waste is generated from the procurement of the IT hardware under Component 3, therefore, the management of e-waste will be incorporated into an Environmental and Social Management Plan (ESMP) to be prepared under this project. The ESCP and SEP were disclosed in November 2024.

ANNEX 1: Results Framework

COUNTRY: Kosovo
Kosovo Financial Sector Development Project

PDO Indicators by PDO Outcomes

Baseline	Period 1	Period 2	Period 3	Period 4	Closing Period
Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund					
Ratio of DIFK available financial means to covered deposits, if deposit coverage level is raised to EUR 10,000 (Percentage)					
Dec/2023	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
3.70	4.50	5	5	5	5
Financing for Underserved Firms					
Number of MSMEs financed through loans guaranteed under the women in business, startups, and export windows of KCGF (Number)					
Nov/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
381	550	1,000	1,500	2,100	2,600
➢Of which Women led MSMEs financed through loans guaranteed under the women in business window of KCGF (Number)					
Nov/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
191	350	580	750	900	1,000
The NDB has approved its first financing or refinancing transaction (Yes/No) PBC					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	No	Yes	Yes
Catalyzing Faster Payments					
People using payment services (Number of people) CRI					
Oct/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
771,424	820,504	888,967	963,761	1,045,525	1,134,964
➢People using payment services - Female (Number of people) CRI					
Oct/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
311,719	334,959	373,986	417,559	466,208	520,526

Intermediate Indicators by Components

Baseline	Period 1	Period 2	Period 3	Period 4	Closing Period
Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund					
Amendment to the Law on Deposit Insurance that increases deposit insurance coverage from EUR 5,000 to 10,000 (Yes/No) PBC					
Dec/2023	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	Yes	Yes	Yes	Yes	Yes
The number of depositors fully covered by the deposit insurance limit is above 90% of eligible depositors. (Yes/No)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	Yes	Yes	Yes	Yes	Yes
The number of depositors benefitting from coverage increase from EUR 5,000 to 10,000. (Number (Thousand))					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
0	150	154	158	162	166
DIFK adopts an Investment Policy in line with the amended Law on Deposit Insurance. (Yes/No)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	Yes	Yes	Yes	Yes	Yes
DIFK and CBK conclude an updated bilateral Cooperation Agreement to address operational requirements by the amended Laws on Banks and Deposit Insurance. (Yes/No)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	Yes	Yes	Yes	Yes
Reduction in simulated payout period to depositors from 30 days to 7 working days following occurrence of insured event. (Yes/No) PBC					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	No	Yes	Yes
A contingent fiscal backstop mechanism to address potential capital shortfalls during crisis is developed. (Yes/No)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	No	Yes	Yes
Component 2a: Providing Partial Credit Guarantees to MSMEs					
KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering twice greater than the 2024 baseline (Yes/No) PBC					
Nov/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	Yes	Yes	Yes
KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering five times greater than the 2024 baseline (Yes/No) PBC					
Nov/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	No	No	Yes
Total amount of loans guaranteed through the women in business, start-ups, and exporters windows (Amount(USD))					
Nov/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
21,500,000	50,000,000	60,000,000	100,000,000	150,000,000	200,000,000

