MANAGEMENT RESPONSE TO
REQUEST FOR INSPECTION PANEL REVIEW OF THE
KOSOVO POWER PROJECT (PROPOSED)

Management has reviewed the Request for Inspection of the Kosovo Power Project (proposed), received by the Inspection Panel on March 29, 2012 and registered on April 12, 2012 (RQ12/01). Management has prepared the following response.

May 21, 2012

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ABBREVIATIONS AND ACRONYMS

BEEPS	Business Environment and Enterprise Survey
BP	Bank Procedure
CEA	Country Environmental Analysis
CPS	Country Partnership Strategy
EAR	European Agency for Reconstruction
EC	European Commission
ECA	Europe and Central Asia Region
ESIA	Environmental and Social Impact Assessment
EU	European Union
FY	Fiscal Year
IDA	International Development Association
IFC	International Finance Corporation
IPN	Inspection Panel
KEK	Kosovo Energy Corporation
KfW	Kreditanstalt fur Wiederaufbau
KPP	Kosovo Power Project (proposed)
KRPP	Kosova e Re Power Plant
MW	Megawatt
NMF	New Mining Field
OMS	Operational Manual Statement
OP	Operational Policy
PISG	Provincial Institutions of Self Governance
PM	Particulate matter
PRG	Partial Risk Guarantee
RAP	Resettlement Action Plan
RFP	Request for Proposals
RPF	Resettlement Policy Framework
SESA	Strategic Environmental and Social Assessment
SFDCC	Strategic Framework for Development and Climate Change
TOR	Terms of Reference
UNMIK	United Nations Interim Administration Mission in Kosovo
USAID	United States Agency for International Development
WBIF	Western Balkans Investment Framework

EXECUTIVE SUMMARY

i. On April 12, 2012, the Inspection Panel registered a Request for Inspection (hereafter referred to as "the Request") concerning the proposed Kosovo Power Project (KPP), for which the Government of Kosovo has requested financing from the International Development Association (IDA).

The Project

ii. ***The proposed Project is currently at the concept stage and major components of project assessment are yet to be completed.*** Management would therefore not be in a position to decide to propose this project for Board consideration for at least another year.

iii. The proposed KPP would aim to help Kosovo secure a reliable supply of energy for the country's economy and significantly reduce the severe environmental and social impacts of an outdated electricity generation system that relies on the 1960s era "Kosovo A" power plant and the 1970s era "Kosovo B" power plant. To comply with its obligations under the Energy Community Treaty, the Government of Kosovo intends to decommission Kosovo A, which is one of the largest point sources of pollution in Europe, and bring Kosovo B into compliance with EU standards by improving its operations and environmental performance.

iv. The proposed Project would comprise three components: (i) rehabilitation of the existing Kosovo B plant; (ii) construction of a new 600 MW power generation plant ("Kosova e Re Power Project" or "KRPP") using modern technology that is compliant with the European Union Industrial Emissions Directive;[1] and (iii) development of the lignite mine, Sibovc South, that will supply fuel to the new KRPP, as well as to Kosovo A and Kosovo B for their remaining operational lifetimes.

Kovovo's Energy Predicament

v. Kosovo's energy crisis is slowing the country's economic development. Kosovo is one of Europe's poorest countries and more than a third of its citizens live below the poverty line. Almost half of its population is unemployed (three out of four people under the age of 25 are unemployed).

vi. A major obstacle to Kosovo's economic growth and development is inadequate and unreliable electricity, with frequent power outages disrupting manufacturing, education, and health services. Without reliable, affordable electricity, Kosovo's businesses cannot invest, operate or create jobs.

vii. A number of independent and World Bank-financed analyses have shown that Kosovo's electricity supply options are constrained by: limited availability of renewable

[1] The proposed KRPP would be required to be built as a carbon-capture and sequestration-ready facility to comply with another relevant EU Directive.

resources, ageing and unreliable power generation plants, supply shortages in the Balkans that limit Kosovo's ability to import electricity, and an absence of any natural gas resources, or pipeline to import gas.

viii. ***The World Bank has examined carefully Kosovo's energy options and the economics of each***. There is considerable potential for energy efficiency and limited potential for renewable energy and these should be developed in addition to providing the firm baseload capacity Kosovo needs. The analysis finds that the lowest-cost reliable energy supply that would meet Kosovo's baseload and peak demand is a mix of thermal and renewable energy sources (750 MW of renewable energy, replacement of Kosovo A with 600 MW of new power generation, and the rehabilitation of Kosovo B)**.**

ix. An External Expert Panel reviewed the proposed KPP and found it to be consistent with the Bank's Strategic Framework for Development and Climate Change (SFDCC). The External Expert Panel suggested some improvements which are being incorporated in the project design.

Request for Inspection

x. Representatives of residents of several communities in the vicinity of the proposed Project, as well as several Kosovar civil society organizations ("the Requesters") filed the Request for Inspection.

xi. The Requesters believe that they would be adversely affected by the proposed Project through the anticipated negative impacts on their communities and the environment. They specifically claim that the proposed Project would result in additional environmental pollution, water shortage, and adverse economic impacts from zoning, resettlement and privatization.

Management's Response

xii. Management notes that much of the harm alleged by the Requesters is unlikely to arise from the proposed Project, but rather is a description of the adverse impacts that currently prevail on the ground. In Management's view the claims of harm presented in the Request for Inspection either relate to: (i) existing and historical conditions on the ground (air, water and land pollution, economic impact from zoning, water usage); (ii) issues that are outside Bank policy and Panel mandate; or (iii) are based on the general assumption that the proposed Project would be carried out in noncompliance with Bank policy leading to direct and serious harm.

xiii. In Management's view, the proposed Project would address many of the adverse environmental and social impacts raised by the Requesters. Management agrees that many of the impacts raised in the Request are indeed severe and have persisted since Kosovo A and Kosovo B began operation. However, without the development of alternative power generation capacity that would enable the decommissioning of Kosovo A and rehabilitation of Kosovo B, Kosovo would remain dependent on the operation of these two power plants, which are responsible for the associated adverse impacts.

xiv. ***Management disagrees that the harmful impacts cited in the Request will result from the proposed Project.*** The proposed Project is being prepared in line with Bank policies and procedures to avoid and mitigate potential environmental and social adverse impacts.

xv. A critical piece of due diligence that will be undertaken for the proposed Project is a comprehensive Environmental and Social Impact Assessment (ESIA), which will satisfy all requirements of OP 4.01 – Environmental Assessment. Many of the Requesters' allegations of harm arise from an assumption that a Strategic Environmental and Social Assessment (SESA) that was undertaken in 2008 is the sole document intended to satisfy the requirements of OP 4.01 with respect to environmental and social assessment of the proposed KPP. This is not correct. The 2008 SESA considered issues relating to the development of a 2000 MW power generation plant called "Kosovo C". Following further consideration and studies, the plant (now called Kosovo e Re Power Plant, or KRPP) has been reduced to 600 MW, for which an ESIA will be prepared in consultation with local communities.

xvi. Furthermore, Management emphasizes that to date the Bank has not yet decided to provide a Partial Risk Guarantee (PRG) for this proposed Project. As is usually the case with guarantees of this type, the World Bank Group (WBG) has provided only a "non-binding, in principle" expression of support for the proposed KPP, with the caveat that WBG support is contingent on the proposed Project complying fully with applicable Bank policies, including environmental, social and fiduciary safeguard policies. It will also need to be consistent with the SFDCC. The Bank's Country Partnership Strategy (CPS) for FY12-15 also includes support for an Energy Efficiency and Renewable Energy Project (FY13).

xvii. This early step enables the Government of Kosovo to issue its Request for Proposals (RFP) with some indication to potential investors that the World Bank is considering a possible PRG in support of the proposed Project. This, in turn, can lower financing costs and, hence, lower the cost of the proposed Project for Kosovo.

xviii. ***However, any involvement by the Bank in providing such support will depend on a series of activities*** that include economic, financial, environmental and social assessment of the proposed KPP, other Bank initiated studies (in addition to those already conducted), sharing and discussion of studies with relevant stakeholders, and scrutiny by an independent Panel of Environmental and Social Experts. **The Project would only be submitted to the Bank's Board if Management is convinced that the studies indicate that the proposed KPP is viable in all its aspects.**

xix. Management is confident that the Bank has made diligent efforts to apply its policies and procedures in the context of the preparation of this proposed Project. Management notes that because the assessment and additional studies have not commenced, substantive application of the Bank policies and procedures could not yet have taken place. Management maintains that the preparatory work completed to date meets the requirements of the Bank's operational policies and procedures.

xx. In Management's view, the Requesters cannot demonstrate that their rights or interests have been or are likely to be negatively affected by the proposed Project as required by the Panel Resolution. Hence Management questions the eligibility of this Request.

xxi. Notwithstanding concerns regarding the eligibility of this Request for Inspection, Management welcomes this additional opportunity to continue to clarify the issues and questions raised by the Requesters. Management has met and corresponded with the Requesters several times over the past years, disclosed a large number of documents online in English and Albanian, and responded to numerous emails and meeting invitations sent by the Requesters. In addition, more than 50 consultations were carried out with local communities over the past six years. Throughout the concept and preparation stages of the proposed KPP Project, the Bank will continue to provide many opportunities for in-depth discussions with civil society.

xxii. A detailed response to the Requesters' claims is provided in the main text and more technical details can be found in Annex 1.

I. INTRODUCTION

1. On April 12, 2012, the Inspection Panel registered a Request for Inspection, IPN Request RQ 12/01 (hereafter referred to as "the Request"), concerning the Kosovo Power Project (KPP), proposed for financing by the International Development Association (IDA).

2. ***Structure of the Text.*** The document contains the following sections: The Request (Section II), Project Background (Section III), and the Management Response (Section IV). Annex 1 presents the Requesters' claims, together with Management's detailed responses, in table format. Annexes 2 through 7 provide a selected list of meetings with the Civil Society Organizations, publicly available documents related to the proposed Project, Country Partnership Strategy for the Republic of Kosovo FY12-15, and additional key documents mentioned in this Response.

II. THE REQUEST

3. The Request for Inspection was submitted by representatives of the inhabitants of the villages of Dardhishte, Lajthishte/Sibovc, Cerna Vidoca and Hade, of Obiliq Municipality, and the town of Obiliq in Kosovo; the Kosovo Energy Corporation's independent Kosovo Energy Trade Union; and three Kosovar civil society organizations, namely the Institute for Development Policy (INDEP), Institute of Advanced Studies, and Forum for Civic Initiative (the "Requesters"). Mr. Nezir Sinani of INDEP is the Requesters' representative in the Inspection Panel process.

4. Attached to the Request are:

(i) Community Complaint to the Inspection Panel of the World Bank, March 29, 2012
(ii) Signature page and authorization approval
(iii) Technical Annex to the Request for Inspection on the Proposed Kosovo Power Project
(iv) Reevaluating Kosovo's Least Cost Option
(v) Expert Panel Compliance with Strategic Framework for Development and Climate Change
(vi) Costs for work-related accidents (KEK)
(vii) Work Place Deaths (KEK)
(viii) MESP Letter and MEM Internal Memo - April and March 2008
(ix) Letter from ICMM to KEK to undertake measure to protect Dardhishte
(x) Letter of Municipality of Obiliq to Dardhishte Representative - May 2008
(xi) Ministry of Environment and Spatial Planning Document stating that Dardhishte should be relocated - April 2008
(xii) Ministry of Environment and Spatial Planning Decision to form inspection group on Dardhishte - June 2008
(xiii) Ministry of Environment and Spatial Planning Inspection Group Document recommending relocation of Dardhishte - August 2008

(xiv) Contact with the World Bank
(xv) RAEL Kosovo Energy Scenarios
(xvi) Affordable Electricity for Kosovo.

5. No further materials were received by Management in support of the Request.

6. The Request contains claims that the Panel has indicated may constitute violations by the Bank of various provisions of its policies and procedures, including the following:

OP/BP 4.01, Environmental Assessment

OP/BP 4.12, Involuntary Resettlement

OP/BP 10.04, Economic Evaluation

OMS 2.20, Project Appraisal

III. PROJECT BACKGROUND

7. ***Project Objectives.*** The proposed KPP aims at securing: (i) reliable energy supply for the Kosovo economy; (ii) energy affordability for citizens and businesses; and (iii) significant reduction of the social and environmental impacts of electricity generation. Key objectives of the proposed KPP, in addition to providing a long-term solution to electricity needs in Kosovo, are to: introduce European Union (EU) standards in the operations of the proposed new power plant (the "Kosova e Re Power Project," or KRPP) and bring Kosovo B into compliance with EU standards by improving its operations and environmental performance.

8. ***Project Components.*** The proposed KPP comprises three components: (i) rehabilitation of Kosovo B, (ii) construction of a 600 MW new power generation plant (KRPP) using modern technology, and (iii) development of the lignite mine, Sibovc South, that will supply fuel to KRPP, to Kosovo A until it is decommissioned, and to Kosovo B for its remaining economically useful life, estimated to be until 2030. The Government of Kosovo has taken a progressive decision by requiring that private investors bidding on the proposed KPP ensure that the proposed KRPP is compliant with the new EU Industrial Emissions Directive[2] that enters into force on January 1, 2016. This Directive is even more stringent than the Large Combustion Plant Directive[3] which currently applies to coal-fired power plants in EU member states. The proposed KRPP is also required to be built as a carbon capture and sequestration-ready facility to comply with another relevant EU Directive.[4]

[2] Directive 2010/75 EC on Industrial Emissions.
[3] Directive 2001/80/EC on the limitations of emissions of certain air pollutants into the air from large combustion plants.
[4] Directive 2009/31/EC on the geological storage of carbon dioxide.

9. Background. By the 1990s, the Kosovo economy had been damaged by poor economic policies, broken external trade and financial links, international sanctions, and a lack of investment in key sectors. It suffered further during the ethnic conflict which ended in 1999. At the end of the conflict, the United Nations Interim Administration Mission in Kosovo (UNMIK), established in pursuance of UN Security Council Resolution 1244, administered Kosovo under interim UN arrangements until February 2008, when Kosovo declared independence. Uncertainty and constraints in establishing a stable system of political governance over nearly a decade made it difficult for UNMIK and the local institutions to take any long-term decisions.

10. ***Energy supply had been identified as a key constraint to economic and social development in Kosovo.*** Reconstruction and rehabilitation of the power system, restructuring of corporate governance and management of the power utility, Kosovo Energy Corporation (KEK), were seen as priority challenges to support the country's development. However, a decade-long dependence on management by the international community, and the absence of empowered local institutions and decision makers, affected development of capacity in Kosovo's institutions, including the power sector.

11. In an environment of prolonged uncertainty and post-conflict reconstruction, the Bank sought to help Kosovo improve institutional capacity and the legal and policy framework, and develop investment programs through a series of technical assistance projects. Between 2001 and 2006, three Energy Sector Technical Assistance Projects[5] helped develop a long-term strategy, long-term investment program, and technical and institutional capacity for deepening Kosovo's integration in the region. More specifically these projects helped develop: (i) a comprehensive study that formed the basis of an energy strategy and long-term investment programs; (ii) feasibility studies for regional interconnections and a control center to enable power trade with neighbors; (iii) a policy, legal, and institutional framework to attract private sector investment in the energy sector; (iv) technical documents to enable the Kosovo energy sector to deepen its integration in the regional electricity market and comply with its obligations under the Energy Community Treaty; (v) a tariff framework including feed-in tariff for renewable energy resources; and (vi) a mining sector strategy and capacity development. During this period, several donors (CIDA, DFID, European Agency for Reconstruction, Germany, Netherlands, Sweden, USAID) actively supported reconstruction of the Kosovo power sector.

12. Through the Lignite Power Technical Assistance Project (US$8.5 million, 2006) and Additional Financing (US$2 million, 2007), the Bank assisted the Government to develop a safeguards framework and a Strategic Environmental and Social Assessment (SESA) for a proposed 2000 MW power generation project called "Kosovo C"[6] which was intended to serve both domestic energy needs and export to the energy-starved re-

[5] ESTAP-I in 2001 for US$2.5 million, ESTAP-II in 2003 for US$1.5 million and ESTAP-III in 2005 for US$2.5 million.

[6] Since 2008, taking into account environmental, social, and financing concerns, a decision was made to reduce the size of the proposed power plant from 2000 to 600 MW to meet only domestic demand. The 600 MW project is now called Kosova e Re Power Project (KRPP).

gional market. The project also had as objectives to assist the Government to increase the capacity of the environmental regulator to monitor and regulate impacts of mining and power generation; develop policies and capacity to promote renewable energy resources, co-generation, and energy efficiency; and engage Transaction Advisors to attract private sector investment in power generation. In addition, through an ongoing Energy Sector Clean-up and Land Reclamation Project,[7] the Bank (with co-financing from the Government of Netherlands) is financing remediation of the Kosovo A ash dump; reclamation of mining overburden waste dump areas; and treatment and removal of more than 25,000 tons of hazardous chemicals.

13. Demand for energy has been growing rapidly in Kosovo over the past decade, with actual energy consumption and peak demand growing by almost 90 percent between 2000 and 2010 – despite being constrained by supply limitations and consequent frequent load shedding. As seen in many countries, these problems have multiple adverse impacts. First, prolonged electricity load shedding (power cuts) deprives people of light, space heating, refrigeration, and cooking fuel – with obvious implications for their health, access to education, and overall quality of life. Second, there is convincing evidence that Kosovo's unreliable power supply is a major constraint to business development and, hence, badly needed employment opportunities. In fact, over 90 percent of businesses surveyed in the 2010 Business Environment and Enterprise Performance Survey (BEEPS) cited energy constraints as a major obstacle to business operations and new investment.

14. Kosovo has large lignite reserves – the third largest in Europe. Most of Kosovo's domestic electricity generation comes from two lignite-fired power plants – Kosovo A and B – with net operating capacity of about 840-900 MW. Additional supply, amounting to 5-17 percent of annual consumption over the past decade, is derived largely from imports of electricity via regional interconnections. The availability of electricity imports for base power is unreliable because it is affected by supply conditions in nearby exporting countries (e.g., hydrological conditions in the region) and by difficulties in political relations with some neighbors. The current situation for electricity generation is also unsatisfactory; both thermal power plants are antiquated and unreliable and operating well below their installed capacity. For example, two of five power generation units at Kosovo A, the oldest and largest plant, are out of operation and the remaining three produce only up to about 350 MW, well below their installed capacity of 610 MW. The Kosovo B plant (net capacity of about 540 MW), though newer (about 25 years old), is affected by damage to the turbine rotors of its two units and deterioration of other critical components, resulting in frequent forced outages. Both plants are also highly polluting. Kosovo A's high emissions of sulfur and nitrogen oxides and particulate matter (PM) have significant negative health impacts for the population in the vicinity of the plants, which includes the immediately adjacent capital city, Pristina.

15. In this context, the Government, with support from several external partners (the Bank, European Commission, United States), has proposed a multi-pronged strategy to

[7] FY2006 – US$5.5 million, FY2007 – US$5 million, FY2008 – Dutch TF US$ 4.3 million.

addressing Kosovo's energy crisis and related environmental issues. This approach seeks to: (i) by 2017 close Kosovo A, one of the largest point sources of pollution in Europe, and replace it with a new, state-of-the-art, privately operated 600 MW power plant (KRPP); (ii) attract private investment to rehabilitate and upgrade Kosovo B, including ensuring compliance with EU environmental standards; (iii) privatize electricity distribution to reduce technical and commercial losses; (iv) step up payment enforcement and raise tariffs to levels consistent with full cost recovery; (v) address environmental legacy issues associated with Kosovo A and B; (vi) invest more resources in energy efficiency in the near term; and (vii) increase the use of renewable energy (hydro, solar, wind). Since Kosovo is a signatory to the Energy Community Treaty, two objectives of the strategy, i.e., decommissioning of Kosovo A and bringing Kosovo B into compliance with the EU Directive on Large Combustion Plants, represent legal obligations under the treaty.

16. Implementation of the above strategy is expected to reduce particulate matter (PM) emissions by over 90 percent and sulfur and nitrogen oxides by more than 70 percent over the current levels. In the absence of new capacity to replace Kosovo A, the Government would be forced to recondition and restart the closed units of Kosovo A and continue operation beyond 2017. Alternatively, the reduced capacity would result in increased power cuts that would hurt business and investments, lessen opportunities for employment creation, and adversely affect quality of life, which could result in social and political unrest.

17. Within the framework of its partnership with the Bank, the Government has requested that IDA provide a Partial Risk Guarantee (PRG) for a proposed private sector-financed, coal-fired power generation project, the KPP. The European Commission (EC) has assisted the Government of Kosovo to prepare a study on the decommissioning of Kosovo A and has indicated that it is prepared to partially finance the costs association with closure of the plant and rehabilitation of the site. The International Finance Corporation (IFC) is providing advisory services to the Government to privatize electricity distribution and supply business in Kosovo. MIGA and IFC are expected to consider financing the proposed KPP if requested by private sector investors.

IV. MANAGEMENT'S RESPONSE

18. Notwithstanding Management's concerns regarding the eligibility of this Request for Inspection, which are set out below, Management welcomes the opportunity to clarify the issues and questions raised by the Requesters. A more detailed response to the Requesters' claims is provided in Annex 1.

19. ***The proposed Project is still at the concept stage and will not be considered by the Bank's Board for at least another year.*** In line with the requirements of the Strategic Framework for Development and Climate Change (SFDCC), an independent External Expert Panel reviewed the proposed KPP and concluded that – subject to certain modifications which are all being addressed in KPP design – the proposed Project is consistent with the six SFDCC criteria for coal projects. The Panel report is available on the Bank's website, along with a number of other analytical reports and documents related to Koso-

vo's energy sector. Based on the findings of the External Expert Panel, Management agreed to provide only a "non-binding, in principle" expression of support for the proposed KPP, with the caveat that World Bank Group support would be contingent on the proposed Project complying fully with applicable Bank policies, including environmental, social and fiduciary safeguard policies. The proposed Project also has to be consistent with the SFDCC. This is a very early step which allows the Government of Kosovo to issue its Request for Proposals (RFP) with some indication to potential investors that the World Bank is *considering* a possible PRG in support of the proposed Project – this, in turn, can lower the cost of the proposed Project for Kosovo.

20. Management has initiated a process of assessments, to be conducted in line with Bank policies and procedures, to help prepare the proposed Project. In light of the stage in the Bank's deliberations and the status of the proposed Project, the Request for Inspection has no grounds, as there has been no violation by the Bank of its operational policies and procedures in relation to the proposed Project which has, or is likely to, have a material adverse effect on the Requesters. The Request is based on a description of pre-existing conditions on the ground, and the general and unsupported assumption that the Bank will fail to follow its operational policies and procedures in preparation of the proposed Project.

21. The Requesters cannot demonstrate that their rights or interests have been or are likely to be directly affected by the proposed Project, which is currently at the concept stage. The claims of harm included in the Request for Inspection either relate to: (i) existing and historical conditions on the ground (air, water and land pollution, economic impact from zoning, water usage); (ii) issues that are outside Bank policy and the mandate of the Panel; or (iii) are based on the general assumption that the proposed Project would be carried out in noncompliance with Bank policy leading to direct and serious harm. These claims, however, cannot be credibly supported given the early stage of the proposed Project and Management's efforts to date.

22. Management notes that much of the harm alleged by the Requesters is unlikely to arise from the proposed Project, but rather is a description of the adverse impacts that currently prevail on the ground. In Management's view, the proposed Project would address many of the severe adverse environmental and social impacts that stem from the continued operation of the inefficient and highly polluting thermal power plants Kosovo A and B. Management agrees that many of the impacts raised in the Request are indeed severe and have persisted since the two power plants began operation in 1962 (Kosovo A) and 1983 (Kosovo B). However, without the development of new power generation capacity that would allow decommissioning of Kosovo A and the rehabilitation of Kosovo B, the country would remain dependent on these two power plants, which are responsible for the associated adverse impacts, including negative health impacts from pollution and negative economic impacts from continued load shedding.

23. ***Management disagrees that the harmful impacts cited in the Request will result from the proposed Project.*** If approved by the Government of Kosovo and the Bank's Board, the proposed Project would be prepared in line with Bank policies and procedures and would satisfy all applicable provisions of Bank policy to avoid or mitigate potential

environmental and social adverse impacts. In Management's view, the proposed Project has become a vehicle for raising, and seeking mitigation of, a number of long-standing adverse impacts arising from decades of poor operating practices in mining and power generation further exacerbated by conflict in the region. These impacts, many of which the Project is being designed to mitigate, existed prior to the consideration of the proposed Project.

24. The Request for Inspection in large part is about the Requesters' project design preferences and the technical solution selected for power supply in Kosovo. The Requesters express reservations about the current project design and cite studies that appear to support their position. Management has carefully analyzed these studies and concluded that they are not sufficiently robust and that they neglect or misjudge important factors that Management is required to consider under Bank policies governing project preparation. These analyses have been shared with the respective authors of the studies, disseminated to the public, and are attached as Annexes 6 and 7.

25. A comprehensive Environmental and Social Impact Assessment (ESIA), which will satisfy all requirements of OP 4.01, will be prepared for the proposed KPP. Many of the allegations of harm arise from the Requesters' mistaken assumption that the SESA is the sole document intended to satisfy the requirements of OP 4.01 with respect to environmental and social assessment of the proposed KPP. This is not correct. The SESA to which the Requesters refer was developed in 2008, and considered issues relating to the development of a different power generation plant with a capacity of 2000 MW (Kosovo C). Following further consideration and studies, the proposed Project is now considering 600 MW of new capacity, for which the ESIA will be prepared.

26. Management notes that in the Request for Inspection dated March 29, 2012, the Requesters express dissatisfaction with the Bank's response to their letter dated March 5, 2012, whereas the Bank's response was only sent to them on April 9, 2012. In Management's view, this anticipated dissatisfaction with the response of Management does not demonstrate a serious and credible good faith effort to have the issues in question resolved with Management before going to the Panel, as required by the Panel Resolution. Management has been responsive to the Requesters, by replying to their letters and being available for meetings as documented in the attached chronology of exchanges and meetings (Annex 2). Bank staff in Kosovo and senior officials from Washington, including the Regional Vice President and Country Director, have been available for meetings and met with some of the Requesters and other stakeholders to discuss their concerns.

Specific Issues Raised in the Request

27. ***Environmental Pollution.*** Management is aware of the severe adverse environmental legacy and ongoing environmental concerns associated with the Kosovo A and B power plants, caused by lack of maintenance prior to and during the conflict. There is evidence that the Kosovo A and B power plants and associated operations have caused significant deterioration of the air, soil and water quality in the vicinity of the plants – with likely negative impacts on the health of households living in the area. As discussed above, the Government's energy strategy is expected to achieve significant reduction in

the environmental impacts of the power sector. The ESIA for the proposed Project, to be prepared in the next 12 to 15 months in consultation with the affected communities, will assess the alternatives to the proposed KPP for meeting energy needs as well as investigate and assess the emissions and impacts of the proposed Project. More specifically, the ESIA will analyze in detail: (i) the reduction in impacts due to proposed decommissioning of Kosovo A; (ii) impacts likely to be caused by emissions from the proposed KRPP; (iii) the (reduced) impacts from proposed improvements to Kosovo B; (iv) impacts from the proposed development and operation of the Sibovc South lignite mine; and (v) implications of the proposed KPP for air, soil and water quality and other environmental parameters such as noise levels.

28. ***Water Shortage.*** This issue will be among the potential impacts to be studied and analyzed in the ESIA for the proposed Project. A number of studies have examined the issue of water availability and competing uses. In 2011, the Bank conducted a study, "Water Security in Central Kosovo," to identify challenges and means of ensuring adequate supply and quality of water from the Iber-Lepenc canal for households, irrigation, industry and power plant operation in all the municipalities mentioned in the Request, including Pristina and its suburbs. The study concluded that investments are needed to improve maintenance of the Iber-Lepenc canal to avoid excessive leakage, breaching, clogging, and landslides. In response to the findings of the study and suggestions made during several consultations on the forthcoming Country Partnership Strategy (CPS) FY12-15, a planned Water Supply Project is included in the CPS, and the Western Balkans Investment Framework (an EC-financed Trust Fund, administered by the European Bank for Reconstruction and Development) is actively considering grant funds for a feasibility study for maintenance of the Iber-Lepenc canal. This issue would be carefully analyzed in the context of the preparation of the proposed Project.

29. ***Economic Impact.*** A 2004 Government Decision[8] did indeed limit the rights of households residing in Hade, Sibovc, Leshkooshiq and Cerna Vodice villages of the Municipality of Kastriot/Obiliq to undertake new construction or expansion. This could have affected the livelihoods of some residents in these villages. The villages in which the limits were imposed are in an area termed the "Zone of Special Economic Interest." While these restrictions were reconfirmed in 2009, they are believed to have been superseded in October 2011, following adoption by the Assembly of a Spatial Plan for the Zone, also known as the New Mining Field (NMF). The NMF, which covers an area of approximately 150 km^2, is far larger than the area likely to be affected by the Sibovc South mine (10.5 km^2) which would be developed for the proposed KPP. The ESIA will examine impacts of the proposed KPP on the livelihood of residents in the KPP affected area and propose actions to mitigate adverse impacts. In the event that the Bank decides to support the proposed KPP, the Bank will draw Government's attention to the need to address the legitimate concerns of residents in the non-KPP portion of the NMF area. The Bank decision on whether or not to proceed with a PRG for the proposed KPP will be contingent on a number of issues, including the findings of the ESIA and recommended mitigation actions to satisfy the requirements of Bank environmental and social safeguards policies.

[8] Government Decision No. 4/119 dated March 11, 2004.

30. ***Displacement of Population.*** A Resettlement Policy Framework (RPF) has been developed by the Government consistent with Bank policies with financing from the LPTAP and will apply to all resettlement associated with the proposed KPP. Based on the RPF, a Resettlement Action Plan (RAP), also financed through LPTAP, has been prepared for the Shala neighborhood of Hade village, in consultation with the affected communities. The RPF, the existing RAP and any additional RAPs which will be developed for other affected communities based on the RPF, would govern the relocation and resettlement of any population that may be displaced by the proposed Project. The Shala neighborhood of Hade village will be relocated from the Sibovc South mine field since it is close to the edge of the mine from which extraction of lignite has started. The Shala community is proposed to be relocated to a new site (Shkabaj) close to Pristina city where infrastructure and housing plots are already being developed.

31. Management agrees with the Requesters that a number of issues still exist in relation to the resettlement of 2004/5 carried out by UNMIK. Evacuation and resettlement was carried out on an emergency basis to ensure the safety of a number of Hade households which were in danger of sinking due to the risk of landslides (especially during the rainy season) caused by a long legacy of poor mining practices. The emergency evacuation and resulting resettlement were not a part of any Bank-financed project. At the request of the Government, the Bank provided UNMIK and Kosovo's Provisional Institutions of Self Governance (PISG) with technical advice on how best to address the emergency situation on the ground, based on Bank experience and in an attempt to help prevent and rectify any issues. The resettlement is ongoing, and the Government is planning to accommodate the people displaced in 2004 from Hade village at the new resettlement site (Shkabaj). The Bank will provide the Government with technical advice and use its good offices to encourage the Government to engage the resettled households to resolve outstanding issues.

Box 1. Emergency Evacuation of an At-Risk Part of Hade Village in 2004/05

An emergency evacuation of some Hade village residents was carried out by the United Nations Interim Administration Mission in Kosovo (UNMIK) and Provisional Institutions of Self Governance (PISG) in 2004 and 2005 pursuant to UNMIK's order number 2004/6 (March 29, 2004). The order was issued following a major landslide in late 2002 and subsequent completion of a technical evaluation which indicated an imminent threat of land subsidence endangering some inhabitants of Hade village (within the safety zone of the Bardh-Mirash mines). This threat was the result of a long legacy of poor mining practices resulting in unstable mine slopes and the danger of landslides and land subsidence, particularly during the rainy season. A special resettlement committee for Hade was established by UNMIK and the PISG to plan for, and execute, an emergency relocation of at-risk households.

The Hade resettlement committee carried out extensive consultations between March and July 2004 with the affected community and undertook resettlement planning including: (i) preparing an inventory of assets and land survey; (ii) distributing questionnaires on household composition and relocation preferences; (iii) establishing compensation norms and valuation; and (iv) developing resettlement options for the short and the long term. In November 2004 Government approved the property valuation criteria. Between November 2004 and February 2005, over a hundred families which had agreed to move were relocated temporarily to apartments in nearby urban centers with compensation for rent and food. Subsequently (May and June 2005), about 30 families that had refused to move voluntarily were nonetheless forcibly evacuated in light of the coming rainy season and the attendant risk of severe landslides. Most of these families were relocated to pre-identified shelter relocations and their belongings stored in Obiliq Municipality warehouse. At the present time, both groups of families remain in their temporary accommodations. The Government has only recently allocated housing sites near Pristina city where the households could be re-

constituted as a community. Services (water, electricity, access roads etc.) are currently being developed at the site.

The resettlement actions described above were carried out by UNMIK and PISG and were not part of any Bank project. However, in response to a June 2004 request from the PISG to provide urgent advice on the resettlement process, the Bank sent a short two-person mission (July 4-5, 2004) to Kosovo to share the Bank's experience in resettlement, provide policy advice, and assist in preparing terms of reference for resettlement consultants to be recruited by the authorities. The Bank mission recognized the emergency situation and recommended that the Hade resettlement committee simplify its processes, supplement compensation, explore ways to reconstitute the community, improve information dissemination, and conduct a new census. These recommendations constituted an emergency approach in response to the imminent danger of loss of lives and injury, as pointed out in the letter from the Country Director to UNMIK in August 2004. There were no further official missions on this issue. A year later, in June 2005, a pre-identification mission for a proposed Kosovo Lignite Mining and Energy - Social and Environmental Support Project (later folded into LPTAP), *inter alia* undertook a preliminary evaluation of the adequacy of Kosovo's resettlement practices in relation to the Bank's OP/BP4.12. As part of its work, the mission reviewed the experience of Hade resettlement, identifying several deficiencies which it pointed out to the Government. Through its review of Hade resettlement, the mission concluded that the legal, regulatory, and institutional frameworks for resettlement were inadequate, pointing to the need for development of a comprehensive resettlement policy framework. LPTAP supported the development of such a framework which has since been adopted by the Government (July 2011).

32. ***Absence of Transparency and Consultations.*** Management has met with and corresponded with the Requesters several times over the past years, disclosed a large number of documents online, and responded to numerous emails and meeting invitations sent by the Requesters. Consultations were held by the External Expert Panel and dissemination events held in Pristina for the panel reports and the Options Study (see below, paragraph 34). Over the past six years, more than 50 consultations were carried out in preparation of the SESA, RPF and RAP, and summaries of these documents shared in English and local language. For the most recent CPS, several consultations were held during its preparation, the most recent of which was in April 2012 in Pristina. The Government has also disclosed several documents online (key documents are listed at Annex 3).

33. ***Impact on Employment.*** Management recognizes that there may be potential job losses associated with the proposed closure of Kosovo A and privatization of generation and mining operations. At this stage, Government has already undertaken an inventory of KEK employees (over half of whom are over 50 years of age), conducted an initial analysis of likely impacts and proposed specific measures to mitigate potential adverse impacts. These involve requiring the new private operators to retain workers for an initial 3-year period and match terms of service with those provided by KEK, among others. The Bank plans to conduct a detailed analysis of the impact of the proposed KPP on the current employees of KEK to recommend to the Government appropriate actions to mitigate adverse impacts through active employment and social assistance measures. Management notes that the overall impact on the Kosovo economy of alleviating the energy constraint is likely to be significantly positive, spurring economic and job growth in the medium term. The long term impact on employment of the proposed KPP is likely to be positive.

34. ***Absence of Studies on Alternative Energy Sources.*** Over the last 10 years, a large number of studies have been carried out on various aspects of the energy sector and the proposed Project by several donors and the Bank. Prior to providing even its "in principle" expression of support, the Bank commissioned a study entitled "Development and Evaluation of Power Supply Options for Kosovo" (December 2011) that took into ac-

count economic, financial and environmental costs—including local and global externalities. **The study concluded that the lowest cost reliable energy supply to meet Kosovo's base load and peak demand is a mix of thermal and renewable energy sources that includes about 750 MW from hydropower and other renewable sources, rehabilitation of Kosovo B and construction of the 600 MW KRPP.** These findings differ from the findings of the Renewable and Alternative Energy Laboratory (RAEL), Berkeley study cited by the Requesters and another study prepared by the Sierra Club. The Bank team reviewed both these latter studies and does not share their conclusions. Formal comparisons between their findings and those of the Options study can be found in Annexes 6 and 7. These comparisons are also posted on the Bank's Kosovo Energy website along with the Government of Kosovo's own assessments of the various analyses.

Conclusion

35. The proposed Project is still at the concept stage and the preparatory work required to assess the proposed Project such as the ESIA and technical, financial, economic, social, and environmental appraisal will be carried out over the next 12 to 15 months. Management emphasizes that the Bank has not taken a decision on the PRG at this time. As is usually the case with guarantees of this type, Management has provided only a "non-binding, in principle" expression of support for the proposed KPP, as noted above in paragraph 19. Any involvement by the Bank in providing such support will depend on a series of activities that include economic, financial, environmental and social assessment of the proposed KPP, other Bank initiated studies (in addition to those already conducted), sharing and discussion of studies with relevant stakeholders, and scrutiny by an independent Panel of Environmental and Social Experts. Only if these activities indicate, in the judgment of Management, that the proposed KPP is viable, will the proposed Project be submitted to the Bank's Board for its consideration.

36. Management is confident that the Bank has made diligent efforts to apply its policies and procedures in the context of the preparation of this proposed Project. Management notes that the assessment and additional studies have not commenced, and therefore substantive application of the Bank policies and procedures could not have taken place. Management maintains that the preparatory work that has taken place to date meets the requirements of the Bank's operational policies and procedures. Moreover, in light of the issues raised above, Management is of the view that this Request for Inspection is not eligible.

ANNEX 1
CLAIMS AND RESPONSES

No.	Claim/Issue	Response
	Environmental	
1.	***Environmental pollution*** KPP is foreseen to be implemented in Obiliq, an area where 'Kosova A' and 'Kosova B' power plants already operate. Use of lignite for the needs of both existing power plants and technological treatment in this area turned Obiliq and surrounding villages into the most polluted area in Europe. Pollution is comprehensive and also affected agricultural land, surface and ground waters, and air. This area is only 7 km from the Kosovo's capital, Prishtina. Consequences of burning coal for power generation, directly affects our lives and those of the other 500.000 inhabitants of the capital. Increasing quantity of lignite burned for power generation through power plant "New Kosovo" will make things worse for the inhabitants of Obiliq and surrounding villages, as well as people living in Prishtina. We are facing health issues as a result of releasing various pollutants to the environment, resulting from coal combustion. Release of smoke, sulphide dioxide, iron, zinc, mercury and other pollutants, has direct impact on increasing incidence of cardio-vascular and neural diseases among our communities. Our children are especially vulnerable and their cognitive abilities will be affected from the release of	Management is aware of the severe adverse environmental legacy and ongoing environmental concerns associated with the Kosovo A and B power plants, caused by lack of maintenance prior to and during the conflict. There is evidence that the Kosovo A and B power plants and associated operations have caused significant deterioration of the air, soil and water quality in the vicinity of the plants – with likely negative impacts on the health of households living in the area. Indeed, it is these environmental problems, as well as the problem of persistent energy shortages that led the Government to develop its strategy for the energy sector and related environmental issues and request assistance from the European Commission (EC), USAID, the World Bank Group and bilateral donors such as KfW, Netherlands and Switzerland for its implementation. The Government's energy strategy has several elements: (i) close Kosovo A by 2017 and replace it with a new, state-of-the-art, privately operated 600 MW power plant termed the "Kosova e Re Power Project" (KRPP); (ii) attract private investment to rehabilitate and upgrade Kosovo B, including ensuring compliance with European Union (EU) environmental standards; (iii) privatize electricity distribution inter alia to reduce technical and commercial losses; (iv) step up payment enforcement and raise tariffs to levels consistent with full cost recovery; (v) address environmental legacy issues associated with Kosovo A and B; (vi) invest more resources in energy efficiency in the near term; and (vii) increase the use of renewable energy (hydro, solar, wind, geothermal). Implementation of the above strategy is expected to be at least carbon neutral, while reducing particulate matter (PM) emissions by over 90 percent and sulfur and nitrogen oxides by over 70 percent from their current levels. The proposed Kosovo Power Project (KPP) is integral to the above strategy and will facilitate the Government of Kosovo's plan to decommission the antiquated, highly polluting "Kosovo A" power plant. The EC has already undertaken a feasibility

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	mercury and iron to the environment, while release of hydrogen chloride will affect their lungs.	study on the decommissioning and has indicated that it is prepared to partially finance the costs associated with closure of the plant and rehabilitation of the site. A donors' conference co-hosted by the EC, USAID and the World Bank Group is planned for Fall 2012 with the intention of raising additional funds for the decommissioning, as well as support for renewable energy and efficiency measures beyond those anticipated in the proposed US$32.5 million Energy Efficiency and Renewable Energy Project included in the Country Partnership Strategy (CPS) for FY12-15. Key objectives of the proposed KPP, in addition to providing a long-term solution to electricity needs in Kosovo, are to: introduce EU standards in the operations of KRPP and bring Kosovo B into compliance with the EU standards by improving its operations and environmental performance. The Government of Kosovo has taken a progressive decision by requiring that private investors bidding on the proposed KPP ensure that the proposed KRPP is compliant with the new EU Industrial Emissions Directive[9] that enters into force on January 1, 2016. This Directive is even more stringent than the Large Combustion Directive[10] which currently applies to coal-fired power plants in EU member states. The proposed KRPP is also required to be built as a carbon capture and sequestration-ready facility to comply with another relevant EU Directive.[11] A Strategic Environmental and Social Assessment (SESA) for a potential new power plant was prepared in 2008 under the FY07 Bank-financed Lignite Power Technical Assistance (LPTAP) Project (US$8.5 m plus Additional Financing of US$2.0 m). The SESA, reflecting the Government's thinking in 2008, considered issues associated with the possible development of a new plant with a generation capacity of 2000 MW. Such a plant was intended to serve the needs of Kosovo consumers as well as supply electricity to the regional electricity market, which faces large energy and capacity shortages. Since then, Government,

[9] Directive 2010/75 EC on Industrial Emissions.
[10] Directive 2001/80/EC on the limitations of emissions of certain air pollutants into the air from large combustion plants.
[11] Directive 2009/31/EC on the geological storage of carbon dioxide.

