

**INTEGRATED SAFEGUARDS DATASHEET
APPRAISAL STAGE**

I. Basic Information

Date prepared/updated: 08/19/2009

Report No.: AC4492

1. Basic Project Data

Country: Kosovo	Project ID: P101614	
Project Name: Public Sector Modernization		
Task Team Leader: William R. Dillinger		
Estimated Appraisal Date: July 16, 2009	Estimated Board Date: November 5, 2009	
Managing Unit: ECSPE	Lending Instrument: Specific Investment Loan	
Sector: General public administration sector (100%)		
Theme: Public expenditure, financial management and procurement (35%);Administrative and civil service reform (35%);Other public sector governance (30%)		
IBRD Amount (US\$m.):	0.00	
IDA Amount (US\$m.):	8.00	
GEF Amount (US\$m.):	0.00	
PCF Amount (US\$m.):	0.00	
Other financing amounts by source:		
<u>BORROWER/RECIPIENT</u>		0.00
		0.00
Environmental Category: C - Not Required		
Simplified Processing	Simple <input type="checkbox"/>	Repeater <input type="checkbox"/>
Is this project processed under OP 8.50 (Emergency Recovery) or OP 8.00 (Rapid Response to Crises and Emergencies)	Yes <input type="checkbox"/>	No <input checked="" type="checkbox"/>

2. Project Objectives

(a) To strengthen the performance of key budget organizations in budget formulation, budget execution, and public procurement;

(b) To establish the foundations for fiscally sustainable payroll management and effective human resource management in the core civil service; and

(c) To create conditions for further automation of government work processes and for development of e-government applications.

3. Project Description

1. The proposed project would consist of three main components (and a fourth project management component, including project audit and evaluation):

(a)Component one - Improving public financial management performance (including public procurement) in selected budget organizations;

(b)Component two - Improving payroll administration and laying the foundations for a professional civil service; and

(c)Component three - increasing the security and efficiency of Government information systems.

2. Component one - Improving public financial management performance in selected budget organizations (US\$ 3 million): This component will consist of two subcomponents:

- (a) Capacity building for PFM in line budget organizations; and
- (b) Public procurement (including e-procurement)

3. Subcomponent 1A: Capacity building for PFM in line budget organizations (US\$ 1.2 million). With the preparation of the PEFA 2009 self-assessment and Action Plan for PFM Reform, the Government has demonstrated ongoing commitment to improving the PFM system. The PEFA self-assessment demonstrates some recent improvements in the PFM system (e.g. in budget credibility, budget classification) as well as a few areas of deterioration (e.g. tax administration) compared to the PEFA assessment of 2007. The key strength of the Kosovo PFM system remains the automated Treasury, which allows for centralized budget execution, with the accounting and payments system linked to the Treasury Single Account (TSA), and ensures reliable and timely financial statements. However, important weaknesses remain. Reform measures to improve budget credibility (both during budget formulation and execution) are defined as a high priority in the PFM RAP. Budgeting still falls short of reflecting strategic directions based on national and sectoral strategies. Suboptimal inputs from line budget organizations (e.g. inaccurate forward estimates of capital expenditure and recurrent costs; weak justification of budget submissions with reference to national and sectoral policy priorities) complicate the work of the MFE in formulating the MTEF and annual budget. Also, low rates of budget execution have been a persistent problem in recent years, primarily as a result of poor capacity to execute capital investments. Though capital budget execution increased dramatically in 2008, the low execution of the budget as a whole (85 percent in 2008) suggests that problems in realistic budget planning and timely execution remain. While other development partners are supporting the relevant reforms within the MFE, this proposed project will focus on addressing these weaknesses in selected line budget organizations.

4. Therefore this subcomponent would provide technical assistance and training to key budget organizations that have been identified by the Government and have indicated a strong interest in participating in the proposed project. Specifically the project will support the Ministries of Agriculture, Education, Health, Justice, and the Kosovo Judicial Council. The activities of this subcomponent will support the priority of the Government's PFM Reform Action Plan related to increasing the credibility of the budget (both in terms of budget formulation and execution) as well as priorities expressed by each participating budget organization. Emphasis will be placed on budget formulation with a focus on aligning annual and medium term budget submissions with sector strategies and on overall budget constraints defined by the MFE; multi-year costing for capital and recurrent activities; and budget execution management. The support would strengthen each budget organization's ability to implement the budget laws, policies, and procedures as the foundation for budget preparation and management. Technical assistance would be delivered using the PEMTAG approach of on-the-job-mentoring. The MFE will retain responsibility for managing this activity.