Percentage of beneficiaries that feel KCGF guaranteed loans supported by the project reflected their needs (Percentage)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
0	0	0	75	75	75
Percentage of guaranteed loans to exporters supporting energy efficiency or renewable projects (Percentage)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
0	10	10	10	10	10
Component 2b: Establishing a National Development Bank					
NDB Board has been duly constituted in accordance with the parameters detailed in the POM including having majority independent members; and (b) the NDB board has appointed the NDB CEO (Yes/No) [PBC]					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	Yes	Yes	Yes	Yes
a) CBK has issued prudential regulations governing NDB consistent with BAPs and proportional to the risk profile of the NDB; b) NDB Board has approved the NDB strategy and adopted NDB operation manual (Yes/No) [PBC]					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
No	No	No	Yes	Yes	Yes
Component 3: Catalyzing Faster Payments					
Share of PSP connected to the FPS (% on licensed PSP) (Percentage)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
0	0	50	75	95	95
Volume of credit transfers initiated electronically (Number)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
11,432,406	13,408,887	15,814,411	19,211,520	24,551,394	30,305,020
Number of financial institutions investing private money to upgrade their infrastructure to the new FPS (Number)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
0	0	0	7	10	11
Time to credit payee’s account for domestic credit transfer (Seconds)					
Dec/2024	Jun/2026	Jun/2027	Jun/2028	Jun/2029	Jun/2030
28,800	28,800	10	10	10	10
Component 4: Project Management					

Performance-based Conditions (PBC)

Period	Period Definition
Period 1	ending June 2026

Period 2	ending June 2027
Period 3	ending June 2028
Period 4	ending June 2029
Period 5	ending June 2030

Baseline	Period 1	Period 2	Period 3	Period 4	Period 5
1:Amendment to the Law on Deposit Insurance that increases deposit insurance coverage from EUR 5,000 to 10,000 (Yes/No)					
No	Yes	Yes	Yes	Yes	Yes
0.00	23,000,000.00	0.00	0.00	0.00	0.00
PBC allocation		23,000,000.00	As a % of Total PBC Allocation		51.11%
2:Reduction in simulated payout period to depositors from 30 days to 7 days (Yes/No)					
No	No	No	No	Yes	Yes
0.00	0.00	0.00	0.00	2,000,000.00	0.00
PBC allocation		2,000,000.00	As a % of Total PBC Allocation		4.44%
3:KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering twice greater than the 2024 baseline (Yes/No)					
No	No	No	Yess	Yes	Yes
0.00	0.00	0.00	2,500,000.00	0.00	0.00
PBC allocation		2,500,000.00	As a % of Total PBC Allocation		5.56%
4:KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering 5 times greater than the 2024 baseline (Yes/No)					
No	No	No	No	No	Yes
0.00	0.00	0.00	0.00	0.00	2,500,000.00
PBC allocation		2,500,000.00	As a % of Total PBC Allocation		5.56%
5:NDB Board has been duly constituted including having majority independent members; and (b) the NDB board has appointed the CEO in accordance with the parameters detailed in the POM. (Yes/No)					
No	No	Yes	Yes	Yes	Yes
0.00	0.00	5,000,000.00	0.00	0.00	0.00
PBC allocation		5,000,000.00	As a % of Total PBC Allocation		11.11%
6:a) CBK has issued prudential regulations governing NDB consistent with BAPs and proportional to the risk profile of the NDB; b) NDB Board has approved the NDB strategy and adopted NDB operation manual (Yes/No)					
No	No	No	Yes	Yes	Yes
0.00	0.00	0.00	5,000,000.00	0.00	0.00
PBC allocation		5,000,000.00	As a % of Total PBC Allocation		11.11%
7:The NDB has approved its first financing or refinancing transaction (Yes/No)					

No	No	No	No	Yes	Yes
0.00	0.00	0.00	0.00	5,000,000.00	0.00
PBC allocation		5,000,000.00	As a % of Total PBC Allocation		11.11%