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		in consultation with external partners (including the Bank), decided to reduce the size of the proposed power generation plant to one consistent only with domestic requirements. The proposed KRPP is thus planned for a generation capacity of 600 MW, less than one-third the capacity considered under the SESA. An Environmental and Social Impact Assessment (ESIA) is a key next step being undertaken by the Government. At this stage, draft Terms of Reference (TOR) for the ESIA have been prepared, which will be shared with the public for consultations, after approval by the Government and review by the Bank. The Government expects to hire independent consultants to start the process of ESIA preparation, which is expected to take 12 to15 months to complete. The ESIA will assess the alternatives to the proposed KPP for meeting energy needs as well as investigate and assess the emissions and impacts of the proposed Project. More specifically, the ESIA will analyze in detail: (i) the reduction in impacts due to proposed decommissioning of Kosovo A; (ii) impacts likely to be caused by emissions from the proposed KRPP; (iii) the (reduced) impacts from proposed improvements to Kosovo B; (iv) impacts from the proposed development and operation of the Sibovc South lignite mine; and (v) implications of the proposed KPP for air, soil and water quality and other environmental parameters such as noise levels. It will also examine any other impacts from the proposed KPP which could, directly or indirectly, impact people and the environment in the proposed Project area. The ESIA will be prepared in consultation with the affected communities and will take into account all relevant aspects of Kosovo's own legislation, applicable policies of the World Bank Group, and relevant EU Directives. The analytical work under the ESIA, and the consultations with stakeholders, including the affected communities and the broader public, on intermediate ESIA results will be important steps to ensure a full discussion between the Government and stakeholders on the potential environmental and social impacts of the proposed KPP. This ongoing engagement and dialogue will also help to ensure that the proposed KPP complies with the requirements of Kosovo legislation, policies of the World Bank Group and the stan-

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		dards of the EU. The proposed KPP is expected to bring significant and long-term improvements to local environmental conditions. If further opportunities for reducing environmental and social impacts are identified by the ESIA, the ESIA process would provide a strong avenue to integrate such improvements in the final design of the proposed KRPP. An important focus of the ESIA will be to collect environmental, social and other baseline data, based on the specific site characteristics and project technical specifications presented in the Request for Proposals (RFP) for the proposed KPP that was submitted in March 2012 to shortlisted bidders. Mitigation measures applicable to power plants will be developed in line with requirements of Kosovo legislation, EU Directives and the World Bank Group. In addition to informing the decision by the World Bank Group on whether or not to support the proposed KPP, the ESIA would also be used by the selected investor as an input for documentation to be submitted to the relevant authorities in Kosovo for (environmental) permitting purposes.
2.	***Water pollution*** The greatest impact comes as a result of water pollution. Water is polluted from the discharge of lignite ashes, airborne ash and other pollutants from the lignite discharge. Since 60% of the communities living in the polluted area are farmers, our flocks of animals are also affected by pollution, since they use the river and ground waters for their animals. Thus pollution affects the human health as a result of using domestic animal products.	Management is aware that the impacts described here (ash deposits on land and water, discharges from ash disposal sites, etc.) are detrimental to water quality and notes that these are related to the historically poor performance of existing mining, power generation and ash disposal activities. In the absence of adequate environmental controls – such as dust control measures and flue gas treatment – large volumes of ash and other materials have been (and continue to be) released to air, soil and water, affecting people and their livestock. **Such emissions will be reduced substantially for the proposed KRPP and a rehabilitated Kosovo B, to levels that would significantly diminish risks of adverse impacts on water quality.** More detailed analysis of environmental impacts and the identification of additional control measures (if needed) will be addressed in the ESIA, as described above in Item 1.
3.	***Water shortage*** KPP provides that current supply of power plants in Obiliq and supply to the new power plant is done using the	A number of studies have examined the issues raised by the Requesters regarding water shortages. In 2007, the European Agency for Reconstruction (EAR) funded a study entitled “Water Supply from the Iber-Lepenc Hydro System for the Pro-

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	Iber Lepenc canal, which supplies water from Iber Lake in the north of Kosovo. The same canal is used for irrigation of agricultural land in three municipalities of Kosovo: Obiliq, Vushtrri and Mitrovica. The same canal supplies water to the Badovc Lake, which supplies Prishtina with potable water. Prishtina and its suburbs constantly face potable water shortage. Increasing use of water from this canal as a result of increasing the generating capacity will necessarily result in water cuts for Prishtina. This may also leave agricultural land with no water resources for irrigation. We need water for our homes and our farms. But if the new plant is built there will be no water for us to use.	posed Kosovo C Power Plant." At Government's request, and following findings in the SESA that water supply in the future could be a cause for concern, the Bank also carried out a comprehensive study (Annex 5) in 2010-11 entitled "Water Security in Central Kosovo," to identify threats to, and means of ensuring, adequate supply and quality of water from the Iber-Lepenc canal for households, irrigation, industry and power plant operation in all the municipalities mentioned in the Request, including Pristina and its suburbs. The Water Security report analyzed capacity to meet both current and projected future demand (including changes in water demand associated with the proposed KPP). It concluded that, in the absence of investment, water shortages are likely to occur in the future, due to: (i) the lack of maintenance and the present risk of malfunctioning or obstruction of the Iber-Lepenc canal (breaching of canal side, excessive leakages, clogging, landslides etc.); (ii) the lack of alternative sources of water supply; and (iii) after 2020, the gradual increase of non-KPP water demand. Such investment should be undertaken to upgrade the canal and its management. Given this analysis, the study recommended specific short- and medium-term investments to address these challenges. The ESIA will undertake an even more focused examination of the impacts of the proposed KPP on water availability and consumption. The consultative process associated with the preparation of the ESIA will enable the local population, as well as other stakeholders, to provide feedback on the scope of coverage, the actual analysis/findings and proposed mitigation actions. In response to suggestions made during several consultations with civil society, including the most recent one for the CPS, the Bank's CPS FY12-15 for Kosovo includes a Water Supply Project (planned for mid-2014). The project would focus on implementing the recommendations of the study "Water Security in Central Kosovo" and of the ESIA and would also help improve domestic water supply in the proposed KPP project area (see attached CPS – para 81). The Western Balkans Investment Framework (WBIF) is now actively considering a request from the Government of Kosovo to provide grant funds for a feasibility study for rehabilitation of the Iber-Lepenc canal. The

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		World Bank would supervise implementation of the study.
4.	***Economic impact*** Around 70% of the Obiliq territory since 7 years has been declared a zone of national interest. This is because the area shall be used for lignite mining for the needs of power generation in the country. Upon declaration of the interest zone, local inhabitants of the zone did not enjoy the right of developing their households, and they were not allowed to develop new households in order to advance the social-economical situation of their families. Meanwhile when we were deprived of this right, we were not included in any special project for displacement, in an area where they would exercise such rights. This applies to Hade, Dardhishte and Lajthishte villages of Obiliq. During the deprivation of this right, we have not received any benefits, just like we did not enjoy any compensation for pollution of the water, air and land. We have enjoyed such a right during 70' and 80', but not since 90'. Moreover, we are subject to systematic power cuts and we were never spared by this corporation. This increases the risk of accidents for the population who live in the "backyard" of power plants and existing mines.	Management is not certain as to the definition of "zone of national interest" referred to by the Requesters. However, Management believes this is likely a reference to two Government Decisions: (i) Government Decision No. 4/119 dated 11/3/2004 which declared a Zone of Special Economic Interest covering Hade, Sibovc, Leshkooshiq and Cerna Vodice villages of the Municipality of Kastriot/Obiliq and stipulated that "*the Ministry of Environment and Spatial Planning and the Municipal Assembly of Kastriot/Obiliq are obliged to implement the decision by stopping new construction or construction of additional floors;*" and (ii) Government Decision No. 02/57 dated 3/13/2009 which declared a "Zone of Special Economic Interest, 'New Mining Field' (NMF)," covering several cadastral zones of the municipalities of Kastriot/Obiliq, Fushe Kosove, Vusshtri and Drenas and reconfirmed Decision No. 4/119 for a period until a Spatial Plan for the Zone was approved by the Kosovo Assembly. In October 2011, the Kosovo Assembly did adopt a Spatial Plan for the Zone of Special Economic Interest "New Mining Field" – Decision No. 04-V-206 – covering an area of about 150 km^2. This step is believed to effectively supersede Decision 4/119. Delineation of the area covered by the Spatial Development Plan made use of several past studies including two studies—the SESA and the New Mining Field Development Plan (2008) —financed through the LPTAP. It is worth noting that the overall NMF area covered by the Spatial Development Plan is much larger than the area expected to be concessioned in Sibovc South for the proposed KPP-associated minefield. The Sibovc South mine field constitutes about 7 percent (about 10.5 km^2) of the total NMF (see attached Map) and the entire KPP site constitutes an additional area of about 6 percent of the NMF. The concession for Sibovc South minefield would provide enough lignite to operate KRPP for forty years, Kosovo A until its decommissioning, and the rehabilitated Kosovo B power plant until the end of its useful life, estimated to be 2030. De-

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		velopment of the Sibovc South mine field would ultimately require resettlement of four villages, which would be carried out in accordance with the Resettlement Policy Framework (RPF) approved by the Government of Kosovo. The RPF and the RAP for Shala neighborhood of Hade village were prepared with financing from the LPTAP project with the participation of, and in consultation with, the affected communities and other stakeholders. The ESIA, which will apply to the area affected by the proposed KPP, will be undertaken using a methodology that requires extensive consultation with affected stakeholders in gathering salient impact information and identifying appropriate remedies for management of land acquisition impacts. The new Sibovc South minefield for the proposed KPP constitutes about 7 percent of the NMF land area. In the event that the Bank decides to support the proposed KPP, the Bank will ensure that Bank policies and procedures are applied to any resettlement carried out in connection with the proposed KPP and will draw Government's attention to the need to address the legitimate concerns of residents in the non-KPP portion of the NMF area.
5.	***Absence of studies on alternative energy sources*** Kosovo civil society, since months, has requested the World Bank a full analysis of energy potential in Kosovo and an economic analysis on advantages of this potential versus various options. World Bank still does not have a full overview of what Kosovo provides in term of alternative energy sources. Civil society worked closely with the Berkeley University of California to analyze the sector, while this analysis showed that Kosovo has a great potential of alternative sources and this potential is economically viable, serves the purpose of protecting health and environment in	Over the last ten years, a large number of studies have been carried out on various aspects of the energy sector and the proposed Project by several donors and the Bank. The studies funded by the World Bank are available on the Bank's Kosovo energy sector website. As part of its due diligence prior to providing even its "in principle" expression of support, the Bank commissioned a study, entitled "Development and Evaluation of Power Supply Options for Kosovo" (December 2011) to consider ways of meeting Kosovo's energy needs, taking into account economic, financial and environmental costs – including local and global externalities, supply and demand side efficiency improvements, utilization of hydropower potential and other renewable sources, importing of electricity from neighboring countries and thermal generation. The study, which was posted online in English and Albanian and disseminated in Kosovo on February 10, 2012, found that the lowest cost reliable energy supply that would meet Kosovo's base load and peak demand is a mix of thermal and renewa-

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	Kosovo, and creates 30% more jobs. Failing to have such an analysis and failing to have a Partnership Strategy in Kosovo in effect, World Bank has embarked its engagement in this project in a way which contradicts its policies on such projects and fully contradicts the best work practices held and implemented by the Bank.	ble energy sources. This mix includes: (i) about 750 MW from hydropower and renewable energy resources; and (ii) upgrading of the Kosovo B power plant and replacement of Kosovo A with a new 600 MW coal power plant. These findings differ from the findings of the Renewable and Alternative Energy Laboratory (RAEL), Berkeley study cited by the Requesters and another study prepared by the Sierra Club. The Bank team reviewed both these latter studies and prepared formal comparisons between their findings and those of the Options study (see Annexes 6 and 7). These comparisons are also posted on the Bank's Kosovo Energy website along with the Government of Kosovo's own assessments of the various analyses. An independent External Expert Panel reviewed the proposed KPP and concluded that – subject to certain modifications which are all being addressed in KPP design – the proposed Project meets the six criteria for coal projects of the Strategic Framework for Development and Climate Change. The Expert Panel held consultations with civil society in Pristina at the commencement of its assessment and for dissemination of its findings. The Panel report is available on the Bank's website, along with the Options study and a number of other analytical reports and documents related to Kosovo's energy sector. In accordance with policy, continued involvement by the Bank in providing support to the proposed KPP will depend on a series of activities that will include economic and financial assessments as well as the ESIA for the proposed KPP, sharing and discussion of studies with concerned stakeholders and the public, and review and monitoring by a separate independent Panel of Environmental and Social Experts. The first CPS for Kosovo was recently completed and will be discussed at the Bank's Board on May 29, 2012. The strategy was widely discussed in Kosovo, including several sessions with parliamentarians, the donor community and civil society representatives. A full day session with civil society was held in Pristina and attended by many senior Bank Group officials (including the Regional Vice President) on April 4, 2012. Prior to the preparation of the CPS, the Bank program was guided by an Interim Strategy Note (ISN) for FYs 10 and

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		11, which included an extensive description of the KPP (as it stood then). The ISN was discussed by the Bank's Board on February 4, 2010, posted on the Bank's Kosovo website and disseminated in Kosovo at workshops with a wide range of stakeholders. **Management believes it is important to reiterate that the World Bank has *not* taken a decision on this PRG at this time.** In fact, a decision is about 18 months away, given the need to undertake all the technical, environmental, and social assessments required by Bank policy and to review their findings before a decision can be taken. As is usually the case with guarantees of this type, the World Bank Group has provided only a "non-binding, in principle" expression of support for the proposed KPP, with the caveat that World Bank Group support will be contingent on the proposed Project complying fully with applicable Bank policies and guidelines, including the Strategic Framework for Development and Climate Change, as well as environmental, social and fiduciary safeguard policies. This is a very early step which allows the Government of Kosovo to issue its RFP with some indication to potential investors that the World Bank is *considering* a possible PRG in support of the proposed Project – this, in turn, can lower financing costs and, hence, lower the cost of the proposed Project for Kosovo.
	Social	
6.	***Displacement of population*** Since the LPTAP initial implementation stage, KEK started expropriation of Hade inhabitants for KPP. The displacement started without developing any plan of activities for displacement of inhabitants and with no national displacement policy that would be in line with World Bank displacement policies. Thus the displacement was conducted in contradiction with such policy and resulted in unfair and low displacement compensation paid to inhabitants of such villages.	An emergency evacuation of some Hade village residents was carried out by the United Nations Interim Administration Mission in Kosovo (UNMIK) in 2004 and 2005. UNMIK's order number 2004/6 (March 29, 2004) indicates that after technical evaluation determined an immediate threat to the lives of some inhabitants of Hade village close to the lignite mine pit, extensive consultations were carried out by UNMIK and the Provincial Institutions of Self Governance (PISG) with the inhabitants and they were evacuated in between November 2004 and June 2005. The emergency evacuation and resulting resettlement were carried out by UNMIK and PISG and were not part of any Bank project. As explained in the Management Response, the Bank provided technical advice in response to a request from the authorities by sending a short two-person mission

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	In order to open a new lignite mining field and start construction of the new power plant, the inhabitants living in the same villages should be displaced in order to make way for the KPP. National displacement policies provide that us and our neighbours in Obiliq shall be displaced within the territory of Obiliq. Knowing that around 70% of the Obiliq's territory is of national interest, it means that the displacement shall be done in the remaining part of the territory. This no doubt creates a serious problem to the displacement process, because it hinders the proper displacement required by World Bank displacement policies. Displacement should be performed in line with these policies, while displacement of the population in the future shall no doubt require revision of current displacement policies and each criterion in this regard should be met.	to Kosovo in July 2004. In June 2005, a pre-identification mission for a proposed Kosovo Lignite Mining and Energy - Social and Environmental Support Project (later folded into LPTAP), *inter alia* undertook a preliminary evaluation of the adequacy of Kosovo's resettlement practices in relation to the Bank's OP/BP4.12. LPTAP supported the development of a resettlement policy framework which has since been adopted by the Government (July 2011). The Government is planning to accommodate the people displaced in 2004 from Hade village at the new resettlement site (Shkabaj). The Bank will continue to provide advice and encourage the Government to resolve any outstanding issues. In view of this unsatisfactory history, and recognizing that any initiative to attract private investors in the power sector would need a clear policy framework for resettlement, the Bank, through the Lignite Power Technical Assistance Project supported the design of an RPF, which conformed to international good practice and would also be consistent with the World Bank policy on resettlement. The RPF helped establish the Government of Kosovo's policies concerning the resettlement of populations. Under the RPF, where displacement or loss of economic assets and means of livelihood are unavoidable, actions are required on the part of the Government to ensure that affected people can improve or at the very least recover their standard of living and livelihood in the shortest possible time. Application of the new RPF was tested in 2011, when the Kosovo Energy Corporation (KEK) began to acquire land in the Shala neighborhood of Hade village. However, this action, using Kosovo's expropriation law, was begun in a manner that was inconsistent with the newly adopted RPF. In this context, the Bank brought concerns about the KEK actions to Government's attention in September 2011, resulting in a halt to the land acquisition until a Resettlement Action Plan (RAP), then under preparation, could be completed in consultation with the affected community. A RAP for Shala has since been completed by the Government. The RAP involved extensive consultations and provides for the entire Shala neighborhood to be relocated at the new site at Shkabaj, as desired by the affected households.

No.	Claim/Issue	Response
		In Management's view the Shkabaj resettlement site is in a good location, close to the main highway to Prishtina. At present, work is being conducted by the Government of Kosovo to prepare the resettlement site, for which housing plots are being developed and provided with services (access roads, water, electricity, etc.). Most of the people moving from Shala have chosen to build their own houses. The Government of Kosovo is committed to provide assistance for lodging and subsistence to those relocating during the interval between leaving Shala and moving into new housing at the resettlement area. The Ministry of Environment and Spatial Planning, as the implementing agency, provides information on implementation progress, through an ongoing consultation process with affected parties and municipal officials. As noted in Item 4, the new Sibovc South minefield for the proposed KPP constitutes only about 7 percent of the NMF land area. In the event that the Bank decides to support the proposed KPP, the Bank will ensure that Bank policies and procedures are applied to any resettlement carried out in connection with the proposed KPP and will draw Government's attention to the need to address the legitimate concerns of residents in the non-KPP portion of the NMF area.
7.	***Impact on employment*** Opening of new lignite mining area and construction of 'New Kosovo' power plant shall be accompanied with permanent decommissioning of "Kosova A" power plant in 2017 and revitalization of "Kosova B" power plant. This will be accompanied with privatization of supply and distribution grid. Combination of these projects will result in dismissing hundreds of current workers of the Energy Corporation. World Bank and the Kosovo Government have never consulted the Union of KEK Workers about the problem, and did not take any other activity to handle the problem.	Management acknowledges the Requesters' concern that there could potentially be job losses related to closure of Kosovo A and privatization of power generation and mining. The Bank plans to conduct a detailed analysis of the impact of the proposed KPP on the current employees of KEK to recommend to the Government appropriate actions to mitigate adverse impacts through active employment and social assistance measures. Management would like to share with the Requesters its understanding of the situation as follows below: At the end of 2011, KEK had 1,537 employees in generation (586 in Kosovo A, 432 in Kosovo B and 519 in common services) and 3,241 employees in mining. Of these employees, more than 60 percent of those engaged in generation and more than 50 percent of those employed in mining were over 51 years of age and 15 percent in generation and 10 percent in mining were already older than 61 years.

No.	Claim/Issue	Response
	WB is obliged through best working practices to take specific measures towards workers who are affected by the KPP implementation process. Development of incentive packages to such workers is not seen in the horizon, while WB has failed to include in this project the investments in other areas of power development in Kosovo. Kosovo now loses about 40% of generated and imported power as a result of technical and commercial loses in the grid, while power demand is 30% higher as a result of such loses, and as a result of absence of projects for energy efficiency and proper insulation of houses. Development of specific projects to handle these two problems would result in increasing number of employees, and according to current international trends, the number of jobs in this area is much higher than investment in the new power plant. While not having the Poverty Reduction Strategy for Kosovo, WB has failed in analyzing the needs for economic development of the country, and consequently failed to focus investments in projects that generate more jobs for Kosovans.	KRPP will create direct and indirect employment during its four-year construction period and throughout its long-term operation and maintenance. Typically, construction of a 600 MW coal-fired power plant would generate about 1,200 direct jobs for a period of four years and about 300 skilled jobs during the 35 years of its operational life. An examination of the employment impact (including the impact on current employees) of the proposed KPP will take several factors into account: first, the expected lag before decommissioning of Kosovo A can commence – it is not expected to begin for several years, and once begun, will create technical and non-technical jobs for about two to three years to dismantle the power plant and restore the site; second, the natural attrition rate of KEK's workforce—this has been high due to the high average age of employees; third, the new jobs that will be created as construction begins on KRPP -- the expected start date of construction of the new plant is late 2013 or early 2014. Management also understands from the Government that the new private companies involved in mining and power generation will be required to retain all staff (who wish to continue to work) for a period of at least three years, on terms and conditions of employment substantially similar to those offered by KEK. After this three-year period, if the new company needs to make changes to its staffing, it will have to follow the applicable Kosovo labor laws. On a broader scale, Management notes the impediments to job creation created by the current power shortage in Kosovo. Nine out of ten firms surveyed in the 2010 Business Environment and Enterprise Survey (BEEPS) cited lack of reliable electricity supply as one of the major obstacles to investment. Improving power supply and services should facilitate investments by small business that would create jobs in Kosovo. Other obstacles to doing business are being addressed by the Bank through an ongoing Business Enterprise Technical Assistance operation and by the International Finance Corporation (IFC) through focused advisory services. In addition, the Bank, through the Sustainable Employment Development Policy Operations project, is helping to lay the institutional and legislative foundations for sustainable em-

No.	Claim/Issue	Response
		ployment and social safety nets.
	Access to Information	
8.	***Absence of transparency and consultations*** Since the engagement of the World Bank in power projects in the country, Obiliq community, Union of KEK Workers and civil society have been excluded from the decision-making processes. Requests of the civil society for access to official documents, which is provided by the national legislation, have been constantly turned down by the Ministry of Economic Development, project leading agency, and also by the World Bank almost in all cases. Thus absence of authentic information and absence of access to official documents has deprived us the right to get involved in these projects. This is in contradiction with the World Bank policies on the right of information and data disclosure. Through the present complaint, we would like to refer once again to all requests filed to the World Bank and the Ministry of Economic Development, for access to information regarding LPTAP and KPP. Such requests were submitted mainly by Mr. Nezir Sinani on behalf of civil society, and the community of Obiliq and surrounding villages.	Management has met with and corresponded with the Requester(s) dozens of times over the past years. Management and the Government have disclosed at least three dozen documents online, most of them in English and Albanian. Management has repeatedly acknowledged in public settings the valuable role that civil society in Kosovo has played in shaping the proposed CPS and in analyzing the energy options in Kosovo. Management does not agree that there has been an absence of authentic information available to the public. On the contrary, Management feels it has made an abundance of information available and has responded to the numerous emails and meeting invitations sent by the Requester(s). Over the past six years, more than 50 consultations with members of the community were carried out during the preparation of the SESA, RPF, and the RAP for Shala neighborhood of Hade village. In fact, consultations in Kosovo have been ongoing since 2005. In October 2007, community meetings were held with nine villages in the mine development area; more than 50 consultations were carried out in 2008 in which more than 900 people participated, including 10 separate meetings with women in which more than 100 women participated. In the course of preparing the RAP for Shala, meetings were held during the planning phase between June and July 2011 and again for consultation on the draft RAP in August 2011. Summaries of the draft RAP in English and Albanian were shared with all affected households. Affected people from Shala also have access to the resettlement office at Hade. In addition, regular and extensive consultations have been held with civil society on the studies and assessments carried out in the energy sector, and in particular in the context of the proposed KPP, hosted by the Government of Kosovo and the World Bank in Obiliq and Prishtina. A list of public events is included in Annex 2. As mentioned, over the course of several years the Bank and the Government have disclosed a number of analyses about Kosovo's development challenges and, specifically, about its energy chal-

No.	Claim/Issue	Response
		lenges and options. A list of publicly available documents is also included as Annex 3. The TOR of the independent External Expert Panel and a number of background documents and the biographies of the three panelists were posted online when the Panel was appointed. In August 2011 and in February 2012, the independent Expert Panel reviewing the proposed KPP met with civil society to discuss its process and findings with citizens and the news media. The Expert Panel considered the public feedback in determining their findings and noted specifically in the final report that the Panel "strongly encourages the involvement of civil society in the various processes whenever this is possible through openness and transparency and fully developed consultation processes." Management has facilitated numerous consultations and meetings and will continue to do so. For example, the proposed CPS scheduled to be presented to the Board of Executive Directors in late-May 2012 recently underwent a 9-hour public consultation in Pristina, attended by the Regional Vice President, Country Director, and Country Manager. Feedback was sought on a variety of topics, including the proposed KPP. Management will continue to disclose all documents related to the Bank's proposed support to Kosovo's energy sector, in line with the Access to Information Policy. In fact, the Bank has received a series of letters with questions that appear in the Request for Inspection, to which replies have been sent. Management has repeatedly pointed out that the Bank's consideration of the proposed KPP is only in the beginning stages and that the ESIA and other studies will take at least a year. The Bank is committed to ensuring that civil society is involved throughout and the Bank team has had frequent interactions with some of the Requesters. Regarding documents that have been requested but not provided by the World Bank: some of the documents that have been requested do not exist yet and Management has informed the Requesters in writing and in face-to-face meetings that *as soon as those documents are available they will be disclosed*. For example, the Energy Efficiency and Renewable Energy Project is in very early stages of development. There is no Project Information Document to be disclosed yet.

No.	Claim/Issue	Response
		The proposed CPS mentions a few projects that are in the earliest stages of concept and no documents have been prepared yet. Another document requested for disclosure is the Country Environmental Analysis (CEA). Management has informed the Requesters in writing and in face-to-face meetings that this document is in preparation and will be disclosed in early June 2012 at the time of the planned public consultations on the CEA and dissemination of the study on water security in central Kosovo.

ANNEX 2. SELECTED LIST OF MEETINGS WITH CIVIL SOCIETY ORGANIZATIONS REGARDING KOSOVO'S ENERGY SECTOR

Date	Organizer	Location	Topic	CSO Participants	World Bank Participants
April 4, 2012	World Bank	WB office Pristina	Consultations on the proposed CPS	Balkan Investigative Reporting Network, GAP Institute, Forum for Civic Initiative, Institute for Development Policy (INDEP), Democracy 4 Development, Kosovo American Chamber of Commerce, Kosovo Stability Initiative, KIPRED, Cohu, Group for Legal and Political Studies, Women Network, Kosovo Center for Gender Studies, Community Development Fund, Kosovo Civil Society Fund, Independent Union of Energy Workers of Kosovo, United Union of Education, Science and Culture, Kosovo Bankers' Association, Booz Allen Hamilton	Vice President for Europe and Central Asia Region (ECA) ECA Senior Advisor Country Director for Southeast Europe Sector Coordinator for Energy Country Manager for Kosovo ECA Communications Officer Country Office Operations Officer Country Office Communications Officer Country Office Operations Officer Country Office Operations Analyst Country Office Operations Officer
March 14, 2012	World Bank	WB office Pristina	Meeting with representatives from Obiliq community who sent a letter to CD	Obiliq community representatives, BIRN and INDEP representatives	Country Director for Southeast Europe Sector Coordinator for Energy Country Manager for Kosovo Country Office Communications Officer Country Office Operations Officer
Feb. 16, 2012	Group of CSOs	Hotel Sirius	Workshop: Energy Alternatives for Kosovo	Local CSOs: INDEP, BIRN, GAP, FIQ, PIPS, ICG, SPEK International CSOs: BIC, Bankwatch, WWF, Sierra Club, CIEL, ECF, RBF	Country Manager for Kosovo Country Office Communications Officer
Feb. 14, 2012	Gov. of Kosovo – Ministry of Econ. Devel.	Gov. Building	Presentation of the independent Expert Panel report	CSOs: INDEP, Forum for Civic Initiatives, Rockefeller Brothers Fund, Kosovo Fund for Open Society, Regional Environmental Center Kosovo, GAP Institute, IKSHPK. Other: Ministry of Economic Development, Member of Parliament from Vetevendosje, US Embassy, USAID, KfW, Triangle,	Members of the independent Expert Panel: [By audioconference] Dr. János Beér, Emeritus Professor of Chemical Engineering at the Massachusetts Institute of Technology Dr. Wladyslaw Mielczarski, Professor of Electric Power Engineering at the Technical University of Lodz, Poland, and Head of the Electricity Market Research Group at Poland's Institute of Electrical Power Engineering Derek M. Taylor, President of DMT Energy Consulting, European regional representative for the Global Carbon

Date	Organizer	Location	Topic	CSO Participants	World Bank Participants
				DHInfrastructure Media: RTV21, Kosova Sot, Koha Ditore, Kosovapress, Express	Capture and Storage Institute (GCCSI), and Director of the environmental NGO Bellona ECA Sector Director, SDN Senior Technical Advisor, OPCS Sector Coordinator for Energy Country Office Operations Officer Country Manager for Kosovo Country Office Communications Officer
Feb. 10, 2012	World Bank	Hotel Sirius	Presentation in front of CSOs of the Paper: Development and Evaluation of the Power Supply Options for Kosovo	CSOs: INDEP, INPO, BIRN, Regional Environmental Center, GAP, FIQ, KFOS, RIINVEST, IKS, STRAS, University of Pristina, American University in Kosovo Other: Ministry of Economic Development, Ministry of Trade and Industry, US Embassy, USAID, German Embassy, KEDS, KOSTT, Triangle Media: RTK, Koha Ditore, Bota Sot, Epoka e Re, Express, Dukagjini, KTV, Kosova Sot, Alsat, Kosovapress, TV21, Tribuna Shqiptare, Top Channel	Consultant authors of the analysis ECA Sector Director, SDN Senior Technical Advisor, OPCS Sector Coordinator for Energy Country Office Operations Officer Country Manager for Kosovo Country Office Communications Officer
Nov. 9, 2011	World Bank	Hotel Pristina	Meeting with CSOs on the Kosovo energy sector	CSOs: KIPRED, INDEP, BIRN, Kosovo Democratic Institute / Transparency International Kosovo, Kosovo Fund for Open Society, RIINVEST Institute, Regional Environmental Center Kosovo, Youth Initiative for Human Rights, International Crisis Group, Kosovo Stability Initiative, INPO, MAR.	Country Director for Southeast Europe Country Manager for Kosovo Country Office Communications Officer Country Office Operations Officer

Date	Organizer	Location	Topic	CSO Participants	World Bank Participants
				Other: USAID, IFC	
Nov. 9, 2011	World Bank	WB office, Pristina	Meeting with the CSOs on the new CPS	Kosovo Civil Society Foundation, Community Development Fund, Democracy 4 Development, Developing Together	Country Director for Southeast Europe Sector Coordinator for Energy Country Manager for Kosovo Country Office Communications Officer Country Office Operations Officer Country Office Operations Officer Country Office Operations Analyst
Sept. 29, 2011	Gov. of Kosovo – Ministry of Econ. Devel.	Hotel Pristina	Energy issues and Civil Society concerns in the "Energy Projects Report in Kosovo"	Ministry of Economic Development, USAID, KfW, International Civilian Office, Kosovo Energy Corporation, KOSTT, ERO, RIINVEST Institute	Investment Advisors, IFC Country Office Operations Officer Country Office Operations Analyst
August 26, 2011	World Bank (and the External Expert Panel)	WB office Pristina	The proposed New Kosovo project and the "Development and Climate Change: A Strategic Framework for the World Bank Group"	Director of KIPRED, Director of GAP Institute, Researchers from RIINVEST Institute	Chair of the independent Expert Panel, Derek Taylor Sector Coordinator for Energy [Former] Country Manager for Kosovo [Current] Country Manager for Kosovo Country Office Operations Officer Country Office Operations Analyst
April 21, 2011	World Bank	Filikaqa Restaurant (opposite WB CO)	New Kosovo power plant project	Regional Rep. of Rockefeller Brothers Fund, Director of KIPRED and Director of GAP Institute	World Bank Task Team Leader for LPTAP Country Office Operations Officer Country Office Operations Analyst
March, 10, 2011	World Bank	Pristina	Meeting with CSOs on the SEDPO budget support operation (*although it was not planned, the support for the energy sector was also discussed)*	Director of KIPRED, Director of IKS, Director of RIINVEST Institute, Director of KFOS, Director of GAP Institute	Country Director Country Manager Country Office Communications Officer)
January 13, 2011	World Bank and Open Society Institute	Brussels	Inform Open Society Institute on the New Kosovo project, but also on other development issues in Kosovo.	OSI Director and OSI Senior Policy Analyst	Energy Sector Country Coordinator Country Manager

Date	Organizer	Location	Topic	CSO Participants	World Bank Participants
March 16, 2010	World Bank	Hotel Pristina, Pristina	Interim Strategy Note FY10-11 for Kosovo (The energy sector section of the ISN was also discussed in this meeting with civil society and donors, 15 of them)		Consultant, Country Management Unit Country Manager Country Office Communications Officer Country Office Operations Officer
July 2009	World Bank	Office of Kosovo Foundation for Open Society, Pristina	LPTAP project	Director of KFOS	World Bank Task Team Leader for LPTAP
March 18, 2009,	Foreign Policy Club	National and University Library of Kosovo	LPTAP project – a presentation to civil society (*under Chatham House rules*)	Board Chairman and CEO of Foreign Policy Club, other invitees of the FPC Media: Koha Ditore	Country Manager, World Bank Country Office Energy Sector Country Coordinator World Bank Task Team Leader for LPTAP Country Office Communications Officer
Sept. 11, 2008	Ministry of Energy and Mines	Cultural Hall, Kastriot (Obiliq)	Public Hearing on SESA		Senior Environmental Specialist Country Office Communications Officer
June 2008	World Bank	World Bank office Pristina	Discussions on LPTAP	(former) CEO of the Youth Initiative for Human Rights and CEO of the anti-corruption NGO 'Cohu' (separate meetings)	Country Office Communications Officer Senior Communications Officer, World Bank Headquarters

ANNEX 3. LIST OF PUBLICLY AVAILABLE DOCUMENTS REGARDING THE PROPOSED KOSOVO POWER PROJECT

Key documents available on the World Bank's Kosovo Country Office website http://www.worldbank.org/kosovo

1. Energy Strategy of the Republic of Kosovo (2009-2018), September 2009.
2. Technical Background Paper Energy Sector for the Donors Conference, 2008.
3. Strategic Environmental and Social Assessment, ERM Italia, 2008.
4. Regional Balkans Infrastructure Study—Electricity (REBIS) and Generation Investment Study (GIS), prepared by PwC Consortium (PricewaterhouseCoopers LLP, Atkins International plc, MWH), 31 December 2004, updated 2007.
5. Project Appraisal Document on a Proposed International Development Association Grant in the Amount of SDR 5.8 million (US$ 8.5 million equivalent) to the United Nations Interim Administration Mission in Kosovo for the Benefit of Kosovo for a Lignite Power Technical Assistance Project, World Bank, September 2006.
6. Project Appraisal Document on a Proposed International Development Association Grant in the Amount of SDR 3.8 million (US$ 5.5 million equivalent) to the United Nations Interim Administration Mission in Kosovo for the Benefit of Kosovo for an Energy Sector Clean-up and Land Reclamation Project, World Bank, May 2006.
7. Studies to support the development of new generation capacities and related transmission—Kosovo UNMIK, prepared by Pöyry Consortium (Pöyry, Cesi, Terna, and Decon), August 2007.
8. Study for Decommissioning of Kosovo-A Power Plant, Final Report, prepared by Evonik Industries, 15 March 2010.
9. Economic and Technical Feasibility of the Rehabilitation of Units of Kosovo A Power Plant, European Agency for Reconstruction Contract 04KOS01/03/007, prepared by A3i Consortium (Application Européenne de Technologie et de Services, AEA Technology plc, Allplan, Iberdrola S.A.), Task Report, September 2005.
10. Scoping Statement for Environmental Assessment for Rehabilitation of Thermal Power Plant Kosovo B, Final Report, prepared by Advanced Engineering Associates International et al, 6 April 2010.
11. Kosova "B" Investment Requirements and Rehabilitation Feasibility Study, prepared by PA Government Services for USAID, August 2010.
12. Improvement of District Heating in Kosovo, KfW. February, 2009.
13. Generation Sizing in View of the Technical and Commercial Requirements of the Kosovo Power System, prepared by KOSTT, February 2010.
14. Generation Planning and Unit Sizing, prepared by Parsons Brinckerhoff and Pricewaterhouse-Coopers, March 2010, and Unit Sizing, prepared by Parsons Brinckerhoff and Pricewaterhouse-Coopers, April 2010.
15. MEM Report on Energy Efficiency. November 2006.
16. Prefeasibility Study for Identification of Small Hydro Power Plant in Kosovo. Albanian Association of Energy and Environment for Sustainable Development. May 2006.
17. Energy Regulatory Office. Kosovo. Annual Report 2009.
18. Energy Sector Technical Assistance Project I Study. World Bank Group. September 2002.
19. Kosovo Energy Sector PER. December 2009.
20. Kosovo Lignite Power Initiative – Economic Analysis. 2006.
21. Feasibility study of converting Kosovo B into combined heat and power plant, KfW (report expected in June 2011)
22. Development and Evaluation of Power Supply Options for Kosovo (December 2011)
23. Report of the SFDCC External Expert Panel (January 2012)
24. Comparative Evaluation of the Bank's Option Study with RAEL Report
25. Comparative Evaluation of the Bank's Option Study with Sierra Club Report

Available from Ministry of Economic Development (http://mem.rks-gov.net/):

26. Annual Energy Balance of Republic of Kosovo, 2010
27. Heating Strategy of Republic of Kosovo, 2011 – 2018
28. Energy Strategy of Republic of Kosovo, 2009-2018
29. Resettlement Policy Framework
30. Resettlement Action Plan – Shala Neighborhood/ Hade
31. Report on the assessment of losses to the private sector due to an irregular electricity supply, KAF financial group, May 2007
32. Zhur studies and announcements
33. The request form for access to official documents
34. KEK's Audit Reports and Financial Statement – from the department of policy and monitoring unit of Public Enterprises
35. Energy Community Treaty documents
36. The entire Legislation of the energy and mining sector (all the relevant laws for these two sectors), including the secondary legislation (administrative instructions, regulations)
37. A link to the "Kosovo e Re" power project - lignitepower.com in the homepage of the Ministry

Available on the LPTAP website (http://lignitepower.com**):**

1. Resettlement Action Plan - Shala Neighbourhood, 2011
2. Resettlement Policy Framework
3. SESA full report and SESA brochure
4. Brochure on the Project in General
5. Prequalification memorandum
6. 10 PowerPoint presentations prepared for the International Investors Conference, January 2010
7. Prefeasibility study for pollution mitigation measures at Kosovo B power plant, EAR, February 2006
8. Prefeasibility study for the new lignite fired power plant, EAR, February 2006
9. Studies to support the development of new generation capacities and related transmission: Kosovo UNMIK Power Market Review Report November 2007; European Agency for Reconstruction Pöyry-CESI-Terna-Decon
   Generation Technical Studies Task 1, 2, 3, 4, 5, 6 – Poyry
10. Main Mining Plan for New Sibovc Mine, EAR, Vattenfall, DMT, 2005
11. Complementary Mining Plan for Sibovc SW, STEAG, April 2006
12. Water Supply from the Iber Lepenc Hydro System for the proposed Kosova e Re power plant, Evaluation of Hydro System and Water Availability Assessment, November 2007, EAR – COWI report
13. Various maps of locations near power plant and geological map
14. World Bank-funded Zhur Hydropower Project Feasibility Study, May 2009
15. Map of Sibovc Mining area showing the entire Sibovc field
16. Project Appraisal Document of LPTAP, September 2006
17. LPTAP Operational Manual as approved by the PSC, March 2007
18. LPTAP Code of Behavior and Code of Ethics
19. Announcement of Requests for Expressions of Interest for developing Sibovc and associated power generation capacities.
20. Prequalification Memorandum, December 2009
21. TPP Kosova B Site Layout and TPP Kosova A Site Layout (maps)

ANNEX 4. COUNTRY PARTNERSHIP STRATEGY FOR THE REPUBLIC OF KOSOVO FY12-15

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. 66877-XK

INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERNATIONAL FINANCE CORPORATION

AND

MULTILATERAL INVESTMENT GUARANTEE AGENCY

COUNTRY PARTNERSHIP STRATEGY

FOR

THE REPUBLIC OF KOSOVO

FOR THE PERIOD FY12–FY15

May 1, 2012

South East Europe Country Unit
Europe and Central Asia

Europe and Central Asia
International Finance Corporation

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 16, 2012)
Currency Unit = Euro (€)
€1.00=US$1.30
SDR 1.00=US$1.54

GOVERNMENT'S FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and advisory activities
ARDP	Agriculture and Rural Development Plan
BEEPS	Business Environment and Enterprise Performance Survey
CBK	Central Bank of the Republic of Kosovo
CEFTA	Central European Free Trade Agreement
CEM	Country Economic Memorandum
CPS	Country Partnership Strategy
DPO	Development Policy Operation
EC	European Commission
ECA	Europe and Central Asia Region
EIB	European Investment Bank
EPAP	European Partnership Action Plan
ESW	Economic and sector work
EU	European Union
EULEX	EU Rule of Law Mission in Kosovo
EUSR	EU Special Representative
FDI	Foreign direct investment
FY	Fiscal year
GDP	Gross domestic product
GOK	Government of the Republic of Kosovo
IBRD	International Bank for Reconstruction and Development
ICR	International Civilian Office
IFC	International Finance Corporation
IFI	International financial institution
IMF	International Monetary Fund
IPARD	Instrument for Pre-Accession for Rural Development
ISG	International Steering Group for Kosovo
ISN	Interim Strategy Note
KEDS	Kosovo Electricity Distribution and Supply
KEK	Public Electricity Company
KEP	Kosovo Enterprise Program
KES	Kosovo Environment Strategy
KFOR	Kosovo Force
KRPP	Kosova e Re Power Plant
MDGs	Millennium Development Goals
MESP	Ministry of Environment and Spatial Planning
MSMEs	Micro, small, and medium-sized enterprises

LITS	Life in Transition Survey
MDRI	Multilateral Debt Relief Initiative
MIGA	Multilateral Investment Guarantee Agency
MIP	Mitrovica Industrial Park
MTEF	Medium-Term Expenditure Framework
MW	Megawatt
NEAP	National Environment Action Plan
OECD	Organisation for Economic Co-operation and Development
PCH	Pro Credit Holding
PIU	Project Implementation Unit
PM	Particulate matter
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnerships
PRG	Partial Risk Guarantee
PSD	Private Sector Development
PTK	Kosovo Post and Telecommunications Company
QA	Quality assurance
R&D	Research and development
ROSC	Report on the Observance of Standards and Codes
SAP	Stabilization and Association Process
SBA	Stand-By Arrangement
SEDPP	Sustainable Employment Development Policy Program
SEE	South East Europe
SME	Small and medium-sized enterprises
SMP	Staff-Monitored Program
SOK	Statistical Office of Kosovo
SPF	State and Peace-Building Fund
STM	Stability Tracking Mechanism
TA	Technical assistance
TBD	To be determined
TF	Trust fund
UNDP	United Nations Development Programme
WBI	World Bank Institute
WBIF	Western Balkans Investment Framework
y-o-y	Year-on-year

	World Bank	IFC	MIGA
Vice President	Philippe Le Houérou	Dimitris Tsitsiragos	Michel Wormser
Country Director	Jane Armitage	Tomasz Telma	Ravi Vish
Task Team Leaders	Jan-Peter Olters Neeta Sirur	Gjergj Konda Elira Sakiqi Per Kjellerhaug	Frank Linden

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EXECUTIVE SUMMARY

i. **This Country Partnership Strategy (CPS) for FY12-15 is the first to be prepared since Kosovo declared independence in February 2008 and became a member of the World Bank Group (WBG) in mid-2009.** The CPS follows a series of Interim Strategy Notes (ISNs) implemented over the last decade and is closely aligned with the national development priorities set by the Government.

ii. **With high and persistent rates of poverty and unemployment (particularly among youth and women), the central development challenge confronting Kosovo today concerns how to forge an economic growth path that sustainably creates more opportunity and high-quality jobs for its growing, youthful population.** Kosovo's growth model has thus far been based largely on public investment and the availability of external sources of financing—especially donor assistance and remittances. This model is likely to be unsustainable for the longer term, implying the need for a viable alternative approach. Private-sector investment, which has begun to emerge, is the most promising avenue for generating accelerated growth and jobs in the future but is affected critically by infrastructure bottlenecks, especially persistent shortages of energy. Besides acting as a brake on business growth, frequent load shedding (power cuts) deprives people of light, space heating, refrigeration and cooking fuel—with obvious implications for health, education, and the overall quality of life. Addressing the energy crisis in a comprehensive way is thus a critical component of Government's strategy for creating a hospitable climate for investment, jobs, and better living standards.

iii. **Taking into account both the limited IDA resources available and Kosovo's implementation constraints, the proposed new lending program is highly selective.** The aim is to support fewer, larger operations in sectors/sub-sectors where the WBG has a comparative advantage by virtue of previous experience and analytical work in Kosovo and synergies between IDA, IFC and MIGA. The choice of operations included in the CPS program takes into account Government ownership of the agenda and alignment with the country's overarching goal of closer integration with the EU.

iv. **The main objectives of the CPS are to support Kosovo to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management.** The goal of accelerating growth and employment creation is a continuation of the priorities established in previous interim strategies, which emphasized the need to promote growth via targeted attention to macro-stability, infrastructure development (especially energy), an improved business environment, better governance and investments in agriculture and human capital. The second objective was less prominent in previous strategies. It is being given higher priority now because of wider recognition that environmentally-sensitive use of Kosovo's major natural resources—including investments in energy efficiency and renewables, as well as better management/clean-up of environmental hazards—are critical elements of the effort to improve the population's health and living standards.

v. **Support for Kosovo under this CPS is organized into two pillars corresponding to the two main objectives given above.** Pillar I aims at accelerating broad-based and sustained growth through actions in six main areas: (i) supporting infrastructure, particularly energy, (ii) improving the business climate, supporting the private sector, and increasing access to finance; (iii) supporting agriculture development; (iv) continuing to invest in education and skills; (v) strengthening the regulatory and institutional frameworks for labor and social protection; and (vi) reinforcing public financial management and anti-corruption efforts. Pillar II seeks to support the Government to increase energy efficiency and the use of renewables, reduce environmental hazards, enhance water supply, and move towards harmonization with EU environmental standards.

vi. **It is expected that IDA funding for the CPS would be around SDR 48.1 million, i.e., about US$76 million or US$19 million annually, supplemented by about US$66 million in grant funds**

channeled through IDA by donors. **In addition, IFC will aim to provide around US$40–50 million in the form of direct financing to the private sector as well as additional funds for advisory services. MIGA could provide political risk guarantees** in support of the energy sector. The CPS envisages five new IDA operations, a grant-financed DPL operation and IFC and MIGA transactions.

vii. **A main focus of the new lending under the CPS program is the energy sector with the aim of addressing Kosovo's energy crisis in a comprehensive way, taking full account of environmental considerations and mitigating adverse impacts**. Proposed support would comprise a Partial Risk Guarantee (FY13/FY14) to private investors bidding on construction of a new (replacement) coal-fired power plant, where IFC would also consider to contribute with its own financing and through mobilization of additional funds, as well as transaction advice from IFC for privatization of electricity distribution. To support construction of the power plant, MIGA would consider providing an investment guarantee against non-commercial risks. A large Energy Efficiency and Renewables project (FY13) under CPS Pillar II would also help to implement the country's energy strategy. In addition, a small additional financing operation for the ongoing Energy Sector Clean up and Land Reclamation project would help build Government's environmental and social impact monitoring capacity, as well as carry out additional clean up of the legacy waste at the site of Kosovo's existing thermal power plants. The program also includes three other operations, including the second in a two-part program of grant-funded DPL operations for Sustainable Employment (FY12), an Education Improvement project (FY14) and a Water Supply project (FY15).

viii. **While new lending will be selective, the WBG will continue to support a broader development agenda through a robust program of AAA and technical assistance/capacity building**. In addition to annual analysis and monitoring of the macro-fiscal framework, financial sector, poverty and gender, and ongoing IFC advisory support for the investment climate and PPPs in infrastructure, the CPS includes a Financial Sector Assessment (FSAP) and three ROSCs, a Country Environmental Analysis and programmatic assistance to strengthen public expenditure management, the fiduciary framework and anti-corruption efforts. In addition, Kosovo benefits from AAA activities covering the Western Balkans, including analytical work on Smart Safety Nets, Energy Strategy, Employment and Jobs, Health Finance and Climate Change, as well as several Trust Funds financed by the EC, in areas such as Science, Technology and Innovation, Monitoring and Evaluation and Public Financial Management.

ix. **The implementation of the FY12-15 CPS entails four main risks as follows:**

- Kosovo's uneven track record in fiscal management in the past raises some questions about **medium-term macroeconomic stability**, especially if further economic deterioration occurs in Europe. Recent improvements in fiscal management and the new Stand-By Arrangement (covering a 20 month period from April 2012) with the IMF should help to reduce this risk.
- While investment in Kosovo's energy sector is critical to growth, job creation, and poverty reduction, the Bank's involvement in the new lignite-fuelled **power generation** plant will likely generate controversy among some civil society groups. This risk is being addressed through ensuring transparent processes and regular dialogue/outreach throughout project development.
- An additional risk is that, given continued turmoil in financial markets (especially in Europe), **power project financing** may not be easy to obtain. The availability of WBG guarantees should help to mitigate this risk. Credit enhancement from other multilateral lenders would also help to catalyze needed funds from the private sector.
- Kosovo's **governance** and political structures could destabilize in the event of significant shocks. Also, Kosovo's governance systems still lack full transparency, accountability, and viability. Actions to support improved public financial management included in the DPL and in the ongoing Public Sector Management Project should help to reduce this risk. The Bank will also carry out programmatic AAA to follow on the recommendations of the Country Fiduciary Assessment, including support for anti-corruption initiatives.

I. INTRODUCTION

1. **This Country Partnership Strategy (CPS) is the first to be prepared since Kosovo declared independence in February 2008 and became a member of the International Monetary Fund (IMF) and the World Bank Group (WBG) in mid-2009.** The CPS, which covers FY12–15, follows a series of Interim Strategy Notes (ISNs) implemented over the last decade—the most recent one being a two-year ISN for FY10–11. This CPS is being prepared after Kosovo's 2011 general election to ensure close alignment with the Government's national development priorities in the context of the country's aspirations for integration with the European Union (EU). As Kosovo is an IDA-only country, the strategy will be financed principally by an allocation from IDA-16 for FY12–14 and from IDA-17 for FY15. At this stage, it is expected that the total funds available for Kosovo for the CPS period would be around SDR 48.1 million (or about US$76 million), i.e., about US$19 million annually. It should be noted, however, that in accordance with IDA rules, all the amounts beyond FY12 are indicative only. Actual allocations will depend on (i) the country's own performance; (ii) its performance relative to that of other IDA recipients; (iii) the amount of overall resources available to IDA; (iv) changes in the list of active IDA-eligible countries; (v) terms of financial assistance provided (grants or loans); and (vi) the amount of compensatory resources received for Multilateral Debt Relief Initiative (MDRI). Since IDA allocations are made in SDRs, the US dollar equivalent is dependent upon the prevailing exchange rate. The International Finance Corporation (IFC) will provide about US$40–50 million in the form of direct financing to the private sector as well as additional funds for advisory services. To support private sector participation in the power sector, MIGA would consider providing an investment guarantee against non-commercial risks and IFC would consider providing financing for its own account as well as mobilize additional funding from other financial institutions. In addition, substantial grant resources—about US$66 million—will complement WBG funds in financing the CPS program.

2. **The FY12–15 CPS proposes a selective and targeted support program aimed at (i) promoting growth and employment, and (ii) improving environmental management.** Building on the direction set by the FY10–11 ISN, the CPS consolidates the shift in the Bank's focus from post-conflict reconstruction support towards a clear emphasis on addressing medium-term development challenges. The strategy pays due attention to lessons learned from the WBG's involvement in Kosovo in the decade since the end of the 1998–99 conflict, the execution of ongoing Government or donor-sponsored programs, and consultations with the Government of Kosovo, Parliament, the private sector, civil society, and the community of bilateral and multilateral development partners.

3. **The main objectives of the CPS are to support Kosovo to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management.** The proposed strategic focus of this CPS stems from the Government's own policy priorities anchored in the need to build a stable society following years of conflict, and the objective of preparing the country for eventual EU membership. The CPS is fully aligned with the Government's national development plan and the Medium-Term Expenditure Framework (MTEF) for 2011–14. Fostering employment-generating, inclusive growth is critical for a young, multiethnic country with high unemployment and, as such, could help to reduce the strains that exist within the society from years of ethnic conflicts. In parallel, there is a need to increase energy efficiency and the use of renewables, strengthen environmental management, and improve access to good quality water.

II. COUNTRY CONTEXT

A. Political Context

4. **Kosovo is a potential candidate for EU membership, now with a clear perspective in the *Stabilization and Association Process*** (SAP). The February 2012 agreements in the EU-moderated talks with Serbia on Kosovo's regional representation[1] and integrated border management (the "footnote compromise") appears to have enabled the European Commission (EC) to establish contractual relations[2] and, on that basis, (i) take the first steps in the SAP, starting with the feasibility study; and (ii) advance membership in European (financial) institutions. As per assurance contained in the EC's October 2011 *Enlargement Package*, the EU has opened the visa liberalization dialogue in January 2012, with the aim of enabling visa-free travel to the Schengen area in due course. The EC has reiterated its commitment to full EU membership "once conditions are met." Progress towards integration is monitored regularly via annual Progress Reports. The EC's 2011 Progress Report called for considerable reforms and investments to enable Kosovo to cope with competitive pressure and market forces within the EU.

5. **The period of "supervised independence" ends in December 2012.** In early 2012, the 25-country International Steering Group (ISG), set up in 2008 to guide democratic development, promote good governance, multi-ethnicity, and the rule of law, announced its plans—with subsequent support from Parliament—to close the International Civilian Office (ICO), thus far the final authority regarding the interpretation of the Comprehensive Settlement Proposal ("Ahtisaari Plan").[3] The appointment of the new head of the EU Office in early 2012 marked the end of the personal union between the EU Special Representative (EUSR) and the International Civilian Representative (ICR), in preparation of the latter position's abolishment. However, both the EU's rule-of-law mission (EULEX), which performs some police, judicial, and customs functions, and the NATO-led peacekeeping force (KFOR), with more than 6,000 soldiers from 30 countries, are expected to continue to play important—if gradually declining—roles in the foreseeable future. KFOR's main objectives are to (i) provide a safe and secure environment; (ii) maintain security in northern Kosovo; and (iii) oversee the newly established Kosovo Security Force.

6. **Although there has been a steady increase in international recognition of Kosovo, the country is not yet a member of the United Nations, in turn hindering Kosovo's overarching objectives of political integration and socio-economic development.** As of March 20, 2012, 89 countries have recognized Kosovo's independence, including all neighbors except Serbia (which regards Kosovo as a UN-governed entity within its sovereign territory). The prospect for UN membership[4] remains dim as two veto-holding permanent members of the UN Security Council have called for the statehood issue to be settled in direct negotiations between Pristina and Belgrade. Following the violent escalation of the trade tit-for-tat over the recognition of Kosovo's customs stamps in 2011-S2, the status of northern Kosovo—comprising three Serb-majority municipalities and the city of Mitrovica that have refused to accept the authority of the central authorities in Pristina—has been placed on the political agenda, albeit without a clear perspective of a political settlement.

[1] With this agreement, Kosovo will represent and sign for itself in regional fora and not require any longer the representation through UNMIK. However, it does so not under its Constitutional name ("Republic of Kosovo") but as "Kosovo*" with a footnote stating, "This designation is without prejudice to positions on status and is in line with UNSC 1244 and the ICJ Opinion on the Kosovo Declaration of Independence."

[2] The "footnote compromise" appears to have unblocked obstacles in the formal progress in advancing the integration agenda that has been constrained by the non-recognition of Kosovo by five EU members.