5. Subcomponent 1B: Public procurement, including e-procurement (US\$ 1.8 million). The legal and institutional framework for public procurement has improved in recent years. However, inefficiencies remain, as evidenced by price distortions and limited

market participation in public procurement processes. A diagnostic study of the Government's purchasing systems, the Quick Gains assessment of 2008, analyzed the above problems and proposed specific actions to raise the efficiency of the supply-chain-management system, including purchasing strategies to reduce price distortions, promote competition, and achieve cost savings under adequate fiduciary safeguards. Therefore this subcomponent would finance technical assistance training and goods for: (i) implementing a cost reduction strategy (Quick Gains reform program) based on the findings of the Quick Gains study; and (ii) upgrading the current ICT system for e-procurement with new functionalities for e-transactions and procurement cycle management.

6. Technical assistance under both of these subcomponents would take into account the recommendations of the horizontal functional reviews of the PFM and procurement functions that were recently conducted with financing from DFID.

7. Component two - Improving payroll administration and laying the foundations for a professional civil service (US\$ 2.05 million). The public administration in Kosovo is at a nascent stage and bears the traits of a temporary administration rather than a system designed as a professional civil service. Different bodies in the public administration were set up in a piecemeal manner by the different international institutions that were in charge of each of the pillars of the UNMIK administration. The "civil service" as defined by UNMIK regulation 2001/36 was established to provide a legal status for all employees of the Provisional Institutions of Self-Government (PISG). This regulation did not distinguish the civil service from public sector employment and does not provide for a grading structure.

8. Until new legislation on the civil service is enacted, public employees are hired under fixed-term contracts of up to three years' duration and, since there is no grading structure, salaries are set according to 52 coefficients of a minimum base salary (as well as a number of fixed salaries). In the absence of any rules for determining the appropriate coefficient (whether with reference to a civil servant's position, qualifications, or experience), these coefficients are applied rather inconsistently in different civil service organizations. As a result, there is no consistency among civil servants' job titles, levels of responsibility, qualifications, and salaries. Remuneration for comparable posts varies significantly across civil service organizations and individual civil servants' pay levels are open to manipulation by their superiors. These pay discrepancies in conjunction with the lack of any mechanism for career or salary progression tend to cause resentment and sap motivation among civil servants. Finally, the lack of a pay and grading structure or any rules governing the classification of posts and the determination of salary levels undermines effective payroll controls and makes any meaningful policy on civil service pay all but impossible.

9. The Government has recently drafted framework legislation on the civil service and on civil service remuneration. This was prepared with technical assistance from DFID and has been reviewed by the Bank, SIGMA, and other international partners. The draft legislation limits the scope of the civil service to professional and administrative positions in central government and municipal administrations, thereby excluding categories of public employees engaged in service delivery (teachers, health workers) and law and order enforcement (judiciary, customs, police, military), which will have separate pay and grading structures. Therefore the new civil service legislation would

establish a uniform pay and grading system and a clear career structure for the core civil service only. It would also strengthen civil servants' protection from political pressure by offering tenure, conditional on satisfactory performance. Taken together, these measures are expected to strengthen incentives for staff to remain in the civil service and improve their performance.

10. In terms of payroll administration, a payroll database managed by the Ministry of Public Administration (MPA) has been in place for six years and includes all public employees, who now have a unique personnel identification number. However, this payroll system is currently not linked to the Treasury, so does not allow for real-time controls of budget availability. As a result, when budget organizations add employees to their payroll or increase the salaries of existing employees without relevant budgetary provision, they often exceed their wage bill ceilings. When this occurs, Treasury suspends further salary payments and enters into negotiations with the budget organization in question. This process leads to arrears in salary payments.

11. The MPA has recently acquired a Human Resource Management Information System (HRMIS), which would hold electronic personnel records and allow for the automation of a number of human resource functions. The HRMIS, which is currently being tested, was developed according to the provisions of UNMIK Regulation 2001/36. It is therefore likely to require some modifications to meet the functional requirements of the new civil service legislation, which inter alia requires an automated civil service registry. Moreover it is currently not linked to the payroll system, which would enable payroll data to be checked against personnel records, especially data on a civil servants' salary grade.

12. Therefore this component would consist of the following subcomponents:

(a) Improving human resource management in the core civil service, including pay and grading reform; and

(b) Upgrading of ICT systems for human resource management (HRMIS and payroll).

13. Subcomponent 2A: Improving human resource management in the core civil service, including pay and grading reform (US\$ 1.1 million). The objective of this subcomponent would be to provide adequate implementation support for the pay and grading reform and support the initial phase of a longer term effort to create a merit-based career structure in the core civil service. Therefore this subcomponent would finance technical assistance and training for the following activities:

(i) Implementation support for the pay and grading reform: This will include the development of internal guidelines as well as implementation support (on the job training and guidance) to the substantial task of classifying the 15,000-20,000 civil service positions on the basis of a new pay and grading structure established by the framework legislation. In particular this technical assistance would assist the MPA and human resource units in other civil service organizations with the preparation of job descriptions and job classification; checking of personnel records and transition to the new pay system.