Monitoring and Evaluation Plan: PDO Indicators by PDO Outcomes

Strengthening Financial Capacity of the Deposit Insurance Fund	
Ratio of DIFK available financial means to covered deposits, if deposit coverage level is raised to EUR 10,000 (Percentage)	
Description	The ratio is defined as DIFK available financial means (as per EBA guidelines) to covered deposits. The targets are defined to be applicable in the absence of insured events.
Frequency	Annual
Data source	DIFK
Methodology for Data Collection	Audited DIFK financial reports andp reporting on deposit base by all DIFK member institutions.
Responsibility for Data Collection	DIFK
Financing underserved firms	
Number of MSMEs financed through loans guaranteed under the women in business, startups, and export windows of KCGF (Number of businesses) **Sub-indicator: Of which Women led MSMEs financed through loans guaranteed under the women in business window of KCGF (Number)**	
Description	This indicator (and the sub-indicator) will be calculated as the cumulative number of MSMEs (and women led MSMEs) under the three windows (under the women in business window) supported by the project. The KCGF will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used. Women led MSMEs are MSMEs owned or managed by women. An MSME qualifies as women-owned or women-managed for guarantee financing if it is privately owned, has under 250 employees, is officially registered, and has at least one woman owner or a woman in an executive role. This indicator contributes to the World Bank's Corporate Scorecard Indicators (businesses using debt financing).
Frequency	Semi – annual
Data source	Project Report submitted to the World Bank team by KCGF
Methodology for Data Collection	KCGF will collect data using the internal operational data system
Responsibility for Data Collection	KCGF
The NDB has approved its first financing or refinancing transaction (Yes/No)	
Description	The NDB Board will take the decision to refinance or fund a portfolio of green loans or loans to priority sectors as per identified market gaps in accordance with MoFLT operational manuals.
Frequency	Once
Data source	The verification will be performed by an Independent Verification Agency to be appointed before project effectiveness.
Methodology for Data Collection	Independent verification agency hired under the project will verify the accuracy of evidence provided
Responsibility for Data Collection	Independent verification agency, MoFLT, NDB
Catalyzing Faster Payments	
People using payment services (Number of people) - Number of adults (15+) who made or received a digital payment **Sub-indicator: Of which Number of female adults (15+) who made or received a digital payment (Number)**	
Description	This is a FINDEX related indicator measuring the numberof individuals aged 15 years and older who have either made or received payments through digital channels within a specified period, typically the past 12 months.
Frequency	Annual
Data source	CBK, National Statistics, and World Bank estimations
Methodology for Data Collection	CBK, National Statistics, and World Bank estimations based on own methodology for estimating the indicator
Responsibility for Data Collection	CBK-Payments Department and World Bank

Monitoring & Evaluation Plan: Intermediate Results Indicators by Components

Component 1: Strengthening Financial and Institutional Capacity of the Deposit Insurance Fund	
Amendment to the Law on Deposit Insurance that increases deposit insurance coverage from EUR 5,000 to 10,000 (Yes/No)	
Description	The Law on Deposit Insurance is enacted, containing language that increases deposit insurance coverage for individuals and entities from EUR 5,000 to 10,000.
Frequency	Once
Data source	DIFK
Methodology for Data Collection	Published Official Gazette as evidence of law enactment with wording agreeable to the World Bank.
Responsibility for Data Collection	DIFK
The number of depositors fully covered by the deposit insurance limit is above 90% of eligible depositors. (Yes/No)	
Description	The number of depositors fully covered by the deposit insurance limit is calculated as the sum of the relevant numbers of depositors over all DIFK member institutions. Eligibility is defined according to the amended Law on Deposit Insurance.
Frequency	Semi – annual
Data source	Project reports by DIFK; DIFK Annual Reports
Methodology for Data Collection	Aggregation and analysis of member statistics by DIFK.
Responsibility for Data Collection	DIFK
The number of depositors benefitting from coverage increase from EUR 5,000 to 10,000. (Number (Thousand))	
Description	The number of deposit accounts with balances above EUR 5,000, calculated by DIFK based on member institution reports.
Frequency	Semi – annual
Data source	Project reports by DIFK; DIFK Annual Reports
Methodology for Data Collection	Aggregation and analysis of member statistics by DIFK.
Responsibility for Data Collection	DIFK
DIFK adopts an Investment Policy in line with the amended Law on Deposit Insurance. (Yes/No)	
Description	Adoption of DIFK Investment Policy by its Management Board.
Frequency	Annual
Data source	DIFK
Methodology for Data Collection	Official letter by DIFK confirming the decision by its Management Board to adopt the Investment Policy with a copy.
Responsibility for Data Collection	DIFK
DIFK and CBK conclude an updated bilateral Cooperation Agreement to address operational requirements by the amended Laws on Banks and Deposit Insurance. (Yes/No)	
Description	Signing of an updated CBK-DIFK Cooperation Agreement.
Frequency	Annual
Data source	DIFK
Methodology for Data Collection	Official letter by DIFK confirming the signing of Cooperation Agreement with a copy.
Responsibility for Data Collection	DIFK
Reduction in simulated payout period to depositors from 30 days to 7 working days following occurrence of insured event	
Description	Demonstration of improved institutional capacity to provide timely payouts to insured depositors as evidenced by reduction of payout period from 30 days to 7 working days during DIFK simulation exercises. Regulation of DIFK simulation exercises in line with the 2021 EBA Guidelines on Stress Tests of DGSs.
Frequency	Annual
Data source	DIFK
Methodology for Data Collection	Report by DIFK on the implementation of simulation activities, alongside a regulation adopted by its Management Board on DGS Stress Test, demonstrating the achievement by DIFK making available repayment amounts to depositors within the applicable repayment deadline, for World Bank review and confirmation.