[3] In April 2008, UN Special Envoy Martti Ahtisaari had presented to the UN Security Council a "Comprehensive Proposal for the Kosovo Status Settlement" with a recommendation of eventual independence, following a period of international supervision.

[4] For a "peace-loving State" to become a member of the UN, it would have to (i) garner the recommendation from 9 of the 15 members of the Security Council (without any of the five permanent members vetoing such a decision); and (ii) secure a two-third majority of currently 193 member states.

7. **Kosovo's political system is a representative democracy with a unicameral legislature**. The Parliament of Kosovo has 120 members, of which 10 are reserved for ethnic Serbs and another 10 for other minority parties. Electoral laws also require that at least every third candidate on the electoral lists of all parties is female. There are currently five major political parties represented in Parliament and twelve smaller ones representing ethnic minorities. The largest parties include the center-left Democratic Party of Kosovo (PDK), the center-right Democratic League of Kosovo (LDK), the nationalist youth movement Self-Determination (*Vetëvendosja*), and the center-right Alliance for the Future of Kosovo (AAK). The Government coalition is formed between the PDK and two other political parties represented in Parliament, viz., the pro-business New Kosovo Alliance (AKR) and the Serb-minority Independent Liberal Party (SLS). Following two presidential crises in 2010 and 2011 and a subsequent compromise across all major parties, President Atifete Jahjaga—Kosovo's first female, first non-partisan president—is expected to be the last head of state elected indirectly by Parliament. Two commissions are currently finalizing a broad-based overhaul of the Constitution and the Electoral Law to allow, *inter alia*, for the direct election of the President. On this basis, the next rounds of presidential and general elections are foreseen in 2013.

B. Recent Macroeconomic Developments

8. **Kosovo's economic growth has averaged over 4 percent since the end of the conflict in 1999, and remained positive throughout the global economic crisis. Growth peaked at 6.9 percent in 2008 before declining to 3 percent in 2009 in the wake of the crisis** (see Table 1). The overall impact of the crisis was smaller in Kosovo than in neighboring countries, largely because of Kosovo's limited integration into the global economy. Growth is estimated to have reached around 4 percent in 2010 and 5 percent in 2011, with preliminary data suggesting that growth was driven by increased public spending, and, to a lesser extent, by private investment and a surge in commodity exports. The IMF projects that GDP growth will be around 3–4 percent in the medium-term, because Kosovo is somewhat insulated from the global economy. However, a sharper-than-expected downturn in Europe would lower growth through declines in exports and remittances.

9. **Having adopted the euro as the local currency, Kosovo has to rely on fiscal policy as the main anchor for macroeconomic stability.** However, Kosovo's fiscal position has become strained as expenditures have risen rapidly since 2008. The savings from fiscal surpluses accumulated up until 2007, reflecting conservative spending policy and over-performing revenues, began to erode in 2008 and the fiscal deficit widened in successive years. The Government concluded an 18-month, €104-million Stand-By Arrangement (SBA) with the IMF in July 2010. However, the program went off-track, largely due to the failure of an attempt to privatize the telecommunications company (PTK) and an (unplanned) increase of 27 percent in civil servant wages to fulfill an electoral campaign promise. In July 2011, the authorities and the IMF agreed on a six-month staff-monitored program (SMP). Although the non-realization of revenues from the sale of PTK could have been covered by existing accumulated bank balances, the Government, in agreement with the IMF, decided instead to make cuts of about €60 million to the budget to preserve a higher level of bank balances.

10. **Since July 2011, macroeconomic policies have been broadly satisfactory and the implementation of structural measures under the SMP has remained on track leading to the agreement on a new IMF SBA**. The two SMP reviews were successfully concluded with fiscal targets met; the 2011 budget deficit (1.8 percent of GDP) was 1 percentage point lower than projected. The process of privatizing PTK (originally expected to be completed in 2011 and part of the SMP) is ongoing in 2012 and the financial transaction is expected to close in 2013. due to waning investors' interest, which, in turn, put pressure on the Government's ability to finance the deficit. In this context, the

Government cut expenditure by about €60 million in the 2011 budget and adopted a more restrained budget for 2012. In terms of structural measures, solid reform progress was achieved on tax administration, banking, and energy reforms. As a result of the successful implementation of the SMP, the authorities and the IMF reached agreement on a 20-month, €107-million SBA, starting in April 2012.

Table 1: Kosovo Macroeconomic Indicators

	2008	2009	2010	2011	2012	2013	2014
		Actual		Estimate		Projections	
Population, in thousands*	1,662	1,687	1,712	1,738	1,764	1,791	1,817
GDP, in millions of euro	3,851	3,912	□,216	4,637	4,911	5,234	5,508
GDP per capita, in euro	2,317	2,319	2,462	2,668	2,784	2,923	3,031
Investment, in percent of GDP	28.6	32.3	33.9	33.2	32.6	33.9	32.3
Real GDP growth, in percent	6.9	2.9	3.9	5.0	3.8	4.1	3.2
CPI (period average), in percent	9.4	-2.4	3.5	7.3	0.6	1.2	1.4
Fiscal accounts, in percent of GDP							
Revenues	24.5	29.3	27.6	28.1	28.1	27.1	27.8
of which: official grants	0.0	0.0	0.7	0.4	0.7	0.0	0.0
Primary expenditures	24.7	29.9	30.0	29.8	30.5	30.2	28.6
Interest income, net	0.0	-0.2	0.3	-0.1	-0.1	0.0	-0.1
Overall balance	-0.2	-0.7	-2.6	-1.8	-2.7	-3.3	-1.1
Stock of Government bank balances	10.8	8.7	5.8	3.5	3.8	8.8	8.7
Public debt	0.0	6.7	6.9	5.6	6.9	8.5	9.0
External accounts, in percent of GDP							
Current account	-15.3	-15.4	-17.4	-20.3	-18.3	-18.3	-16.1
Exports of goods	5.6	4.5	7.2	6.9	7.2	7.5	8.0
Imports of goods	-49.0	-47.3	-49.4	-52.0	-49.7	-48.9	-47.8
Services receipts	9.1	11.0	11.3	13.1	13.3	13.4	13.6
Services payments	-7.0	-7.9	-9.7	-9.1	-8.8	-8.4	-7.9
Transfers	21.5	22.1	21.1	18.1	17.3	15.6	15.6
Official transfers	7.5	10.2	8.6	5.9	5.4	3.9	3.5
Private transfers	14.0	11.9	12.5	12.2	11.9	11.8	12.0
Capital account	0.0	2.8	0.6	0.1	0.0	0.0	0.0
Financial account, including CBK	12.9	11.1	12.5	15.9	12.3	14.2	12.4
Net errors and omissions	2.5	1.6	4.3	4.3	4.1	3.8	3.6

* Population number here does not include Serbs living in the northern part of Kosovo

Sources: Kosovo authorities, IMF and WB staff estimates.

11. **The authorities are committed to maintaining medium-term fiscal sustainability**. The fiscal deficit is expected to increase to 2.7 percent of GDP in 2012 and to peak at 3.3 percent of GDP in 2013, due to high spending on the Route 7 motorway. It is then projected to decline in 2014 when the motorway project is planned to be completed. At the same time, improvements in tax administration are expected to improve tax collection and tax revenue over the medium-term. The commitment to a sustainable medium-

term fiscal framework was supported by actions taken by the authorities in the second half of 2011. First, the construction of the Route 6 motorway to FYR Macedonia will start only after a cost-benefit analysis is carried out and financing secured. Second, additional war-related benefits, defined by the law on war values of December 2011, will be introduced based on a fiscal impact assessment and consider affordability and economic incentives criteria. This implies that the authorities would first define the amount of spending and only then define the benefits, so that spending limits are not breached.

12. **Kosovo's public debt—at 5.6 percent of GDP at end-2011—is very low and largely comprised of the inherited share of ex-Yugoslav debt to IBRD**.[5] There are two legal mechanisms to preclude public debt from rising to unsustainable levels. First, Kosovo's public debt law sets a maximum public debt ratio of 40 percent of GDP and, second, the Constitution requires that any external borrowing by the Government requires Parliamentary ratification with a two-thirds majority. The public debt stock was entirely external until 2011, as the Government securities market had not yet been developed. As of January 2012, the Ministry of Finance has successfully issued the first rounds of 3-month T-bills, in the amount of €10 million each, with preparations being made for 6-month T-bills later on in 2012. Commercial banks, which have good liquidity (including non-interest earning excess reserves at the CBK) are expected to be the main investors in the domestic securities market. While data on private external borrowing is not fully available, such borrowing is likely to be very small (below 1 percent of GDP), given Kosovo firms' very limited access to international financial markets. Therefore, total external debt, though not officially published, is estimated to be only slightly higher than the public debt.

13. **Despite its low external and public debt, Kosovo's debt sustainability could be jeopardized by worsening fiscal deficits or growth moderation**. The IMF's debt sustainability analysis in the 2011 Article IV report shows that all debt indicators remain on a sustainable path over the next two decades in the baseline fiscal and external scenarios shown in Table 1 (Annex 2). However, the debt trajectory is subject to prominent risks that could derive either from fiscal issues and/or growth shocks. Maintaining the primary deficit as a share of GDP at the 2011 budgeted level of 4.8 percent of GDP over a two decade period would put debt on an unsustainable path. Debt would also become unsustainable if growth is lower by one standard deviation (2.3 percentage points) in 2012 and 2013. In terms of external debt, the main weakness lies with the high debt and debt service to exports ratios. This is a result of Kosovo's small export base, a weakness which is somewhat rectified by Kosovo's large and stable remittance flows.[6]

14. **With limited room to maneuver in monetary policy, maintaining macroeconomic stability must rely on sound fiscal policy.** On the revenue side, the main priorities for policymakers are to broaden the tax base and continue to improve revenue collection. Making fiscal spending more efficient and sustainable will depend on the timely implementation of structural reforms in key sectors, including energy, transport, and health. In addition, maintaining control over recurrent expenditures—in particular, salaries and social transfers—will be essential for fiscal sustainability. Given Kosovo's unilateral euroization, monetary policy is constrained, and ensuring stability of the banking sector will remain a priority especially in the prevailing environment of uncertainty in European financial markets. Setting up the "emergency liquidity assistance" fund for the banking sector represents an important step.

C. Socio-Economic Environment

15. **Although Kosovo has come a long way in re-establishing peace and social stability, a few municipalities with sizeable minority populations—mainly those in the Serb-dominated**

[5] Up to 2009, Kosovo had no public debt. In 2009, Kosovo took over its share of former Yugoslavia's debt to IBRD, in the amount of €381 million (9.7 percent of GDP). Kosovo has not participated in the division of other assets and liabilities of former Yugoslavia; if this process takes place, it may inherit additional debt owed to the Paris and London Clubs.

[6] The IMF's debt sustainability analysis includes the potential additional liabilities referred to in footnote 5.

municipalities in northern Kosovo—continue to experience unrest. While considerable progress has been made in overcoming the tensions in mixed areas, the three Serb-dominated municipalities in northern Kosovo remain prone to localized outbreaks of violence. Other minorities tend to keep a low profile in terms of ethnic conflict but sometimes suffer economic and social discrimination, and are disproportionately represented among Kosovo's poorest households. The Government of Kosovo and civil society groups have put in place a number of initiatives to promote inclusion of all minorities including through affirmative action.

16. **With a per-capita GDP of about €2,600, Kosovo is one of the poorest countries in Europe.** With 34.5 percent of its population of 1.8 million[7] living below the poverty line, i.e., on less than €1.55 per day (and about 12 percent living on less than €1 per day), poverty is widespread. However, Kosovo has a relatively low Gini index (about 0.3 in 2009) and a relatively flat consumption distribution. No significant differences exist between urban and rural poverty, but there are notable regional differences, with poverty rates varying from 53.8 percent to 18 percent among districts. Young people are disproportionately poor, accounting for about 60 percent of people living below the poverty line. Kosovo's ethnic minorities—especially the Roma, Ashkali, and Egyptian ethnic groups, which comprise about 2–3 percent of the population—are particularly vulnerable to income poverty besides frequently being marginalized in socio-political and economic life. As in many other countries, there is a strong negative correlation between education and poverty, with those having secondary or higher education much less likely to be poor.

17. **Widespread unemployment and a lack of quality jobs have contributed significantly to poverty and income insecurity as well as to gender inequality, social instability, and ethnic tensions.** With a 45-percent unemployment rate and a low employment rate (29 percent), Kosovo has the weakest employment track record in Europe. Kosovo's 53 percent labor participation rate among the working-age population is substantially below the ECA average (65 percent). Obviously, the lack of jobs has direct consequences on income, and empirical evidence suggests that the risk of poverty is 20 percent higher for the unemployed than the employed. Households with unemployed heads have the highest extreme poverty indices. In addition, many households with adult members in precarious or unsteady jobs are also below the poverty line. Many of these households are dependent on small, informal enterprises for the majority of their income, reflecting the high degree of informality in Kosovo's economy.

18. **Kosovo's difficult labor market conditions have been especially severe for youth and women.** Unemployment among the population 15–25-year-olds reaches 76 percent—a figure that is more alarming considering that 21 percent of Kosovo's population is between the ages of 15 and 25. The poor quality of the education system, coupled with limited employment opportunities, makes it difficult for young people to access and retain jobs. Moreover, young people who do find employment are typically hired into low-skilled, low-productivity positions, often in the informal sector. According to survey data, about 20 percent of employed youth did not have an employment contract, 37 percent were not entitled to paid leave, and 73 percent were not registered in the social security system. At 56 percent, unemployment is also unacceptably high among Kosovo's women. Only 11 percent of working age women are employed, compared with 68 percent of men, in part because of lower educational opportunities and achievement (see Box 1).

[7] According to the data from the 2011 census, Kosovo's resident population stands at about 1.73 million, excluding the population in northern Kosovo. The World Bank thus estimates the entire population at close to 1.8 million.

Box 1: Gender Disparity in Kosovo

Kosovo has made progress in tackling gender inequalities over time, but substantial gender gaps persist. Focusing on gender inequalities in human capital and economic opportunities, a gender diagnostic, undertaken to inform the CPS, identified significant disparities: (i) large gender gaps in literacy, educational attainment and secondary school enrollment; (ii) overall low life expectancy, more pronounced for women, and high maternal mortality (iii) exceptionally low women's labor force participation and employment rates; and (iv) low representation of women in entrepreneurship and management, as well as in senior Government positions.

Gender gaps in human capital. Kosovo has achieved near universal primary school enrollment and the country has made significant progress in improving literacy rates. However, significant gender gaps persist. Women are more than twice as likely as men to be illiterate, with illiteracy rates of 7.2 percent for females, compared to 2.2 for males. However, some progress has been made in recent years, given that the gender gap widens with age (in rural areas, the literacy gender gap reaches 34 percentage points among the elderly in rural areas. Women have lower educational attainment than men in Kosovo and recent figures show that girls are underrepresented in educational institutions at all levels—except for university education. In terms of enrollment, large gender gaps appear in secondary level, with fewer girls enrolled than boys. Drop-out rates for girls in primary education are relatively higher and, while boys' drop-out rates have decreased since 2004, they have increased for girls.

Maternal mortality is estimated at 43.3 per 100,000 births, which is one of the highest rates in the ECA region. Inadequate quality of antenatal care, pregnancy and labor complications, and unsafe abortions are among leading causes of maternal deaths. Poor nutrition and anemia are also important contributing factors. Life expectancy has increased slightly in Kosovo in the past decades for both men and women. Nevertheless, life expectancy for both groups is the lowest of the Western Balkans countries (71.8 and 67.6 years for women and men, respectively) and women's advantage in life expectancy is smaller than that seen in global averages, mainly due to lower life expectancy for women. Other important gender-related concerns in Kosovo are the high rate of miscarriages, stillbirths and abortions, and evidence of a sex imbalance at birth in favor of boys.

Gender gaps in economic opportunities. Labor market outcomes in Kosovo are among the poorest in the region, particularly for women. Women's labor force participation is significantly lower than for men (26 percent compared to 58 percent in 2009, respectively) and has decreased since 2002. This low activity rate for women, the lowest in the Western Balkans, is partly related to a disproportionate share of household responsibilities or because they are discouraged by the absence of opportunities for paid employment outside the home. Other closely related factors are the lack of childcare facilities and an inadequate access to flexible work arrangements. In addition, unemployment rates are significantly higher for females (56 percent) than for males (41 percent) in Kosovo, and are the highest, for both sexes, of countries in the region. Unemployment rates reach very high levels for the younger population (15–24 years), at 82 percent for women and 69 percent for men. Among the low share of employed women, they are considerably underrepresented in leading positions in firms, comprising less than ten percent of all entrepreneurs and with the lowest representation in private firms' top management (0.3 percent) of all ECA countries. Finally, although Kosovo has made significant progress in increasing women's voice in political decision-making, the share of women in leading Government positions remains low.

19. **Besides facing challenges of widespread income poverty, Kosovo's citizens have insufficient opportunity for investment in education and health as evidenced by relatively low social indicators.** While Kosovo's net primary enrollment rate reaches 96 percent, the country's secondary and higher education enrollment lags behind rates in South East Europe (SEE). For example, Kosovo's 75 percent net secondary enrollment rate trails the 82 percent rate in neighboring FYR Macedonia, and drop-out rates remain high in rural areas, especially among girls. The gender gap in secondary enrollments has not yet narrowed tangibly, with women in their twenties being much less likely than men to have completed secondary education (60 percent versus 76 percent). Moreover, Kosovo's education system does not provide to its nearly one-half million students adequate curricula and instruction to produce the skills that the evolving labor market requires. The National Qualification Authority recently adopted a new National Qualification Framework (NQF) which aims to strengthen standards in pre-university and vocational/technical education. Health outcomes in Kosovo are extremely low. According to UNDP data, Kosovo had the highest child and infant mortality rates and the lowest life expectancy (70 years in 2009) in SEE. Major investments in the quality of basic healthcare services are needed to improve outcomes in

tuberculosis, immunization, and reproductive care. Access to health care also faces significant barriers. Within Europe, Kosovo has the lowest rate for hospital admissions and the second lowest rate for outpatient visits. Shortages of essential drugs are widespread, and out-of-pocket payments constitute 80 percent of the expenditures on pharmaceuticals.

III. KEY DEVELOPMENT CHALLENGES AND GOVERNMENT STRATEGY

20. **The central development challenge relates to an economic growth path that (i) creates high-quality jobs; and (ii) uses key natural resources in a sustainable and environmentally sensitive manner.** Kosovo's growth model in recent years has largely been based on the availability of external sources of financing, especially donor assistance and remittances. The Government of Kosovo recognizes that this model cannot be the foundation of a sustainable growth strategy, especially in the current economic environment. Donor support has already declined considerably from its peak and is expected to decline even further. By contrast, private-sector investment has begun to emerge and could be the principal engine for accelerated growth and employment-creation. Creating a hospitable climate for investment is thus a critical component of Government's current strategy -- Vision of Economic Development Priorities and associated Action Plan and Medium-term Expenditure Framework (2011-2014) -- for creating jobs for the large proportion of unemployed Kosovars, and accelerating the convergence to SEE and European income levels. In addition, Government attaches high priority to agriculture sector development as the sector currently accounts for 35 percent of total employment. Kosovo is also increasingly aware of the need to pay more attention to environmental problems and to move towards EU environmental standards and requirements. The remainder of this section provides a more in-depth look at the challenges faced by Kosovo in each of these areas.

A. Key Challenges in Promoting Private Investment and Employment

21. **Kosovo has considerable potential to shift towards rapid and sustainable private sector-led growth and job creation if it can address existing obstacles to investment.** As noted in the Bank's 2010 Country Economic Memorandum (CEM), the country enjoys several comparative advantages that are important to the creation of a flourishing export sector as well as to attracting local and foreign investment in the tradable sectors. Indeed, Kosovo is endowed with several key assets, viz., abundant natural resources, a young and growing (albeit underutilized) labor force, good quality agricultural land, and virtually free access to the EU and regional markets. In some respects, the policy environment is also favorable, including (i) a tax system that is simple and has low rates; (ii) a labor market that is more flexible than in neighboring countries; and (iii) comparatively low wages for (semi-)skilled workers. Nonetheless, there are a number of serious obstacles to investment that need to be addressed if Kosovo is to realize its potential as an attractive destination for local and foreign private investment.

22. **The 2010 BEEPS[8] report for Kosovo points to five sets of obstacles to doing business**. While in some areas the business climate in Kosovo is better than that in neighboring countries (or even in the EU10+1), main challenges include severe infrastructure gaps, deficiencies in the rule of law, shortages of appropriately skilled labor, limited access to finance, and onerous regulatory procedures for business entry and operations. Challenges and the Government's strategies in each of these areas are described below.

[8] See EBRD and World Bank Group, 2010, "BEEPS At-A-Glance 2008: Kosovo."

Infrastructure

23. **Surveys of private firms (BEEPS 2010) indicate that infrastructure problems are perhaps the most serious constraint faced by businesses in Kosovo**—with power, transport, and telecommunication cited most frequently. Over 98 percent of Kosovo firms surveyed by BEEPS cited unreliable electricity supply as a major obstacle to day-to-day operations and a constraint both to investment in new equipment and business expansion, in turn affecting job and employment creation. Frequent power outages both increase costs by necessitating the use of expensive and polluting diesel-fired power generation and prevent investment in sophisticated equipment. Moreover, the power sector is currently both a major drain on public funds—absorbing €70 million in public subsidies annually—and highly polluting. To address these critical issues, Government—working in close concert with the EC, USAID, and the World Bank Group—has developed a multi-pronged approach aimed at ensuring adequate and reliable energy supplies, reducing the need for public subsidies to energy, and limiting the negative environmental impacts of power generation. The strategy also aims at significantly enhancing the involvement of the private sector in generation and distribution, while strengthening Government's regulatory and supervisory capacity. The implementation of the strategy will depend on continued support from Kosovo's external development partners as well as interest from private energy firms, which could be an issue in the current uncertain global economic climate. More details concerning the energy situation and Government's strategy are given in Box 2 below.

24. **Kosovo's transport system is also inadequate in relation to business and trade needs and is incompatible with European standards in many respects.** Adequate road transport and its integration with the networks of neighboring countries are of critical importance, given Kosovo's landlocked geographical position. Currently, the costs of goods transported between Kosovo and key trading partners are among the highest in the region and a major deterrent to the achievement of greater trade integration and the development of export-oriented businesses. In this context, Government has embarked on major road investments, notably construction of a €660-million highway to Albania (providing businesses with sea access and a route to Western Europe) which is now under way, and has plans for another major highway to FYR Macedonia. Within Kosovo the road network density (3.3 km per 1,000 people) lags behind the ECA average (8.6 km per 1,000 people) and quality is poor due to poor construction and inadequate maintenance.

Governance and Rule of Law

25. **Kosovo ranks poorly on many dimensions of governance.** The EC's latest Progress Report highlighted that perceptions of widespread corruption and weaknesses in the rule of law inhibited private investment and, in turn, job creation. Other governance sources reinforced these findings (Table 2). The 2010 World Governance Indicators placed Kosovo below the Europe and Central Asia averages for Government effectiveness, regulatory quality, and control of corruption. The Global Integrity Index rated Kosovo as "very weak" on Government accountability, administration, and civil service. Weak administration manifests itself directly in poor service delivery. A 2010 Life in Transition (LIT) Survey ranked Kosovo lower than the SEE average on satisfaction with public services ranging from social services to police and the courts. The Government has initiated many reforms and enacted some laws, but implementation is slow. The Government's revised public administration strategy for the period 2010–13, adopted in September 2010, has not yet been implemented. In civil service reform, some

Table 2: Rankings for Key Governance Indicators
(lower ranks indicate better performance)

	Doing Business Index 2012 (of 183 countries)	Transparency International Corruption Perceptions Index 2011 (of 183 countries)
Kosovo Rank	117	112
ECA Average Rank	72.4	93.1
SEE Average Rank	82	83.6
EU-25 Average Rank	36.3	32.4

Sources: Doing Business 2012, Transparency International, 2011

Box 2: Energy in Kosovo

Demand for energy has been growing rapidly in Kosovo over the past decade, with actual energy consumption and peak demand growing by more than 90 percent between 2000 and 2010—despite being constrained by supply limitations and consequent frequent load shedding. As seen in many countries, these problems have multiple adverse impacts. First, prolonged electricity load shedding (power cuts) deprives people of light, space heating, refrigeration, and cooking fuel—with obvious implications for their health, access to education, and overall quality of life. Second, there is convincing evidence that Kosovo's unreliable power supply is a major constraint to business development and, hence, badly-needed employment opportunities. As the population grows, demand for electricity is continuing to climb by about 4.6 percent a year.

Most of Kosovo's domestic electricity generation comes from two coal-fired power plants (Kosovo A and B) with net operating capacity of about 840–900 MW. Additional supply, amounting to 5–17 percent of annual consumption over the past decade, is derived largely from imports of electricity via regional interconnections. The availability of electricity imports for base power is unreliable and subject to price volatility because it is affected by supply conditions in neighboring exporting countries (e.g., hydrological conditions in the region). A KfW funded 400kV transmission line between Kosovo and Albania should help to facilitate an exchange of power, given that Albania relies principally on hydroelectric generation while Kosovo has predominantly thermal power. This power exchange should result in operational, economic, and environmental benefits to both countries. In general, however the regional market is shallow. Moreover imported power is also frequently generated from thermal sources. With regard to generation as well, the current situation is unsatisfactory: both thermal power plants are antiquated and unreliable and operating well below their installed capacity. For example, two of five units at Kosovo A, the oldest and largest plant, are out of operation and the remaining three produce only up to about 350 MW, well below their installed capacity. The Kosovo B plant (net capacity of about 540 MW), though newer (about 25 years old), is affected by damage to the turbine rotors of its two units and deterioration of other critical components, resulting in frequent forced outages. Both plants are highly polluting, with Kosovo A being the worst single-point source of pollution in SEE. Its high emissions of sulfur and nitrogen oxides and particulate matter (PM) have significant negative health impacts for the population in the vicinity of the plants, which includes the capital city Pristina.

In this context, Government, with support from several external partners, has proposed a multi-pronged approach to addressing Kosovo's energy crisis and related environmental issues. It seeks to (i) close Kosovo A by 2017 and replace it with a new, state-of-the-art, privately operated 600-MW power plant termed the "Kosova e Re" Power Plant (KRPP); (ii) attract private investment to rehabilitate and upgrade Kosovo B, including ensuring conformity with EU environmental standards; (iii) privatize electricity distribution *inter alia* to reduce technical and commercial losses; (iv) step up payment enforcement and raise tariffs to levels consistent with full cost recovery; (v) expeditiously address environmental legacy issues associated with Kosovo A and B; (vi) invest significantly greater resources in energy efficiency in the near term; and (vii) maximize the use of renewable energy (hydro, solar, wind, geothermal). Implementation of the above strategy is expected to reduce PM emissions by over 90 percent, sulfur and nitrogen oxides by over 70 percent and lower carbon emissions per unit of electricity produced.

Several studies of Kosovo's energy options have been conducted with donor assistance over the last ten years. A 2004 Regional Generation Investment Study for the Western Balkans and its 2007 Update indicated an emerging shortage of 10,000 -12,000 MW by 2025. More recently, the Bank conducted a study entitled Development and Evaluation of Power Supply Options for Kosovo (2011), whose findings broadly support the strategy being proposed by the Kosovo Government. The Options Study considered ways of meeting Kosovo's current and future energy needs taking into account economic, financial, and environmental costs, including the potential contributions of efficiency improvements, demand-side management, construction of small hydropower plants, and other renewable sources, importing electricity from neighboring countries and additional thermal generation. The study found that the lowest-cost reliable energy supply that would meet Kosovo's base load and peak demand is a mix of thermal and renewable energy sources. This mix would include (i) a hydropower plant (Zhur) of about 300-MW and, according to a DANIDA study, at least 60 MW from small hydropower plants; (ii) a preliminary estimate of 395 MW in wind, biomass and biogas-fired power generation (to be confirmed through technical studies); (iii) upgrading of Kosovo B plant; and (iv) construction of the new 600-MW coal power plant which has been proposed by Government to replace Kosovo A. The study is premised on continued investment in energy efficiency improvements, rapid reduction of technical and commercial losses and development of renewable energy sources. In the longer term (10–15 years) it is expected that construction of a Balkans gas-ring could enable Kosovo to import gas to meet its growing energy demand.

important regulations and administrative instructions have been adopted, such as the regulation on working hours, on job descriptions, the appointment of senior civil servants, and the register of civil servants. However, the legal framework necessary to implement the primary civil service legislation has not been adopted. Judicial reform has been initiated, but has not improved court efficiency or assured the safety and independence of the judiciary yet. An anti-corruption agency has been established and some legal reforms taken to strengthen the anti-corruption legal framework, but implementation remains a challenge. Considerable support is being provided by the EU's ("technical") Rule of Law Mission to Kosovo (EULEX)—with around 3,200 staff (of which 1,950 international)—in helping Kosovo's Government to strengthen police, judiciary, and customs.

Education and Labor Markets

26. **Appropriately educated, skilled human resources are critical to private investment, growth, and employment**. The education system needs to improve quality and relevance throughout the system and address access issues at secondary and post-secondary levels where students from the poorest households and women/girls from all income quintiles are clearly underrepresented. Indeed, 45 percent of businesses surveyed reported difficulties in recruiting skilled workers; in turn, more than 50 percent of unemployed men cited lack of appropriate education and skills as a reason for their inability to find work. Kosovo's school infrastructure is dramatically insufficient: more than half of schools operate on double shifts and about 5 percent on triple shifts. School and university management is weak, particularly with respect to monitoring of enrollment, performance, and institutional finances. At the same time, the education system remains poorly regulated, resulting in the low quality of services and weak linkages with labor demand, including apprenticeships for youth. Importantly, and within the framework of moving towards universal access to secondary education, targeted strategies are needed to increase girls' and women's access to secondary and post-secondary education and significantly raise enrollment. Similarly, attention needs to be paid to means of raising secondary school enrollments for children from the poorest households, of which only about two-thirds attend secondary school. The Government is placing high priority on strengthening the education system and has prepared a multi-year strategy for developing both general and higher education. The strategy, which addresses quality, implementation, and management issues, should help to alleviate sector deficiencies.

27. **While Kosovo's considerable labor market flexibility should be sustained and labor taxes kept low to promote labor demand, active labor market programs need to be strengthened to facilitate the transition to work.** Employment rigidity is among the lowest in the region and labor taxes are low. Kosovo faces the challenge of maintaining these favorable conditions in the face of pressures to increase worker protection and social services. It has done so successfully, for example, by passing a health insurance law that transforms the financing of health services without threatening the financial sustainability of the health system or increasing labor taxes. At the same time, however, major efforts are needed to improve the transition from welfare and long-term unemployment to work. Currently, more than 63 percent of unemployed people remain without work for over a year. To help to address this issue, the Government has introduced public works programs aimed at reducing joblessness in the short term and providing beneficiaries with the work experience needed to maintain/improve their employability. Employment services, however, remain ineffective, largely due to the inadequacy of information systems and low local capacities. Government has recently begun addressing this gap. As a first, immediate step, the Government has started to digitize the records system, which, in turn, will allow for better case management. It has also initiated a comprehensive, functional review of the employment services.

Strengthening the Financial Sector and Improving Access to Finance

28. **Kosovo's financial system has proven quite resilient to the global financial crisis, and its regulatory and institutional framework has been substantially strengthened.** The financial system is

dominated by foreign-owned banks and is largely deposit-funded, mostly from large and relatively stable remittance inflows. However, structural financial sector vulnerabilities exist as bank assets are highly concentrated, leading to a lack of competition and high interest rates. As a result, Kosovo's banking system has one of the lowest loan-to-deposit ratios in the region. Additionally, banks rely excessively on Government deposits. In recent years, Kosovo's regulatory and supervisory framework has been gradually improved to meet EU standards, both for banks and non-bank financial institutions. A new Banking Law has been drafted that is expected to strengthen governance standards, limit related party lending, authorize consolidated supervision of banking groups, and support bank resolution, when needed. The new Banking Law also assigns the CBK responsibility for licensing of micro-finance institutions.

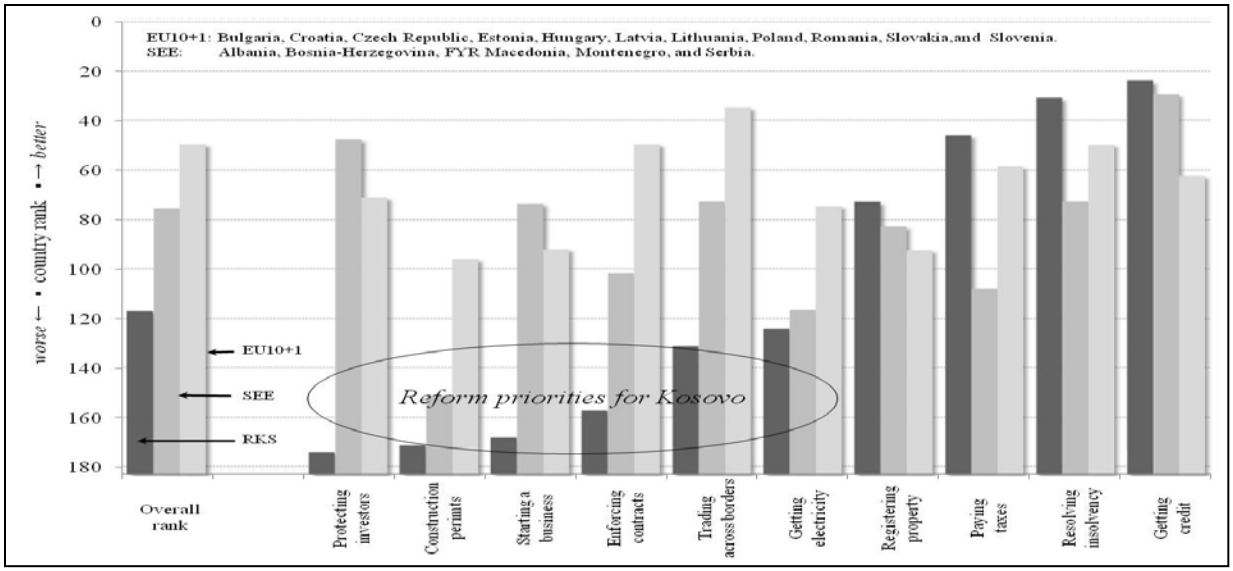
29. **In addition to strengthening financial system supervision, there is a need to improve access to affordable financial services, especially outside the capital city and for small enterprises.** BEEPS results indicate that access to credit is seen as a major obstacle by businesses in Kosovo. Only about 10 percent of investment is financed by credit, and over 85 percent of investment is financed from own resources. Further strengthening of banks' risk management practices is a necessary step in order to increase banks' willingness to lend. In addition, it is critical to develop and strengthen micro-finance institutions that have the potential to lend to farmers and other rural entrepreneurs. This would involve, inter alia, transforming existing non-profit foundations into more sustainable, for-profit financial intermediaries and raising awareness of the potential roles of small entrepreneurs in mainstream economic activities.

Legal and Institutional Framework for Business

30. **Although Kosovo's business climate has a number of strengths, the acceleration of private sector-led growth will involve addressing key institutional issues including ineffective licensing regimes and weak property rights.** Significant progress was made in Kosovo to put in place the basic legal framework and institutional structures necessary for a market-oriented economy. Moreover, Kosovo's business climate has several features that could make the country attractive to investors vis-à-vis its neighbors. Kosovo's labor markets are very flexible, the trade regime is open and liberal, and the banking sector is relatively dynamic, following the entry of foreign banks and gradually rising depositor confidence. However, weak institutional capacity, unclear property rights, and a complicated and fragmented licensing regime create fertile ground for growth of the grey economy. There is room for streamlining red tape and the Government is moving forward with the establishment of a one-stop shop, which should help potential investors to better navigate the requirements for investing in Kosovo.

31. **Improvement of the business environment is a key priority for Government and a Task Force has been formed with the mandate of improving Kosovo's DBR ranking** (currently 117th overall, see Figure 1). As a result of the task force's efforts, Kosovo recently passed amendments to relevant laws on business associations and internal trade to reduce the costs, number of steps and time involved to start a business and eliminate work permits and the charter capital requirement for limited liability companies.

Figure 1: Doing Business in Kosovo, the Western Balkans, and the EU10+1 Countries



Source: World Bank Group, *Doing Business* 2012.

Agriculture

32. **In addition to addressing the constraints present in the business environment that affect all sectors of the economy, special attention should be paid to addressing issues in agriculture, given its high potential.** Kosovo—endowed with good quality agricultural land—had been largely food self-sufficient in the past. At present, the sector currently contributes about 12 percent to GDP and is the largest employer in post-conflict Kosovo, accounting for approximately 35 percent of total employment. With its relatively abundant and underutilized labor, Kosovo has competitive potential in the horticulture sector, i.e., the production of fruits and vegetables as well as in the livestock sub-sector since domestic demand for horticulture and livestock products is expected to grow as purchasing power increases. Over the last decade, demand for high-value horticulture products has surged more than any other food category. However, while there is great potential for growth and expansion of productivity in agriculture, the sector faces several challenges that are reducing competitiveness and preventing it from meeting its potential. Unfavorable farm structures, outdated farm technologies and farm management practices, sub-optimal use of inputs, weak rural infrastructure, a rudimentary rural advisory system, and limited access to credit and investment capital are all limiting factors. In addition, Kosovo's farmers are placed at a competitive disadvantage as agricultural imports originate in neighboring and EU member states in which farmers receive production and export subsidies.

33. **The Government strategy to promote growth and competitiveness in the agriculture sector is elaborated in the Agricultural and Rural Development Plan (ARDP) 2007–13** (which was updated in 2009). The fundamental objectives are to (i) undertake actions to overcome the bottlenecks holding back sustainable rural development in the country; and (ii) align Kosovo's rural sector with the four axes of the Instrument for Pre-Accession for Rural Development (IPARD). The Government is undertaking several significant and strategic initiatives in this direction. It is also putting in place institutional structures in line with EU accession requirements. It recently established the Paying Unit within the Ministry which is expected to evolve into the IPARD Paying Agency.

B. Issues in Environmental Management

34. **Although environmental management has not been high on Government's agenda in the past, there is now growing recognition of the high costs of environmental neglect and the need to move ahead more rapidly towards meeting EU standards and requirements in environment**. The Government's Kosovo Environmental Action Plan (2011 draft) and the State of the Environment Report as well as the Bank's draft Country Environmental Assessment focus on three main areas problem areas—viz., (i) air pollution; (ii) water availability and quality; and (iii) hazardous and municipal waste. Key issues in each of these areas are discussed below, followed by a brief description of Government's strategy for addressing environmental problems in the country.

Air Pollution

35. **Air pollution is a significant problem in Kosovo's urban areas and a moderate problem for the country as a whole.** Urban ambient air quality is poor particularly in Pristina, the Obiliq area, the Drenas area, and in Mitrovica. The principal sources of pollution include (i) energy and mining production activities and the burning of wood and lignite for household heating purposes; (ii) smoke and emissions from large industrial complexes; (iii) landfills of urban and industrial waste which tend to have more specific local impacts; and (iv) vehicular emissions. Key health impacts from air pollution are related to the high levels of particulate matter (PM), also known as fine particles or dust. For the 2010–11 period, monthly average PM concentration values in Pristina fluctuated between 40–130 $\mu g/m^3$—nearly always above the 40 $\mu g/m^3$ average concentration determined by the EU as being consistent with human health. The key sources of PM emissions in Pristina are the power plant and household use of wood and coal for heating purposes during winter. High PM levels are responsible for increases in cardiopulmonary and lung cancer mortality in the case of long-term exposure as well as chronic bronchitis and respiratory diseases, particularly in children.

Water Availability and Quality

36. **Kosovo has limited water resources, divided into four main water basins: the Drini i Bardh, Ibri, Morava e Binçës, and Lepeneci.** There is unequal water distribution throughout the country, and–given the limited and insufficient water resources—water is expected to be a limiting factor for economic and social development in the future, particularly given rising demand for water due to increases in urban, industrial, and agricultural development. With regard to water quality, the percentage of the population with access to piped water supply is just 70–75 percent, while an even smaller proportion (50–55 percent) of the population is connected to the sewerage systems. Data from the Institute of Public Health on the quality of drinking water show that the pollution of drinking water is generally associated with bacterial rather than chemical contamination. Much of this bacterial (fecal) contamination occurs in the water supply systems of small cities and rural areas where a large proportion of wells and springs are thought to be contaminated, although no firm numbers exist. Given that there are no wastewater treatment plants in operation in Kosovo, it is not surprising that water contamination is a major issue.

Untreated Hazardous and Municipal Waste

37. **Environmental impacts from former mining and mineral processing are a substantial problem in Kosovo due to the lack of adequate environmental protection measures.** Historical and current industrial waste has remained—for long periods of time—in production sites, storage areas, and industrial hot spots. Mining and industry activities generate about 1.3 million tons per year of waste (commercial, hazardous and non-hazardous). Moreover, an estimated 395,000 tons of municipal solid waste is generated yearly. At present, there is a near-total lack of proper waste management in Kosovo for all waste types—domestic, industrial, healthcare, and hazardous waste—as well as for legacy pollution

from historical contamination. Current waste management practice, if left unchanged, will lead to high levels of pollution of groundwater and air (e.g., through methane or landfill gas), but also dioxins and fine particles when burned. In line with the municipal waste management policy, IFC has been working towards the concessioning of the Pristina landfill, for which there is strong private sector investors' interest.

Government Strategy for the Environment

38. **The Ministry of Environment and Spatial Planning (MESP) is preparing an update of the Kosovo Environmental Strategy (KES) and an associated National Environment Action Plan (NEAP) for 2011–15,** in close cooperation with other ministries, NGOs, and other development partners. The NEAP identifies short and long term objectives in the environment area aimed at meeting EU requirements. For the short term, the focus is on more rigorous implementation of existing legislation, continued efforts to modify legislation and institutions to conform with EU requirements and integration of environmental requirements into the sectoral development policies of relevant ministries. For the longer term the KES/NEAP sets goals and/or strategies for the following four areas: (i) reduction in pollution (including environmental degradation) and the prohibition of economic activities that harm human health or the environment; (ii) bio-diversity protection and the preservation of ecological balance; (iii) the rational and sustainable use of natural resources, including agricultural land; and (iv) the protection of valuable natural landscapes. In addition, the NEAP identifies needed investments in water and air quality, waste (including chemical waste) management, biodiversity preservation, and environmental policy development, categorizing them by priority, cost, and likely sources of funding.

IV. KOSOVO-WORLD BANK GROUP PARTNERSHIP

A. Active Portfolio, Lessons Learned and Partnerships

39. **The last ISN for Kosovo, covering FY10-11, was the first to cover a period of over one year and to involve the commitment of IDA credits as well as grants.** Since Kosovo had not been a member of the WBG until end-FY09, all World Bank–Kosovo operations prior to that time were financed through grants from a variety of sources, principally the Bank's net income, the Trust Fund for Kosovo, the Post-Conflict Fund, and IDA grants. Some of these projects are still active (though nearing completion) and are included in the portfolio table shown below. Newer projects committed under the last ISN were financed either partially or wholly through IDA credits.

40. **The World Bank supported portfolio currently consists of seven operations totaling US$76.9 million in commitments and 11 trust funds totaling US$66 million, including two State and Peace-Building Fund (SPF) grants.** The Business Environment TA Project and four trust funds are expected to close by June 2012. The remaining six operations and seven trust funds are either midway through execution or just starting up and are expected to be in active status through most or all of the CPS period (FY12–15). The objectives, content, and expected results of these operations have been reviewed in discussions with the Government in the context of preparing this CPS to ensure that they are fully consistent with the main objectives/directions of the FY12–15 strategy.

Table 3: Kosovo Active Portfolio

Project name	Board	Revised Closing	Age in years	Orig. commitment $	% Project disb. ratio	Latest IP	Latest DO
Education Project	12/13/2007	6/30/2013	4.4	10.00	44.8	MU	MS
Public Sector Modernization	2/4/2010	6/30/2013	2.2	8.00	0.2	MS	MS
Business Env. TA Project	6/14/2005	5/31/2012	6.9	7.00	97.3	MS	MS
Kosovo, Financial Sector TA	12/13/2007	6/30/2014	4.4	8.90	12.3	MS	MS
Agriculture and Rural Dev	6/14/2011	7/31/2017	0.9	20.20	0	MU	MS
Real Estate Cadastre	2/4/2010	7/31/2015	2.2	12.30	1.4	MS	MS
Energy Sector Clean-Up and Land Reclamation	6/13/2006	06/30/2012*	5.9	10.50	65.7	MS	MS
			3.7	**76.9**	**25.4**		

*to be extended to 12/31/2013 to allow for additional activities under a proposed AF (see para 79)

41. **For the three-year period from FY08-10, disbursements for Bank-supported projects averaged close to 20 percent of total commitments per year but declined in FY11 to 13 percent, and have remained slow in FY12.** The decline in disbursements can be attributed, in part, to a slowdown in implementation associated with the municipal and national elections that diverted the attention of key officials. Disbursements were also affected by long effectiveness delays for some newly approved operations. The Public Sector Management Project and the Real Estate and Cadastre Project—both approved by the Board under the last ISN—were the first Bank operations in Kosovo to be financed wholly or in part by credits rather than grants and, as such, were subject to approval by a two-thirds majority in Parliament. Unfamiliarity with the processes for obtaining this approval and inadequate consultation with opposition parliamentarians led to considerable delays in securing the approval needed to make them effective. Eventually, both operations were approved by large parliamentary majorities (well in excess of the two-thirds requirement).

42. **The Government of Kosovo and the Bank are working to strengthen portfolio implementation.** The capacity of implementing agencies is being strengthened through a series of procurement and contract management training courses delivered quarterly to all employees and consultants involved in World Bank financed projects. In addition, the Bank's own capacity for supervision support and provision of just-in-time training to Government staff has been strengthened through the recruitment to the Country Office of a Country Operations Officer. Moreover, a Senior Operations Officer, who is based in Skopje, is providing part-time support. Jointly with the Ministry of Finance the World Bank team has started producing a Quarterly Portfolio Monitoring Tool, which outlines the main implementation milestones for all operations, and lays out the principal tasks of respective Government institutions and World Bank teams for the upcoming quarter. The Monitoring Tool, which will serve as benchmark to monitor implementation of the program, has been developed in close collaboration with the Ministry of Finance and is shared with all Ministers benefiting from Bank support.

43. **The CPS Kosovo program also benefits from substantial Trust Fund resources, currently amounting to about US$66 million** (Table 4). As the table shows, the trust funds are fully aligned with

the Bank's country strategy, focusing in key areas such as employment, infrastructure, inclusion, and the financial sector.

Table 4: Country Specific Trust Funds

Trust Fund Name	Net Grant Amount US$000	Grant Closing Date	Donor	Exec. By
TA Service to Central Bank of Kosovo	498	FY12	MDTF	BE
Carbon Capture and Storage Capacity Building	400	FY12	MDTF	BE
Kosovo Second Sustainable Employment Development Policy Operation	17,000	FY12	MDTF	RE
Kosovo Second Sustainable Employment Development Policy Operation	30,000	FY12	IBRD	RE
Building Stakeholder Support for Public Private Partnership in the Energy Sector	150	FY13	MDTF	BE
Health results based financing Knowledge and Learning Grant	125	FY13	MDTF	BE
Youth Grant for Youth Employment	846	FY13	ITALY	RE
Energy Sector Clean up	1,165	FY14	Netherlands	RE
Second Youth Development Project - State and Peace Building Trust Fund	2,000	FY14	MDTF	RE
Social Inclusion and Local Development - State and Peace Building Trust Fund	4,900	FY14	MDTF	RE
Agriculture Rural Development Grant	9,200	FY15	Denmark	RE

44. **IFC's committed portfolio for Kosovo comprises three investments totaling US$15.5 million as well as focused advisory services in key sectors.** Two of the IFC's investments are allocated in the financial sector to strengthen the capacity of a foreign bank to provide credit and financial services to SMEs, while one is in the real sector to support a medium-sized manufacturing foreign company. IFC's advisory services will support public-private partnerships in the infrastructure sectors including the privatization of the distribution arm of the public electricity company (KEK), and solid waste management concession for Pristina municipality. Furthermore, through its Balkans Renewable Energy Advisory Program (BREP), IFC will aim to improve the renewable energy regulatory framework, help renewable energy sponsors to improve their project designs and business plans, and support financial institutions to improve their internal capacities and knowledge on renewable energy. In addition, the Trade Logistics Advisory Services program will provide assistance to improve administrative procedures to simplify trade logistics, aiming to reduce the time and cost of trade and to increase exports. Also, IFC plans to continue its corporate governance program and expand its regional Investment Climate Advisory program to Kosovo. IFC will explore options to deepen its advisory work in the agribusiness sector in the Western Balkans, including Kosovo.

45. **The current net exposure of the Multilateral Investment Guarantee Agency (MIGA), as of October 31, 2011, amounted to US$53.2 million**. The MIGA exposure is the result of a guarantee that MIGA issued in December of 2010 to ProCredit Holding (PCH) covering its investment in its subsidiary in the Republic of Kosovo. The coverage is for a period of up to 10 years against the risk of expropriation of funds for mandatory reserves held by the subsidiary in the central bank of its jurisdiction. This project is part of a master contract that MIGA has issued to PCH. PCH is headquartered in Germany and is the parent company of 21 network banks (ProCredit group). In Kosovo, ProCredit Bank is a development-oriented full service bank and focuses in its credit operations on lending to micro, small, and medium size

enterprises (MSMEs), thus contributing significantly to job creation and economic development in Kosovo. In 2010, ProCredit Bank continued to be the largest commercial bank in Kosovo (by asset size) and had the largest branch network with 62 offices in 27 different towns and cities across the country. MIGA's continuing support to this project signals the Agency's ability to underwrite projects in the country and support inward FDI in the energy, financial, infrastructure and agriculture sectors, and thus add to the World Bank Group's strategy of encouraging private sector development by addressing real and perceived bottlenecks in the country's operating environment.