(ii) Technical assistance to build capacity for the implementation of key human resource management functions (staff planning, recruitment, promotions, and performance appraisal). This activity would include development of secondary legislation (e.g. on performance appraisal), guidelines and manuals, as well as training modules for human resource management functions. Training would be targeted at the staff at the Department

of Civil Service Administration in the MPA as well as trainers in the Kosovo Institute of Public Administration (KIPA). The activity would also include technical assistance for developing the training strategy for the civil service as well as for developing and applying a practical methodology for training impact assessment to ensure that resources spent on civil service training are used effectively. Technical assistance under this activity would also build on the findings of the horizontal functional review of human resource management, which was recently conducted in the context of the whole-of-government functional review that was financed by DFID.

14. Subcomponent 2B: Upgrading of ICT systems for human resource management (US\$ 0.95 million): The objective of this subcomponent would be to adjust/ modify and improve the existing ICT systems for human resource management (HRMIS and payroll) to better support core human resource management functions and to them to financial management system (i.e. the Treasury). Therefore, this subcomponent will finance ICT investments (consulting services and goods) and training for the following activities:

(i) Development of a strategic plan for Human Resource Information Management, which will assess the required modifications of the HRMIS to comply with the new legal framework, and will include re-engineering of the business processes for human resource management functions in the civil service.

(ii) Updating/Modifying the current information systems (HRMIS and payroll) to ensure their full compliance with the new legal framework; and implementing these information systems in civil service organizations at the central and local government levels.

(iii) Linkage of the HRMIS and payroll systems with the Treasury system (Free Balance). The component will include the development of the required interfaces between the Treasury and HRMIS systems to ensure that HR, payroll, and financial data are updated online.

15. Component three - Increasing the security and efficiency of government information systems (US\$ 2.3 million). The Government has adopted an e-government strategy for the period 2009-2015. This component will support the strategy's aims to increase the automation of government work processes and gradually develop selected electronic applications for the improvement of service delivery to citizens and businesses. However, the necessary inter-operability frameworks, information security provision, and human resource capacity are not adequately developed. Moreover, the Government currently lacks a secure data storage and recovery capability; different government bodies currently use separate facilities for data storage, some of which do not meet adequate security standards and also results in unnecessarily high maintenance costs. Therefore this component will finance technical assistance to establish the necessary information security and technical standards for e-government and also equipment for the establishment of a centralized government data center.

16. Subcomponent 3A - Technical assistance for government ICT standards and e-government strategy implementation (US\$ 0.3 million): This subcomponent will finance technical assistance for the MPA to support the implementation of the e-government strategy, including the development of standards for government ICT systems. In particular technical assistance will be provided in areas such as: i) inter-operability frameworks; ii) security provision; and iii) human resource capacity building.

17. Subcomponent 3B - Establishment of a government data center (US\$ 2 million). This activity would finance the purchase of equipment for the establishment of a

government data center. The government data center would increase security and efficiency in the storage and maintenance costs of government information and applications. This center would provide processing and electronic capacity for all government bodies in Kosovo, thereby safeguarding the security of government databases.

18. Component four - project management (US\$ 0.4 million). This component will finance the fees and training of the project director, project procurement specialist, and project financial management specialist as well as the costs of the annual project audit and independent project evaluation toward the end of project implementation.

4. Project Location and salient physical characteristics relevant to the safeguard analysis

Kosovo (Pristina).

5. Environmental and Social Safeguards Specialists

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

II. Key Safeguard Policy Issues and Their Management

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

B. Disclosure Requirements Date

Environmental Assessment/Audit/Management Plan/Other:

Was the document disclosed **prior to appraisal?**

Date of receipt by the Bank

Date of "in-country" disclosure

Date of submission to InfoShop

For category A projects, date of distributing the Executive

Summary of the EA to the Executive Directors

Resettlement Action Plan/Framework/Policy Process:

Was the document disclosed **prior to appraisal?**

Date of receipt by the Bank

Date of "in-country" disclosure

Date of submission to InfoShop

Indigenous Peoples Plan/Planning Framework:

Was the document disclosed **prior to appraisal?**

Date of receipt by the Bank

Date of "in-country" disclosure

Date of submission to InfoShop

Pest Management Plan:

Was the document disclosed **prior to appraisal?**

Date of receipt by the Bank

Date of "in-country" disclosure

Date of submission to InfoShop

*** If the project triggers the Pest Management and/or Physical Cultural Resources, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.**

If in-country disclosure of any of the above documents is not expected, please explain why:

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank's No

Infoshop?

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs? No

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? N/A

Have costs related to safeguard policy measures been included in the project cost? N/A

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? N/A

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? N/A

D. Approvals

<i>Signed and submitted by:</i>	<i>Name</i>	<i>Date</i>
Task Team Leader:	Mr William R. Dillinger	07/08/2009
Environmental Specialist: Social Development Specialist Additional Environmental and/or Social Development Specialist(s):		
<i>Approved by:</i>		
Regional Safeguards Coordinator: Comments: (acting RSC for Agi Kiss)	Mr Wolfhart Pohl	08/18/2009
Sector Manager: Comments:	Mr Ronald E. Myers	08/19/2009