Responsibility for Data Collection	DIFK
A contingent fiscal backstop mechanism to address potential capital shortfalls during crisis is developed. (Yes/No)	
Description	Issuance of a government Regulation or signing of a Cooperation Agreement between financial safety net stakeholders on the fiscal backstop issue.
Frequency	Annual
Data source	DIFK
Methodology for Data Collection	Official letter from DIFK confirming the government Regulation or Cooperationl Agreement between financial safety net stakeholders.
Responsibility for Data Collection	DIFK
Component 2a: Providing Partial Credit Guarantees to MSMEs	
KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering twice greater than the 2024 baseline (Yes/No) PBC	
Description	This will be calculated as the ratio (in percentage) of the cumulative number of guaranteed loans approved by the KCGF under women in business, start-ups, and export windows each year to the baseline related number in 2024. The KCGF will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used. Women led MSMEs are MSMEs owned or managed by women.
Frequency	Semi – annual
Data source	Project Report submitted to World Bank team by KCGF
Methodology for Data Collection	KCGF will collect data using the internal operational data system
Responsibility for Data Collection	KCGF
KCGF has duly provided guarantees to eligible MSMEs under its women in business, start-up and export windows numbering five times greater than the 2024 baseline (Yes/No)	
Description	This will be calculated as the ratio (in percentage) of the cumulative number of guaranteed loans approved by the KCGF under women in business, start-ups, and export windows each year to the baseline related number in 2024. The KCGF will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used. Women led MSMEs are MSMEs owned or managed by women.
Frequency	Semi – annual
Data source	Project Report submitted to the World Bank team by KCGF
Methodology for Data Collection	KCGF will collect data using the internal operational data system
Responsibility for Data Collection	KCGF
Total amount of loans guaranteed through the women in business, start-ups, and exporters windows (Amount(US$))	
Description	This is the total amount of loans guaranteed by the KCGF during the Project life under the three windows (in US$), This will be tracked cumulatively and will include outstanding, expired or cancelled loans.
Frequency	Semi – annual
Data source	Project Report submitted to the World Bank team by KCGF
Methodology for Data Collection	KCGF will collect data using the internal operational data system
Responsibility for Data Collection	KCGF
Percentage of beneficiaries that feel KCGF guaranteed loans supported by the project reflected their needs (Percentage)	
Description	A survey will measure the satisfaction of the Project's final beneficiaries benefiting from loans guaranteed by KCGF under the three windows supported by the project. During mid-term review and every year after that, the KCGF will organize workshops targeting different project stakeholders or beneficiaries. Workshops will be organized taking into account the type of product or activity and the type of beneficiary. To measure the level of satisfaction among the beneficiaries, the KCGF will develop a survey. This indicator is part of the operation’s World Bank Citizen’s Engagement committments.
Frequency	Annual
Data source	Project Report submitted to the World Bank team by KCGF
Methodology for Data Collection	KCGF will collect feedback using tailored surveys
Responsibility for Data Collection	KCGF
Number of meetings / workshops / focus groups with PFIs and MSMEs with relevant feedback integrated in project interventions (Number)	