Lessons Learned

46. **The Bank's decade-long operational experience, analytical work, and dialogue with national and external stakeholders offer important lessons for future WBG engagement in Kosovo.** On content, three priorities stand out as follows:

- Given Kosovo's extremely high unemployment rates, it is critical to continue to focus on accelerating growth and increasing employment opportunities, especially for youth and women;
- Related to the above, sustained efforts are needed to address weaknesses in Kosovo's business environment as a principal means of fostering private-sector activities and attracting greater volumes of private investment;
- The pattern of growth needs to be consistent with environmental sustainability, including ensuring that natural resources are used in a manner that minimizes damage to human health.

47. **In addition, there is growing concern that the implementation of projects supported by the Bank has been slow.** Addressing these concerns will involve the following:

- Focused outreach to the parliamentarians and civil society during project preparation to ensure full understanding of the objectives and design, thereby facilitating parliamentary approvals of projects.
- Greater selectivity in new operations, focusing on sustaining momentum in key areas where we are already engaged, such as energy, education, employment, and the environment;
- Instituting regular joint portfolio reviews with the Ministry of Finance to resolve bottlenecks and strengthening the Country Office in Kosovo to help to provide continuous implementation support, and capacity building, particularly on modern procurement and financial management.

48. **A recent portfolio review identified opportunities to enhance the gender dimension of selected projects.** The review, conducted by gender and sector specialists, focused on the following projects: (i) Agriculture and Rural Development; (ii) Real Estate Cadastre and Registration; and (iii) the Institutional Development for Education Project. The main goal of the review was to identify opportunities in the projects to incorporate gender in the analysis, design and monitoring and evaluation framework. In addition, it provided knowledge on some good practices in gender mainstreaming, which will contribute to a more systematic inclusion of gender issues in future projects. The review identified the following:

- The *Agriculture and Rural Development* project will increase women's access to training and advisory services to enable them to prepare quality grant proposals and business plans. This would enhance their access to grants to foster competitiveness and growth of their businesses. A detailed report on female beneficiaries in the agricultural and rural development sector was recently prepared and will serve as the basis for the development of a communication and outreach campaign targeting women farmers and entrepreneurs. An important goal of the

campaign is to raise female participation in training to at least one third of the total. In addition, five points have been added to the scoring criteria for rural grant applications submitted by female applicants to encourage women to participate in the grant competition. It is expected that the number of grants awarded to women would double (albeit from a low level of about 4.5%) by 2017. Progress in reaching women beneficiaries will be monitored throughout the project.

- The *Real Estate Cadastre and Registration* project will promote women's property registration by: (i) increasing outreach targeting women to register their land; (ii) ensuring protection of women's property rights on first registration through inter alia redesign of forms to encourage registration of all owners (not just head of household); (iii) modification of municipal cadastre office (MCO) practices to ensure full compliance with the Law on Gender Equity and Family Law in areas of inheritance and land transactions; (iv) specific training for MCOs on women's property rights and sensitivity to the special challenges faced by women in property issues; and (v) ensuring that the project's planned social survey provides a baseline to monitor progress of gender indicators in annual follow up surveys. Based on existing data it is estimated that about 20 percent of land is either individually owned by women or jointly titled (2011). The project will support Government's efforts to achieve an increase in women's land ownership of about an additional 10 percent by 2015.

- In the *Institutional Development for Education* project, school development grants (SDGs) will support selected schools to prepare and implement multiple-year school development plans which focus on the enhancement of the quality of teaching and learning activities. Recipient schools will be selected according to a set of criteria including retention and attendance rates among girls. Specifically, the six criteria for allocating the SDGs (of up to 15,000 Euro per school) will now include the Gender Parity Index which receives 10 out of 100 points. The index is calculated as the number of boys enrolled divided by the number of girls enrolled. In addition, the project will strengthen the capacity of municipalities to track the status of dropout and retention disaggregated by gender. The goal is to ensure that about two thirds of municipalities are able to report these gender statistics through a modern education management information system. This indicator is tracked through the project ISR.

Role of Other External Partners

49. **Kosovo has many multilateral and bilateral donors that provide support to a range of sectors at central and local levels, sometimes in concert with Bank operations.** The EU and USAID are the most important donors, with over 300 projects at national and local levels. For 2011–12, the EU has allocated €140 million for Kosovo from the Instrument for Pre-Accession (IPA) which funds preparatory activities for investment projects. Kosovo is also eligible to receive funds from the EU's Western Balkan Investment Facility (WBIF) for project preparation. Other important partners include Austria, the Czech Republic, Denmark, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, and Turkey as well as the Bretton Woods institutions and the UN system.

50. **Substantial external donor support has been an important input to Kosovo's development efforts, but the Government has only recently put in place a formal mechanism to enhance coordination.** In early 2011, the Government of Kosovo adopted a Regulation on Donor Coordination, increasing the role of the Government in the coordination of development assistance. The Regulation creates the High Level Forum, established as a permanent mechanism for the purpose of analyzing and assessing progress in social and economic development and the efficacy of external aid. The Forum is chaired by the Prime Minister and comprises the highest officials of the Kosovo Government, donor representatives and other relevant agencies. Decisions of the Forum are transferred to sectoral and sub-sectoral working groups, which coordinate development assistance in their respective technical areas. The

Forum monitors the general effectiveness of the system of aid based on indicators defined by the Paris Declaration and defines ways to improve its impact. While still uneven in their effectiveness and impact, the High Level Forum and the sectoral working groups represent an important step forward in bringing more order to external assistance efforts, helping to ensure national ownership of development initiatives and reducing pressures on limited Government capacity.

Table 5: a&b: WBG Portfolio, New Lending FY12–15, CPS AAAs and Trust Funds

Table 5a: WBG Portfolio, New Lending FY12–15, Country Specific CPS AAAs and TFs

Accelerating Growth and Employment Generation		*Improving Environment Management*	
Ongoing Operations FY12-15 (closing dates)			
Business Environment TA	FY12	Energy Sector Clean-up	FY12*
Education Project	FY13		
Public Sector Modernization	FY13		
Fin. Sector Strength. Market Infrastructure	FY14		
Real Estate and Cadastre	FY16	*to be extended to 12/31/2013 to allow for additional activities under a proposed AF (see para 79)	
Agriculture and Rural Development	FY18		
New Operations FY12-15 (delivery date)			
Sust. Employment Dev.Policy Operation 2 (TF)	FY12	Energy Efficiency and Renewable Energy	FY13
PRG FOR KRPP	FY14	AF for Energy Sector Clean up and Land Reclam	FY13
Education Improvement Project	FY14	Water Supply	FY15
Country Specific non-lending AAA FY12-15 (delivery date)			
ROSCs*	FY12	Country Environmental Analysis	FY12
Privatization of Energy Distribution (KEDS) IFC	FY12	Water Strategy Follow-up/Round Table	FY12
Country Fiduciary Assessment and GAC support	FY12-15	Solid Waste Management Concession IFC	FY13
IFC PPPs in Infrastructure	FY12-15		
Financial Sector Assessment	FY13		
Statistical and Analytical Capacity TA	FY12-13		
Program. Public Expenditure Review	FY13-15		
Employment and Social Protection TA	FY13-15		
Country Economic Memorandum	FY15		

* ROSCs on Insolvency and Creditor/ Debtor Regimes; Review of Accounting & Auditing Practices in Kosovo; and Bank and Microfinance Governance Assessment

Table 5b: Regional Western Balkans Non-lending (AAA) and Trust Funds FY12-15(delivery date)

Monit. & Evaluation (EC TF)	FY12-13	Smart Safety Nets	FY13
TA Scienc., R&D/Innov. (EC TF)	FY12-14	Health Finance	FY14
Program. Financial Sector Dev	FY12-14	Employment and Jobs	FY14
Trade Logistics IFC	FY12-15	Energy Strategy	FY14
Renewable Energy Advisory IFC	FY12-15	Investment Climate IFC	FY13-15
Programmatic Gender Monit	FY12-15	Public Fin Mgt/PEFA (EC TF)	FY13-15
Programmatic Poverty Monit.	FY12-15	Climate Change	FY15
Corporate Governance IFC	FY12-17		

51. **The WBG works closely with many of these external agencies, including through joint analytical work and co- or parallel-financing of operations**. For example, the Bank is partnering with the IMF and USAID to provide TA to Kosovo's financial sector, with the Netherlands, US and EC in the energy and environment sectors, with Austria in public financial management and with DFID and SIDA to build capacity for statistical analysis. The Bank and other partners worked towards developing a Sector-Wide Approach (SWAP) for the education sector, partly through conduct of a joint feasibility study under the leadership of the Ministry of Education, Science and Technology. A group of nine

external partners have been closely involved in the design and implementation of the Sustainable Employment Development Policy Program (SEDPP) and have contributed substantial grant resources for its two budget support operations. Finally, given the importance of the EU perspective for Kosovo, all World Bank operations are aligned with the criteria for EU accession.

52. **Further possibilities for cooperation between the EC, European IFIs, and the Bank in the Western Balkans have been opened by the agreement in June 2011 to grant the Bank associate membership in the WBIF.** The WBIF is a financing mechanism designed to pool grants, loans, and expertise from the EC, IFIs, and bilateral donors to prepare a common pipeline of priority investment projects that could be financed by any of the WBIF donors. While in other Western Balkan countries, the Bank cannot act as the lead IFI for WBIF-financed project preparation activities, an exception to this rule has been agreed for Kosovo, where the Bank—as the only IFI that is fully operational in the country—has been encouraged to play a leading role in several areas. The Kosovo Government has already submitted a number of grant proposals to the WBIF Project Financiers Group including for studies on energy efficiency in public buildings, feasibility and environmental impact analyses for strengthening waste management (covering municipal and hazardous waste) and feasibility studies for protection of the 50-km long Ibër Canal. In addition, Kosovo will benefit from a number of regional proposals submitted by SEE Governments including for a study to examine development options (including financing options) for implementation of an Energy Community Gas Ring through public-private partnership consortia. These proposals will be reviewed by the WBIF Project Financiers Group in April 2012 and those which are positively assessed will be forwarded to the Project Steering Committee for final decisions in June.

B. WBG Country Partnership Activities for FY12-15

53. **The main objectives of the CPS are to support Kosovo to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management.** The goal of accelerating broad-based growth and employment creation is essentially a continuation of the priorities established in previous country strategies. The second objective—promoting better care of the environment—was less prominent in previous assistance strategies. It is being given higher priority now because of wider recognition within Government and its development partners that sustainable, environmentally-sensitive use of Kosovo's major natural resources and better management/clean-up of environmental hazards are critical elements of the effort to improve the population's living standards and create sustainable employment. Moreover, in light of the findings of the EC's Progress Report on Kosovo, it has become clear that significant progress will be needed in environment if the country is to achieve its longer-run objective of closer integration with the EU.

54. **The CPS has been shaped in important ways by consultations with a wide range of relevant stakeholders.** Apart from its ongoing discussions with the Government, the Bank held several discussions on the CPS with the President of the Republic, Parliament, the private sector, civil society and international development partners. All the groups consulted stressed the importance of addressing medium-term energy security and many were fully supportive of the balanced strategy included in the CPS. Some civil society groups, however, were critical of any support for the development of a new lignite-fuelled power plant to replace the existing (highly-polluting) Kosovo A but nonetheless welcomed other aspects of the CPS energy program aimed at reducing energy losses, promoting energy efficiency and developing renewable energy sources to the extent feasible. A detailed summary of a full-day consultation with civil society representatives in early April is given in Annex 2. In addition to energy, a number of other areas were emphasized during consultations and have been included in the CPS program. For example, the President viewed the economic empowerment of women as a particularly important challenge for Kosovo, various parliamentary leaders suggested the need for a clear focus on agriculture and water supply and the private sector suggested the need for continued emphasis on improving the business climate.

55. **Taking into account the lessons learned from past experience in Kosovo and the limited lending envelope, the proposed new lending under the CPS program is selective.** New lending will support fewer, larger operations in sectors/sub-sectors where the WBG has a comparative advantage by virtue of (i) previous experience in Kosovo or relevant work elsewhere in the region; (ii) having undertaken analytical work that can inform lending; and (iii) synergies between IDA, IFC, and MIGA. Program design is also influenced by the potential for close cooperation with other external partners, particularly with a view to supporting Kosovo's aspirations for EU integration.

Expected Outcomes

Pillar I: Accelerating Broad-Based Growth and Employment Generation

56. **The first pillar of the CPS strategy aims at accelerating broad-based and sustainable growth through actions in six main areas:** (i) strengthening infrastructure, especially energy, including through promoting private sector participation in large projects via PPPs; (ii) improving the business climate, supporting the private sector and the financial sector; (iii) strengthening agriculture development; (iv) continuing to invest in education and skills; (v) promoting sustainable employment and inclusion; and (vi) strengthening public financial management and anti-corruption efforts.

(i) Strengthening infrastructure, with a focus on energy

57. As discussed in Section III, achieving an accelerated growth path in Kosovo will involve substantial investment in infrastructure and the adoption of PPP approaches for the implementation of large-scale projects. While Kosovo's needs with respect to infrastructure are vast, resource limitations dictate that the Bank supports the sectors selectively, with financial support focused largely on the energy sector. In addition, the Bank and IFC would support the development of other infrastructure services through studies and other advisory services. IFC would also seek to selectively provide financial support to private firms involved in infrastructure projects in Kosovo in areas such as water, transport, solid waste disposal and energy.

58. **The Government has developed a comprehensive strategy for the energy sector.** There is an urgent need to address problems in Kosovo's energy sector because (i) frequent power cuts constrain socioeconomic development (by impeding investment/job creation, disrupting social service provision and affecting heating availability in winter with consequences for health conditions); (ii) mismanagement of the sector results in a drain on Kosovo's scarce budgetary resources; and (iii) the outdated technologies employed in power generation have a severely negative impact on the environment (both in terms of air pollution and carbon emissions). To address these issues and, taking into account the limited opportunities to cost-effectively import electricity from the SEE region, the Government—working closely with the WBG, EC, and USAID —has identified a strategy to provide more reliable energy supplies to households and businesses. The strategy is based on development of Kosovo's domestic lignite, hydro and other renewable resources, and reducing consumption through demand-side management and end-use efficiency improvement. The **key elements of the Government's strategy**, are the following:

- ***Phased closure of the 5 inefficient outdated and highly polluting Kosovo A power generation units*** by the end of 2017. Since the 40-year old generation units cannot economically be brought into compliance with the EU Directive for Large Combustion Plants, they need to be closed by 2017 at the latest, as required under the Energy Community Treaty. Decommissioning of Kosovo A will be initiated as soon as feasible with possible support from the EC and other donors.

- ***Development, through private participation, of a state-of-the-art power plant—the New Kosovo Power Plant (KRPP) and the associated Sibovc SW lignite mine to replace Kosovo A.*** The KRPP would comprise two units of 300 MW each, the minimum necessary to enable retirement of Kosovo A, serve still-unmet domestic demand and barely meet demand growth, even under an aggressive loss reduction, tariff adjustments, and demand management regime.
- ***Rehabilitating Kosovo B to comply with EU environmental standards through privatization of that plant***.
- ***Establishing cost recovery tariffs (with appropriate life-line pricing provisions and strengthened social protection programs to protect the poor)*** as an important element of the effort to reduce the drain on scarce budget resources and encourage energy savings by users.
- ***Privatizing KEK Distribution as a means of improving its efficiency*** and gaining better control over the rampant losses of electricity due to technical losses and theft.
- ***Improving end-use energy efficiency*** through investments in energy efficiency in public buildings and household incentives for energy saving measures.
- ***Developing the country's limited hydropower and other renewable resources***.

The European Commission and the Bank plan to co-host a donor conference in September 2012 to raise financing for the closure of Kosovo A and for energy efficiency and renewables projects.

59. **When fully implemented, the Government Strategy would yield significant environmental benefits.** Compared to business as usual, the proposed strategy would put Kosovo on a lower carbon path. Demand-side management and efficiency improvements through privatization of electricity distribution are expected to reduce technical and commercial losses from the current level of about 40 percent to around 13 percent by 2025. Improvement in end-use energy efficiency will be supported through an IDA project. The new 600-MW KRPP—together with a rehabilitated Kosovo B and development of the full hydropower potential available—would, by end-2017, replace (i) Kosovo A; (ii) imports of about 500 GW from the regional grid; and (iii) about 150 MW in small diesel generation back-up supply. This change is expected to yield significant environmental benefits by reducing the annual emission of dust by more than 90 percent (from a current level of 20,000 tons), and nitrogen and sulfur oxides by about two thirds from their current very high levels (nitrogen oxide about 12,000 tons and sulfur oxide about 14,000 tons) resulting in significant improvements in air quality in Pristina, with concomitant reductions in adverse health impacts on the population.

60. **The Government has requested the WBG to provide support for several elements of the above strategy, including provision of a Partial Risk Guarantee (PRG) to bidders on the development of KRPP/Sibovc and rehabilitation of Kosovo B.** To determine its response to the Government request, the Bank appointed a ***panel of external experts*** to assess whether potential Bank support for KRPP under the aforementioned Government strategy would be consistent with the Bank's "Strategic Framework for Development and Climate Change" (SFDCC). The expert panel report, issued in January 2012, concluded that the proposed KRPP/Sibovc project complies with the six criteria of the SFDCC. It also recommended several complementary actions, all of which are fully consistent with Government's overall energy strategy. The Panel's main recommendations involve: (i) improving energy efficiency, including through regulation to promote energy efficiency in new building construction; (ii) reducing technical and commercial losses, partly through privatization of electricity distribution; (iii) further emphasizing renewables, including assessment of wind potential, increased use of solar power for water heating, and the adoption of regional strategies for renewables and natural gas; (iv) including externalities in future analysis of energy projects and preparing an environmental baseline; (v) considering the use of lignite drying to increase the efficiency of the power plant; and (vi) ensuring openness and transparency on energy projects through a well-developed consultation process.

61. **In light of the conclusions of the Expert Panel, the Bank will proceed with preparation of support for the KRPP/Sibovc investment through offering an IDA PRG and possible complementary support from IFC and MIGA.** WBG credit-enhancement support (including the PRG) would be offered on a "non-binding, in principle" basis, in conjunction with issuance of Government's Request for Proposals (RfP) to pre-qualified bidders on the proposed project. A final decision on WBG support would be subject, inter alia, to compliance with all applicable WBG requirements, including those related to social and environmental issues, review and acceptance of the ownership, management, financing structure and transaction documents and approval by the management and Executive Directors of the World Bank Group. The PRG offered by IDA for the KRPP/Sibovc project would amount to approximately US$58 million (of which, only US$14.5 million or 25 percentage would be counted against Kosovo's IDA-16 allocation). This would help to mitigate investor perception of the high risks of investing in Kosovo and enable bidders to raise commercial financing at lower cost and with longer maturities. IFC would be prepared, in principle, to consider providing financing for its own account to the Operator, as well as assist in mobilizing additional funds from other international financial institutions and from commercial banks where possible, subject to its investment criteria and approvals. IFC will continue to work with the Kosovo Government as the lead ***transaction adviser for the privatization of KEK Distribution***, coordinating closely with USAID, which has been supporting management improvements at the enterprise. In addition to serving as transaction advisor for KEK distribution, IFC would also coordinate closely with the Bank and MIGA to seek additional ways of supporting the Government's energy sector strategy in particular by bringing to bear its global expertise to attract serious strategic investors to the sector. A Poverty and Social Impact Assessment (PSIA) would be conducted to determine ways of mitigating the impact of higher tariffs on poor households—including through life-line pricing and strengthened social assistance programs.

62. **The Bank will also support several other elements of the Government's energy strategy, including energy efficiency and development of renewable energy, reduction of environmental hazards, monitoring of air, soil and water quality associated with the power plants and strengthening capacity to regulate the energy and environment sectors in a manner consistent with EU standards.** Support in these areas—including an Energy Efficiency and Renewables Project and Additional Financing for the Energy Sector Clean-Up and Land Reclamation Project—is described in detail in Pillar II.

63. **CPS outcome for energy: WBG support for Government's energy strategy will significantly strengthen sectoral production capacity, efficiency and financial and environmental sustainability.** Given the time frame necessary for implementation of the projects, this outcome is likely to be realized in the next CPS. The PRG for KRPP/Sibovc would have an important impact on electricity availability and successful conclusion of the privatization of KEK Distribution would result in increased efficiency as a result of reduced technical and commercial losses (including theft). These two operations together would also significantly lessen the need for budgetary support to the energy sector, thus freeing up scarce budgetary resources for other key uses. The Energy Efficiency and Renewables Project would help to achieve significant reductions in the need for thermal power generation.

(ii) Promoting private sector development and financial sector strengthening

64. **The second main element of the growth pillar helps Kosovo to increase its** attractiveness to both domestic and foreign business investors by supporting a number of actions to improve the regulatory and institutional frameworks for business entry and operations and to strengthen the financial sector.

65. **CPS outcome: The environment for business operations has improved as a result of simplified regulations and processes and rules for business entries/exits and external trade has been**

simplified: The on-going *Business Environment TA* project is successfully helping to reduce regulatory compliance costs for businesses, harmonize business regulations and the licensing framework at the central and municipal level, and secure immovable property rights. Building on a component of the ongoing Business Environment TA project, the *Real Estate and Cadastre Project (*RECAP) supports, inter alia, (i) the Municipal Cadastre Offices (MCOs) by financing physical upgrades to facilities and completing and updating real estate cadastre and registration records in the Immovable Property Rights Register; (ii) the transformation of the Kosovo Cadastre Agency (KCA) into an autonomous and self-financing body with capacity to work with municipal offices and ensure uniformity in property transactions; and (iii) the KCA to manage the project, monitor/evaluate the project's progress, organize public information events, and coordinate donor support. In addition to the annual analysis of Kosovo's business climate within the framework of the joint Bank/IFC Doing Business Reports, IFC advisory assistance could include: (i) regulatory simplification on the national and sub-national levels to help to reduce the cost and risk of doing business; and (ii) addressing the regulatory impediments for business start up and operation as well as for the efficient flow of goods into and out of Kosovo.

66. **CPS outcome: Local corporations in productive sectors are already growing at an accelerated pace**: IFC would support continued growth of competitive companies in agribusiness, manufacturing and services sectors. In particular, IFC will help local corporations overcome financing constraints through long-term financing combined with related advisory services. In this regard, IFC expects to support 1–2 projects in these sectors per year. MIGA could also provide guarantees to SMEs and small-scale agricultural and services projects through its Small Investment Program.

67. **CPS outcome: The regulatory and institutional frameworks for the financial system have been substantially strengthened and a modern deposit insurance scheme is in place.** The WBG, working with key partners such as the IMF and USAID, has been heavily involved in supporting the regulatory and institutional reform of Kosovo's financial system over the past few years and will continue its support during this CPS through the ongoing IDA-financed *Financial Sector Strengthening Market Infrastructure Project* (FSSMIP), approved by the Board in mid-2011. Among other activities, the project has already helped to establish a Deposit Insurance Fund, is reforming the payments system, supporting the implementation of an RTGS and developing a business continuity center. A corporate governance review of financial institutions undertaken last year will be followed up by two **ROSCs** on accounting and auditing and insolvency and creditor rights, both of which will be completed in FY12. AAA will also be provided during FY12–13 through a FIRST grant to harmonize existing regulations and procedures with Kosovo's new Banking Law, and to ensure conformity with EU practices. In addition, at Government's request, the Bank and IMF will conduct a *Financial Sector Assessment Program* (FSAP) review in FY12–13, which will assess strengths and potential vulnerabilities and means of risk reduction. While the Bank has focused on strengthening the legal, regulatory and institutional framework for the financial sector, IFC will explore the possibility of working with the banks with a focus on agribusiness, gender finance, climate change and SMEs. IFC will also consider supporting the microfinance institutions.

68. **CPS outcome: SME's have gained increased access to credit**. With respect to financing for SMEs as well, the Bank and IFC will work closely together, with the Bank concentrating on the regulatory framework and IFC providing financing and advisory services to support SME-oriented private financing institutions, as well as competitive SMEs. One key Bank input during the CPS period will be a Corporate Governance Review of Banking and Micro Finance Sector, using a methodology that was developed by the Bank, based on inputs from other supervisory and rating agencies, but substantially leveraging off of the newly issued Basel Committee's Principles for Corporate Governance. In addition, the Bank, utilizing resources from the Balkan TA facility will provide technical support to regulatory framework for microfinance. This work, which will be undertaken in FY12, will involve working with the Central Bank to develop the best structures for micro-finance from a regulatory viewpoint. For its part,

IFC will seek to strengthen Kosovo's micro-finance institutions, in conjunction with a suitable strategic partner.

(iii) Strengthening agriculture development

69. **CPS outcome: Agricultural growth and competitiveness have been boosted through provision of new technologies and rural development grants to agricultural producers.** The ongoing *Agriculture and Rural Development* project seeks to increase agricultural production and competitiveness in Kosovo through two main sets of activities: (i) establishment of a program of rural grants to encourage investment in agriculture and promote the use of improved agricultural technologies; and (ii) strengthen the knowledge of farm operators, agro-processing enterprise managers and municipal advisors to effectively plan investments and utilize the financial support available under the rural grant program. During the FY12–15 CPS period, the project's grant program will be expanded through a *Danish grant* of 50 million kroner (about US$9 million equivalent), thus nearly doubling the resources available for rural investment. Additionally, the project will be reviewed during this CPS period to ensure that it reaches out adequately to women as well as men, with adjustments made to its outreach and capacity building components to increase gender sensitivity as appropriate. As with the original project, Danish grant funds will be managed through a Managing Authority (MA) and Paying Unit (PU) established with the Ministry of Agriculture, Forestry and Rural Development. The MA and PU have been designed to be fully in line with the requirements for Paying Agencies under the EU's Instrument for Pre-Accession Assistance for Rural Development (IPARD) so that they will be competent to satisfactorily manage IPARD funds once Kosovo becomes eligible to receive them. In addition, through its regional agribusiness advisory project, IFC will contribute to increased Kosovo's agribusiness sector competitiveness and exports.

(iv) Investing in education and skills

70. **CPS outcome: The relevance and quality of education has been strengthened.** Kosovo's education system currently falls short in terms of quality and relevance. The Bank-supported ongoing *Institutional Development for Education Project* (IDEP) for Kosovo—developed in partnership with the Ministry of Education and a number of donors—is already helping Government in the implementation of the strategy for the development of pre-university education in Kosovo and the strategy for the development of higher education. Its main focus is on strengthening the systems, institutions and management capacities needed for education quality improvements. It also encompasses infrastructure planning and investment improvements and institutes a school grants program to support demand-driven initiatives throughout the school system. When designed in FY08, the project did not specifically target issues of girls' access to secondary and post-secondary education, but a gender assessment will be undertaken to capture the extent of and identify the factors exacerbating gender disparities to inform future projects. In addition, one of the criteria for the allocation of school development grants is the extent of gender disparities (enrollment and retention rates), and the project will document the impact of these school grants. The Education Improvement Project planned for this CPS period will continue broader efforts in improving education quality and efficiency but also include a clear focus on means of improving girls' access to secondary and post-secondary education. The new project, currently programmed for FY14, will be financed through an IDA credit of about US$10 million.

(v) **Promoting Sustainable Employment and Inclusion**

71. **CPS objective: Policies and institutions increasingly promote sustainable employment.** The Bank is preparing a second and final operation in support of the *Sustainable Employment Development Policy Program*. The program's multi-pronged approach expands on efforts in other CPS areas and supports actions to strengthen policies and institutions governing (i) macro-economic and public financial management; (ii) the investment climate; (iii) labor markets; (iv) education, training and skills; and, (v)

social protection. In its final phase, the program will strengthen procurement processes, salary systems for civil servants and the monitoring of expenditures. It will reduce barriers to register businesses, improve the access of customers to credit data, and establish a comprehensive regulatory framework for Banks and other financial institutions. In addition, the final phase of the program will expand public works programs, strengthen other labor market programs, and establish a comprehensive regulatory framework for the labor market. It will provide for a national qualifications framework and support the accreditation of vocational training institutions; furthermore, it will improve the targeting and management of social assistance programs. Following the second Sustainable Employment Development Policy Operation, a **programmatic analytical advisory activity** will provide technical assistance throughout the CPS period to further strengthen the policies and institutions governing the labor market, training and skills development, and social protection, including health financing.

72. **CPS Outcome: Social inclusion in poor communities and marginalized population groups is supported.** Two grants from the peace and state building fund are supporting social cohesion through: (i) rehabilitation of small-scale social and economic infrastructure in the poorest villages and in mixed/minority communities as well as promoting MSMEs in a socially inclusive manner; and (ii) youth services, youth employment and inter-ethnic collaboration among youth, especially from marginalized and vulnerable groups.

(vi) Strengthening Public Financial Management, Procurement and Anti-corruption Efforts

73. **CPS outcome: Public financial management has been modernized particularly with respect to public investments monitoring, efficient payroll management, transparent procurement and anti-corruption actions**. Complementing the public sector management improvements included in the SEDPP (i.e., strengthening public investment management, consolidated procurement and transparency in payroll management), the Government is also seeking to further improve public sector governance by (i) implementing a public financial management reform action plan; (ii) increasing the efficiency of procurement through e-procurement and consolidated procurement (Quick Gains reform); and (iii) reforming the civil service (see Box 3 below). The Bank is supporting these reform efforts through the ongoing *Public Sector Modernization Project* (PSMP). In addition, the Bank has recently completed a *Country Fiduciary Assessment* (CFA) FY12 report and shared a draft with the Government.

74. **In order to follow up on the key recommendations stated in the CFA, the World Bank—in cooperation with other development partners—would support the Kosovo Government with technical assistance** to assist the Government in (i) monitoring enforcement of the PPL, improving procurement implementation and contract management, and building capacity within the procuring authorities and private sector; (ii) establishing a system for the performance evaluation of procurement officers and professional growth of procurement officers; (iii) conducting a PEFA assessment and using its findings to refine the PFM reform action plan; and (iv) strengthening the capacity of the Central Procurement Agency (CPA) to conduct procurement of "common use" goods. In addition, the project would work with the Anti-Corruption Agency to follow-up on the integrity related recommendations and issues emanating from the CFA, working in partnership with other accountability institutions and donors. Throughout the CPS period, the Bank will track the Government progress in implementing the CFA recommendations and will maintain high level of vigilance in ongoing and planned operations through thorough fraud and corruption assessments of each operation, implementation of smart controls and accountability measures, and enhanced fiduciary reviews during project implementation.

Box 3: Public Procurement Laws, Country Fiduciary Assessment, Corruption and Governance

In the area of public procurement, the Government's main goal is to align its legislation with the EU Procurement Directives. To that end, the Public Procurement Law (PPL) in Kosovo has undergone frequent changes in the recent years aiming increased alignment and improvement of the overall institutional framework in public procurement. The World Bank conducted a Country Fiduciary Assessment (CFA) in Kosovo in 2010 which went through 2011. The assessment report is expected to be finalized in December 2011. Amid the assessment, a new PPL was approved by the Assembly on September 30, 2010 and was further amended on September 19, 2011. The CFA team reviewed both versions of the PPL and provided the Government with comprehensive comments, majority of which were addressed by the Government in the final version. Generally, the current PPL reflects adequately the main principles of a sound procurement system and is consistent with international good practices.

The EU Commission refers in its 2011 progress report as "this version of the PPL addresses most of the deficiencies of the previous law and significantly increases the compatibility with EU standards". The main institutional changes brought by the current amendment include inter alia: transformation of the Public Procurement Agency ("PPA") from an independent agency with mixed roles and responsibilities to a Centralized Purchasing Agency (CPA) within the Ministry of Finance (MoF) to be in charge of conducting centralized procurement; and the contract signing was further clarified to involve senior staff of the contracting authority in signing high value contracts in addition to the procurement officer.

However, Kosovo public procurement system is still in need of improving its performance. The legislative framework needs further refinements as it needs to be supplemented by the necessary implementing regulations, procurement manuals and tender documents including general conditions of contracts which have not been updated in parallel with the PPL. Monitoring enforcement of the PPL, improving procurement implementation and contract management, building capacity within the procuring authorities and private sector based on training needs assessment are areas of need of improvement. The Government also needs to establish a system for the performance evaluation of procurement officers and to include in the civil administration a clear path for growth of procurement officers.

The public financial management system in Kosovo, in general, has shown steady improvements since independence was declared. The key strengths of the system are the sound legal framework, integrated central treasury system and an increasingly effective external audit office. The strengths are offset by limited professional and technical capacities and gaps in implementation. There is considerable scope for improving the quality of budget planning and preparation, internal financial control and audit, debt management and capital investment management. Kosovo authorities are aware of their limitations and progress is occurring, with support from international bodies, including the World Bank.

The Government recognizes that corruption is still widespread with several high profile Cases currently under investigation. The key areas affected include procurement, civil works, transport, energy, health and land administration. Progress has been made on Procurement Code of Ethics, launch of an Internet website carrying full details of public procurement, and commencement of a procurement training program. Further work is still needed to develop a debarment mechanism, institute due diligence on bids reviews, scale-up compliance reviews, and build capacity to successfully prosecute high-profile Cases.

75. **CPS outcome: The capacity for statistical data collection and relevant analysis has been reinforced and data are being used more systematically by policymakers.** Poverty monitoring would be supported by collection of data from a number of sources, including a donor-financed AAA activity to support GOK to collect and analyze household level data. Under this AAA activity, the Bank will provide TA in three focal areas: monitoring poverty, inequality, gender differences and exclusion; strengthening capacity for data collection and analysis; and addressing emerging knowledge gaps. There will be a strong focus on expanding the use of data collected by the Statistical Office of Kosovo (SOK), and other data sources by a wider group of analysts and, ultimately, decision-makers in Kosovo, including through the creation of a data users' network comprising analysts from SOK, various Government departments, academic institutions and think-tanks. A series of training events and knowledge-sharing workshops are planned to help to establish and nurture this network, drawing in large part from experiences in neighboring countries, with appropriate adaptation to the Kosovo context. The activity will be complemented by and coordinated with Bank-financed AAA to monitor gender, which will be ongoing throughout the CPS period.

Pillar II: Improving Environmental Management

76. **The second pillar of the CPS strategy seeks to improve environmental management,** particularly by supporting the Government to increase energy efficiency and the use of renewables, reducing environmental hazards, enhancing water supply and moving towards harmonization with EU environmental standards. The main activities envisaged for the CPS period, are described below:

(i) Improving energy efficiency and increasing energy production from renewable sources

77. **CPS Objective: Efficiency in energy use and generation from renewable resources has been increased, thus reducing carbon emissions.** The Government and the Bank are developing a proposed US$32.5 million *Energy Efficiency and Renewables Project* (FY13), modeled on similar Bank-supported projects in the region. GTZ has trained about 50 energy auditors and USAID has completed some demonstration projects retrofitting schools in Kosovo. In addition, the Government has submitted an application to the WBIF for grant funding for an energy audit and preparation of feasibility studies for energy efficiency investments in public service buildings (Government offices, schools, hospitals, or old-age homes). Building on these activities, the project would aim to retrofit public buildings to substantially reduce their energy consumption and strengthen the supply-chain through training of energy auditors, contractors, vendors and equipment suppliers. The project would also seek to reduce pollution and emissions caused by widespread use of liquid-fuel generators and firewood for household heating inter alia by providing households with incentives to improve energy efficiency and adopt cleaner heating methods. In this regard, the World Bank Institute is helping with assessment of market potential for energy efficiency investments, cost estimates and financing options, institutional capacity strengthening, and preparation of an energy-efficiency diagnostic for the Municipality of Pristina. In addition to efficiency investments, the proposed project will support development of renewable energy sources through exploration of geothermal and wind potential, preparation of feasibility studies for projects to be offered to the private sector, developing model concession agreements, and potentially provision of a credit enhancement to the local banks to finance mini-hydro and solar power plants, as well as renewable projects for households (e.g., solar water heating and small biogas for heating).

78. **In designing the renewable energy component of the Energy Efficiency and Renewables Project, the Bank will coordinate closely with the IFC's Balkans Renewable Energy Advisory Program (BREP), launched in 2010.** BREP is already operational in Albania, Bosnia and Herzegovina and FYR Macedonia. IFC intends to expand BREP to Kosovo, Serbia, and Montenegro. BREP objectives are to improve the renewable energy regulatory framework, help renewable energy sponsors to improve their project designs and business plans, and support financial institutions to improve their internal capacities and knowledge on renewable energy. BREP's Advisory Services in Kosovo will be focused on the following areas: (i) at the regulatory level, the program will help with the creation of a standardized PPA, grid connection agreement and concession contract for small hydro power projects, improvements in primary and/or secondary legislation, and better alignment of regulation from different sectors related to small hydro project development (water management, forestry, environmental regulation); (ii) at the firm level, the program will help with better design of small hydro projects, wind farms (if there is any investors' interest), and biomass plants (with proper incentive support); (iii) in terms of financing, since there is limited interest from local Kosovo banks in developing renewable energy products, the program will closely coordinate with IFC's investment services in both the financial market and infrastructure sectors to explore investment opportunities in renewable energy projects.

(ii) Reducing environmental hazards improving environmental monitoring and management and improving priority-setting

79. **CPS Objective: Environmental hazards around the site of the Kosovo A and B power plants have been significantly reduced and there is substantially strengthened capacity for environmental monitoring.** The Bank and donor-financed *Energy Sector Cleanup and Land Reclamation Project* (CLRP) has been under implementation for several years and was planned to close in FY12, having met all its development objectives. These original expected outcomes were partial in some cases (due largely to funding limitations) implying that a part of the work on ash dump remediation and land reclamation would remain for completion by Government after the project's original closing date (June 2012). However, given the importance of the clean up to the quality of life of the communities surrounding the power plant site and feedback from consultations with civil society representatives, this CPS includes a proposed Additional Financing for the Energy Sector Clean up and Land Reclamation Project (US$3.2 million), which, inter alia, will finance: (i) extension of the coverage of the clean-up and land reclamation efforts at the site of the Kosovo A and B power plants; (ii) environmental monitoring of air, soil and water associated with power generation; (iii) strengthening the capacity of Kosovo's environmental and energy regulatory authorities; (iv) environmental and social assessments for energy projects; and (v) preparation of a low carbon growth strategy and a greenhouse gas (GHG) inventory. The AF will be complemented by a Netherlands Government grant of about US$1,165,000.

80. **CPS outcome: Broader appreciation of environmental issues and of strategies for addressing them throughout Government and among stakeholders**. At Government's request, the Bank is undertaking a *Country Environmental Analysis* (FY12), with the objective of establishing environmental development priorities based on an analysis of the state of the environment and estimates of the economic costs of environmental degradation. The study will be based on internationally derived epidemiological research regarding the relationship between the affected population exposed to environmental issues and the increased risks of health impacts in order to estimate the disease burden in Kosovo caused by environmental neglect and its associated economic impacts thereof. While the figures derived from these analyses will be indicative rather than precise, they will provide a reasonably good picture of the costs of environmental neglect and propose practical approaches for reversing past practices to more environmentally sustainable ones. Following discussion of the draft report with the Government (late FY12), there will be an intensive dissemination effort within Kosovo—involving a wide range of stakeholders at national and local levels—to both discuss the study's findings and begin to develop effective, nationally-owned strategies for prioritizing among issues and developing practical action plans to address them through legislative, regulatory and institutional changes.

(iii) Increasing access to water

81. **CPS Objective: Better and more equitable access to water of appropriate quality according to use.** In FY11, the Bank undertook a comprehensive water sector assessment at Government's request to serve as a key input to the country's national water resources strategy. Inter alia, the water assessment reviewed the potential for using water resources to foster productive investments and analyze current and projected water uses in different sectors—water supply, sanitation, irrigation, hydropower and industrial—from a spatial planning perspective. Taking into account the study's recommendations, the Government has requested that the Bank finance a *Water Supply Project*. This project has been included in the proposed CPS program for FY15, for an amount of US$18 million. The project would help ensure the security (in terms of adequacy of supply and quality) of water in the Pristina region (including energy sector, business and domestic water consumption needs). At this stage, it is expected that the Water Supply project will include some of the following activities: (i) securing of uninterrupted water supply of good quality from the Ibër-Lepenc canal through repair of the canal, protection against physical damage, short-term storage along the canal, and improved canal management; (ii) protection measures for drinking water reservoirs; and (iii) investments to improve the quality of water supply to communities living in the vicinity of the power plants.

C. The CPS Financing Program

82. **Although the program of Bank supported operations amounts to over US$180 million, a significant proportion of these resources are derived from special grants and TFs.** The overall size of the IDA envelope for the first three years of the CPS period is about SDR 36.8 million (US$58 million). An additional SDR 11.3 million or US$18 million equivalent is included for FY15, but since these funds will depend on IDA 17 they are only notional at this stage. Actual IDA allocations beyond FY12 will depend on: (i) total IDA resources available, (ii) the country's performance rating; (iii) the performance and assistance terms of other IDA borrowers; (iv) the terms of IDA's assistance to Kosovo (grants or credits); and (v) the number of IDA-eligible countries. IDA allocations are made in SDRs based on performance, and the US dollar equivalent is dependent upon the prevailing exchange rate.

83. **The allocation of the IDA-16 resources of SDR 36.8 million (US$58 million) and the notional amount of SDR11.3 million (US$18 million) is distributed as shown in table 6**. At this stage, we expect that the IDA contribution for energy sector PRGs will amount to approximately US$14.5 million, allowing for IDA partial risk guarantees up to US$58 million. This amount will likely be supplemented by IFC and MIGA as previously discussed.

Table 6: Proposed Lending Program by Fiscal Year (in US$m)

	IDA	Grant-funded operations	TOTAL
FY12			
SEDPO2	0	47	
Agriculture and Rural Development AF		9.2	
FY12 Total	**0**	**56.2**	**56.2**
FY13			
Energy Efficiency and Renewable Energy	32.5	0	
AF for Energy Sector Clean-up and Land Reclam	3.2**	0	
		0	
FY13 Total	**35.7**	**0**	**35.7**
FY14			
Education Improvement Project	10		
PRG for KRPP and Kosovo B	14.5(58.0)*	0	
FY14 Total	**24.5**	**0**	**24.5**
FY15			
Water Supply	18	0	
FY15 Total	**18**	**0**	**18**
Overall Total	**78.2**	**56.2**	**134.4**

*Only 25 percent of total PRG amount is counted. **includes US$2.2 m re-allocated from cancelled LPTAP funds.

V. Risks

84. ***The implementation of the FY12-15 CPS entails four main risks as follows:***

- **Kosovo's uneven track record in fiscal management raises questions about medium-term macroeconomic stability, and an economic downturn in Europe would exacerbate this risk.** The Government's growing experience in macro-economic management has been supported by

several external partners, notably the IMF, the EC, USAid, and the Bank. Continued financial and advisory support—together with the difficulties in obtaining financing from abroad— should convince policymakers to maintain a prudent fiscal stance. Moreover, an IMF SBA is expected to be in place for a 20 month period beginning in April 2012. The SBA should help to reduce fiscal risks, especially in the event that Kosovo's economy is impacted by an economic downturn in Europe (which could result in lower revenue and remittances). It should be noted, too, that Bank support through the PSMP and SEDPP actions will help to improve priority-setting for public expenditures and improve budget discipline over time.

- **The WBG planned support for the KRPP has generated opposition from some civil society groups and hence involvement in the project entails reputational risk.** While investment in Kosovo's energy sector is critical to growth, job creation and poverty reduction, the Bank's involvement in the new lignite-fuelled power generation plant has already generated controversy among some civil society groups and this opposition is likely to continue throughout the CPS period. This risk is being addressed through ensuring transparent processes and regular dialogue/outreach throughout project development.

- **An additional risk is that, given continued turmoil in financial markets (especially in Europe), power project financing may not be easy to obtain.** The availability of WBG guarantees should to mitigate this risk. Credit enhancement from other multilateral lenders would also help catalyze needed funds from the private sector.

- **Kosovo's governance and political structures are fragile and could destabilize under certain shocks.** Kosovo's young and relatively untested institutions render it vulnerable to domestic unrest and political pressures. The tense situation in Northern Kosovo, though currently contained to about 4 municipalities, demonstrates this risk. Moreover, Kosovo's governance systems still lack full transparency, accountability, and viability. Governance and political developments will need to be closely followed as related problems could undermine external development support activities. Actions to support improved public financial management included in the CPS and in the ongoing PSMP project should help to reduce this risk. The Bank will also carry out programmatic AAA to follow on the recommendations of the Country Fiduciary Assessment, including support for anti-corruption initiatives.

Annex 1: Kosovo CPS: Results Matrix FY12-15

Country Dev. Goals	Issues and Obstacles	Outcomes the Bank Program is Expected to Influence	Milestones	WBG Program
Pillar I: Accelerating Broad-Based Growth and Employment Generation				
Strengthening infrastructure, with a focus on energy	Unreliable electricity supply system hampers the economic development and private sector investments.	Move towards increased the production, efficiency and financial and environmental sustainability of the energy sector.	Kosovo B is being rehabilitated to comply with EU environmental standards (completion by 2018) The Sibovc South lignite mine and the New Kosovo Power Plant (KRPP) are being developed, through private participation.	**World Bank** FY13 Energy Efficiency and Renewable Resources Project FY14 PRG for KRPP **IFC** FY13-FY15 Balkans Renewable Energy Advisory Program (BREP) PPP advisory in the power distribution sector **MIGA** FY13 possible political risk guarantee for Kosovo Power Project
	Unreliable electricity distribution systems and high level of technical and commercial losses.	Improved quality of service, with secure supply to all paying customers; elimination of the need for subsidies from Government and donors to pay for electricity purchases and investment in the Distribution Company.	Electricity distribution has been privatized and technical and non-technical losses have been reduced by 3-5 percent.	
	Inefficiency in end-use of electricity and heating, and low use of renewable resources.	Improvement in energy efficiency in the building sector; institutional strengthening of a to-be-created Energy Efficiency Agency to promote energy efficiency.	At least 15-20 public buildings (schools, hospitals, community buildings) are being retrofitted; revised building codes have been established, and households have access to finance to retrofit their houses.	
		Move towards increased use of renewable resources for electricity generation.	At least 3 bankable projects have been prepared for private sector investment in renewable resources; and a financing mechanism for private sector renewable energy projects is in place.	

Promote private sector development and financial strengthening	Substantial regulatory burden on businesses, deficiencies in the rule of law, shortage of skilled labor and limited access to finance impair economic productivity and Kosovo's business climate.	Provision of knowledge inputs to Government's efforts to promote private sector led growth through simplified processes for business licensing, inspection, and regulation.	Reduction in percentage of firms indicating problems with business licensing and regulation from 47 to 37%;	**World Bank** FY08 BETA, FY10 SEDPP, FY10 RECAP, FY10 PSMP, FY11 SILED FY11 KYDP2 FY11 FSSMIP, FY12 TA Central Bank **AAA and ESW** FY15 CEM FY12 ROSC FY12-13 FSAP FY13-15 PER **IFC Advisory:** FY12-14 Trade Logistics FY13-15 Investment Climate FY12-15 Corporate Governance FY12-15 Doing Business Report Analysis /Advisory Services **IFC financing:** Create new jobs by supporting competitive local corporations. Support microfinance institution Support banks with a focus on SME sectors
	Kosovo's property and land administration system is inadequate: high shares of properties are unregistered, Municipal Cadastre Offices (MCOs) are weak, and property records are inconsistent and incomplete.	Property and cadastral services have improved as indicated by increase in registered real estate transactions and decrease in the average days to register a standard sale or purchase of a residential property.	Average number of days to register a standard transaction of residential property decreased from 30 to 20 days; 11 out of 23 MCO facilities are reengineered.	
	Improve gender equity and property ownership.	Strengthen capacity of cadastre agency to promote greater gender equity in land ownership.	Percent of property individually owned by women or jointly titled to increase from 20% (baseline: 2011) to 30% by 2015.	
	Lack of capacity for establishing and strengthening of small and micro enterprises.	Direct support to development of small and micro enterprises through grants, training and TA.	300 small and micro enterprises created or strengthened.	
		Increased access to credit for SMEs	Support development of SMEs in key areas such as agribusiness and construction through helping to overcome financial constraints.	
	Financial sector suffers from structural weaknesses.	Stronger financial system through support of the regulatory and institutional reform of Kosovo's financial system.	Reform of the payment system, and implementation of Real Time Gross Settlement; harmonization of existing regulations and procedures with Kosovo's new Banking Law, and assurance of conformity with EU practices, particularly in the area of financial reporting and auditing.	
	The Central Bank of Kosovo has insufficient institutional, financial, and supervisory	The sustainability of CBK and its capacity to supervise banks and non-	CBK has developed plans to ensure access to long-term	

	capacity, and the financial system lacks an adequate payment settlement system.	bank financial institutions have been strengthened.	resources and supervises Kosovo's main banks and pension funds on a regular schedule.	
Strengthening agriculture development	Agriculture sector is underdeveloped, with low capacity and knowledge among agri-producers. Limited targeted support for women engaged in agri-business.	Promote competitiveness and growth in the livestock and horticulture sub-sectors through implementation of selected measures of its agricultural strategy and institutional development. Women farmers targeted through the awareness raising campaign. More women farmers engaged in agriculture and agri-business in Kosovo. Strengthen capacity of Ministry of Agriculture to include and support women farmers.	At least 80 agricultural enterprises have adopted improved products and/or processes. Number of women farmers awarded grants is doubled (Baseline 2011: 4.4%) At least one third of all participants trained in grant preparation are women. At least 20 new agricultural micro and small enterprises have been established.	**World Bank** FY11 KARDP + Danish TF FY11 SILED **IFC** Financing competitive local companies in the agribusiness sector. Western Balkans Agribusiness Advisory Services
Investing in education and skills	Efforts to improve the quality of Kosovo's education system are undermined by insufficient capacity to monitor the performance of the system, including its financing, and to plan and implement sound policies at the central and local levels. The vocational and higher education systems have substandard instruction and are of limited relevance to the evolving demand for labor.	The central and local capacities to monitor financial and quality trends and plan and carry out investment is strengthened as indicated by: The transfer of budget autonomy to municipalities; the adoption of a per capita funding formula that directs resources to areas of need; the monitoring and publication of annual current expenditures for key parameters Improved opportunities for relevant training and life-long learning as indicated by the establishment of a National Qualification Framework and continued accreditation of vocational training institutions.	Financial decentralization and transfer of autonomy to schools has occurred (baseline: 13 municipalities in 2011, target 37 municipalities in 2013). Percentage of municipalities that use EMIS data to report on the status of drop-outs and retention disaggregated by gender and community. (baseline; 0% in 2011; 60% in 2013). National Qualification Framework document and administrative instruction of accreditation criteria developed and approved. Decisions about the accreditation of training providers made publicly	**World Bank** FY07 IDEP FY10 SEDPP FY12 SEDPP

	Lack of reliable data on drop out and retention for girls and boys.	Better quality school data are collected regularly by a higher proportion of schools.	available. At least 60% of municipalities are reporting drop out and retention data disaggregated by gender.	
Promoting sustainable employment and social inclusion	Kosovo's unemployment rates are high – 46% among the general population and 76% among youth; yet, labor market programs are weak, and non-compliance with existing labor protections and regulations is widespread. The design and implementation of effective policies and programs is hampered by the limited capacity to monitor the labor market. Sub-par health outcomes, including for financial protection, call for a system reform with pressures to increase labor taxes and possibly adverse consequences for labor demand. Access to basic infrastructure and labor and enterprise development services is low in poor communities, particularly among poor and multiethnic communities (including youth).	Labor programs strengthened and employment opportunities enhanced, as indicated by increase in number of annual job placements made by Public Employment Services and decrease in the informal employment rate. The capacity for monitoring is strengthened as indicated by improved statistical data collection and analysis. Health outcomes are improved as indicated by the passing of a health insurance law that transforms the financing of health care to improve the financial protection of the poor without threatening the fiscal sustainability and increasing labor taxes. Support social cohesion through rehabilitation of small-scale social and economic infrastructure in the poorest villages and in mixed/minority communities as well as promoting MSMEs in a socially inclusive manner; and through youth centers, promoting inter-ethnic collaboration among youth, especially from marginalized and vulnerable groups.	Pilots of labor market programs with increased participation of regional and local employment offices have been carried out. Public works program expanded. The development of a Labor Market Information System has been initiated. Health insurance law passed. At least 20 basic community infrastructure objects have been rehabilitated or built through a socially inclusive approach and at least 300 small and micro enterprises have been created or expanded with a socially inclusive approach. At least 16 Youth Centers have fully developed sustainable strategies.	**World Bank** FY10 SEDPP FY11 SILED FY11 KYDP2 FY12 SEDPP **AAA and ESW** FY12-FY13 Kosovo Statistical and Analytical Capacity Development FY12-15 Programmatic Poverty and Gender monitoring
Strengthening public financial management, procurement and anti-corruption efforts	Kosovo's PFM system is impaired by unreliable multi-annual planning systems and weaknesses budget execution, particularly in payroll management and procurement. Lack of a pay and grading structure in the civil	Long-term focus on public financial management with strengthened internal controls and audit, strengthened external audit, as measured by improved performance in the PEFA indicators.	In no more than one out of last 3 years has the actual expenditure deviated from budgeted expenditure by more than 10% of budgeted expenditure (PEFA ind. PI-1).	**World Bank** FY10 PSMP FY11SEDPP **AAA and ESW** FY12 CFA

	service results in wide pay differentials for comparable positions in different civil service organizations, and erodes planning and controls in wage bill management.	Increased bidder participation in public procurement tenders and cost savings achieved through Quick Gaines actions and e-procurement modules. Transparent and coherent pay and grading structure introduced in the core civil service.	Bidder participation in public procurement tenders increases by 15% (baseline: 8,270 bidders). Grading system is fully introduced and there is an equal base pay for posts of equal grade and salary step across civil service bodies.	
Pillar II: Improving Environmental Management				
Reduce the environmental footprint of development activities, reducing environmental hazards to human welfare, and moving towards harmonization with EU environmental standards.	Lack of analysis of environmental issues and priorities Kosovo's mining operations have polluted land potentially viable for development, while institutional capacity to undertake environmentally sound mining operations is inadequate. Kosovo has high carbon emissions, along with an underutilized energy efficiency	Broader appreciation of environmental issues and of strategies for addressing them throughout Government and among stakeholders. Pollution in mining operations has been reduced and environmentally sound mining operations have been strengthened through elimination of dumping on open land of ash from the Kosovo A power plant. Initiate and enable KEK to achieve land reclamation for natural habitats, agriculture, resettlement or other land use purposes. Removal of highest priority hazardous substances from storage tanks at the gasification site. The KRPP program adheres to good environmental practices and options for deriving energy from renewable sources.	Completion of Government's Kosovo Environmental Action Plan (2011 draft) and the State of the Environment Report. Mirash open pit mine has been prepared for Kosovo A ash management, and the wet ash handling system has been installed. At least 55% of the total overburden area has been reclaimed. 4300 tons of tars, benzene, phenols, methanol, and oily compounds have been removed. Regular environmental monitoring of air, soil, and groundwater in the KRPP area is established; A low-carbon growth strategy for Kosovo is prepared.	**World Bank** FY06 Energy Sector Cleanup and Land Reclamation Project FY13 AF for Energy Sector Cleanup and Land Reclamation Project **AAA and ESW** FY12 Country Environmental Assessment **IFC** FY12-13 Solid Waste Management Concession

Annex 2: Summary of the Consultation on the Proposed World Bank Country Partnership Strategy for Kosovo for FY12-15 with Civil Society Organizations

World Bank Office in Kosovo, Wednesday, April 4, 2012

The World Bank office in Pristina sent invitations to a large number of CSOs, to discuss the proposed CPS for Kosovo for FYs12-15. The invitation included a detailed powerpoint presentation on the proposed CPS and an Agenda for the consultation meeting comprising six guiding questions as well as links to key reports available on the Bank's website (Country Economic Memorandum, Public Expenditure Review, Development and Evaluation of Power Supply Options for Kosovo, Report of the SFDCC External Expert Panel, and South East Europe Regular Economic Report). All the reports, as well as the PPT and Agenda, were translated into Albanian and made available well in advance of the meeting. The consultation meeting took place on April 4, 2012 in the new premises of the World Bank Office in Kosovo and lasted for a full day with lunch provided. The World Bank Vice President for Europe and Central Asia, Philippe Le Houérou opened the meeting with introductory remarks on the proposed CPS for Kosovo. The meeting was moderated by the World Bank's Senior Advisor, Theodore Ahlers. The Bank's Country Director for the Western Balkans, Jane Armitage, was also present. The Country Manager for Kosovo, Jan-Peter Olters, delivered a presentation on the key messages of the proposed CPS to kick-off the discussion.

Mr. Philippe Le Houérou's opening remarks:

As the World Bank moved from an Interim Strategy Note for Kosovo to a Country Partnership Strategy (CPS), it was an important moment in the partnership between the Bank and Kosovo. The Bank fully supported Kosovo's goal of joining the European Union and recognized that the EU could help Kosovo to lift its people out of poverty. Given the importance of diagnosis for shaping this first CPS for Kosovo, it was essential to discuss the Bank's diagnosis underlying the CPS. Bank staff believed that jobs and growth were critical and so the Bank focused the first CPS pillar on jobs. In the second pillar, the Bank had a clear focus on environmental management, reflecting the Bank's assessment that this was critical for the well-being of Kosovars. In so doing, the Bank wanted to help to balance environmental management with growth and job creation. Energy straddled both pillars of the proposed CPS – electricity shortages remained a key constraint to private investment and jobs, and inefficiencies in the sector were a key contributing factor to environmental pollution.

Mr. Ted Ahlers' opening remarks:

Mr. Ahlers noted that this was one of many consultations held in Kosovo over the past four years. The purposes of the full-day consultation were to get the CSOs' views on the proposed CPS, to answer their questions, and have a discussion on areas of concern. The Bank was preparing to go to the Board in late May or June with this CPS, leaving plenty of time to give due consideration to CSO concerns. To ensure that all issues were addressed, the Bank had previously distributed a detailed, powerpoint presentation on the CPS and an agenda for the

consultations including six guiding questions for the discussion. The powerpoint presentation and agenda are available on line at www.worldbank.org/kosovo.

Mr. Ahlers noted that many things in the proposed CPS have changed over the past year, based on the Bank's ongoing consideration of Kosovo's development challenges and inputs from civil society and the private sector.

Short presentation on the proposed CPS by Mr. Jan-Peter Olters:

Mr. Olters told participants that the CPS is dynamic and could be modified when warranted through the CPS Progress Report. The Bank would continue listening to the ongoing dialogue in Kosovo even after the World Bank document goes to the Board. The overarching objective of the strategy was to increase growth and domestic productivity. Mr. Olters noted that civil society has had positive influence on the CPS, as reflected in the scope of projects being proposed.

Agenda Item 1: Is the World Bank's diagnosis of the challenges facing Kosovo correct?

Questions were focused on the economic and social development priorities in the proposed CPS, specifically whether the only strategy for growth in Kosovo was EU integration. A question was raised about whether the Bank's consideration of support for a new power plant could actually be an obstacle to EU integration. There were also questions about the expected outcomes of the CPS and how success would be measured and why the Bank put the energy project in the category of growth when it is unclear how it will specifically help to create jobs. The moderator asked the participants to focus on the diagnosis question for this first agenda point, noting that, if one started with an agreed diagnosis, one could more easily move to how to address Kosovo's development challenges. Comments were made about perceived contradictions in the strategy, the identification of risks in the CPS, and if jobs and environment were the diagnosed challenges, then what specifically would the World Bank be doing about it? One member of civil society noted that the Bank should be implementing "job-building projects."

A representative of KEK employees asked whether there was a specific approach to handling the employees who currently worked at the power plants once Kosovo A was closed. If the first priority was the creation of jobs, why would the Bank include a project that would limit them at the power plants? The representative noted that Kosovo A, while unsustainable, employed about 1500 workers, with an average age of 50 years. Kosovars were concerned about giving the local capacity of Kosovo B to a private company. He noted that this did not have the support of the employees of the union of workers.

In terms of the challenges and constraints, there was general agreement that jobs and the environment were the main issues in Kosovo. A question was raised about why the World Bank was considering support to a new power plant if the environment was a problem.

Mr. Le Houérou asked about other ideas on how to create a thriving private sector that could create jobs because not everyone could be a civil servant. What would be the driver of the economy going forward – remittances? How did one build a thriving private sector? He asked for the views of the participants on where they saw the growth coming from, underlining that the diagnosis on this was critical. How could Kosovo go from the current GDP per capita to that of

Slovenia and then to that of a country such as England? What were the economic and social impediments to that? Mr. Le Houérou noted that if there was no agreement on the diagnosis then it was very hard to have an agreement on solutions.

A representative of the Community Development Fund, which is implementing the World Bank-funded Social Inclusion and Local Development Project, asked whether there would be other projects of this type financed by the Bank in Kosovo, commenting that the direct link between building a new power plant and jobs was not clear. She agreed that unemployment was a big problem but pointed out that she did not see how the proposed CPS addressed that.

A representative of Development 4 Democracy listed as a challenge the low productivity and Kosovo's competition in the jobs market. The Labor Union noted that thousands of workers would be sent home but what was the productivity currently? Other questions were raised about the Bank's strategy for addressing women's unemployment, the government policy of borrowing funds for highways, and how the World Bank felt Kosovars should be addressing their indebtedness and the future.

One participant pointed out that industry competitiveness should be listed specifically in the development strategy. A representative of KIPRED highlighted the rule of law as a challenge for curbing unemployment. Claiming that 40 percent of Kosovo's economy was in the black market, he recommended that the World Bank built mechanisms to shift the black economy into a formal economy so there was actual data and policies in order for the issues to be addressed more easily. He expressed the view that rule of law and education should be the main pillars.

One participant suggested investing in local products and encouraging local farmers, noting that the World Bank was enriching the government and creating oligarchs rather than supporting entrepreneurs. The CDF representative mentioned that the World Bank was indeed supporting small and micro enterprises through SILED project, but that she hoped that the Bank would have more money for this type of support in the future.

World Bank Country Director, Ms. Jane Armitage, acknowledged that the Bank's consideration of supporting the new power plant was controversial. She noted that preparation of the project was still at a very early stage and that there would be many opportunities for in-depth discussions with CSOs as preparation proceeded. She indicated that the proposed CPS had changed to reflect previous discussions with CSOs, namely by adding a Water project to improve water supply and quality for households, businesses and agriculture and a Renewable Energy and Energy Efficiency project which would be the largest project over the next four years in Kosovo. She also informed the participants that there were plans to hold a Donor Conference in September on supporting the closure of Kosovo A and enabling further investments in renewable energy and energy efficiency. Ms. Armitage noted that the Bank is supporting and will continue to support employment under the new CPS and urged the group to look at the current portfolio and the pipeline of future projects, emphasizing that the World Bank was already financing important projects in agriculture, education, business climate improvement, cadastre and the financial sector which all help support job creation. In addition, the Bank has provided €33 million in budget support for a Sustainable Employment Development Policy Operation to strengthen the institutional and regulatory environment for employment creation. Ms. Armitage noted that the European Commission supports development of the new power plant project (which would be

fully consistent with EU environmental requirements) and that a priority for many of Kosovo's partners (including the EU) was to close the old, highly polluting Kosovo A Power Plant.

A representative of the education unions highlighted the importance of reforms in the education sector, concluding that not much had changed in the Kosovo schools as they lacked the tools to become modern. He questioned the results of the promised strategies in the education sector and underlined that children should not fail for lack of education.

The Director of Kosovo's Center for Gender Studies considered that the proposed CPS lacked a gender focus. She suggested that gender issues should be included in all the projects. As an example, she wanted to see in the CPS the unemployment figures for women. The improvements in gender aspects proposed in the CPS were deemed by her as insufficient.

A World Bank consultant working on the agriculture and cadastre sector provided information on the gender aspects of some Bank-funded projects. He mentioned that both the ongoing agriculture and cadastre projects include design features that promote women's legitimate rights through, for example, special outreach efforts, training for business development and secure title to land.

A representative of GAP institute claimed it was difficult to see Government's development strategy. In her view, the priorities put forward in the proposed CPS were contrary to the country's real priorities. Her objection was that the challenge of rule of law was dealt with only through the strategy of EU integration. She also suggested that there were other alternatives to promote development besides building a new power plant.

Agenda Item 2: Is the proposed package (of ongoing operations, new lending, analytical work, and technical assistance) appropriate to address the challenges?

The moderator noted that governance, gender, and education were some of the issues discussed in the previous session and invited participants to discuss those further. His view was that, while governance and rule of law was clearly a very big issue for Kosovo, the EU and many other partners might play a bigger role than the World Bank in that regard. He agreed that gender should not be just a box in the CPS document and welcomed additional ideas on addressing this issue.

Mr. Olters highlighted the importance of consultations with all stakeholders in Kosovo, not least with a view to identifying development priorities with broad-based support. He explained that every Bank-funded project would need to be ratified by Parliament with a 2/3-majority because they would be funded with IDA credits and not grants. He also explained the links between the different Bank-funded projects. For example, the Cadastre and Real Estate project, provided farmers with titles documenting their land ownership, which, in turn, could enable them to use land as collateral. The Agriculture project was helping farmers and small agri-businesses with applications for loans from commercial banks.
One participant questioned the results of several Bank-funded projects such as the Institutional Development in Education, the Business Environment Technical Assistance, and the Cleanup and Land Reclamation Projects. He noted that students did not study agriculture, that last year Kosovo ranked lower in the Doing Business ranking, and that there were protests of area residents dissatisfied with the Cleanup Project. He praised the Real Estate and Cadastre

Registration Project, but expressed concerns that unemployment might not be addressed sufficiently in the new CPS. The moderator highlighted that creating jobs was a huge challenge and required a multi-pronged approach to growth and business development.

One participant asked why all World Bank funding needed to be channeled through the Government and not through CSOs, especially since disbursement was an issue on the side of government agencies. The moderator noted that the World Bank was owned by the countries of the world and that it provided financing to the member governments. The lending contracts had to be between the World Bank and the government, as required by the Bank's founding charter.

One participant suggested that the education piece in the strategy should be bigger in order to address fundamental issues and expressed reservations about indebting future generations. Specifically, she suggested a future education project should aim at making education in Kosovo aligned with EU standards.

A representative of the Group for Legal and Political Studies suggested that the World Bank could monitor Government's budget planning and help competition in the markets, such as the telecom sector. One participant expressed the opinion that the World Bank would suppress the market for renewable energy in Kosovo with its proposed support for a new power plant. She noted that an external expert claimed that 80,000 jobs could be created if the Bank invested in renewable energy in Kosovo. The moderator suggested that the crux of the discussion on energy was about how much electricity Kosovo needs and where to get that electricity from. The moderator explained that Bank officials had reviewed all of the analyses very carefully and published all of its own analysis in English and Albanian.

One participant disagreed with the Bank's analysis and noted that the Bank should be held to its own standards for supporting renewable energy in the future and for making accurate assessments of the various energy alternatives. The moderator confirmed that the World Bank would provide many more opportunities to discuss the proposed Kosovo Power Project as it moved forward with considering the project and conducting all the necessary environmental, technical, and social assessments.

A representative of KEK workers' union suggested that the World Bank should focus on improving energy efficiency and expanding the existing irrigation system in Kosovo.

A representative of IFC informed the participants about the areas where IFC wanted to increase its program in Kosovo, explaining that IFC had been working on strengthening the competitiveness of Kosovo's goods by improving adherence to international standards and technical cooperation. He noted that IFC was active also in supporting improvements in corporate governance and trade logistics. He highlighted that IFC's investment in one leading commercial bank was very important, as it was the first bank in Kosovo and that IFC is also working with SMEs. The IFC representative also noted that Kosovo would be included in IFC's Balkan Energy Renewable Program which aimed at helping firms to design projects and financial institutions to develop new products for renewable energy projects.

One participant asked whether the World Bank supported the blockade of Serbian goods to Kosovo. The moderator responded that the Bank did not support blockades anywhere in the world because open markets, when managed well, were considered contributors to growth. When

a follow-up question was asked about subsidies for Kosovo's products in relation to Serbian and Bosnian subsidies, the moderator noted that issues of protection warranted great care.

One participant noted that the figures for GNI coefficient and the birthrate were not recorded in Kosovo so it was difficult to assess whether improvements had been achieved in the well-being of the population. He asked if the Bank did any analysis on these figures and if it were to finance a project supporting improvement of statistics in Kosovo. The Country Manager agreed that more accurate and more timely statistics were crucial to understanding changes in poverty levels and agreed that having EU standards in education was very important because it could help with employment. He underlined that it took a lot of time to achieve these improvements.

Staff from the Bank office in Pristina explained the outcomes of the ongoing education project, including the decentralization of fiscal management of schools. School development grants support selected schools to prepare and implement quality enhancement plans. Selection criteria include retention and attendance rates among girls. There was also support for a training mechanism for teachers linked to salary increases, which was likely to continue. The project also strengthened the capacity in the Ministry of Education to improve the assessment of the *matura* exam. Links between education and the labor market had been supported through the budget support operation SEDPO. The Bank official also explained that the project provided international training on the design of test questions, that the Ministry of Education was building mechanisms to ensure misconduct was not repeated, and that education institutions would receive further capacity building. Responding to a comment on politicization of schools in Kosovo, the Bank official encouraged civil society to devote more attention to the education sector.

Following the lunch break, staff from the Bank office provided clarifications on the results of the Environmental Clean-Up Project. The project was ongoing, with the objectives for the ash dump and overburden dump stabilization having already been achieved. The highest point of the ash dump had been lowered by 14 meters and its slide towards the village of Dardhishte had been stopped. Some 100,000 plants have been planted on top of the overburden dumps and, by the end of May, the current open-air transport of ash should be replaced with a hydraulic transport of ash. At the end of April, the process of cleaning up tons of phenolic waste water should be completed. The Government of Kosovo had signed bilateral agreements with countries such as Sweden and Germany to remove some of the waste.

Agenda Item 3: Is the proposed comprehensive approach to supporting the energy sector sufficient to address concerns about the Kosovo lignite power plant?

The moderator provided a framework for the discussion by posing a few key questions: how much electricity did Kosovo need and from where should it get it? How much energy could Kosovo get from energy efficiency, from renewable energy, and where could it get the rest of the power needed?

To frame the discussion, Bank staff gave a short presentation and responded to some questions raised earlier in the day.

The importance of affordable and reliable power supply for small businesses was underlined. The Bank official explained that the Bank's analysis assumed higher carbon prices than were demanded in the market and that the forecasted demand used in the Bank's analysis of Kosovo's energy demand was very optimistic. He noted that, even if a smaller supply-demand gap was used, Kosovo still needed to determine how it was going to secure its energy in the coming years, particularly as the country was legally obligated to decommission the highly polluting Kosovo A Power Plant by 2017. The Bank's analysis was also optimistic about the potential for renewable sources of energy, such as biogas and wind power. The Bank had been encouraging the Government to make better use of solar power for water heating. The Bank noted that a detailed analysis of externalities had not yet been conducted because the project was still in the earliest stages of consideration. However, this analysis would be done at the stage of Project Appraisal and consultations would be conducted on its findings .

The Bank also clarified that it would not support the New Kosovo Power Plant if it did not meet EU standards. The Bank official provided clarifications on the issue of water supply, sharing data from a technical study on the Iber-Lepenc Canal which concluded that there was sufficient water for power generation and that the Bank's water project would help with the conveyance system and reduction of losses.

The Bank official also responded to an earlier comment about the inclusion of the rehabilitation of the Kosovo B power plant in the project package, noting that Kosovo's Parliament had approved the strategy to combine the closure of Kosovo A, the rehabilitation of Kosovo B, and the opening of the New Kosovo Power Plant. For as long as the Parliamentary decision allowed for an economically viable investment and took into consideration all the environmental and social safeguards, the World Bank would not argue against the current Parliamentary decision.

The Bank official explained that his team and Mr. Daniel Kammen's team at Berkeley have had numerous discussions about their respective analyses and that discussions were ongoing. He noted that running a model on an energy basis versus a capacity basis did not take storage into account and that a model needed to plan for meeting the peak demand during winter.

A participant disagreed with the findings of the Options Study, mainly because, in his view, peak consumption was treated in the study as base-load. Another participant warned that the proposed project would create an energy monopoly which would lobby the government to use more of its energy rather than promote energy efficiency. The moderator reiterated that, if the project was not in conformity with EU Directives, the Bank would not finance it, noting that the EU had confirmed its support for the proposed project and that, as currently planned, it considered the project to be in conformity with the relevant EU Directives.
Bank officials repeated that the Partial Risk Guarantee for the proposed project had not yet been approved and that a variety of studies needed to be conducted prior to the Bank's final consideration of the project. The moderator noted that it would take at least a year before the proposed project could be presented to the World Bank's Board of Executive Directors for further consideration – and then only if the project met all the Bank's environmental and social requirements.

Bank officials explained that the location of the new power plant would be next to Kosovo B and would thus not be a green field project, as suggested by representatives from the Municipality of Obiliq.

A discussion followed about the EU's rules on monopoly and the right of consumers to choose their energy supply. A participant objected to the proposed project saying that it breached the principles of the EU rules on monopoly. Bank officials agreed that Kosovo should have a fully liberalized, deregulated market but noted that, in other countries, "switch" rates by energy consumers were very low whereas the investments required to offer the switch were very expensive. Generally, only the large commercial consumers switched energy providers.

One Bank official noted that new capacity for coal power would not likely crowd out other renewable investments because Kosovo had a feed-in tariff which meant the operator was obliged to dispatch renewable energy as a priority. He also noted that the Bank was in favor of the 400kV transmission line with Albania and that he worked on the proposal for the feasibility study for this transmission line in 2002/03.

The point was raised by one participant that support from the EU for the proposed power project was not ensured and that CSOs had sent a letter to the EC asking them to confirm whether they supported the proposed new Kosovo power plant. He also remarked that the letter of support from the US Government was signed by a low-ranking Treasury official and not by the State Secretary. The moderator remarked that EC had told the Bank they supported the project and that the Bank's usual interlocutor in the US Government is the Treasury Department.

Questions were raised about the Bank's Options Study compared with the Berkeley RAEL alternatives study, as well as about the costs of the proposed power project. Specifically, one participant asked why the Bank had not modified its numbers on the cost of externalities since its last presentation and why the Bank was not conducting another externalities study. Bank officials repeated that the proposed project would not be going to the Board for at least a year. During that time, the Bank would undertake more detailed analyses about all aspects of the project. For example, the baseline Environment Social Impact Assessment (ESIA) and the Air Quality Monitoring had not been done but the Government and Bank would prepare these over the next year. Bank officials noted that the Board will not review the project until all of the ESIAs were drafted, discussed, and disseminated.

It was also noted that the studies had to be site-specific and could not rely on data from other countries.

The moderator clarified that the Bank had not *approved* the project, but rather agreed to consider "in-principle" the Partial Risk Guarantee by launching all the necessary preparatory studies. Ms. Armitage clarified the purpose of the CPS is to present the broader, long-range vision over the next four years and that the projects proposed within the CPS would require separate, individual approval by the Bank's Board. She explained that when the Board discussed the CPS at the end of May or early June, it would be looking principally at whether the Bank was proposing the right kinds of projects in Kosovo in relation to the country's overarching development challenges.

One participant suggested three points for further discussion: not treating the peak demand as base-load; working together on decoupling the proposed new power plant and the existing Kosovo B power plant; and working together on energy efficiency and renewable energy projects. He agreed that the targets for reduction of losses in the Options Study were ambitious.

The Bank's energy sector coordinator for Southeast Europe explained that increasing end-use energy efficiency was difficult because it required awareness and economic support. The introduction of price signals should be combined with support for the poor. Energy efficiency required sustained efforts over long periods of time, but very quick results were achievable in the public sector and by retrofitting public buildings. He noted that this would likely form an important part of the proposed US$32-million energy efficiency and renewables project to be supported by the Bank in coming years. Ms. Armitage added that the proposed project would have subsidies for poor households for insulation, windows, and solar panels. The proposed project would also have a renewable energy component and the Bank would co-host a donor conference on energy in the fall of 2012. She underlined that renewable energy and energy efficiency represented a large part of proposed new lending in the CPS for Kosovo and that the decisions to include these initiatives in the strategy had been the direct result of feedback received from the CSOs in attendance. She noted that the proposed water project in the new CPS also resulted from productive, ongoing discussions with civil society groups and community members in Kosovo. Ms. Armitage noted that, as the Bank moved forward with these projects, all of the necessary studies would be shared and consulted with civil society and the community.

The representative of the KEK workers' union suggested that power plants could provide heating for the bigger cities in Kosovo and asked again about the Bank's position on the 8,000 employees of KEK if Kosovo A were closed and Kosovo B and the distribution were "given away" to private companies. He asked how workers could get involved in the decommissioning of Kosovo A and what would happen with their property once construction and resettlement took place. He wanted to know what guarantees would workers have that their livelihoods would not be risked. A Bank official noted that, based on data from 2009, 50 percent of the KEK employees were older than the age of 55-58 so they were close to retirement. In Government documents, investors were required to keep the workers employed for three years on the same or better terms. After 3 years, they would have to follow the local laws. New construction would generate direct and indirect employment for the next four years (for 600MW, there would be a need for 1,000 people for four years). Local skilled workers would be preferred for construction by the investor. There would be another 300-400 skilled workers in operation and employment from decommissioning Kosovo A for at least 2-3 years. A combination of age profile, security from the new investor, and the new jobs that would be needed should compensate well for the loss of jobs by closing Kosovo A. A more detailed analysis would be done as part of a Poverty and Social Impact Assessment. The Bank official also explained that cogeneration for district heating of Pristina would be implemented in the next two years and that it would be connected with Kosovo B. Ms. Armitage noted that any resettlement needed for the new project would be handled according to the Bank's policies.

Agenda Item 4: Are there other areas of emphasis for the Country Partnership Strategy that have been overlooked? What risks are to be expected and how should the strategy address these risks?

The moderator asked the participants to provide any input they have on the last two guiding questions – was there anything left out of the CPS and if there was some other risk for the strategy as a whole besides the risks already identified in the proposed CPS?

One representative asked to see the link between the strategy and the rule of law and suggested that maybe something on improving the judiciary could be added to the CPS. Another participant said the Bank was doing more harm than good with the CPS by worsening the health perspective for the people of Kosovo with the new power plant, by encouraging a monopoly on energy generation, and spending US$32 million on Technical Assistance and studies. She suggested that the power plant would be very expensive and Obiliq would lose its village because its citizens' compensation would happen in such a way that they would be removed from their villages into apartment blocks. She added that the Bank would fail to compensate the community properly on resettlement and that, although the Bank would improve water quality, there simply would not be enough water in Kosovo. She mentioned the risk of the new power project hindering Kosovo's EU integration. The moderator remarked that the Bank agreed on the importance of EU integration for Kosovo. He reiterated that Bank officials did not know yet whether the Partial Risk Guarantee for the power plant project would be approved by the World Bank Board. However, he underlined that identifying the country-wide risks was important and that many of the issues raised regarding the power plant would be discussed in greater detail once some of the studies were under way.

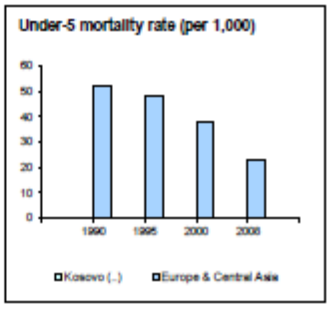
One participant asked whether the Bank could share details about the US$32 million Energy Efficiency and Renewable Energy Project. Ms. Armitage noted that the project's initial concept documents would be available publically later in the year when and preparation of the project started. She noted that all project information would be published on the website according to Bank policies and that she was happy to share with them information on other energy efficiency projects in the region.

Ms. Armitage noted that the draft CPS document would be shared with the CSOs when it was sent to the Bank's Board of Directors because the Government had agreed for simultaneous disclosure of the CPS. Comments could be sent to Bank staff present in the meeting and to the Board. Ms. Armitage emphasized that the CPS was a living strategy document, not one set in stone. This draft document was the Bank's best assessment at the moment of how it could help Kosovo to address its development challenges. It was the beginning of a process and the CPS could be adjusted over the next four years as implementation began through the CPS Progress Report. The final version of the CPS would incorporate possible comments/changes made by the Board and be posted on the Bank's Kosovo website.

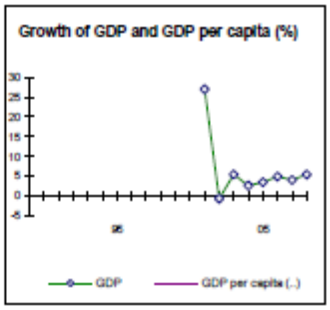
The moderator thanked the participants for a very useful discussion. The Country Manager noted there would be more discussions as preparations on all the projects proposed in the CPS move forward.

Annex 3: At-a-Glance

Key Development Indicators	Kosovo	Europe & Central Asia	Lower middle Income
(2009)			
Population, mid-year (millions)	1.8	403	3,767
Surface area (thousand sq. km)	11	23,549	31,923
Population growth (%)	0.6	0.3	1.2
Urban population (% of total population)	..	64	40
GNI (Atlas method, US$ billions)	5.9	2,772	7,682
GNI per capita (Atlas method, US$)	3,240	6,880	2,039
GNI per capita (PPP, international $)	..	13,297	4,502
GDP growth (%)	4.0	4.0	7.5
GDP per capita growth (%)	3.4	3.6	6.3
(most recent estimate, 2003–2008)			
Poverty headcount ratio at $1.25 a day (PPP, %)	..	4	..
Poverty headcount ratio at $2.00 a day (PPP, %)	..	9	..
Life expectancy at birth (years)	69	69	68
Infant mortality (per 1,000 live births)	..	20	44
Child malnutrition (% of children under 5)	..	..	25
Adult literacy, male (% of ages 15 and older)	..	99	87
Adult literacy, female (% of ages 15 and older)	..	97	73
Gross primary enrollment, male (% of age group)	..	100	109
Gross primary enrollment, female (% of age group)	..	98	105
Access to an improved water source (% of population)	..	95	86
Access to improved sanitation facilities (% of population)	..	89	50



Net Aid Flows	1980	1990	2000	2009
(US$ millions)				
Net ODA and official aid	..	..	..	..
Top 3 donors (in 2007):				
n.a.	..	..	..	..
n.a.	..	..	..	..
n.a.	..	..	..	..
Aid (% of GNI)	..	..	..	..
Aid per capita (US$)	..	..	..	..



Long-Term Economic Trends				
Consumer prices (annual % change)	..	..	..	-2.4
GDP implicit deflator (annual % change)	..	..	*11.4*	-3.4
Exchange rate (annual average, local per US$)	..	..	1.1	0.7
Terms of trade index (2000 = 100)	..	..	..	..

	1980–90	1990–2000	2000–09
	(average annual growth %)		
Population, mid-year (millions)	..	..	..
GDP (US$ millions)	..	..	4.8
	(% of GDP)		
Agriculture	..	..	..
Industry	..	..	..
Manufacturing	..	..	..
Services	..	..	..
Household final consumption expenditure	..	..	..
General gov't final consumption expenditure	..	..	..
Gross capital formation	..	..	..
Exports of goods and services	..	..	..
Imports of goods and services	..	..	..
Gross savings	..	..	..

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. .. indicates data are not available.

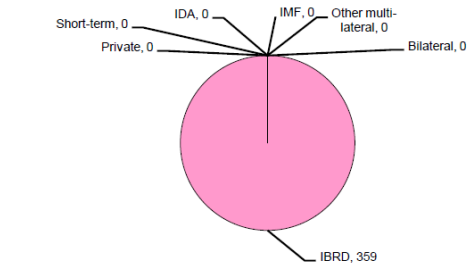
Development Economics, Development Data Group (DECDG).

Balance of Payments and Trade	2000	2009
(US$ millions)		
Total merchandise exports (fob)	..	..
Total merchandise imports (cif)	..	..
Net trade in goods and services	..	-2,171
Current account balance	..	-1,002
as a % of GDP	..	-18.6
Workers' remittances and compensation of employees (receipts)	..	..
Reserves, including gold	..	..

Central Government Finance		
(% of GDP)		
Current revenue (including grants)	..	29.7
Tax revenue	..	21.1
Current expenditure	..	18.6
Overall surplus/deficit	..	-0.6
Highest marginal tax rate (%)		
Individual	..	..
Corporate	..	..

External Debt and Resource Flows		
(US$ millions)		
Total debt outstanding and disbursed	..	359
Total debt service	..	230
Debt relief (HIPC, MDRI)	–	–
Total debt (% of GDP)	..	6.7
Total debt service (% of exports)	..	14.5
Foreign direct investment (net inflows)	..	426
Portfolio equity (net inflows)	..	0

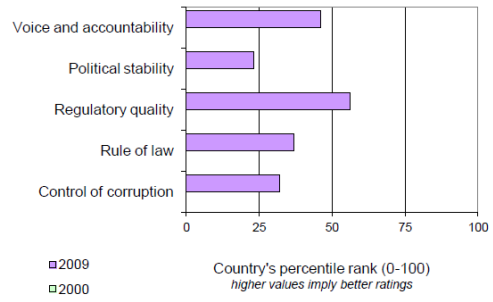
Composition of total external debt, 2009



US$ millions

Private Sector Development	2000	2009
Time required to start a business (days)	–	52
Cost to start a business (% of GNI per capita)	–	26.4
Time required to register property (days)	–	33
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2009
n.a.	..	..
n.a.	..	..
Stock market capitalization (% of GDP)	..	..
Bank capital to asset ratio (%)	..	..

Governance indicators, 2000 and 2009



Source: Kaufmann-Kraay-Mastruzzi, World Bank

Technology and Infrastructure	2000	2008
Paved roads (% of total)	..	..
Fixed line and mobile phone subscribers (per 100 people)	..	..
High technology exports (% of manufactured exports)	..	..

Environment		
Agricultural land (% of land area)	..	*52*
Forest area (% of land area)	..	..
Terrestrial protected areas (% of surface area)	..	..
Freshwater resources per capita (cu. meters)	..	..
Freshwater withdrawal (billion cubic meters)	..	..
CO2 emissions per capita (mt)	..	..
GDP per unit of energy use (2005 PPP $ per kg of oil equivalent)	..	..
Energy use per capita (kg of oil equivalent)	..	..

World Bank Group portfolio	2000	2009
(US$ millions)		
IBRD		
Total debt outstanding and disbursed	–	359
Disbursements	–	0
Principal repayments	–	208
Interest payments	–	23
IDA		
Total debt outstanding and disbursed	–	0
Disbursements	–	0
Total debt service	–	0
IFC *(fiscal year)*		
Total disbursed and outstanding portfolio	–	–
of which IFC own account	–	–
Disbursements for IFC own account	–	–
Portfolio sales, prepayments and repayments for IFC own account	–	–
MIGA		
Gross exposure	–	–
New guarantees	–	–

Note: Figures in italics are for years other than those specified. 2009 data are preliminary. 2/25/11
.. indicates data are not available. – indicates observation is not applicable.

Development Economics, Development Data Group (DECDG).

Annex 4: Selected Indicators* of Bank Portfolio Performance and Management

As Of Date 1/30/2012

Indicator	2009	2010	2011	2012
Portfolio Assessment				
Number of Projects Under Implementation [a]	6	8	9	7
Average Implementation Period (years) [b]	2.6	2.8	2.9	3.6
Percent of Problem Projects by Number [a, c]	33.3	12.5	55.6	14.3
Percent of Problem Projects by Amount [a, c]	30.2	15.8	50.3	13.0
Percent of Projects at Risk by Number [a, d]	33.3	25.0	55.6	14.3
Percent of Projects at Risk by Amount [a, d]	30.2	20.6	50.3	13.0
Disbursement Ratio (%) [e]	13.8	24.4	13.0	7.8
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	18	2
Proj Eval by OED by Amt (US$ millions)	22.4	6.4
% of OED Projects Rated U or HU by Number	5.6	0.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 5: Summary of Non-Lending Services

Product	*Completion FY*	*Audience* [a]	*Objective* [b]
Recent completions			
Country Economic Memorandum	2010	G,B,PD,D	KG, PD, PS
Public Expenditure Review	2011	G,B,PD,D	KG, PD, PS
Public Works	2011	G,B,D	KG, PS
Comprehensive Water Sector Assessment	2011	G,B,D	KG, PS
Migration and Economic Development	2011	G,B,D	KG, PS
Underway			
Country Fiduciary Assessment Report	2012	G,B,D	KG, PS
Environmental Analysis	2012	G,B,D	KG, PS
Planned			
Transport Sector TA	2013	G,B,D	KG, PS
Financial Sector Assesment	2012-2013	G,B,D	KG, PS
Road Maintenance	2012-2014	G,B,D	KG, PS

a. Government, donor, Bank, public dissemination.
b. Knowledge generation, public debate, problem-solving.

Annex 6: Social Indicators

	Latest single year			Same region/income group	
	1980-85	1990-95	2003-09	Europe & Central Asia	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	1.7	2.0	1.8	404.2	3,810.8
Growth rate (% annual average for period)	2.0	1.7	0.5	0.2	1.2
Urban population (% of population)	..	..	..	64.0	40.9
Total fertility rate (births per woman)	4.6	2.7	2.3	1.8	2.5
POVERTY					
(% of population)					
National headcount index	..	..	45.0	..	..
Urban headcount index	..	..	37.4	..	..
Rural headcount index	..	..	49.2	..	..
INCOME					
GNI per capita (US$)	..	..	3,240	6,793	2,321
Consumer price index (2000=100)	..	..	112	141	130
Food price index (2000=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	..	..	..
Lowest quintile (% of income or consumption)	..	..	..	..	..
Highest quintile (% of income or consumption)	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.5	3.9	2.1
Education (% of GDP)	..	..	3.7	4.1	4.1
Net primary school enrollment rate					
(% of age group)					
Total	..	..	97	92	87
Male	..	..	97	93	88
Female	..	..	96	92	86
Access to an improved water source					
(% of population)					
Total	..	..	..	95	86
Urban	..	..	..	98	94
Rural	..	..	..	89	81
Immunization rate					
(% of children ages 12-23 months)			98.0		
Measles	..	..	95	96	79
DPT	..	..	97	95	79
Child malnutrition (% under 5 years)	..	..	..	..	24
Life expectancy at birth					
(years)					
Total	67	69	70	70	68
Male	65	67	68	66	66
Female	69	71	72	75	70
Mortality					
Infant (per 1,000 live births) (2004-09)	..	..	35	19	43
Under 5 (per 1,000)	..	..	..	21	57
Adult (15-59)					
Male (per 1,000 population)		..	..	286	201
Female (per 1,000 population)	..	..	..	123	136
Maternal (modeled, per 100,000 live births)	..	..	..	32	230
Births attended by skilled health staff (%)	..	..	98	97	66

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment rate: break in series between 1997 and 1998 due to change from ISCED76 to ISCED97. Immunization: refers to children ages 12-23 months who received vaccinations before one year of age or at any time before the survey.

World Development Indicators database, World Bank - 15 April 2011.

Annex 7: Key Economic Indicators

Indicator	Actual			Estimate		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014
National accounts (as % of GDP)								
Gross domestic product[a]	100	100	100	100	100	100	100	100
Agriculture	12	12	12	12	12	13	13	14
Industry	20	20	20	20	20	20	19	20
Services	68	68	68	68	68	68	68	66
Total Consumption	113	113	111	108	101	98	95	94
Gross domestic fixed investment	26	29	27	30	31	31	32	31
Government investment	4	8	10	12	13	13	14	15
Private investment	22	20	17	18	19	18	18	16
Exports (GNFS)[b]	15	14	15	19	20	21	21	22
Imports (GNFS)	54	56	54	60	61	59	57	56
Gross domestic savings	-13	-13	-11	-8	-1	2	5	6
Gross national savings[c]	17	13	13	15	20	21	23	24
Memorandum items								
Gross domestic product (US$ million at current prices)	4661	5668	5449	5594	6453	6300	6709	7034
GNI per capita (US$, Atlas method)	..	3070	3280	3410	3530	3660	3870	3930
Real annual growth rates (%, calculated from .. prices)								
Gross domestic product at market prices	6.3	6.9	2.9	3.9	5.0	4.0	4.1	3.2
Gross Domestic Income	..	..	..	..	..	..	..	..
Real annual per capita growth rates (%, calculated from .. prices)								
Gross domestic product at market prices	5.4	6.0	2.1	3.1	4.2	3.1	3.0	2.2
Total consumption	..	..	..	..	..	..	..	..
Private consumption	..	..	..	..	..	..	..	..
Balance of Payments (US$ millions)								
Exports (GNFS)[b]	690	817	838	1036	1294	1295	1397	1514
Merchandise FOB	226	292	240	405	448	455	501	559
Imports (GNFS)[b]	2510	3195	2929	3366	3942	3689	3842	3917
Merchandise FOB	2118	2776	2516	2822	3355	3133	3279	3362
Resource balance	-1820	-2378	-2091	-2330	-2648	-2394	-2445	-2403
Net current transfers	1105	1221	1206	1179	1167	1088	1049	1094
Current account balance	-415	-924	-770	-1032	-1312	-1154	-1229	-1130
Net private foreign direct investment	591	503	386	475	516	542	806	511
Long-term loans (net)	0	0	0	0	0	0	0	0
Official	..	..	..	..	..	..	..	..
Private	..	..	..	..	..	..	..	..
Other capital (net, incl. errors & omissions)	222	455	253	618	..	..	..	..
Change in reserves[d]	-397	-34	131	-62	..	..	..	..
Memorandum items								
Resource balance (% of GDP)	-39.0	-41.9	-38.4	-41.7	-41.0	-38.0	-36.4	..
Real annual growth rates (.. prices)								
Merchandise exports (FOB)	..	..	..	..	..	..	..	..
Primary	..	..	..	..	..	..	..	..
Manufactures	..	..	..	..	..	..	..	..
Merchandise imports (CIF)	..	..	..	..	..	..	..	..

Continued

Indicator	Actual			Estimate		Projected		
	2007	2008	2009	2010	2011	2012	2013	2014
Public finance (as % of GDP at market prices)[e]								
Current revenues	26.4	24.4	29.3	27.6	28.1	28.2	27.1	27.8
Current expenditures	14.9	15.5	16.2	16.5	17.9	18.4	18.5	18.7
Current account surplus (+) or deficit (-)	11.5	9.0	13.1	10.6	10.2	9.7	8.5	9.1
Capital expenditure	2.8	7.4	10.8	12.2	11.9	12.0	11.7	10.7
Foreign financing	..	..	..	..	..	..	..	..
Monetary indicators								
M2/GDP	34.7	38.1	42.1	41.7	41.0	43.7	46.4	..
Growth of M2 (%)	23.8	24.4	12.2	6.7	8.2	13.0	13.0	..
Private sector credit growth /	40.1	32.7	8.9	12.6	15.0	9.4	9.3	..
total credit growth (%)	40.1	32.7	8.9	12.6	15.0	9.4	9.3	
Price indices(.. =100)								
Merchandise export price index	..	..	..	..	..	..	..	..
Merchandise import price index	92.1	100.0	95.2	100.9	110.0	..	..	..
Merchandise terms of trade index	..	..	..	..	..	..	..	..
Real exchange rate (US$/LCU)[f]	..	..	..	..	..	..	..	..
Real interest rates								
Consumer price index (% change)	4.4	9.4	-2.4	3.5	7.3	1.6	0.7	0.7
GDP deflator (% change)	6.2	-1.3	3.7	5.8	5.1	2.7	2.0	2.0

a. GDP at factor cost

b. "GNFS" denotes "goods and nonfactor services."

c. Includes net unrequited transfers excluding official capital grants.

d. Includes use of IMF resources.

e. Consolidated central government.

f. "LCU" denotes "local currency units." An increase in US$/LCU denotes appreciation.

Annex 8: Key Exposure Indicators

Indicator				Estimated		Projected	
	2008	2009	2010	2011	2012	2013	2014
Total debt outstanding and disbursed (TDO) (US$m)[a]	0	364	382	400	490	491	520
Net disbursements (US$m)[a]	..	-234	46	36	187	46	38
Total debt service (TDS) (US$m)[a]	..	259	19	21	28	29	28
Debt and debt service indicators (%)							
TDO/XGS[b]	0.0	21.9	20.7	17.9	22.5	21.3	19.1
TDO/GDP	0.0	6.7	6.8	6.6	8.0	9.7	11.0
TDS/XGS	..	..	..	..	..	..	..
Concessional/TDO	..	0.0	7.7	14.8	42.8	46.0	46.1
IBRD exposure indicators (%)							
IBRD DS/public DS	..	..	..	..	..	..	..
Preferred creditor DS/public DS (%)[c]	..	..	..	..	..	..	..
IBRD DS/XGS	0.0	11.3	1.4	1.2	1.2	1.1	1.0
IBRD TDO (US$m)[d]	0	346	331	315	300	286	271
Of which present value of guarantees (US$m)	0	0	0	0	0	0	0
Share of IBRD portfolio (%)	0	0	0	0	0	0	0
IDA TDO (US$m)[d]	0	0	0	12	17	25	33
IFC (US$m)							
Loans	0.0	0.0	8.4	11.3	5.0	5.0	5.0
Equity and quasi-equity /c	0	0	0	0	0	0	0
MIGA							
MIGA guarantees (US$m)	0	0	0	0	0	..	..

a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital.

b. "XGS" denotes exports of goods and services, including workers' remittances.

c. Preferred creditors are defined as IBRD, IDA, the regional multilateral development banks, the IMF, and the Bank for International Settlements.

d. Includes present value of guarantees.

e. Includes equity and quasi-equity types of both loan and equity instruments.