Description	KCGF will hold meetings/workshops/focus groups with PFIs and MSMEs periodically (at least once a year with each group) to gather their feedback which will serve to address concerns or adjust as needed the guarantees windows supported by the project and help the team course correct the CE process during implementation.
Frequency	Annual
Data source	Project Report submitted to the World Bank team by KCGF
Methodology for Data Collection	KCGF will evidence the workshop through rapid questionnaires for beneficiaries (exit surveys of the participants) during the meetings, workshops, focus groups, etc.
Responsibility for Data Collection	KCGF
Percentage of guaranteed loans to exporters supporting energy efficiency or renewable projects (Percentage)	
Description	The indicator will measure the amount of guaranteed loans supporting renewable/energy efficiency projects under the exports window as percentage of total loans guarnateed under this window.
Frequency	Semi – annual
Data source	Project Report submitted to World Bank team by KCGF
Methodology for Data Collection	KCGF will collect data using the internal operational data system, using agreed taging of renewable / energy efficiency projects as described in the operations manual.
Responsibility for Data Collection	KCGF
Component 2b: Establishing a National Development Bank	
The NDB board of directors has been duly constituted in accordance with the parameters detailed in the Project Operations Manual including having majority independent members; and (b) the NDB board has appointed the NDB chief executive officer. (Yes/No) PBC	
Description	The first tranche of capital will be disbursed upon appointment of Board members and an NDB Chief Executive Officer consistent with internationally accepted good practices as detailed in the POM.
Frequency	Once
Data source	Official and verifiable documents / MoFLT
Methodology for Data Collection	The verification of PBC will be performed by an Independent Verification Agency to be appointed before project effectiveness by MoFLT
Responsibility for Data Collection	Independent Verification Agency will submit a report to the World Bank evidencing the achievement of the PBC and the verification process followed. The template of the report will be provided by World Bank.
The Central Bank of Kosovo has issued prudential regulations governing NDB consistent with Basel Accord Principles and proportional to the risk profile of the NDB; (b) the NDB Board has approved the NDB strategy and adopted the NDB operations manual. (Yes/No) PBC	
Description	The second tranche of capital will be disbursed upon issuance of prudential regulations consistent with the Basel Core Principles and proportionate to the risk of institution and adoption of operation manuals of the NDB.
Frequency	Once
Data source	Official and verifiable documents CBK / NDB / MoFLT
Methodology for Data Collection	The verification of PBC will be performed by an Independent Verification Agency to be appointed before project effectiveness.
Responsibility for Data Collection	Independent Verification Agency will submit a report to the World Bank evidencing the achievement of the PBC and the verification process followed.
Component 3: Catalyzing Faster Payments	
Share of PSP connected to the FPS (% on licensed PSP) (Percentage)	
Description	Percentage of licensed Payment Service Providers (PSP) connected and using FPS
Frequency	Annually once the FPS is operational
Data source	CBK
Methodology for Data Collection	FPS verification protocols
Responsibility for Data Collection	CBK Payments Department
Volume of credit transfers initiated electronically (Number)	
Description	Baseline (2024) is the volume of credit transfers initiated electornically as registered by CBK.
Frequency	Annual
Data source	CBK
Methodology for Data Collection	FPS verification protocols