Annex 9: IDA Program Summary

(in US million)

Fiscal year	*Proj ID*	*US$(M)*	*Strategic Rewards b (H/M/L)*	*Implementation b Risks (H/M/L)*
2012	SEDPO2	47.0	H	M
	Result	***47.0***		
2013	AF for Energy Sector Clean up and Land Reclam	3.2**	H	M
	Energy Efficiency and Renewable Energy	32.5		
	Result	***35.7***	H	M
2014	Education Improvement Project	10.0	H	M
	PRG for KRPP and Kosovo B	14.5 (58)*		
	Result	***24.5***		
2015	Water Supply	18.0	H	M
	Result	***18.0***		
Overall Result		**78.2**		

*Only 25 percent of total PRG amount is counted. Preparation of PRG is subject to the findings of an external expert panel that is currently reviewing the proposed project to ensure that it complies fully with Bank policies regarding investments in fossil-fuel fired power generation plants. The panel is expected to complete and disseminate by December 2011

**includes US$2.2m re-allocated from cancelled LPTAP funds.

Annex 10: IFC Investment Operations Program

	2009	2010	2011	2012*
Original Commitments (US$m)				
IFC and Participants		6.45	8.25	0.33
IFC's Own Accounts only		6.45	8.25	0.33
Original Commitments by Sector (%)- IFC Accounts only				
FINANCE & INSURANCE			100	100
INDUSTRIAL & CONSUMER PRODUCTS		100		
Total	0	100	100	100
Original Commitments by Investment Instrument (%) - IFC Accounts only				
Guarantee				100
Loan		100		
Quasi loan			100	
Total	0	100	100	100

* Data as of January 01,2012

Annex 11: Operations Portfolio (IDA)

as of January 30, 2012

Closed Projects 21

IBRD/IDA *

Total Disbursed (Active)	17.10
of which has been repaid	0.00
Total Disbursed (Closed)	42.34
of which has been repaid	0.00
Total Disbursed (Active + Closed)	59.44
of which has been repaid	0.00
Total Undisbursed (Active)	60.81
Total Undisbursed (Closed)	2.28
Total Undisbursed (Active + Closed)	63.09

Active Projects

		Last PSR Supervision Rating			Original Amount in US$ Millions
Project ID	Project Name	Development Objectives	Implementation Progress	Fiscal Year	IDA
P112526	Agriculture and Rural Devpt	S	S	2011	20.15
P096181	CLEAN UP & LAND RECLAM	MS	MS	2006	10.5
P102174	Inst. Devt. for Education	MU	MS	2008	10
P101614	Public Sector Modernization	MS	MS	2010	8
P101214	REAL ESTATE CADASTRE	S	S	2010	12.25
P088045	XK Business Env TA	MS	MS	2005	7
P108080	XK Fin. Sect. Strengthen.&Market Infrast	MS	MS	2008	8.85
Overall Result					76.75

Annex 12: IFC Committed and Disbursed Outstanding Investment Portfolio

as of January 30, 2012

		Committed					Disbursed Outstanding				
FY Approval	Company	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
2010	Newko Balkan	6.73	0	0	0	0	6.73	0	0	0	0
2011	TEB Kosovo	0	0	8.41	0	0	0	0	8.41	0	0
Total Portfolio:		**6.73**	**0**	**8.41**	**0**	**0**	**6.73**	**0**	**8.41**	**0**	**0**

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

ANNEX 5. COMPREHENSIVE WATER SECTOR ASSESSMENT

Ministry of Environment and Spatial Planning

World Bank

A Model for Water Resources Planning

WEAP Model Activities

Water Security for Central Kosovo

March 2011

AMENAGEMENT & ENVIRONNEMENT

Office International de l'Eau

TABLE OF CONTENTS

INDEX OF FIGURES, TABLES AND MAPS

ACRONYMS

SCE	Company leader of the Consortium
OIEau	Office International for Water – Office international de l'Eau
RDM	Robust Decision Making
WB	World Bank
WEAP	Water Evaluation and Planning System
IL	IBER LEPENC Company
GIS	Geographic Information System
E-Flow	Environmental Flow
RWSC	Regional Water Supply Company

I. GENERAL PRESENTATION OF WEAP MODEL

The WEAP System model was developed by the SEI (Stockholm Environment Institute) to enable evaluation of planning and management issues associated with water resources development. The WEAP model can be applied to both municipal and agricultural systems and can address a wide range of issues including demand analyses, water conservation, water rights and allocation priorities, streamflow simulation, reservoir operation, ecosystem requirements and project cost-benefit analyses.

WEAP model has two primary functions:

- Simulation of natural hydrological processes (e.g., evapotranspiration, runoff and infiltration) to enable assessment of the availability of water within a catchments.
- Simulation of anthropogenic activities superimposed on the natural system to influence water resources and their allocation (i.e., consumptive and non-consumptive water demands) to enable evaluation of the impact of human water use.

To allow simulation of water allocation, the elements that comprise the water demand-supply system and their spatial relationship are characterized for the catchments under consideration. The system is represented in terms of its various water sources (e.g., surface water, groundwater); withdrawal, transmission, reservoirs, and wastewater treatment facilities, and water demands (i.e., user-defined sectors but typically comprising industry, mines, irrigation, domestic supply, etc.).

The data structure and level of detail can be customized to correspond to the requirements of a particular analysis and constraints imposed by limited data. A graphical interface facilitates visualization of the physical features of the system and their layout within the catchments.

Typically, the WEAP model is applied by configuring the system to simulate a recent “baseline” year (in our case it will be 2010), for which the water availability and demands can be confidently determined. The model is then used to simulate alternative scenarios (i.e., plausible futures based on “what if” propositions) to assess the impact of different development and management options.

II. INTRODUCTION OF WEAP MODEL ACTIVITIES IN THE PROJECT & OBJECTIVE OF THIS ACTIVITIES

This report has been prepared for the study "Water Security for Central Kosovo", project implemented in order to assist the Government of Kosovo to improve its river basin planning and management by providing for demonstration purpose a replicable model for integrated river basin planning and management.

This model will take into account the status of Kosovo as a potential EU candidate country and thus the need to move towards alignment with the EU acquis, including but not limited to the Water Framework Directive. The team will use for modeling activities the WEAP modeling software which has a wide world recognizing to manage this kind of studies.

Then WEAP will be used to define the current water balance scenario corresponding at the situation in 2010; This results will correspond at the baseline scenario which will served at the base for other scenarios studies (how the demand for water will evaluate in the 2010-2035 period and which will be the water available to satisfy all the demands).

In fact, WEAP application of the case study area with developed scenarios, detailing the relevant future water balance projections and possible adaptation strategies. The intent of this synthesis is to organize in one place all the salient features of the development of WEAP applications for each of the case study sites.

Three primary objectives are identified for this mission:

1. To build capacity and proficiency with WEAP software among the study team and to develop draft, functioning WEAP application for each case study area (scenarios tested),
2. To identify, conceptual, scenarios concerning possible adaptation strategies for each case study area and to begin to develop those scenarios using WEAP,
3. To build a multi-criteria analysis tool to prioritize adaptation strategies considering the primary vulnerability around water.

Each of these objectives was accomplished during the mission, as will be discussed in more details below.

WEAP downloads and licensing applications are available on the WEAP website: http://www.weap21.org.

The license used for this project is under the user name: *"Naser Bajraktari, Water Department, Ministry of Environment and Spatial Planning, Kosovo"*.

Usually, a 2 years license is free for non-profit, governmental or academic organization based in a developing country.

III. WEAP MODEL ACTIVITIES

III.1. WEAP MODEL DEVELOPMENT - BASELINE SCENARIO

The team mission succeeded in the development of a functioning WEAP application for the current situation (2010), called "baseline scenario".

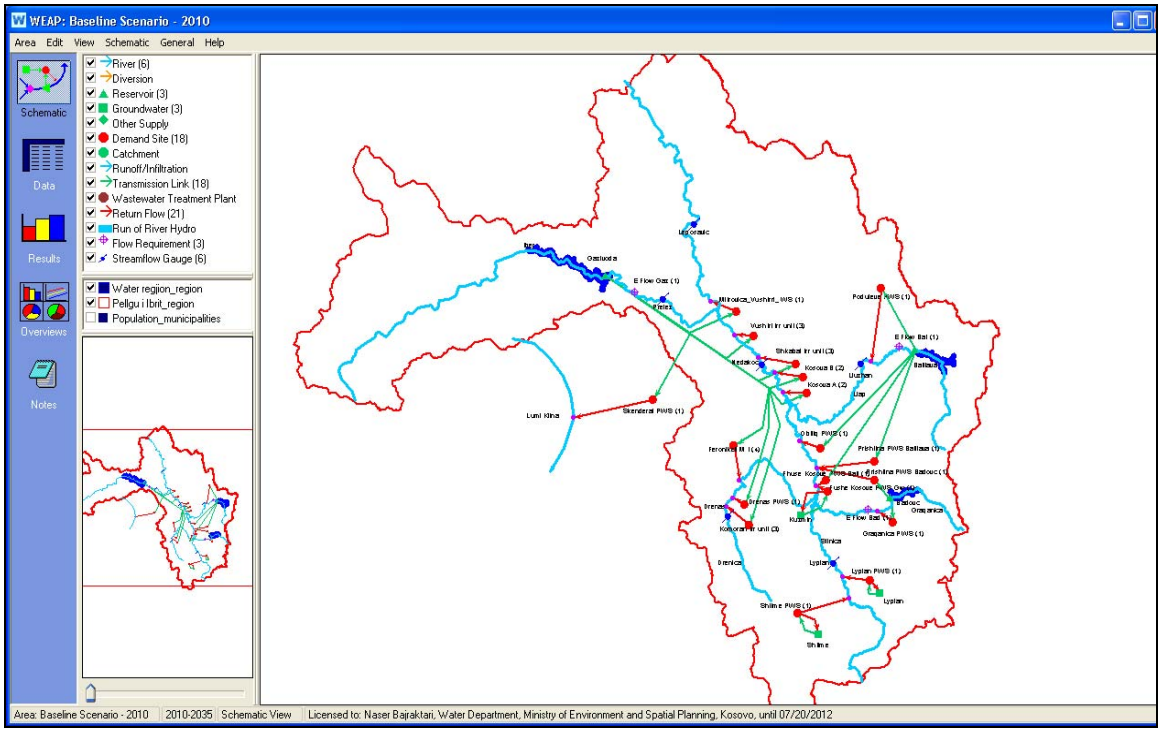
In the WEAP model you have to define two different intervals of time for which you are building the model: the *"Current Accounts"* and *"Forecasting period"*. The team defined for the *"Current Accounts"* data **the 2010 scenario** based on **hydrological data from 1948 to 1972** and representing the current (2010) infrastructure baseline, and for the chosen time horizon - the **interval 2011-2035**. The "Currents Accounts" represent the basic definition of the water system as it currently exists, and forms the foundation of all scenario analysis.

WEAP activities included:

- creation of the schematic representation;
- incorporation of domestic, industrial and agricultural water use demands and climate and hydrologic parameters;
- obtaining the results of the modeling activity (flexible display of the model outputs in charts, maps and tables) and interpretation of its.

WEAP MODEL ARCHITECTURE

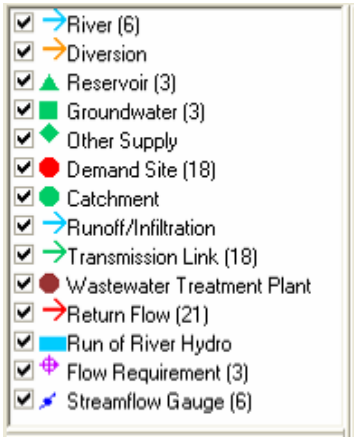
Figure 1 : Iber Basin - WEAP schematic



The Schematic View is the starting point for WEAP activities. The graphical interface is used to visualize the physical features of the water supply and demand system.

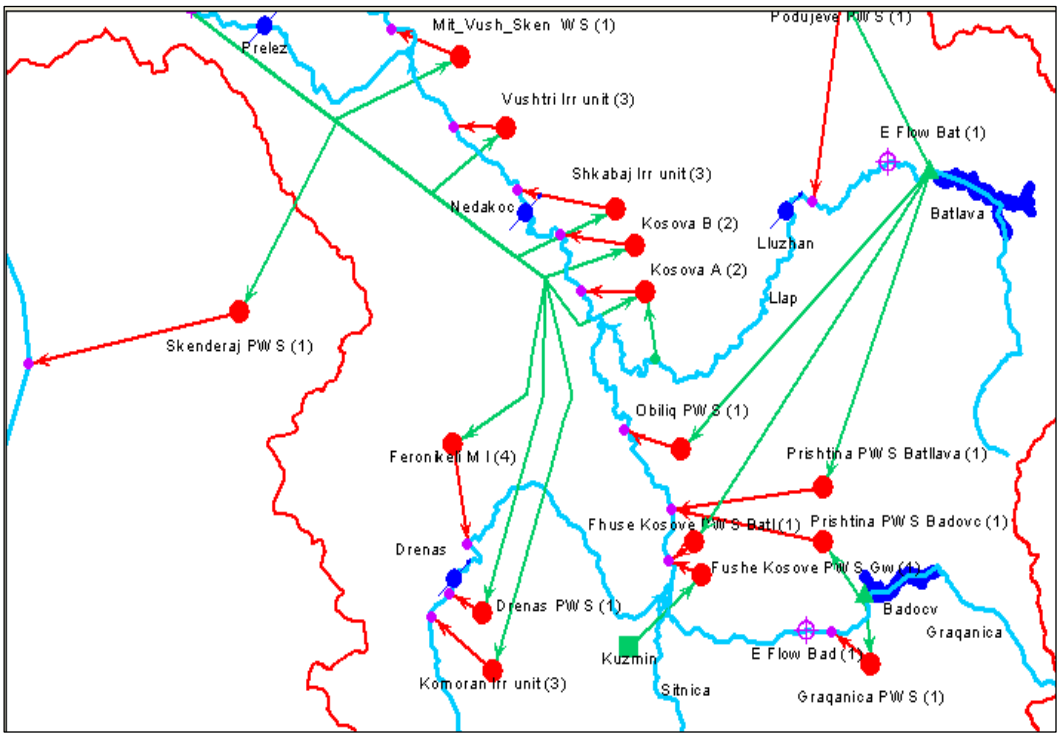
The symbols used in the WEAP model of Iber River Basin can be seen in the Figure 2:

Figure 2 : WEAP Iber Basin Symbols



- for river reaches : River
- for abstractions : Demand Site, Transmission Link and Return Flow
- for reservoir : Reservoir
- for groundwater reservoirs : Groundwater
- for Environmental Flows : Flow Requirement
- for gauging stations : Streamflow Gauge

Figure 3 : Example of WEAP Elements



GIS layers (.shp files) have been added as a background, for easy configuration of the water systems and to facilitate the visual comprehension of its.

The most important sources of water from our area of study are the rivers, the reservoirs and the Iber Lepenc Channel.

The main rivers (blue line symbol) from Iber River Basin are: Iber, Sitnica, Llap, Graqanica and Drenica.

The reservoirs (green triangle symbol) are: Gazivoda and Pridvorica on Iber River, Batlava on Llap River and Badovc on Graqanica River.

The Iber Lepenc channel (thick green line) is one of the most important source of water from Iber River Basin. Having a length of almost 50 km, it is starting from Pridvorica reservoir (a buffer reservoir) - north of Kosovo and ending next to the Kosovo B Power Plant, Obiliq city – middle part of Kosovo.

The main demand nodes considered in the model (red points) are:

- the surface water abstractions for the irrigation units : Vushtrri, Shkabaj

and Komoran;

- the surface and underground water abstractions for the main potable water supply areas : Mitrovica, Prishtina, Podujeve, Obiliq, Fushe-Kosove, Drenas, Gracaniqa, Lypjan and Shtime Municipalities.
- the surface water abstractions for industry : power generation (Kosova A and Kosova B plants) and mining (Fenonikeli)

When a demand point is created, it is very important to indicate the level of priority for allocation of water. The model will attempt to supply the highest demand priority, then moving to lower priority until all the demands are met for the resources that are used.

For the baseline scenario, the team set up the following demand priority:

- 1, for potable water supply and flow requirements
- 2, for industry
- 3, for irrigation

Each demand site is connected with a supply resource (using the Transmission Link – green line symbol) and a part of the water used by the demand is going back, usually into the river (Return Flow - red line symbol).

Systems for water supply:

The water supply resources and the demand sites were grouped in three almost independent systems in order to easily assess the bulk water balance and the security vulnerabilities:

1. System 1 : Gazivoda and Predvorica reservoirs, Iber Lepenc Channel and the water supply for Mitrovica (potable water supply), irrigations units and industry (power plants and mining).
2. System 2 : Batlava and Badovc reservoirs with Pristina potable water supply and socio-economical activities.
3. System 3 : Water supply of small towns and villages from groundwater and springs.

The systems 1, 2 and 3 will be tested under modeling activities in order to define if the security of water in these systems is respected, or, if it is not, to identify what measures we should implement for having water sufficient regarding all the needs (population needs as well as agriculture, industry and mining).

WEAP MODEL DATA INSERTION

Another key activity of WEAP modeling was to add the corresponding data in the WEAP model taking into account the water system architecture presented above.

The entered data are the following:

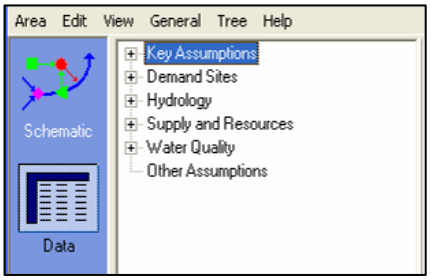
- measured or well known data;
- data based on assumptions.

The assumptions have been made for the following reasons:

- difficulties met for collecting the possible existing data;
- WEAP model simplification;
- poor knowledge of the studied water systems.

For implementing this modeling activity, the team has been integrated basic parameters in the model built, like:

- Key Assumptions
- Demand Sites
- Hydrology
- Supply and Resources.



a) Key Assumptions :

The key assumptions are user-defined variables that can be referenced for the analysis of the water system.

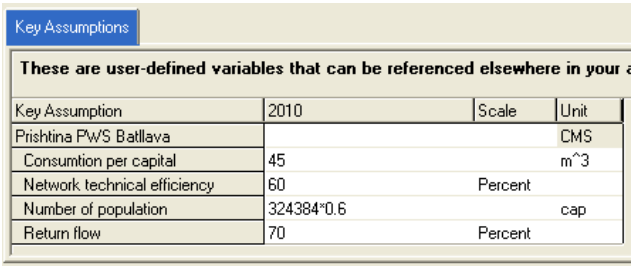
It is important to ensure that the units (for example m^3 per month or m^3 per year, etc.) of the parameter value for key assumptions match the units indicated for the variables located in the WEAP data tree.

Regarding the water demand key assumptions :

I. For potable water supply the following four parameters were defined:

- consumption per capital (in mc/year)
- network technical efficiency (in percentage)
- number of population
- return flow (in percentage).

Figure 4 : Key Assumption Prishtina Potable Water Supply



Key Assumptions

These are user-defined variables that can be referenced elsewhere in your a

Key Assumption	2010	Scale	Unit
Prishtina PWS Batllava			CMS
Consumtion per capital	45		m^3
Network technical efficiency	60	Percent	
Number of population	324384*0.6		cap
Return flow	70	Percent	

The values which have been introduced in the WEAP model are the following:

- the consumption per capital is 150 l/day;
- the network efficiency is 60%; 40% of the water doesn't reach the consumers;
- the number of inhabitants of Prishtina supplied from the Batllava reservoir is 60% from the total number of inhabitants of Prishtina Municipality.

60% of the consumers are taking water from Batllava Reservoir and 40% from Badovc Reservoir.

These values were collected from Prishtina Regional Water Supply Company (Prishtina RWSC) .

In page 11 of the 2009 Report of Prishtina Water Supply Company, it is mentioned that based on the Statistical Office of Kosovo's National Study, the population projection for 2004 (in thousand people) is as shown in the Table 1.

Table 1 : Statistical Data - Population Projection in 2004 (Values in thousand people)

Population projections

Municipality	2004
Prishtina	242
Fushe Kosove	49
Kasotropt/Obiliq	29
Shtime	31
Lipani	65
Besiane/Podujeve	96
Drenas/Gllototv	68
Total	580

According with the document *A34-1_Water_Balance_110211-1.xls* collected in March 2011 form Pristina RWSC the population data in 2010 are presented in the Table 2:

Table 2 : Population Projection in 2010

Municipality Name	2010	
	Total	Connected
Prishtina	439 920	403 234
Fushe Kosove	60 320	34 382
Obiliq	30 300	16 665
Shtime	37000	18 870
Lypjan	78000	51 100
Podujeve	111 725	78 208
Drenas	42 188	21 094

The number of inhabitants supplied by the Mitrovica Regional Water Supply Company is about 210 000 *(Source : the Director of Mitrovica RWSC.)*

- the return flow from sewage waters and network losses is estimated to 70%.

II. For irrigation, the following seven parameters were defined:

- conveyance efficiency (in percentage)
- conveyance return flow (in percentage)
- distribution efficiency (in percentage)
- distribution return flow (in percentage)
- field efficiency (in percentage)
- field return flow (in percentage)
- irrigated area (in hectares).

Figure 5: Key Assumption Komoran Irrigation Unit

Key Assumption	2010	Scale	Unit
Komoran Irr Unit			CMS
Conveyance Efficency	55	Percent	
Conveyance return flow	40	Percent	
Distribution Efficiency	80	Percent	
Distribution return flow	10	Percent	
Field Efficency	65	Percent	
Field return flow	18	Percent	
Irrigated Area	30		ha

The irrigation scheme is separated in 3 sub-networks:

1. the main channel, with the conveyance efficiency;
2. the secondary channel, with the distribution efficiency;
3. the field level, with the field efficiency.

The global efficiency of the scheme is the multiplication of these three sub-networks efficiencies.

III. For industry, the following two parameters were defined:

- the conveyance efficiency (in percentage)
- return flow (in percentage) .

Figure 6 : Key Assumption Industry

Key Assumption	2010	Scale	Unit
Industry			CMS
Conveyance Efficency	55	Percent	
Conveyance return flow	90	Percent	

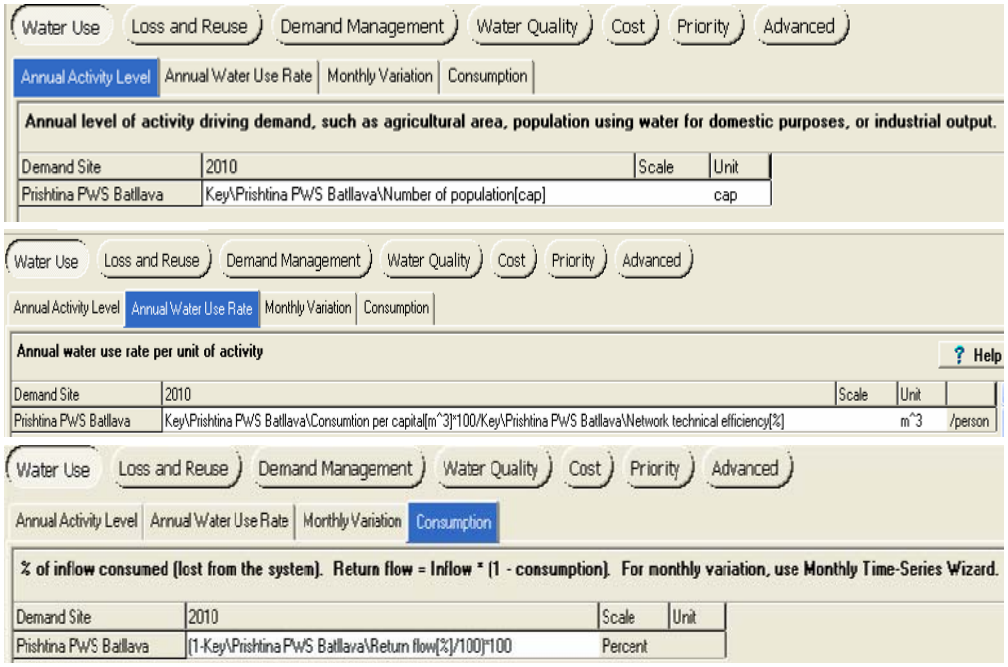
b) Demand sites: description of the water capture system and the demand sites for the baseline scenario

I. Water supply

Various functions have been entered into the WEAP "Demand Sites" using the assumptions added at the Key Assumptions stage.

To determinate the water supply demand, the team have choose the *"Specify yearly demand and monthly variation"* method of WEAP model. The functions used for this method make references to the key assumption and are exemplified in the following table:

Table 3 : Demand site – Pristina PWS Batllava



II. Irrigation

For adding the irrigation flows into WEAP model, the team has used the *"Specify monthly demand"* method. The irrigation data required for water use by this method are:

1. the Monthly Demand (crop demand divided by the global efficiency)
2. the Consumption rate (percentage of water lost from the system).

The irrigated area used for the baseline scenario 2010 is presented in the next table:

Table 4 : Irrigation scheme and irrigated area

Irrigation scheme	Area projected (ha)	Area rehabilited (ha)	Area irrigated 2006	Area irrigated 2007	Area irrigated 2008	Area irrigated 2009	Area irrigated 2010
Vushtrri	7200	3170	603	860.28	959	822	660
Shkabaj	7100	2000	53	165.32	213.4	240	240
Komoran	5620	2750	5.5	83.37	252	70	30
Total	19920	7920	661.5	1108.97	1424.4	1132	930

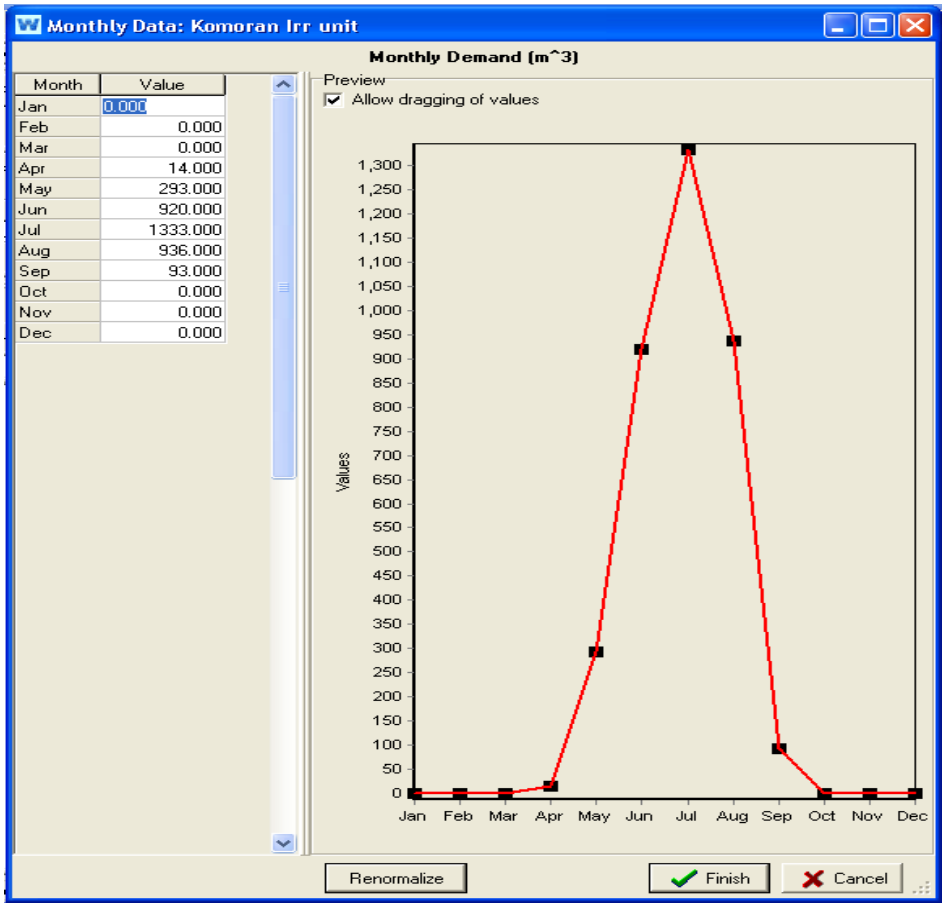
Our expert for irrigation and agriculture, Mrs. Florence PINTUS, has used the Cropwat 8.0 software and the total net crop irrigation requirements have been estimated at 3589 m3/ha/year.

Table 5 : Crop water requirement (mm/month)

Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct	Nov	Dec	Total
0	0	0	1,4	29,3	92,0	133,3	93,6	9,3	0	0	0	358,9

Example : Komoran Irrigation unit: Mean water demand per ha, for irrigated area in Iber System, was added in the model like a *"Monthly time series wizard"* as can been seen in the Figure nr.7.

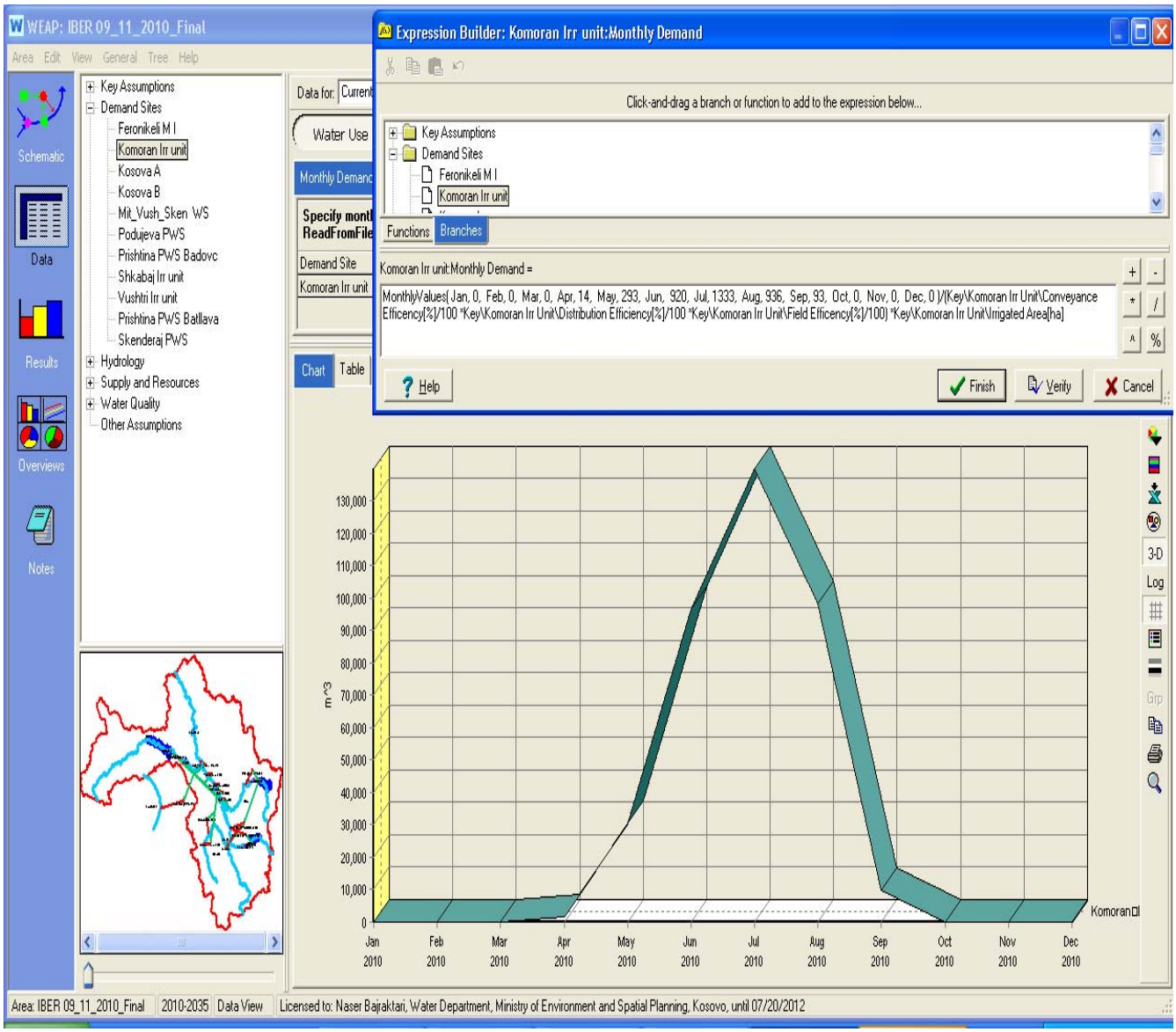
Figure 7 : Monthly Demand Komoran Irrigation Unit



The detailed monthly demand is shown in Figure nr. 8, using in the *"Expression builder"* the mean water demand and the key assumption data created before for

irrigation scheme efficiencies and for the surface of irrigated area.

Figure 8 : Monthly Demand Komoran Irrigation Unit – Expression Builder



As can be seen on the graph, the irrigation period in our area of study is starting in April and ending in September. The maximum value for water demand is around 140 000 m³ in July.

III. Industry

The current industrial water demand can be synthesized as follows:

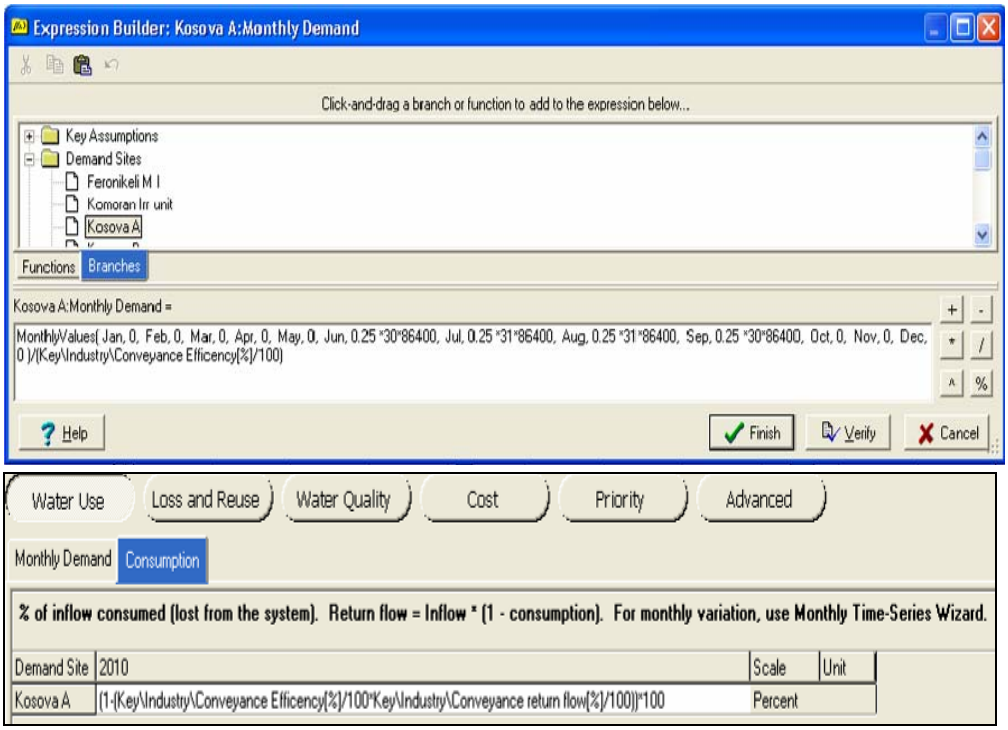
Table 6 : Water demand for industry in 2010

Industry		Monthly consumption in m³/s 2010	Source of water
Ihe wa	Kosovo A	0.25 (only during summer)	Iber Lepenc channel
	Kosovo B	0.4	Iber Lepenc channel
	Feronikeli	0.1	Iber Lepenc channel

The data used in the table are data collected by interview with Mr. Arberor PREKAZI, from IL Company.

The water demand was obtained using the WEAP method *"Specify monthly demand"*, taking into consideration the assumptions made in the Key Assumptions stage, the efficiency of the network and the losses from the system.

Figure 9: Industry demand site example - Kosova A



The values which are introduced for the demand site, has to be in m³/month (monthly values). These values can be calculated and captured manually in the model, like a monthly time series, or can be calculated automatically using Excel and saved in a specific format *(the Comma-Separeted Values (CSV) format)*. Note : It is important to mention that the location of this table has to be the same that the location of WEAP model folder, otherwise is impossible to use the table created. The WEAP function which can read it is *"ReadFromFile"* function, from "*Expression Builder*".

c) Hydrology

The third parameter which has to be introduced in WEAP model is Hydrology.

Here the user has the possibility to define the type of water year for the baseline scenario. The water year can be:

1. very dry
2. dry
3. normal
4. wet
5. very wet.

The team has considered for the baseline scenario that the year 2010 is a normal year.

d) Supply and Resources

Under the Data View it is possible to enter all the hydrological inputs for the model.

1) River

The hydrological data which have been added at this stage were data regarding the reservoirs, E-Flow, inflows and outflows.

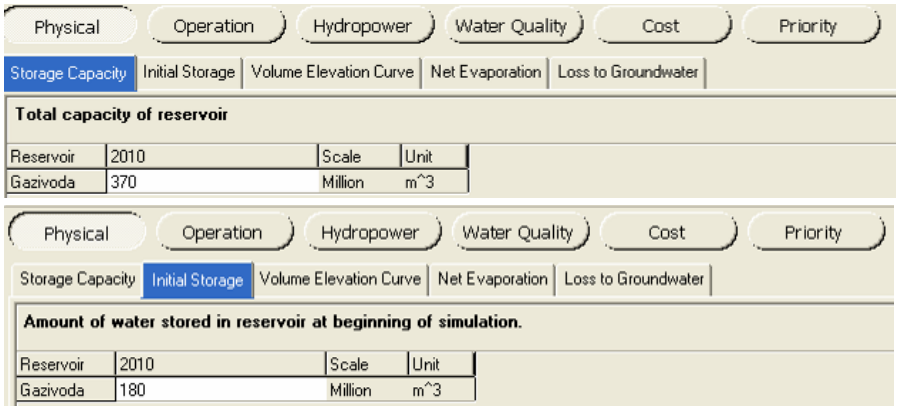
Reservoires :

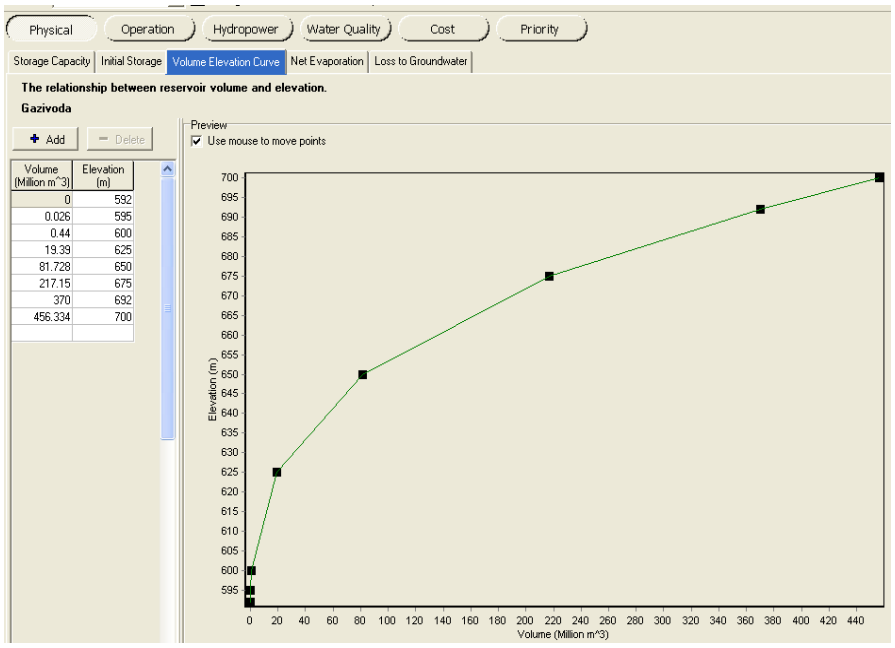
Gazvioda, Batllava and Badovc reservoirs were also modeled in WEAP. For that, different types of reservoir characteristics have been added in the model.

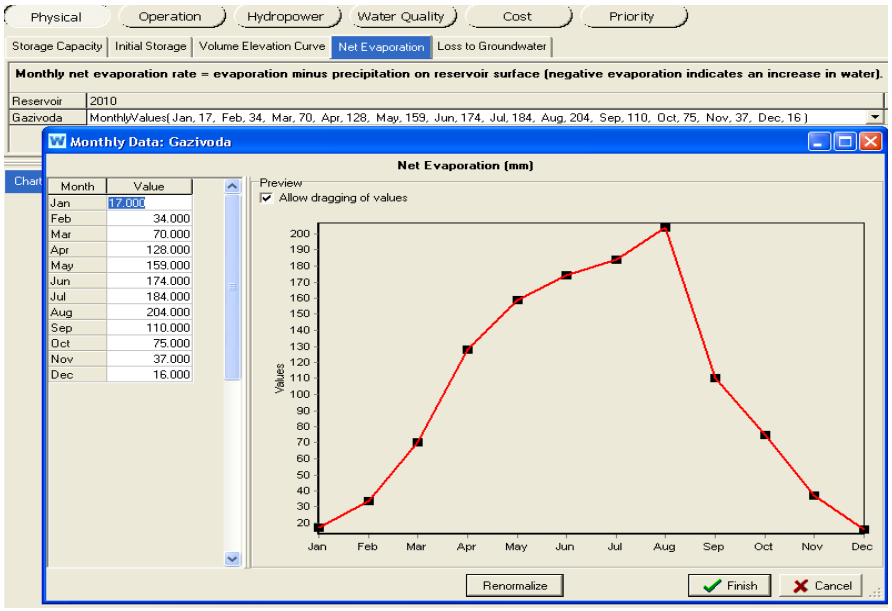
Examples of reservoir characteristics are:

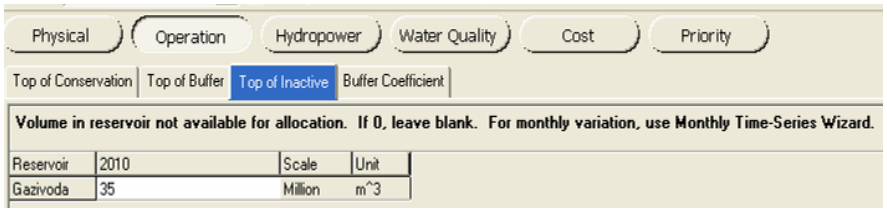
1. storage capacity;
2. initial storage;
3. volume elevation curve (relation between reservoir volume and elevation);
4. net evaporation (evaporation minus precipitation on reservoir surface);
5. the volume in reservoir which is not available for allocation.

Figure 10: Gazivoda reservoir characteristics









Flow Requirements :

The flow requirement element (E-Fflow) represent the minimum flow required at a river point to meet the social and environmental flow (for recreation, navigation, water quality, biodiversity, etc.).

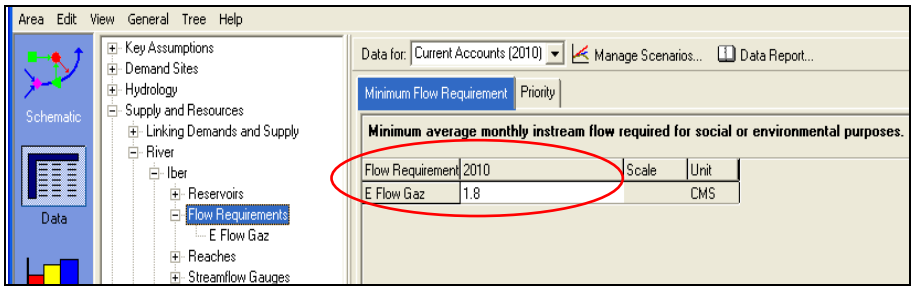
In our model, three E-Flow points were added: on Iber, Graqanica and Llap rivers.

Table 7: E-Flow Values in Iber River Basin

E-Flow		
Iber River	Llap River	Graqanica River
1.8 m^3/s/month	0.5 m^3/s/month	0.3 m^3/s/month

The E-Flow value for Iber River is a value calculated by the hydraulic team and the other two values are estimated values.

Figure 11: E-Flow required on Iber River

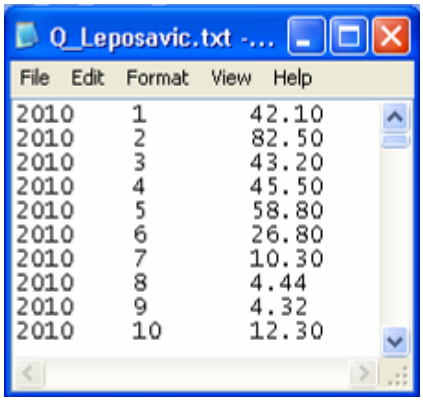


Streamflow Gauging Stations:

Inflow and outflow

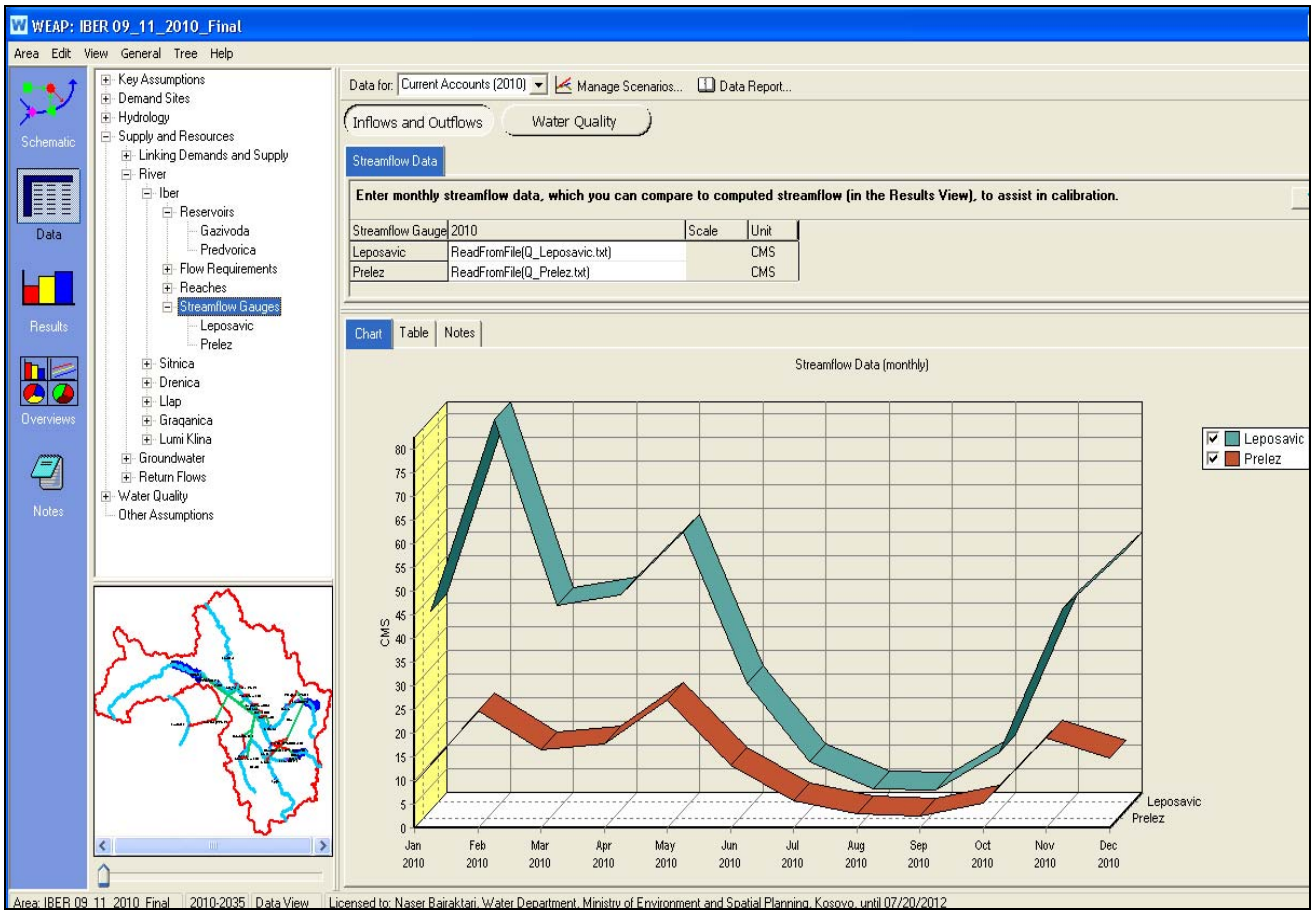
The historical flows of the rivers (from 1952 to 1997), from our area of study, were calculated by the hydraulic team (by interpolation), taking into consideration that only some of these values were available. These flows have been entered into the WEAP model (for different hydrometrical station), like a Streamflow Data, under the *.txt* format, using the *ReadFromFile* function.

Table 8: Leposavic Hydrometric Station on Iber river



First column represent the year, second column represent the month and third column represent the flow (m^3/s) registered by the Leposavic hydrometric station.

Figure 12: Streamflow data for Leposavic and Prelez hydrometric stations, on Iber river



2) Groundwater

The third set of parameters which has to be captured into the WEAP model, at the "*Supply and Resources"* stage is groundwater.

The data to be included are:

- the storage capacity (theoretical capacity of aquifer);
- the initial storage (the amount of water stored in aquifer when the simulation of the model is starting);
- the maximum withdrawal (the maximum quantity of water which is monthly withdrawn from the aquifer);
- the natural recharge of aquifer(monthly inflow to the groundwater source).

In our area of study three underground reservoirs were included into the WEAP model:

- Kuzmin – for Fushe Kosove Municipality
- Shtime – for Shtime Municipality
- Lypjan – for Lypjan Municipality

The data included here are estimated data because no measured or known data were available.

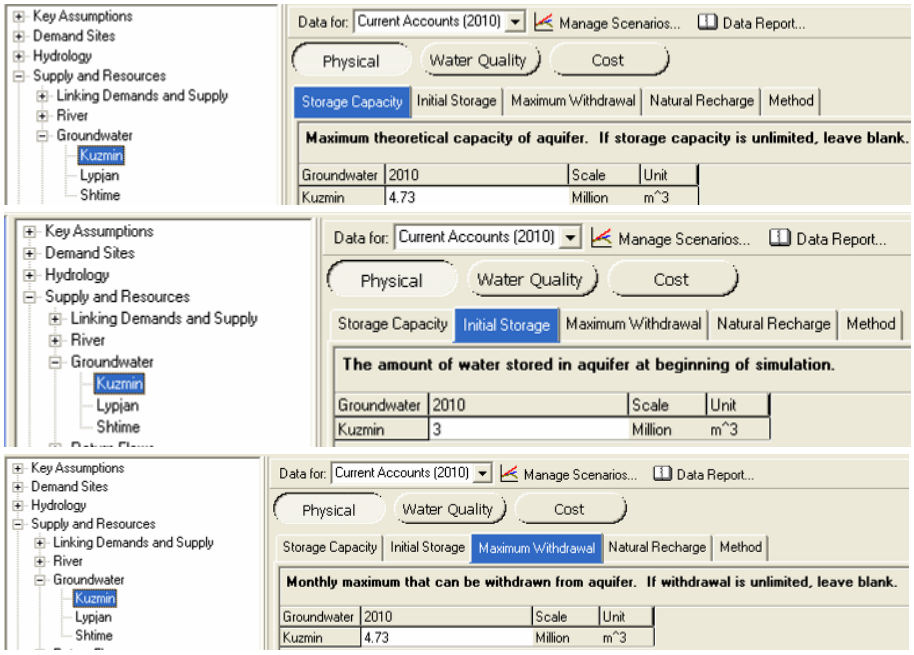
These assumptions were made on the basis of the information collected from the *Report of Regional Water Supply Company of Prishtina*, from 2009, were it is mentioned at the *"Transmission"* chapter, page 25 that Shtime and Lypjan Municipalities are supplied by their own independent groundwater sources and that total capacity of the underground reservoirs are : for Kuzmin 150 l/s and for Shtime 50 l/s (page 6, *Groundwater Resources*). Taking into consideration these values we estimated that the capacity of Lypjan reservoir is about 85 l/s.

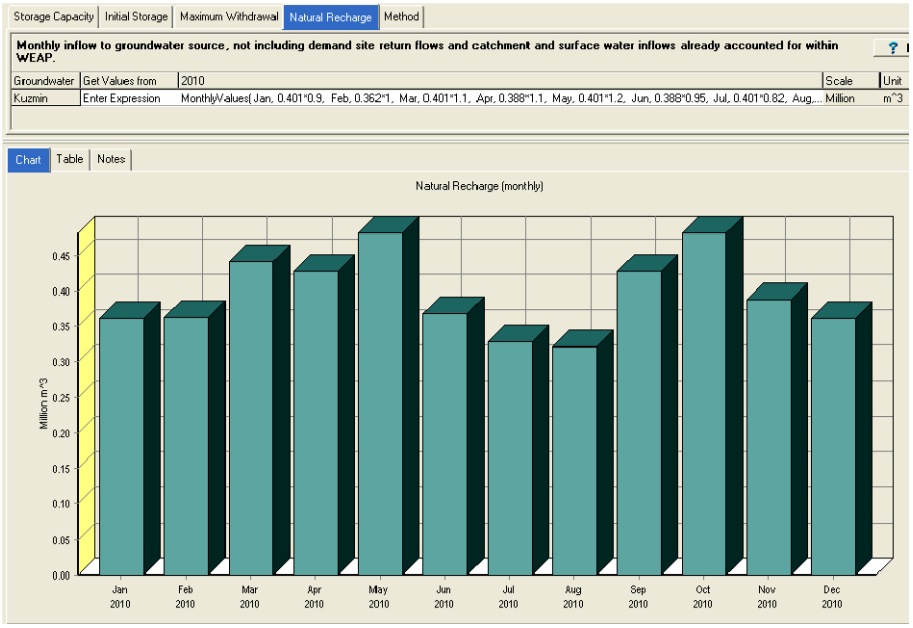
In the Table no.9 can be seen some of the principal characteristics of groundwater reservoirs.

Table 9 : Characteristics of groundwater reservoirs

Reservoir	Storage capacity (Mil mc)	Initial storage (Mil mc)	Maximum withdrawal (Mil mc)
Kuzmin	4.73	3.00	4.73
Shtime	1.57	0.7	1.57
Lypjan	2.68	1	2.68

Figure 13 : Kuzmin Groundwater Reservoir





3) Return Flow

The return flow is the water percentage of the total outflow and this value represents the quantity of water going back into the river or underground. The rate has to sum 100%, without taking into consideration the losses from the system.

For example, when a demand site is supplied with water from two sources (reservoir and groundwater) we have made the assumption that 57% of the outflow is going back into the aquifer and 43% represent the return flow into the river. This assumption was made on the basis of the WEAP Tutorial Model, because no data regarding this aspect were available.

III.2. BASELINE SCENARIO RESULTS & INTERPRETATION

To see the results of the model that we have built, we use the Result View interface. It is the third parameter of WEAP and here is possible to see the results presented like tables, charts or maps.

The most important three questions at the results chapter it is: "What is the water balance for Iber River Basin Systems?"

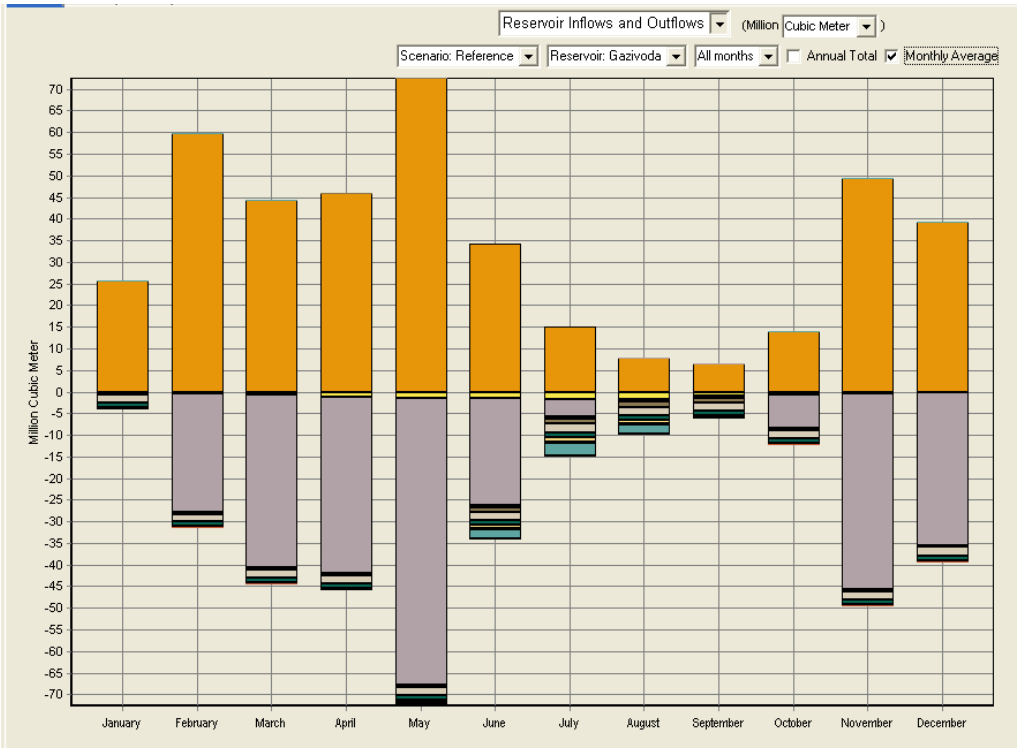
To answer to this question it is needed to present the cumulated monthly inflows and outflows of reservoirs and to interpret them.

The team considered necessary to define a risk indicator value for each dam as a critical value which will represent the limit of water available in the hypotheses of a very dry year.

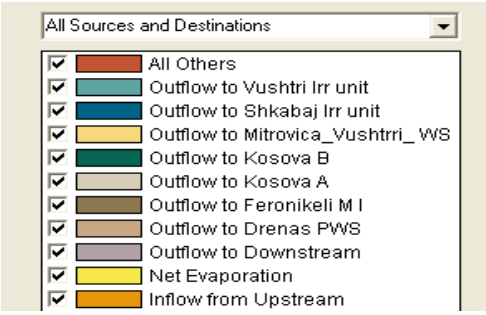
Based on WEAP functions, the inflows of a very dry year represent 50 % less then the inflows of a normal year (2010).

A. SYSTEM 1 WATER BALANCE - GAZIVODA SYSTEM

Figure 14 : WEAP Inflows and Outflows for Gazivoda Reservoir in 2010



Legend:



The legend is showing the inflow in the reservoir (+ values) and different outflows from the reservoir (- values).

Table 10 : Monthly inflows and outflows for Gazivoda Reservoir (mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from Upstream (mc)	25685856	59754240	44461440	45878400	72584640	34214400	15159744	7928064	6505920	14034816	49507200	39372480	415087200
Outflow to demands (mc)	4059796.214	3834554.645	4536328.567	4977310.755	6289305.511	9515170.607	11113357.65	10002237.12	6250539.509	4581284.449	4113589.221	4050805.038	73324279.29
E-flow (mc)	4821120	4354560	4821120	4665600	4821120	4665600	4821120	4821120	4665600	4821120	4665600	4821120	56764800
Total Outflow (mc)	8880916.214	8189114.645	9357448.567	9642910.755	11110425.51	14180770.61	15934477.65	14823357.12	10916139.51	9402404.449	8779189.221	8871925.038	114886266
Bulk of water (mc)	16804939.79	51565125.35	35103991.43	36235489.25	61474214.49	20033629.39	-774733.6498	-6895293.123	-4410219.509	4632411.551	40728010.78	30500554.96	9999158790

Table 11 : Water Balance of Gazivoda Reservoir - monthly values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from upstream (10^6 mc)	25.69	59.75	44.46	45.88	72.58	34.21	15.16	7.93	6.51	14.03	49.51	39.37	415.09
Total Outflow (10^6 mc)	8.88	8.19	9.36	9.64	11.11	14.18	15.93	14.82	10.92	9.40	8.78	8.87	130.09
Bulk of water (10^6 mc)	16.80	51.57	35.10	36.24	61.47	20.03	-0.77	-6.90	-4.41	4.63	40.73	30.50	285.00

As can be seen in Table 11, the annual inflow into Gazivoda reservoir is about 415 million m^3. To be noted that the monthly inflow in the reservoir varies from 72.58 million m^3 (maximum value) in May to 6.51 million m^3 (minimum value) in September.

Table 12 : Cumulated values of inflows and outflows for Gazivoda Reservoir

	January	February	March	April	May	June	July	August	September	October	November	December
Inflow from upstream cumulated value (10^6 mc)	25.69	85.44	129.90	175.78	248.36	282.58	297.74	305.67	312.17	326.21	375.71	415.09
Outflow cumulated value (10^6 mc)	8.88	17.07	26.43	36.07	47.18	61.36	77.30	92.12	103.04	112.44	121.22	130.09

Table 13 : Risk indicator for Gazivoda – very dry year tested on 2010 baseline scenario – cumulated values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December
Risk indicator cumulated value	12.84	42.72	64.95	87.89	124.18	141.29	148.87	152.83	156.09	163.10	187.86	207.54

Figure 15 : Gazivoda Monthly Inflow and Outflow (mil mc)

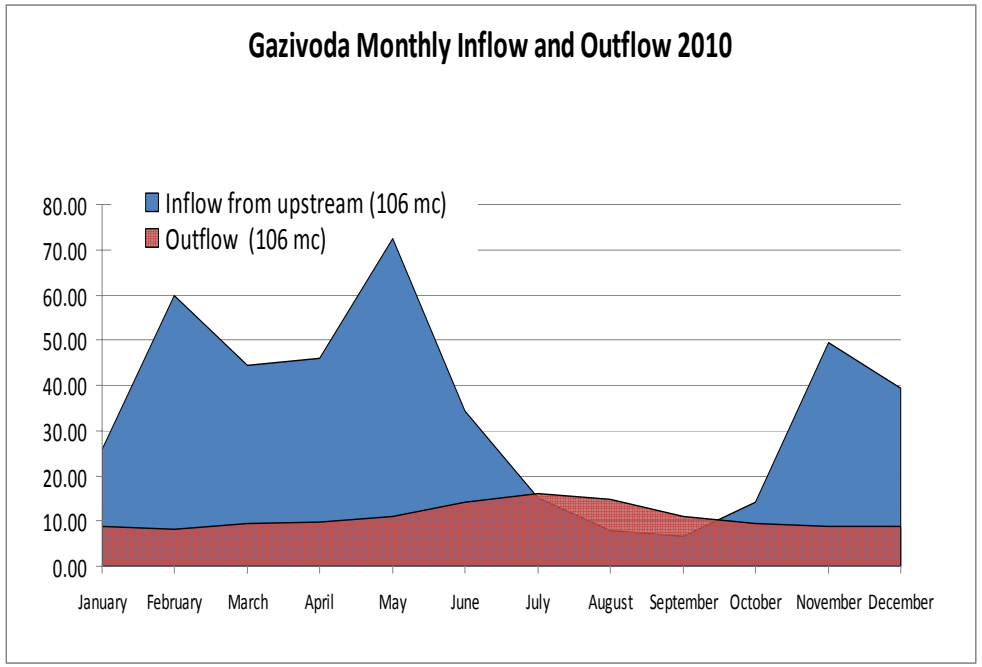
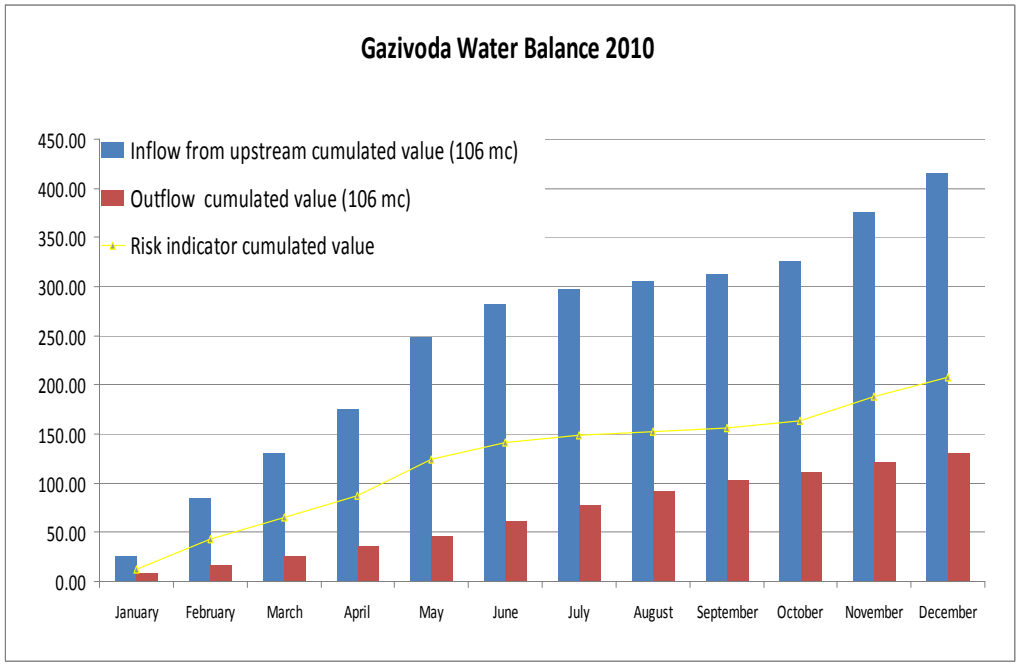


Figure 16 : Gazivoda Water Balance 2010 – cumulated values (mil mc)

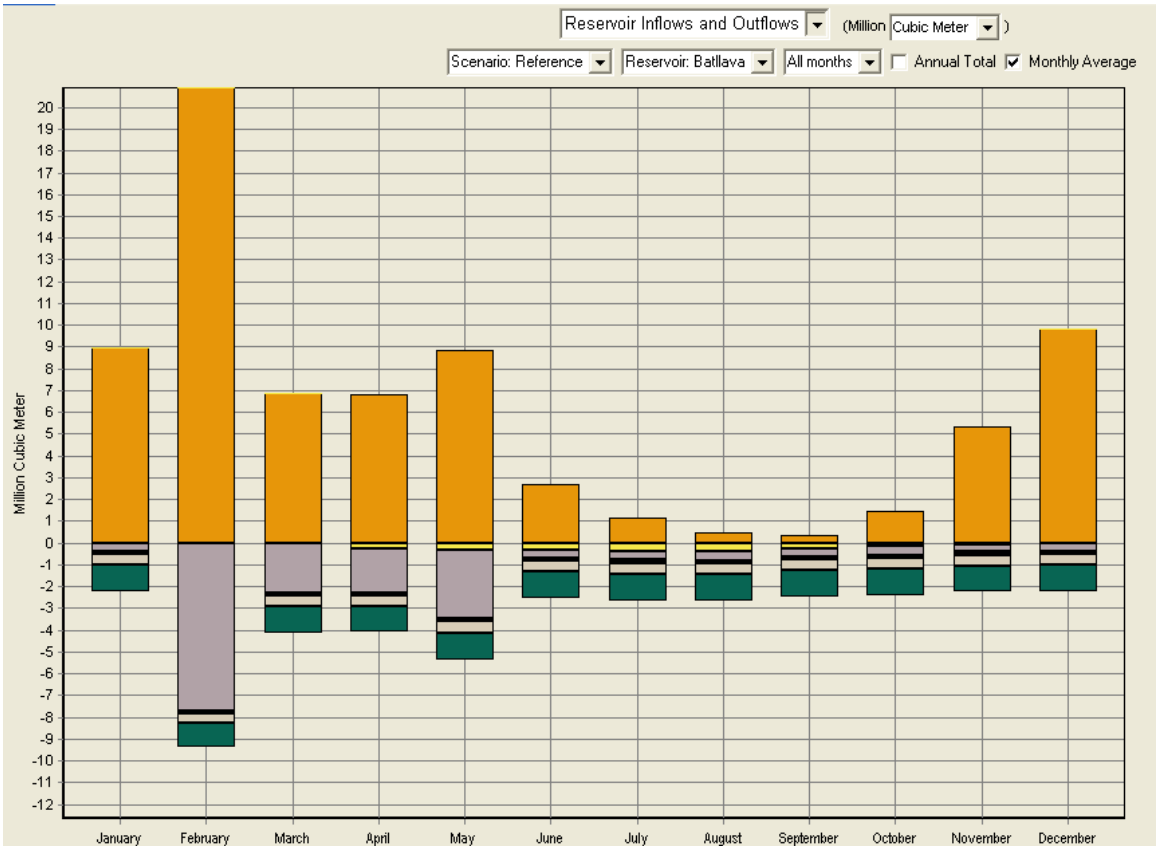


Results Interpretation

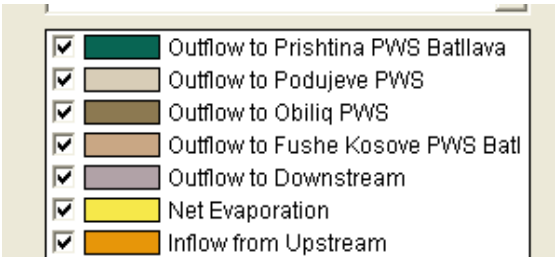
- A 2010 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Table 11 and Figure 15. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during spring and winter seasons, but in the summer period we can have a deficit of water, especially in August, due to the intense agriculture activities when actually we still need approximately 6.9 million m^3 of water. These results don't take into consideration the water cumulative effect of the reservoir. In fact, the graph above (Figure 16) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which mean that for the current situation 2010 the system 1 satisfied all its demands.
- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 1; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.
- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that even in a worst case situation (very dry year), the demand will be however satisfied taking into account also the effect of climate change on water consumption increasing.

B. SYSTEM 2 WATER BALANCE – BATLLAVA–BADOVC SYSTEM

Figure 17 : WEAP Inflows and Outflows for Batllava Reservoir in 2010



Legend:



The legend is showing the inflow in the reservoir (+ values) and different outflows from the reservoir (- values).

Table 14 : Monthly inflows and outflows for Batllava Reservoir (mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from Upstream (mc)	8953605.303	20911000.8	6864430.73	6808040.9	8868332.87	2677829.42	1155441.45	464734.751	363095.5146	1458158.578	5322650.16	9806329.6	73653650
Outflow to Demands (mc)	1876948.29	1695308.14	1876948.29	2061506.58	2189263.29	2168901.58	2288198.29	2297598.29	2110386.58	2051215.29	1876701.58	1876948.29	2436992400
E-flow (mc)	1339200	1209600	1339200	1296000	1339200	1296000	1339200	1339200	1296000	1339200	1296000	1339200	15768000
Total Outflow (mc)	3216148	2904908	3216148	3357507	3528463	3464902	3627398	3636798	3406387	3390415	3172702	3216148	40137924.5
Bulk of water (mc)	5737457	18006093	3648282	3450534	5339870	-787072	-2471957	-3172064	-3043291	-1932257	2149949	6590181	33515725.6

Table 15 : Water Balance of Batllava Reservoir – monthly values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from upstream (106 mc)	8.95	20.91	6.86	6.81	8.87	2.68	1.16	0.46	0.36	1.46	5.32	9.81	73.65
Total Outflow (106 mc)	3.22	2.90	3.22	3.36	3.53	3.46	3.63	3.64	3.41	3.39	3.17	3.22	40.14
Bulk of water (106 mc)	5.74	18.01	3.65	3.45	5.34	-0.79	-2.47	-3.17	-3.04	-1.93	2.15	6.59	33.52

As can be seen in Table 15, the annual inflow into Batllava reservoir is about 73.65 million m^3. To be noted that the inflow in the reservoir varies from 20.91 million m^3 (maximum value) in February to 0,36 million m^3 (minimum value) in September.

Table 16 : Cumulated values of inflows and outflows for Batllava Reservoir

	January	February	March	April	May	June	July	August	September	October	November	December
Inflow from upstream cumulated value (10^6 mc)	8.95	29.86	36.73	43.54	52.41	55.08	56.24	56.70	57.07	58.52	63.85	73.65
Outflow cumulated value (10^6 mc)	3.22	6.12	9.34	12.69	16.22	19.69	23.32	26.95	30.36	33.75	36.92	40.14

Table 17 : Risk indicator for Batllava – cumulated values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December
Risk indicator cumulated value	4.48	14.93	18.36	21.77	26.20	27.54	28.12	28.35	28.53	29.26	31.92	36.83

Figure 18 : Batllava Monthly Inflow and Outflow (mil mc)

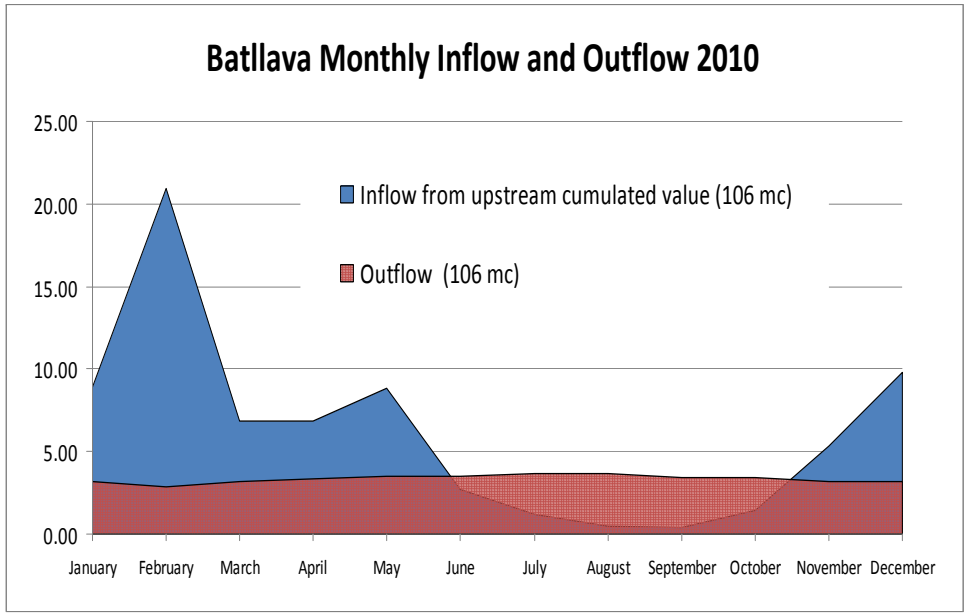
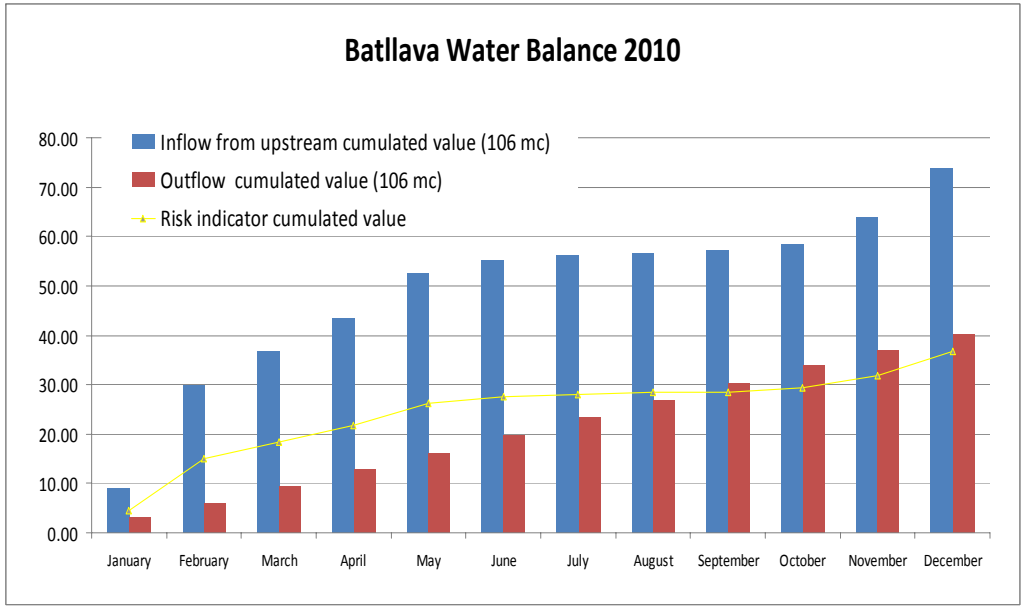


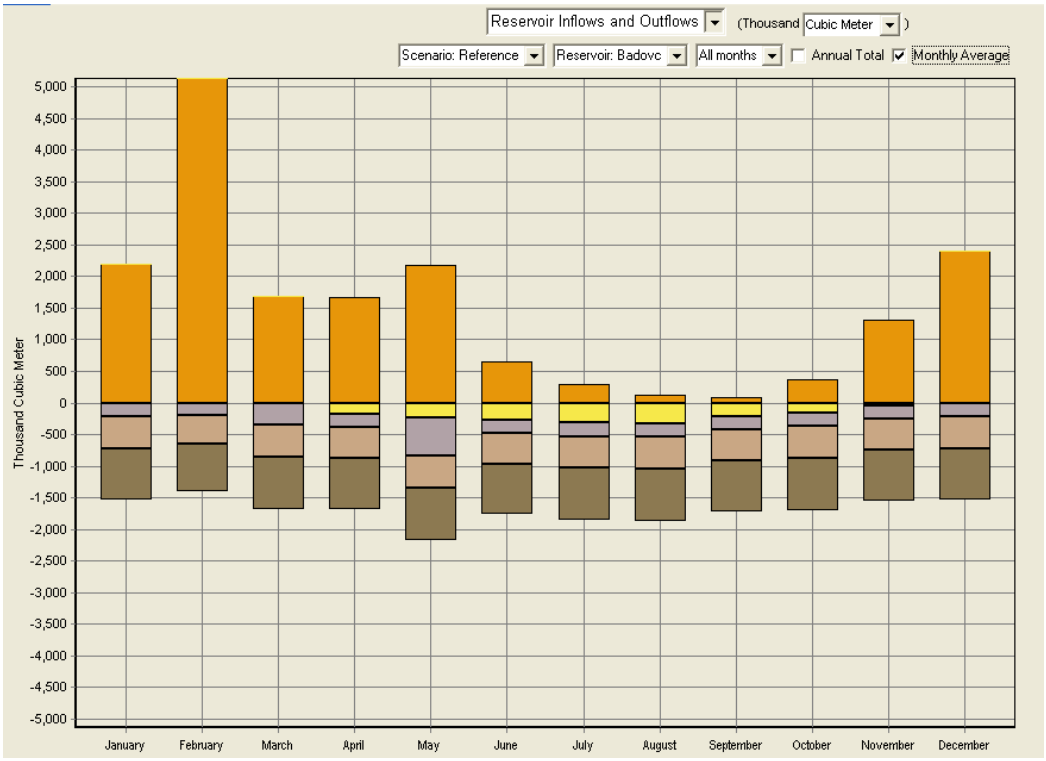
Figure 19 : Batllava Water Balance 2010 – cumulated values (mil mc)



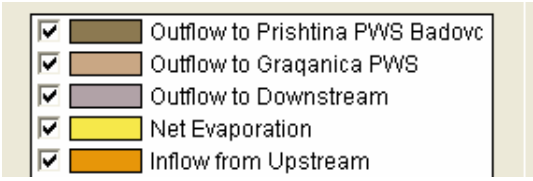
Results Interpretation

- A 2010 monthly distribution of the inflow and outflow of Batllava reservoir can be seen in Table 15 and Figure 18. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during spring and winter seasons, but in the summer period we can have a deficit of water, especially in August when actually we still need approximately 3.17 million m3 and 3.04 million m3 in September,due to the intense agriculture activities. These results don't take into consideration the water cumulitative effect of the reservoir. In fact, the graph above (Figure 19) shows clearly that the cumulated demand forBatllava dam (red column) is under the cumulated inflow normal year (blue column) which means that for the current situation 2010 the system 2 satisfied all its demands.
- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 2; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.
- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), the red column being so close to the yellow line, the system 2 will be in a critical situation, when the demand will not be fully satisfied. In consequence, to avoid an hydraulic stress, some measures have to be developed (leakage reduction, dam, new sources of water, reduction of illegal connection, etc) to then allows water security demands in this whole system, for any climate situation (normal and very dry).

ºFigure 20 : WEAP Inflows and Outflows for Badovc Reservoir in 2010



Legend:



The legend is showing the inflow in the reservoir (+ values) and different outflows from the reservoir (- values).

Table 18 : Monthly inflows and outflows for Badovc Reservoir (mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from Upstream (mc)	2197190.831	5131503.75	1684512.97	1670675.06	2176265.2	657132.189	283542.245	114044.667	89102.66966	357828.2211	1306164.13	2406447.1	180744097
Outflow to demands (mc)	1328776.356	1200185.1	1328776.36	1473652.6	1567996.36	1555912.6	1643776.36	1650976.36	1511092.603	1484836.356	1339912.6	1328776.4	17414670
E-flow (mc)	803520	725760	803520	777600	803520	777600	803520	803520	777600	803520	777600	803520	9460800
Total Outflow (mc)	2132296	1925945	2132296	2251253	2371516	2333513	2447296	2454496	2288693	2288356	2117513	2132296	268754700
Bulk of water (mc)	64894	3205559	-447783	-580578	-195251	-1676380	-2163754	-2340452	-2199590	-1930528	-811348	274151	-8801061

Table 19 : Water Balance of Badovc Reservoir – monthly values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December	Sum
Inflow from upstream (10^6 mc)	2.20	5.13	1.68	1.67	2.18	0.66	0.28	0.11	0.09	0.36	1.31	2.41	18.07
Total Outflow (10^6 mc)	2.13	1.93	2.13	2.25	2.37	2.33	2.45	2.45	2.29	2.29	2.12	2.13	26.88
Bulk of water (10^6 mc)	2.20	5.13	1.68	1.67	2.18	0.66	0.28	0.11	0.09	0.36	1.31	2.41	18.07

As can be seen in Table 19, the annual inflow into Badovc reservoir is about 18 million m^3. To be noted that the inflow in the reservoir varies from 5.13 million m^3 (maximum value) in February to 0,09 million m^3 (minimum value) in September.

Table 20 : Cumulated values of inflows and outflows for Badovc Reservoir

	January	February	March	April	May	June	July	August	September	October	November	December
Inflow from upstream cumulated value (10^6 mc)	2.20	7.33	9.01	10.68	12.86	13.52	13.80	13.91	14.00	14.36	15.67	18.07
Outflow cumulated value (10^6 mc)	2.13	4.06	6.19	8.44	10.81	13.15	15.59	18.05	20.34	22.63	24.74	26.88

Table 21 : Risk indicator for Badovc – cumulated values (mil mc)

	January	February	March	April	May	June	July	August	September	October	November	December
Risk indicator cumulated value	1.10	3.66	4.51	5.34	6.43	6.76	6.90	6.96	7.00	7.18	7.83	9.04

Figure 21 : Badovc Monthly Inflow and Outflow (mil mc)

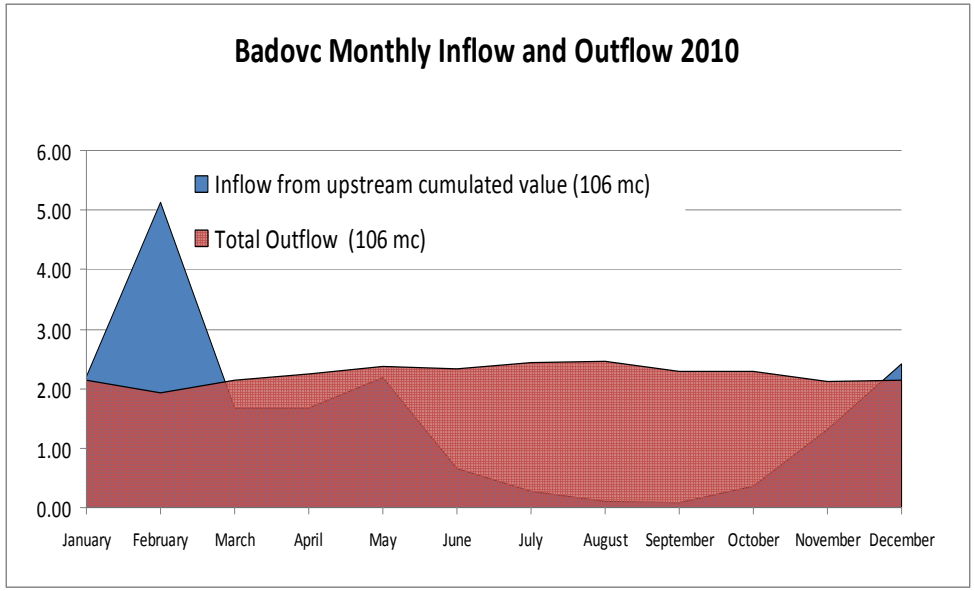
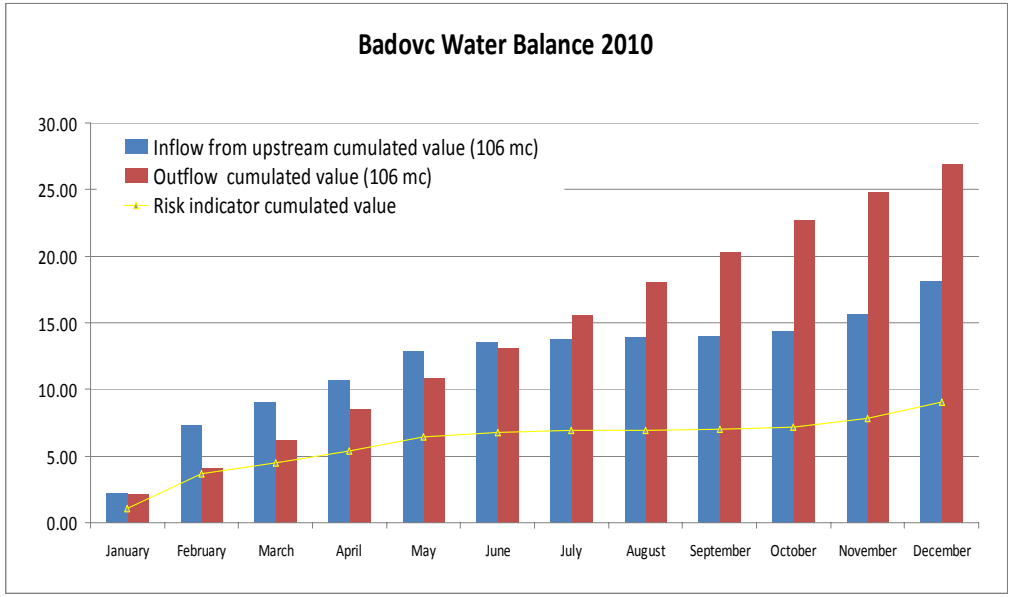


Figure 22 : Badovc Water Balance 2010 – cumulated values (mil mc)



Results Interpretation

- A 2010 monthly distribution of the inflow and outflow of Badovc reservoir can be seen in Table 19 and Figure 21. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during spring and winter seasons, but we have a deficit of water from June to October. The graph above (Figure 22) shows clearly that the cumulated demand for Badovc dam (red column) is above the cumulated inflow normal year (blue column) which mean for the current situation 2010 that the system 2 does not satisfiy all its demands.
- In consequence,, some measures have to be developed (leakage reduction, dam, new sources of water, reduction of illegal connection, etc) to then allows water security demands in this whole system, for any climate situation (normal and very dry).

C. SYSTEM 3 WATER BALANCE – GROUNDWATER SYSTEM (KUZMIN+LYPJAN+SHTIME RESERVOIRES)

Figure 23 : Kuzmin Monthly Inflow and Outflow (mil mc)

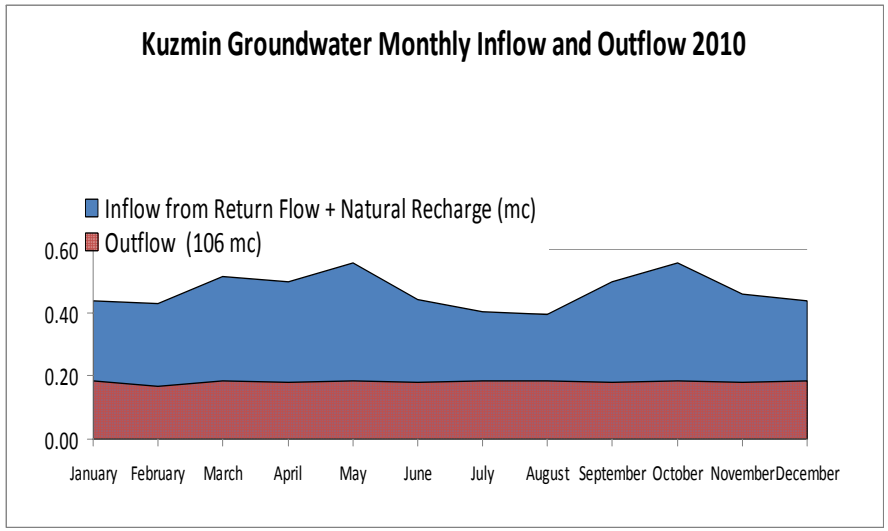
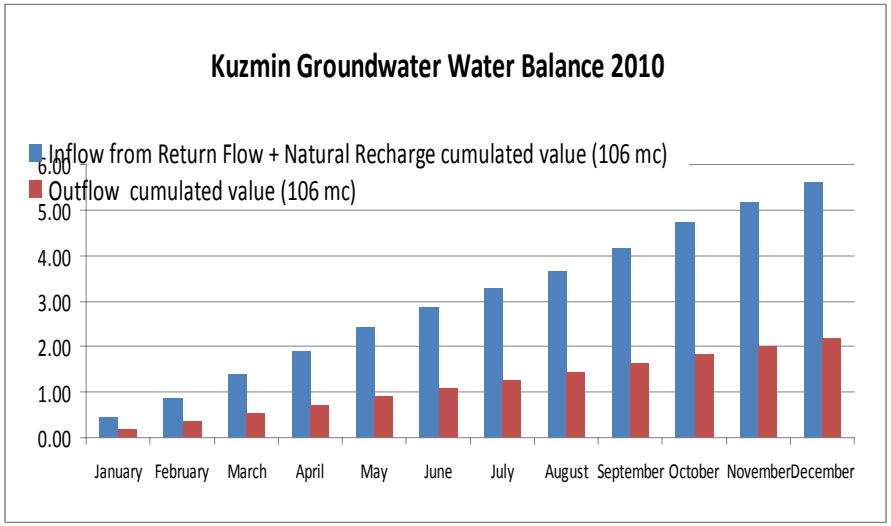


Figure 24 : Kuzmin Water Balance 2010 – cumulated values (mil mc)



Results Interpretation

- A 2010 monthly distribution of the inflow and outflow of Kuzmin underground reservoir can be seen in Figure 23. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during entire 2010 year. The graph above (Figure 24) shows clearly that the cumulated demand for Kuzmin reservoir (red column) is under the cumulated inflow normal year (blue column) which mean for the current situation 2010 that the system satisfied all its demands.

Figure 25 : Lypjan Monthly Inflow and Outflow (mil mc)

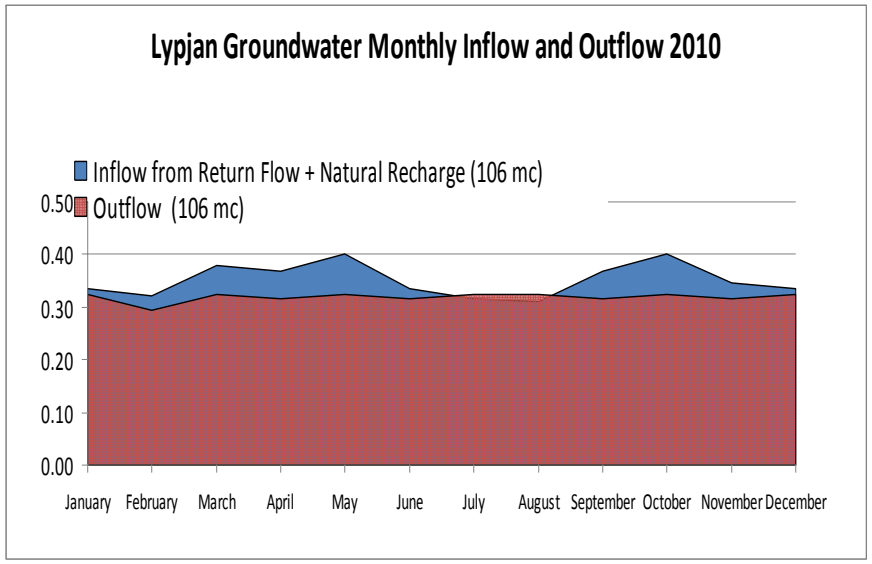
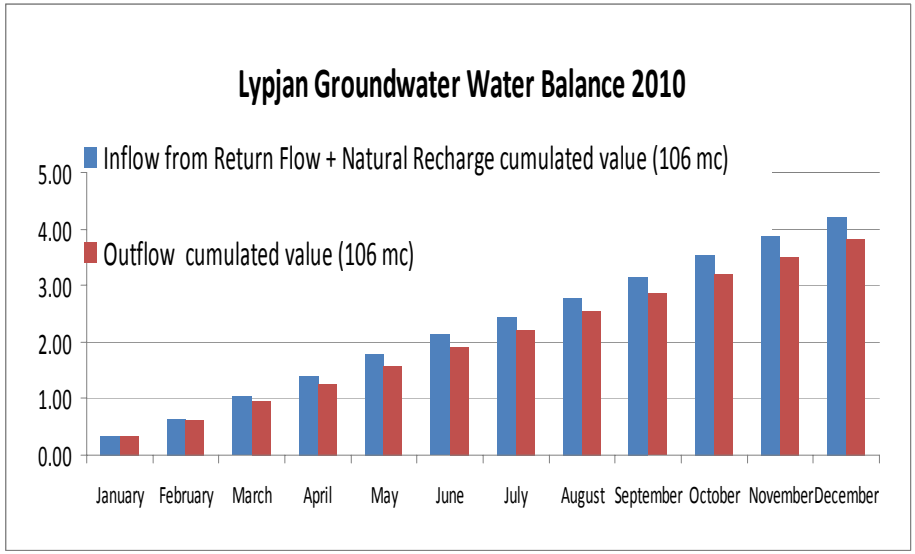


Figure 26 : Lypjan Water Balance 2010 – cumulated values (mil mc)



Results Interpretation

- A 2010 monthly distribution of the inflow and outflow of Lypjan underground reservoir can be seen in Figure 25. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during entire 2010 year, with small issues in July and August. The graph above (Figure 26) shows clearly that the cumulated demand for Lypjan reservoir (red column) is under the cumulated inflow normal year (blue column) which mean for the current situation 2010 that the system satisfy all its demands.

Figure 27 : Shtime Monthly Inflow and Outflow (mil mc)

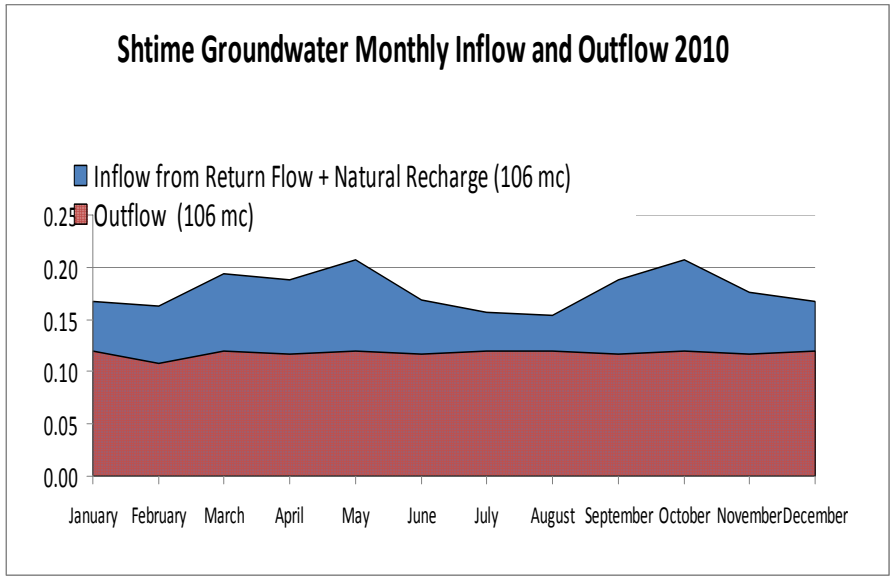
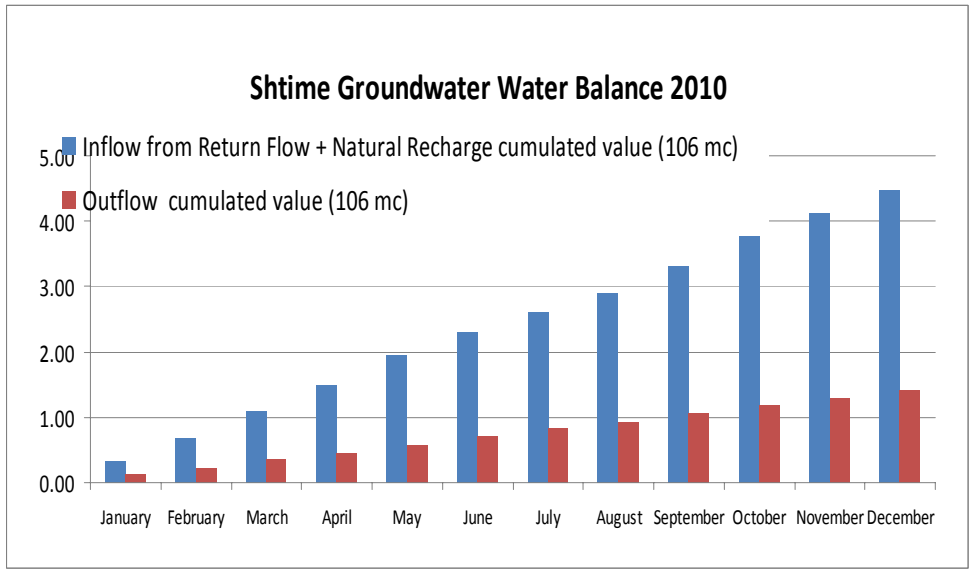


Figure 28 : Shtime Water Balance 2010 – cumulated values (mil mc)



Results Interpretation

- A 2010 monthly distribution of the inflow and outflow of Shtime underground reservoir can be seen in Figure 27. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during entire 2010 year. The graph above (Figure 28) shows clearly that the cumulated demand for Shtime reservoir (red column) is under the cumulated inflow normal year (blue column) which mean for the current situation 2010 that the system satisfy all its demands.

III.3. WEAP MODEL SCENARIOS DEVELOPMENT

A. PRESENTATION OF SCENARIO DEVELOPMENT

This mission succeeded in the development of a functioning WEAP application. The activities performed include creation of the schematic representation, incorporation of domestic, agricultural and industrial water use demands, and climatic and hydrologic parameters.

On a 25 years baseline (2010-2035 interval), the main factors of uncertainties are:

Main factors of uncertainties:

1. climate change
2. increase of population
3. percentage of connected population
4. increase of surface for irrigation
5. increase of industrial consumption.

Successive scenarios by varying these factors can be tested.

The elaboration of the various scenarios with WEAP is an iterative process, referring to:

- assumption to be made
- drivers to be changed
- indicators to be analyzed.

The scenario elaboration is a step by step process, each scenario being based on the results (indicators) of the previous one. The main parameters which could know variations in the future and then will be tested are:

1. Population Growth rate - we can assume that the population of the IBER River Basin is presently growing on a higher basis (3-4 %) due to several factors including returning population and related development of urbanization. This phenomenon is accelerated by the lack of security in rural areas.