Responsibility for Data Collection	CBK Payments Department
Number of financial institutions investing private money to upgrade their infrastructure to the new FPS (Number)	
Description	Investments (US$) by banks and other financial institutions in in technology infrastructure to adopt FPS functionalities. This indicator would contribute to World Bank Private Capital Enabling (PCE) targets.
Frequency	Annual
Data source	CBK
Methodology for Data Collection	FPS verification protocols
Responsibility for Data Collection	CBK Payments Department
Time to credit payee's account for domestic credit transfer (Seconds)	
Description	Time for finalization of a domestic transfer from one account to the otherthrough the Fast Payment System. FPS to be implemented aligning to speed of SCT Inst (fast credit transfer scheme used by SEPA) as set out in scheme rules.
Frequency	Annual after the FPS has become operational
Data source	CBK
Methodology for Data Collection	Reports Generated by FPS
Responsibility for Data Collection	CBK-Payments Department

Verification Protocols: Performance Based Conditions

1. Amendment to the Law on Deposit Insurance that increases deposit insurance coverage from EUR 5,000 to 10,000 (Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$23,000,000 will be disbursed
Description	The Law on Deposit Insurance is enacted, containing language that increases deposit insurance coverage for individuals and entities from EUR 5,000 to 10,000.
Data source/ Agency	DIFK
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Published Official Gazette as evidence of law enactment, as confirmed by independent verification entity
2. Reduction in simulated payout period to depositors from 30 days to 7 working days following occurrence of insured event	
Formula	Upon verification of fulfillment of the PBC US$2,000,000 will be disbursed
Description	Demonstration of improved institutional capacity to provide timely payouts to insured depositors as evidenced by reduction of payout period from 30 days to 7 working days during DIFK simulation exercises. Regulation of DIFK simulation exercises in line with the 2021 EBA Guidelines on Stress Tests of DGSs.
Data source/ Agency	DIFK
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Report by DIFK on the implementation of simulation activities, alongside a regulation adopted by its Management Board on DGS Stress Test, demonstrating the achievement by DIFK making available repayment amounts to depositors within the applicable repayment deadline, for independent verification and confirmation
3. KCGF has duly provided guarantees to Eligible MSMEs under its women in business, start-up and export windows to numbering twice greater than the 2024 Baseline. (Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$2,500,000 will be disbursed
Description	This will be calculated as the ratio (in percentage) of the cumulative number of guaranteed loans approved by the KCGF under women in business, start-ups, and export windows each year to the baseline related number in 2024. The KCGF will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used.
Data source/ Agency	KCGF
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Project Report submitted to World Bank team by KCGF and confirmed by independent verification agency
4. KCGF has duly provided guarantees to Eligible MSMEs under its women in business, start-up and export windows to numbering five times greater than the 2024 Baseline. (Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$2,500,000 will be disbursed
Description	This will be calculated as the ratio (in percentage) of the cumulative number of guaranteed loans approved by the KCGF under women in business, start-ups, and export windows each year to the baseline related number in 2024. The KCGF will track approved guarantees, expired or cancelled guarantees, and the net number of guarantees used.

Data source/ Agency	KCGF
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Project Report submitted to World Bank team by KCGF and confirmed by independent verification agency
5. The NDB board of directors has been duly constituted in accordance with the parameters detailed in the Project Operations Manual including having majority independent members; and (b) the NDB board has appointed the NDB chief executive officer. (Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$5,000,000 will be disbursed
Description	The first tranche of capital will be disbursed upon appointment of Board members and a Chief Executive Officer consistent with internationally accepted good practices as detailed in the POM.
Data source/ Agency	Official and verifiable documents / MoFLT
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Independent Verification Agency will submit a report to the World Bank evidencing the achievement of the PBC and the verification process followed. The template of the report will be provided by World Bank.
6. The Central Bank of Kosovo has issued prudential regulations governing NDB consistent with Basel Core Principles and proportional to the risk profile of the NDB; (b) the NDB Board has approved the NDB strategy and adopted the NDB operations manual.(Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$5,000,000 will be disbursed
Description	The second tranche of capital will be disbursed upon issuance of prudential regulations consistent with Basel Core Principles and proportionate to the risk of institution and adoption of NDB strategy and operation manuals of the Bank.
Data source/ Agency	Official and verifiable documents CBK / NDB
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Independent Verification Agency will submit a report to the World Bank evidencing the achievement of the PBC.
7. The NDB has approved its first financing or re-financing transaction. (Yes/No)	
Formula	Upon verification of fulfillment of the PBC US$5,000,000 will be disbursed
Description	The third tranche of capital will be disbursed upon NDB disbursement of financing and/or refinancing provided to eligible loans in accordance with the NDB Operations Manual.
Data source/ Agency	Official and verifiable data, NDB financial reports
Verification Entity	Independent Verification Agency to be appointed before project effectiveness.
Procedure	Independent Verification Agency to submit a report to the World Bank with evidence of the achievement of the PBC

ANNEX 2: Summary of Financial Intermediary Assessment of KCGF and Assessment against Principles

COUNTRY: Kosovo
Kosovo Financial Sector Development Project

1. **KCGF's legal, corporate governance, operational, and risk management frameworks are mostly in line with World Bank Principles for Public Credit Guarantees Schemes (CGS).[38]** KCGF was established in 2016 with contributions from IFIs including KfW and USAID and later supported by the Financial Sector Strengthening Project (P165147) and more recently by the European Investment Bank (EIB). A well-designed foundational law, developed in partnership with donors and IFIs, has supported institutional independence, well-funded capital, and a robust corporate governance framework as well as set a clear mandate and eligibility criteria to only target MSMEs. The full Financial Intermediary Assessment is filed as a supplemental document within the World Bank system.

2. **The guarantee framework of KCGF is structured as portfolio based with PFIs making the credit decision and KCGF providing oversight.** The needs of specific market segments which are unserved or underserved, are addressed through several guarantee windows: the Standard Window, Export Window, Agro Window, Green Window (GROW), Women in Business Window, and Start up Window. Each window has its established guarantee coverage, maximum loan limit, eligibility criteria of the beneficiaries, guarantee fee, and qualification criteria of the loan services. Guarantee windows are developed through consultations with the banking sector, Government, and stakeholders and eligibility criteria are visited frequently to maintain the relevance in relation to other instruments in the market. KCGF guarantee pricing support is risk based and supports sustainability, covering all costs.[39]

3. **The KCGF has been filling an important market gap, providing risk sharing instruments to banks and microfinance institutions to enhance access to finance for unbanked and underbanked MSMEs.** PCGs issued by KCGF played an instrumental role in enhancing access to finance for MSMEs in Kosovo where high-risk aversion has traditionally restricted finance to MSME without credit history and collateral. The KCGF, supported by IFIs including the World Bank, increased its penetration in the MSME loan market since its establishment in 2016. By end 2023, the share of loans supported by KCGF guarantees in the category of new loans between EUR 25,000 to EUR 100,000 was 30 percent, up from 14 percent in 2018. Nearly all (98 percent) of the KCGF portfolio supports micro and small firms while 2 percent goes to medium enterprises. KCGF helped lower the collateral requirement and extend the maturity of loans in Kosovo, with new guaranteed loans requiring 78 percent less collateral, and providing seven months longer maturity compared to non-guaranteed loans. KCGF played an integral role in the Government Economic Recovery Package (ERP), with the ERP window supported by a World Bank loan backing EUR 105 million in additional loans to MSMEs during the pandemic period. The volume of active loans guaranteed by KCGF as a share of 2023 GDP is 1.21 percent.

Table 2.1. KCGF Assessment Against World Bank Public Credit Guarantee (PCG) Principles for SMEs

Legal and Regulatory Framework	
1. Establish the Credit Guarantee Scheme (CGS) as an independent legal entity.	The KCGF, an independent, autonomous legal institution established by special law outside the government and civil service, has full operational and administrative autonomy.
2. Provide adequate funding and keep sources transparent.	The KCGF has adequate capital to support its exposures from guarantees. By the end of 2023, it had capital of 81 million backing 158 million allocated to financial institutions.

38 World Bank Group. Principles for Public Credit Guarantee Schemes for SMEs. 2015.

39 KCGF's risk-based pricing model considers Expected Credit Loss (derived from probability of default, exposure at default and loss given default), operating expenses, investment income, maximum guaranteed losses (Loss Cap), and credit re-guarantee percentage and its cost (where applicable).

3. Promote mixed ownership and treat minority shareholders fairly.	KCGF has public and private donors which are consisting of Government of Kosovo, KfW, and USAID with capital contributions of 58, 30 and 7 percent respectively.
4. Supervise the CGS independently and effectively.	According to its Law, KCGF is required to submit its annual IFRS audit report, and guarantee portfolio including its risk assessment and claims paid out on a monthly, quarterly, semiannual and annual basis to CBK. Any KCGF products and services are subject to the approval by the CBK.
Corporate governance and risk management	
5. Clearly define the CGS mandate.	The KCGF is an independent institution, established to facilitate financial intermediation for MSMEs, through the provision of credit guarantees to registered PFIs.
6. Set a sound corporate governance structure with an independent board of directors.	KCGF has an established corporate governance structure with board of directors appointed according to clearly defined criteria with 7 board members, including 4 independent board members.
7. Design a sound internal control framework to safeguard the operational integrity.	KCGF has an internal control framework to safeguard the integrity and efficiency of its governance and operations. Its audit committee makes recommendations to the Board on internal control, and audit issues.
8. Adopt an effective and comprehensive enterprise risk management framework.	KCGF has an effective and comprehensive enterprise risk management framework that identifies, assesses, and manages the risks related to KCGF operations. KCGF has a risk management committee reporting to the Board and a risk management unit focusing on credit and operational risks, developing risk policies and conducting stress tests.
Operational framework	
9. Clearly define eligibility and qualification criteria for SMEs, lenders, and credit instruments.	KCGF currently operates 6 guarantee windows with well-defined eligibility criteria. PFIs are subject to due diligence before KCGF approval. Guarantee agreements are clear and transparent on eligibility criteria for MSMEs, instruments and PFIs.
10. Ensure the guarantee delivery approach balances outreach, additionality, and financial sustainability.	KCGF windows are developed with comprehensive stakeholder engagement and analysis to target unbanked segments. Financial sustainability is ensured through clear leverage limits set at overall portfolio and window level.
11. Issue partial guarantees that comply with prudential regulation and provide capital relief to lenders.	CBK sets risk weights and reserve requirements for loans covered by credit guarantees issued by the KCGF which provides capital relief.
12. Set a transparent and consistent risk-based pricing policy.	KCGF has an updated risk-based pricing framework.. KCGF is able to risk price guarantees according to target window and financial institution whose loans are guaranteed. Interest rates to MSMEs are freely determined by the financial institutions.
13. Design an efficient, clearly documented, and transparent claim management process.	KCGF's claims management process is efficient, clearly documented, and transparent, providing incentives for loan loss recovery. KCGF has digitalized its payment claims filing process and reporting of recoveries. In 2023, KCGF paid 64 claims for guaranteed loans.
Monitoring and evaluation	
14. Set rigorous financial reporting requirements and externally audit financial statements	KCGF is externally audited by an independent auditor according to IFRS.
15. Publicly disclose non-financial information periodically.	Periodic reports published on its website include annual, quarterly, and monthly reports.
16. Systematically evaluate the CGS's performance and publicly disclose the findings.	KCGF has a dedicated M&E specialist and systematically reports its performance and financial additionality in its public reports. The World Bank has supported KCGF on M&E including a joint impact evaluation using credit registry and tax registry data.