We can consider that the recent increase of population growth rate is due to temporary factors and that after 5 to 10 years, the growth rate will be below 2% in line with Western Balkan countries.

Both rural and urban water demand will be influenced by changes in population. In order to build the 2011-2035 water demand scenarios, population data from Table 2 it was increased with a specific rate, according with the data collected from Pristina RWSC, as can be seen in Figure 26.

Figure 29 : Population growth rate

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Pristina	4%	4.0%	4.0%	4.0%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%
Fushe Kosovo	4.0%	4.0%	4.0%	4.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%
Kastriot/Obiliq	1.0%	1.0%	1.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Shtime, Lipiani, Besiane/Podujeve	2.5%	2.5%	2.5%	2.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Drenas/Gllototv	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Mitrovica	1.30%	1.27%	1.24%	1.21%	1.18%	1.15%	1.12%	1.09%	1.06%	1.03%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%

*)Source: *A34-1_Water_Balance_11022011-1.xls document* – Pristina RWSC

2. Irrigation Area Growth

For the same "*Reference 2011-2035*" interval, the future irrigated area will be equal with 8000 ha according with the data collected from IL Company, on March 2011. In that case, the growth rate for irrigation area it is assumed to be the same for each irrigated perimeter and it is detailed in Table 22.

Table 22 : Growth Rate for Irrigation

Irrigation Unit	Growth rate (%)
Komoran	24
Vushtrri	24
Shkabaj	24

The agricultural pattern will likely adjust to the markets. Land consolidation, farmers with entrepreneur spirit and know-how may enter in the legume and fruits products.

3. Evolution of the industrial water demand

The industrial water demand should be mainly impacted in a short term period by the construction of a new power plant: New Kosovo. The project is underway and it should be functioning by 2017. The expected water uses for the New Power Plant is 0.38 m^3/s (2017 - 2020) and 0.76 m^3/s (2021 – 2035) .

The power plant Kosovo A will be stopped when New Kosovo will be operational. Therefore, we consider the removal of its water consumption from 2017.

As mentioned in the report "Water supply from the IBER LENPENC hydro system for the proposed New Kosovo power plant – European agency for reconstruction – 2008", the IBER River Basin contains metallurgic factories and manufacturing plants that are nor working at the moment, but could restart their activity by 2016-2017. In such a case, we considered the potential water consumption evaluated at 1 m^3/s.

All those industries are and would be supplied by the Gazivoda reservoir trough IBER LEPENC channel. The resulted water demand to take into account is as follows:

Table 23 : Water Consumption for Industry

	Water Consumption in m³/s			
Industry	2015	2017	2035	Resource
Kosovo A	0.25	0	0	IBER LEPENC channel
Kosovo B	0.4	0.4	0.4	IBER LEPENC channel
New Kosovo	0	0.38	0.76	IBER LEPENC channel
Feronikeli	0.1	0.1	0.1	IBER LEPENC channel
Metallurgic factories and Manufacturing plants	0	1	1	IBER LEPENC channel
TOTAL	0.75	3.02	3.02	IBER LEPENC channel

4. The Climate Change can have an impact on the storage in reservoirs and on rivers flow. Low inflow can occur more often and can be more sever and also the flood occurrence and intensity might increase.

To take the climate change into account at the scenario building stage is possible to change the "Hydrology Data" → "Water Year Method": from Normal year into a Dry / Very Dry year.

To be mentioned that the baseline scenario built and presented before was used in the scenario computation.

B. STEP BY STEP SCENARIO ANALYSIS AND RESULTS

1. Data Insertion and WEAP model scenario development

Using the baseline scenario we made the following assumptions:

- Assumption on population

The assumptions of population are related with the population increasing rate (see Figure 29). This can be modified in the "Key Assumptions" data view.

The consumption per capita it supposed to decrease from 150l/d in 2010 to 120l/d in 2035 (according with the data provided in March 2011 by the Director of Pristina Regional Water Company). This can be justified by the fact that the water tariff will increase, the water meters will be installed and the population will have to use the water more rationale.

This data are entry data for Scenario 1 – "Population Growth Scenario"

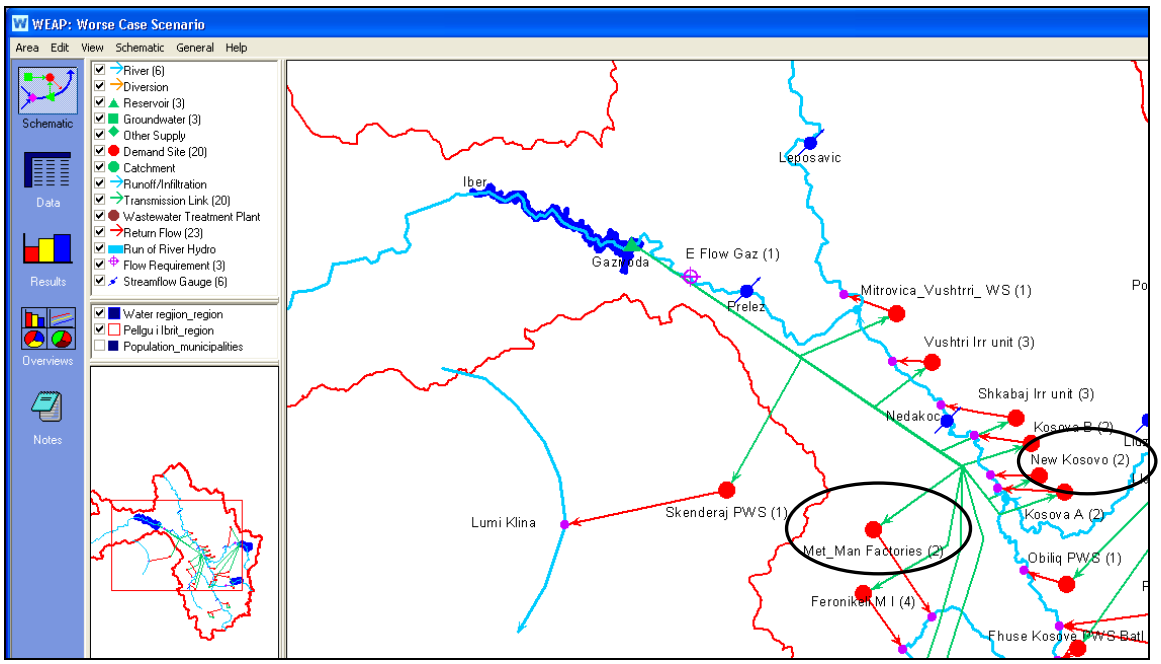
- Increasing of the irrigated area

The assumption on irrigation for this scenario includes a maximum growth rate for irrigation area (see Table 22), taking into consideration a future wellness of farmers, a good market and a good price for products. The irrigated area can be modified in the "Key Assumptions" data view.

- Increasing of the industrial consumption

At the stage of industrial consumption we considered that a new power plant (New Kosovo) will be built, Kosovo A power plant will be stopped and the metallurgic factories and manufacturing plants will restart their activity (see Table 23). These parameters can be modified and added in the "Key Assumptions" and "Demand Sites" data view.

Figure 30 : New industry in Iber River Basin

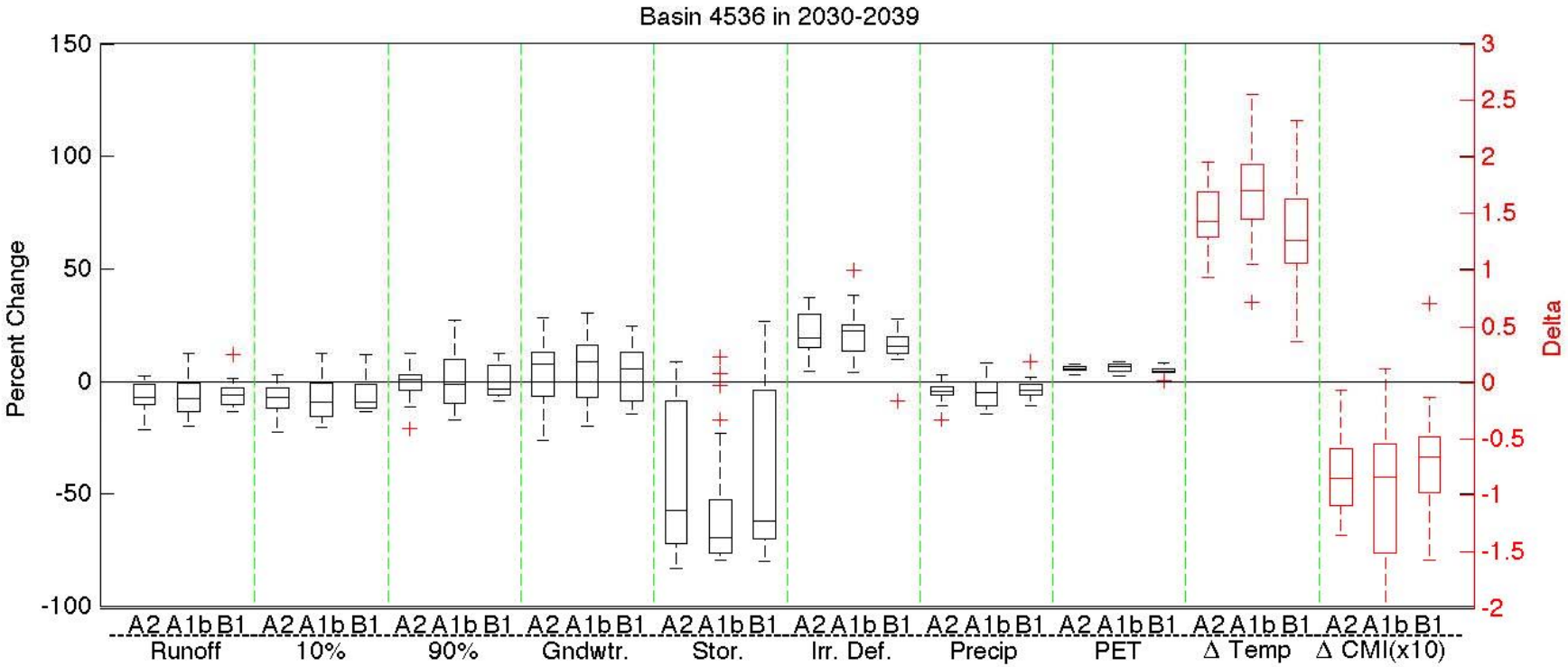


- Climate change

The climate change could have significant impacts in water resources in Kosovo, because of the close connections between the climate and hydrological cycle and lead to increases in precipitation, though there will be regional variations in Rainfall, then in runoff which means water available at the surface of the Iber River Basin. Overall, the global supply of freshwater will increase for responding to the increasing of population needs (consumption – recreation – farm irrigation etc.) under the climate change. Both, droughts and floods may become more frequent.
Higher temperatures will also affect water quality. Possible impacts include increased eutrophication.
Two scenario (dry year and very dry year) will constitute the scenarios which will be implemented with WEAP, for each episode (2010 – 2020 and 2035) in order to define clearly if Iber River Basin in Kosovo could still assure its water distribution needs (population, agriculture and industry) respecting the Environmental Flow (E-flow) under the effect of climate change .
Some coefficients and values will be determinate for population consumption, evaporation coefficient, and runoff taking into accounts the effect of climate changes on behavior consumption changes and other natural processes as:

- A normal year which will correspond to the current data we have used until now for the study. The population consumption for a normal year (150 l/day/inhabitant) has been determinate together with the World Bank team, during our starting project meeting in the 24th of June 2010
- A dry year, which will have a direct influence on:
  - Population consumption for a dry year period will be fixed to 180 l/day/inhabitant (values imposed by the project team) – In fact, the population water consumption is changing under the effect of the climate change.
  - Evaporation coefficient (PET) A delta of + 0,5 on the normal year evaporation value will be imposed for a very dry year simulation (Coefficient obtained with the following graph from a previous study which have been forward us by the World Bank)
  - Inflow (or water available on the surface) – 25 % of the normal year inflow (value imposed by WEAP methodology) modified in "Hydrology – Water Year Method" data view.
- A very dry year
  - Population consumption – As following the same logical for a dry year period, a population consumption value will be determined by the project team. The value of this water consumption will be equal to 200 l/day/inhabitant
  - Evaporation coefficient (PET) – A delta of + 1 on the normal year evaporation value will be imposed for a very dry year simulation (Coefficient obtained with the following graph from a previous study which have been forward us by the World Bank)
  - Inflow (or water available on the surface) – 50 % of the normal year inflow (value imposed by WEAP methodology) modified in "Hydrology – Water Year Method" data view.

This data are entry data for Scenarios 4 and 5 – "Climate change Scenarios" and it has to be mentioned that the population data are different than the ones used for "Population Growth Scenario", where the climate change effect it was not considered.



Legend
Top of Box: 75th percentile
Bottom of Box: 25th percentile
Whiskers: extreme values

Middle Line: median
Red Crosshairs: model outliers

2. Scenario Results presentation and interpretation

A. Scenario 1 - Population growth scenario

a) System 1 – Gazivoda dam

- For 2020

Figure 31 : Gazivoda Monthly Inflow and Outflow – Scenario 1 – 2020

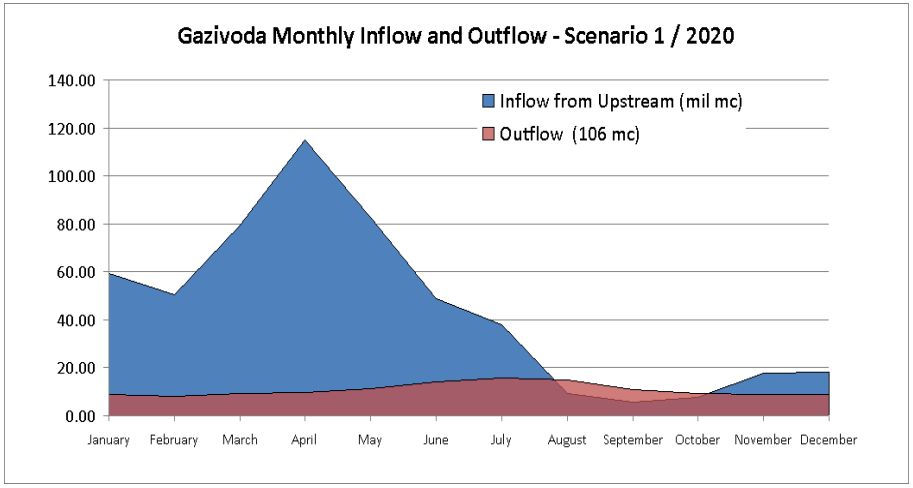
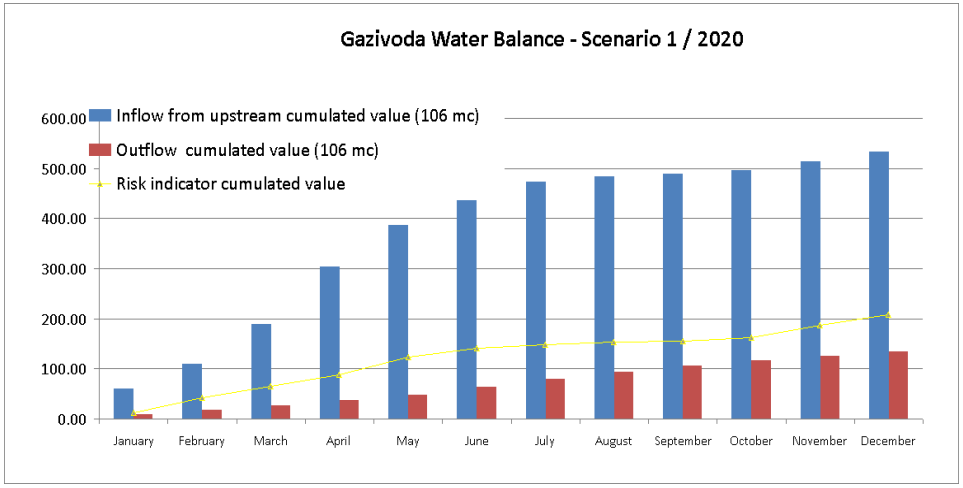


Figure 32 : Gazivoda Water Balance – Scenario 1 – 2020



Results Interpretation

- A 2020 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 31. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring season, but we can have problems in August and September. The graph above (Figure 32) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which means that for the 2020 situation, the system 1 satisfied all its demands.

- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 1; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.

- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that even in a worst case situation (very dry year), the demand will be however satisfied taking into account also the effect of climate change on water consumption increasing.

- For 2035

Figure 33 : Gazivoda Monthly Inflow and Outflow – Scenario 1 – 2035

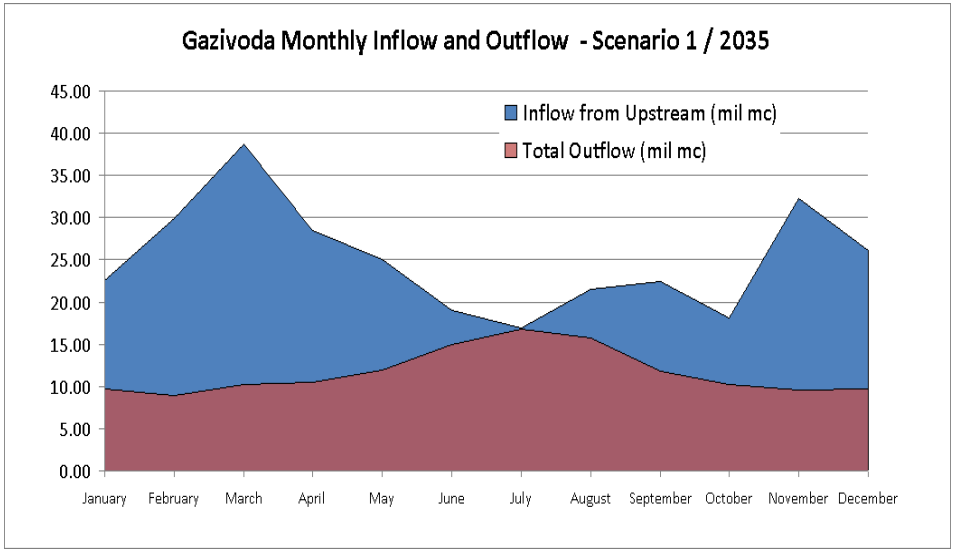
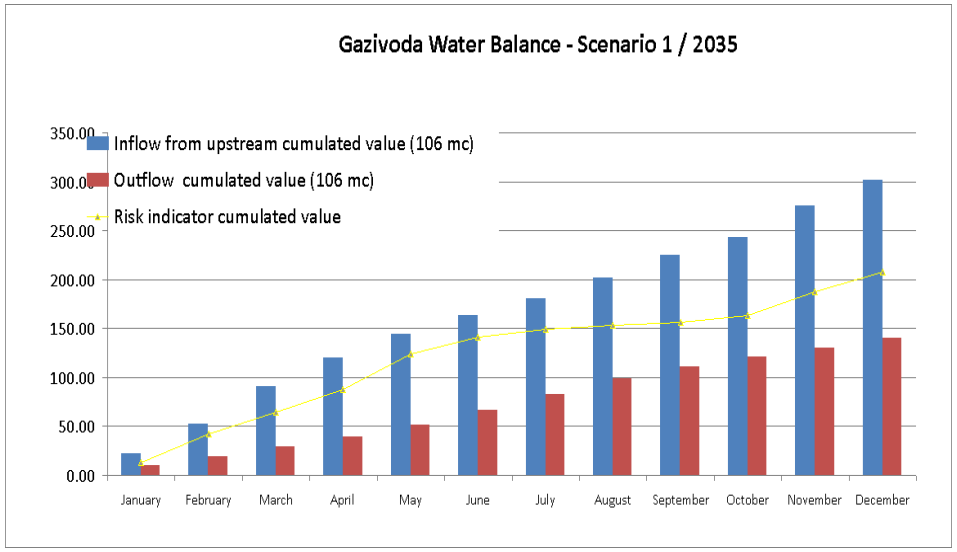


Figure 34 : Gazivoda Water Balance – Scenario 1 – 2035



Results Interpretation

- A 2035 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 33. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring and winter seasons, but we can have problems in July. The graph above (Figure 34) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which means that for the2035 situation, the system 1 satisfied all its demands.

- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not required to think about potential measure for assuring water security.

- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that even in a worst case situation (very dry year), the demand will be however satisfied taking into account also the effect of climate change on water consumption increasing.

- General impact of population growth on water demand

Table 24 : Results for System 1 (population growth rate)

	2010	2020	2035
Inflow (in mil mc)	415.09	532.14	301.12
Outflow (Water demand in mil mc)	130.09	134.59	140.20

The impact of population growth on water demand for system 1 is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 10 mil mc, which means an increasing rate of 7.7 % (see Table 24).

Figure 36 : Population Growth Impact for System 1 Water Demand

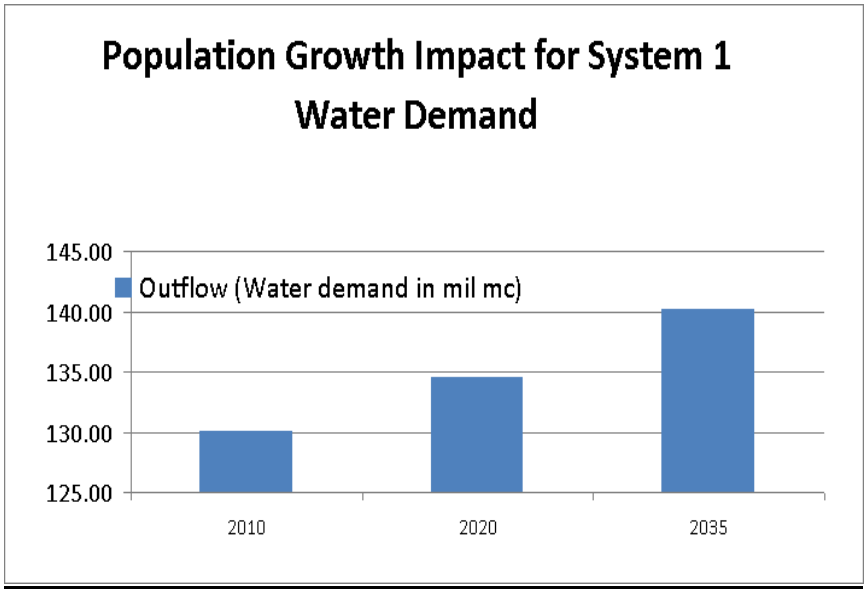
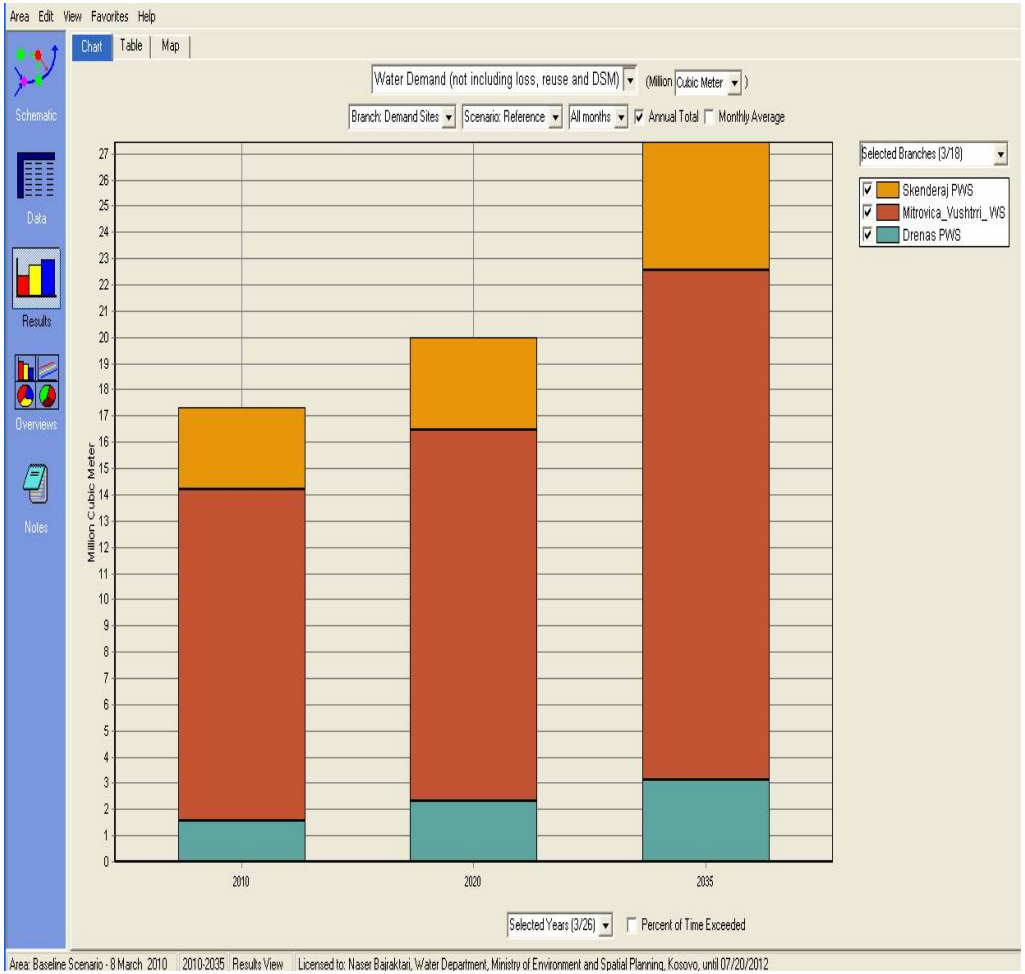


Figure 35 : 2010, 2020 and 2035 WEAP Water Demand for Drinking Water in System 1



b) System 2 – Batlava & Badovc dams

- For 2020

Figure 37 : Batllava Monthly Inflow and Outflow – Scenario 1 – 2020

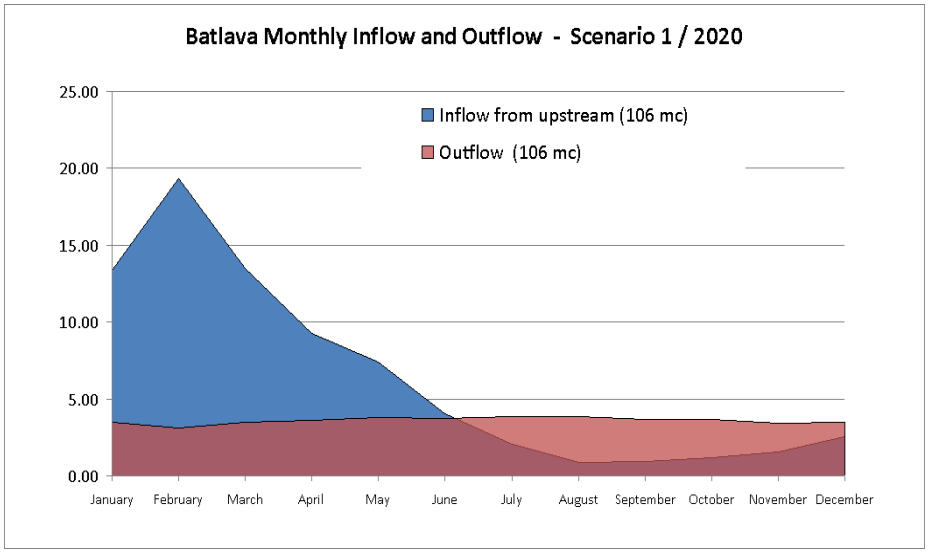
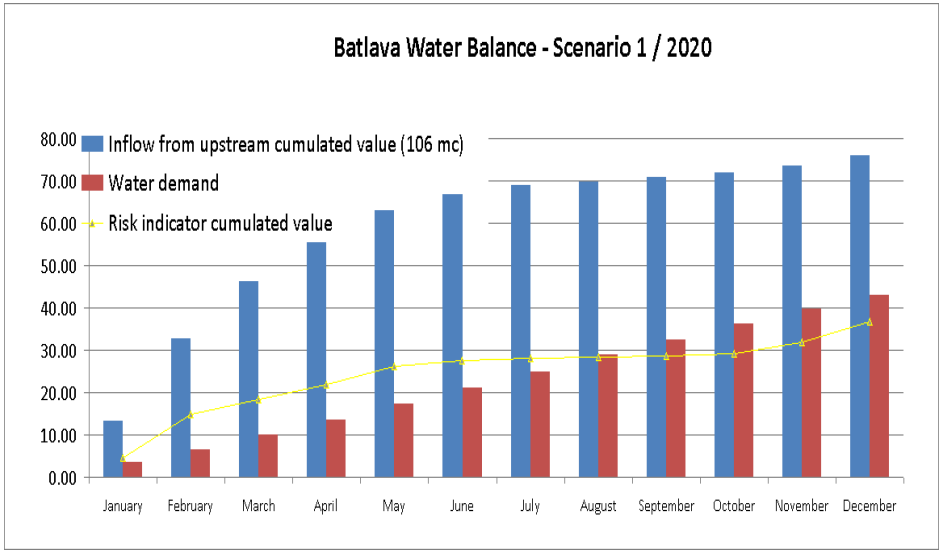


Figure 38 : Batllava Water Balance – Scenario 1 – 2020



Results Interpretation:

- A 2020 monthly distribution of the inflow and outflow of Batllava reservoir can be seen in Figure 37. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during spring season, but in the rest of the year we can have a deficit of water, especially in August and September. These results don't take into consideration the water cumulative effect of the reservoir. In fact, the graph above (Figure 38) shows clearly that the cumulated demand for Batllava dam (red column) is under the cumulated inflow normal year (blue column) which means that for 2020 situation, the system 2 satisfied all its demands.
- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 2; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.
- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that in a worst case situation (very dry year), the demand will not be satisfied taking into account the effect of climate change on water consumption increasing.

Figure 39 : Badovc Monthly Inflow and Outflow – Scenario 1 – 2020

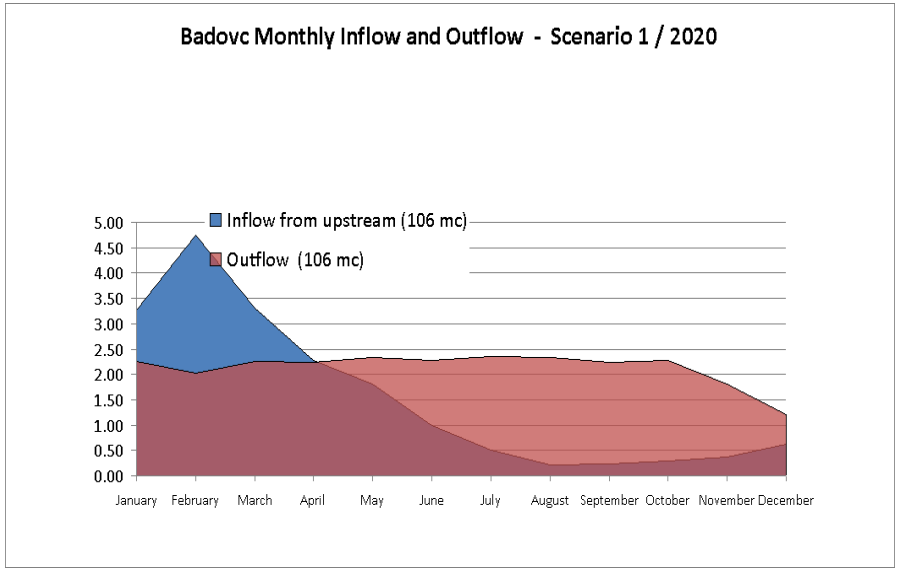
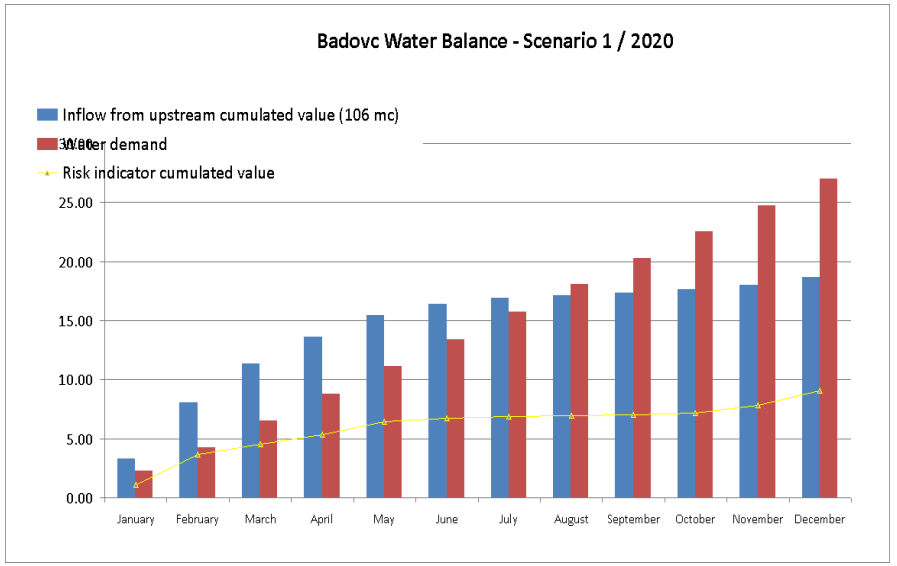


Figure 40 : Badovc Water Balance – Scenario 1 – 2020



Results Interpretation:

- A 2020 monthly distribution of the inflow and outflow of Badovc reservoir can be seen in Figure 39. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system during spring season, but we have a deficit of water from June to December. The graph above (Figure 40) shows clearly that the cumulated demand for Badovc dam (red column) is above the cumulated inflow normal year (blue column) which means that for 2020 situation, the system 2 does not satisfy all its demands.
- Tthe comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that in a worst case situation regarding climate change (very dry year), the red column being above the yellow line, the system 2 will be in a critical situation. In consequence, to avoid the hydraulic stress, some measures have to be developed (leakage reduction, dam, new sources of water, reduction of illegal connection, etc) to then allows water security demands in this whole system, for any climate situation (normal, dry and very dry).

- For 2035

Figure 41 : Badovc Water Balance – Scenario 1 – 2035

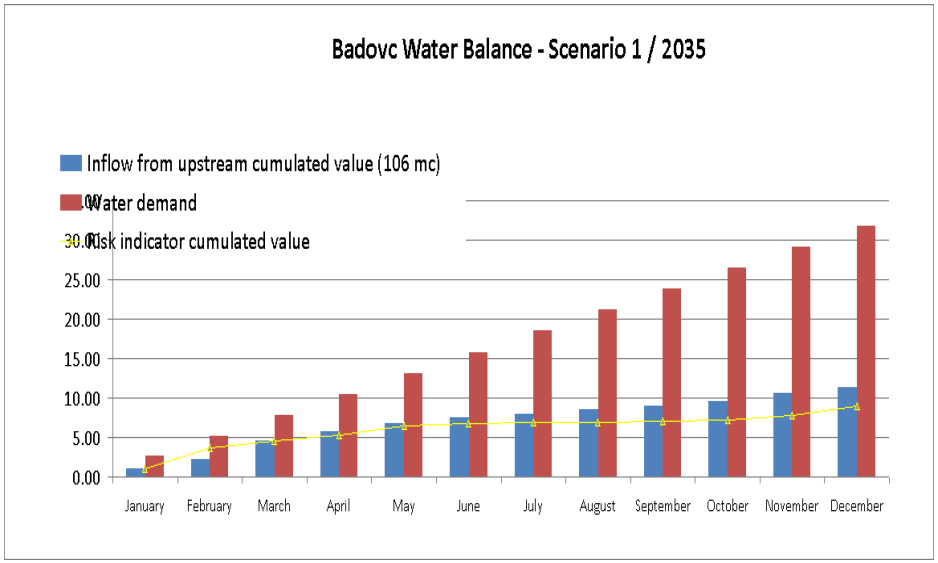
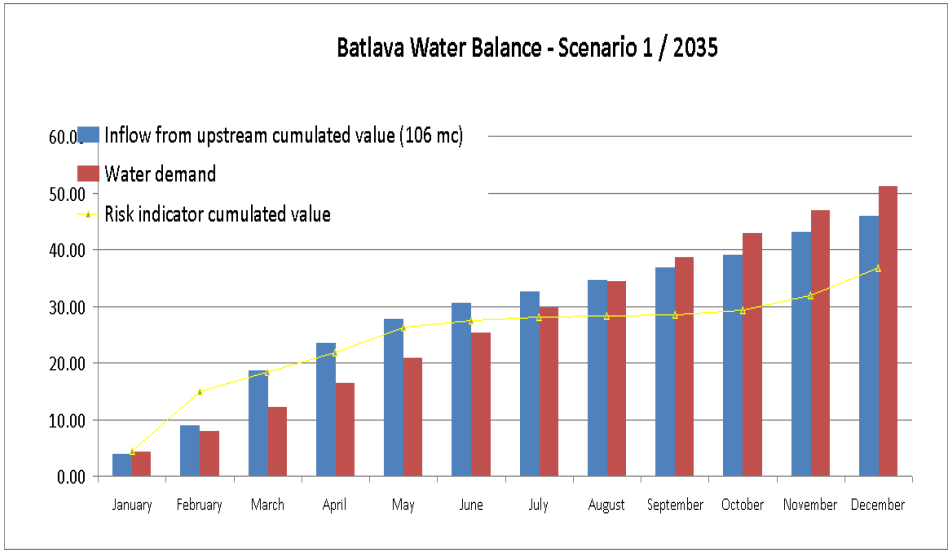


Figure 42 : Batllava Water Balance – Scenario 1 – 2035



Results Interpretation:

- A 2035 monthly distribution of the cumulated values of inflows and outflows of Badovc and Batllava reservoirs can be seen in Figure 41 and Figure 42, where can be seen clearly that the cumulated demand for the both dams (red column) is above the cumulated inflow normal year (blue column) which means that for 2035 situation, the system 2 does not satisfy all its demands.
- Measures have to be developed (leakage reduction, dam, new sources of water, reduction of illegal connection, etc) to allows water security demands in the system, for any climate situation (normal, dry and very dry).

- General impact of population growth on water demand

Table 25 : Results for System 2

	2010	2020	2035
Inflow (in mil mc)	91.73	94.58	57.12
Outflow (Water demand in mil mc)	67.01	70.05	82.89

The impact of population growth on water demand for System 2 (Batllava + Badovc) is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 15.9 mil mc, which means an increasing rate of 23.7% (see Table 25).

Figure 44 : Population Growth Impact for System 2 Water Demand

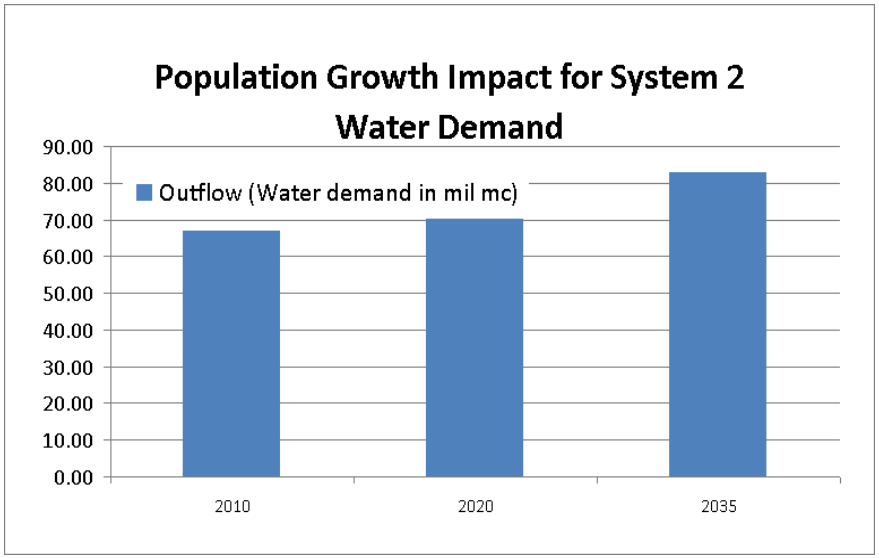
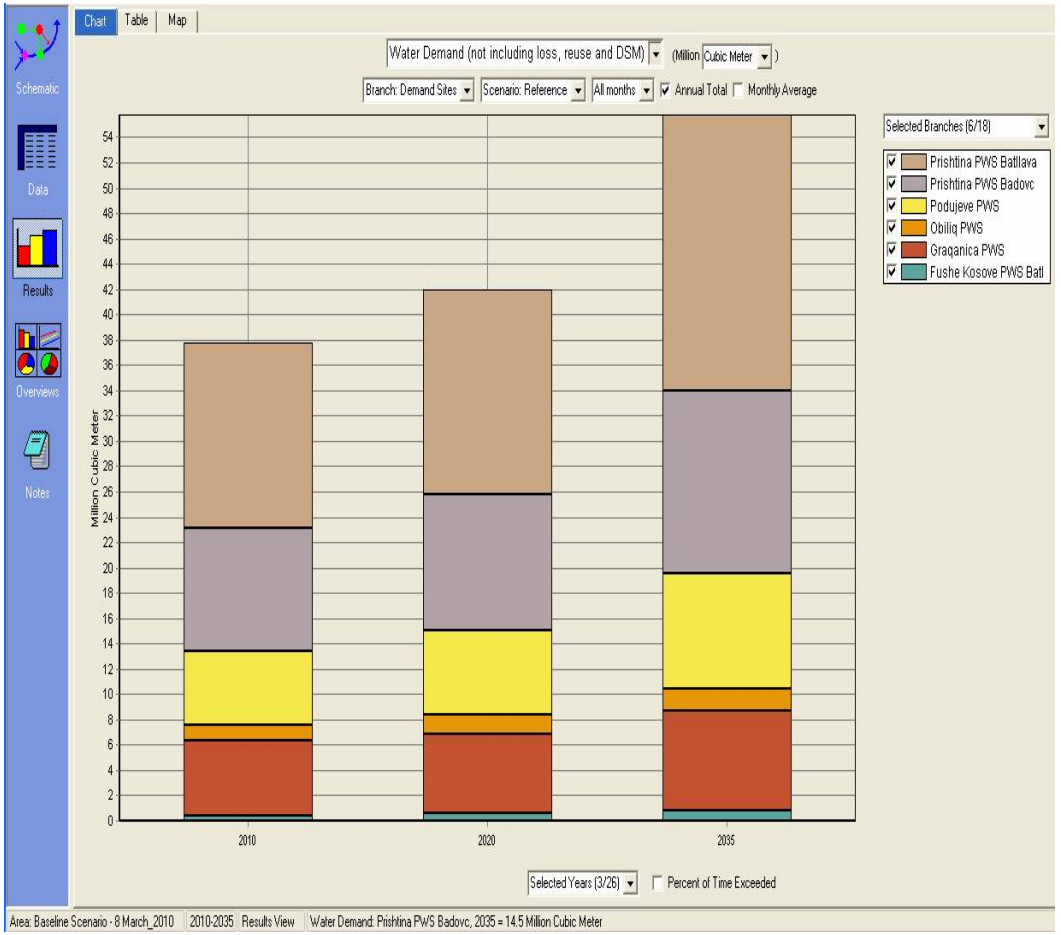


Figure 43 : WEAP Water Demand for Drinking Water in System 2



c) System 3 – Groundwaters System

- General impact of population growth on water demand

Table 26 : Results for System 3

	2010	2020	2035
Inflow (in mil mc)	11.98	12.85	13.89
Outflow (Water demand in mil mc)	7.44	9.07	10.34

The impact of population growth on water demand for System 3 (Groundwater) is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 2.9 mil mc, which means an increasing rate of 39 % (see Table 26).

Figure 45 : WEAP Water Demand for Drinking Water in System 3

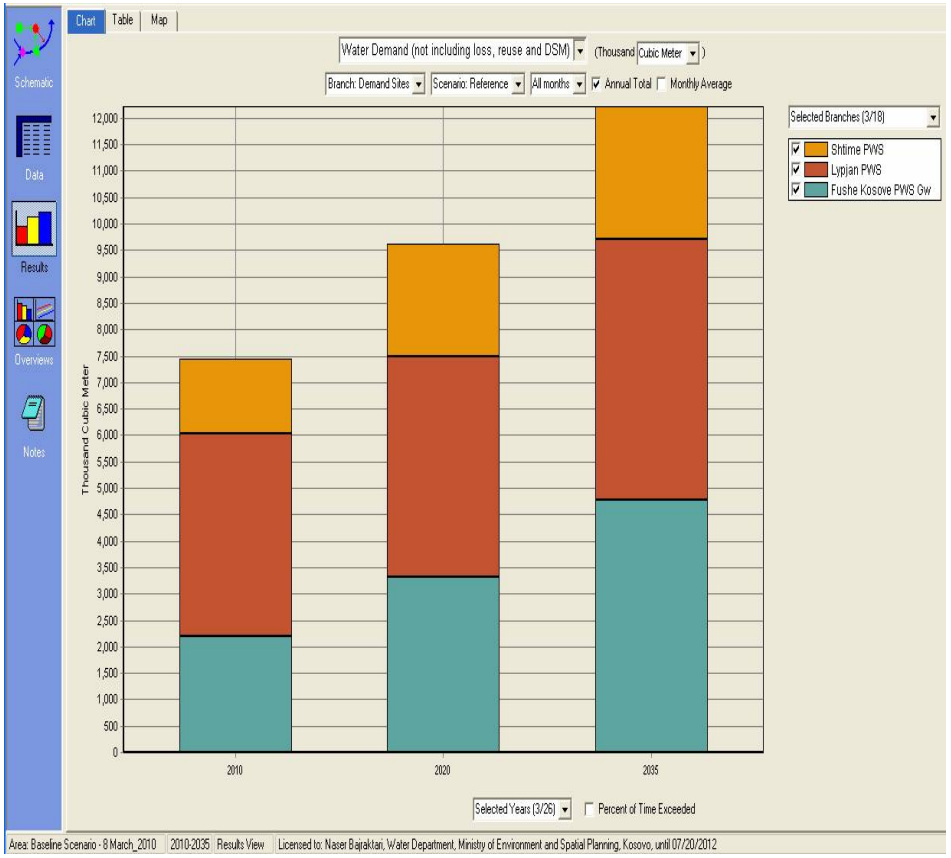
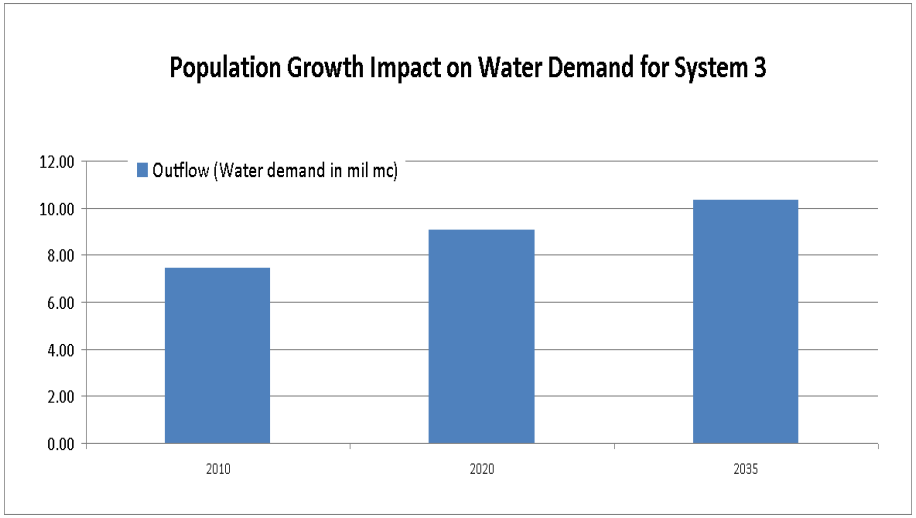


Figure 46 : Population Growth Impact for System 3 Water Demand



B. Scenario 2: Population growth + agriculture growth scenario (only for System1 – Gazivoda system)

- For 2020

Figure 47 : Gazivoda Monthly Inflow and Outflow – Scenario 2 – 2020

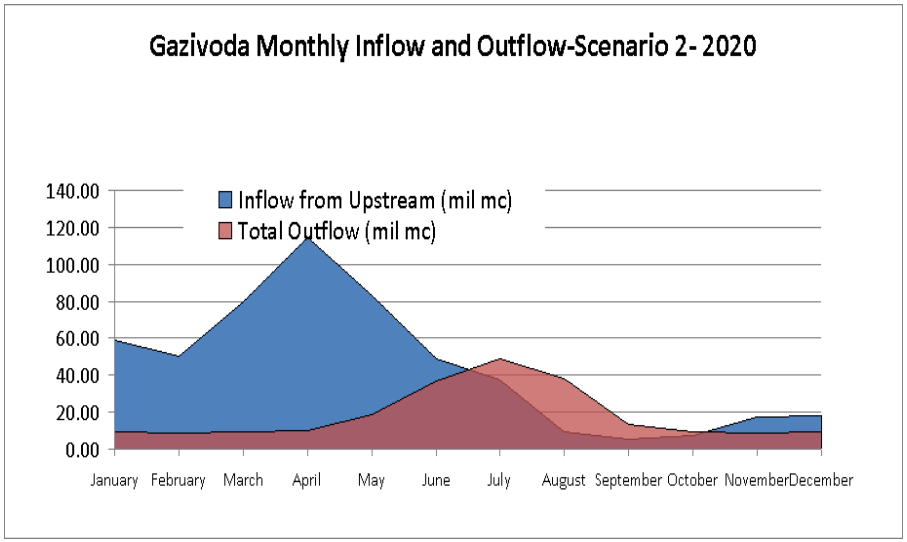
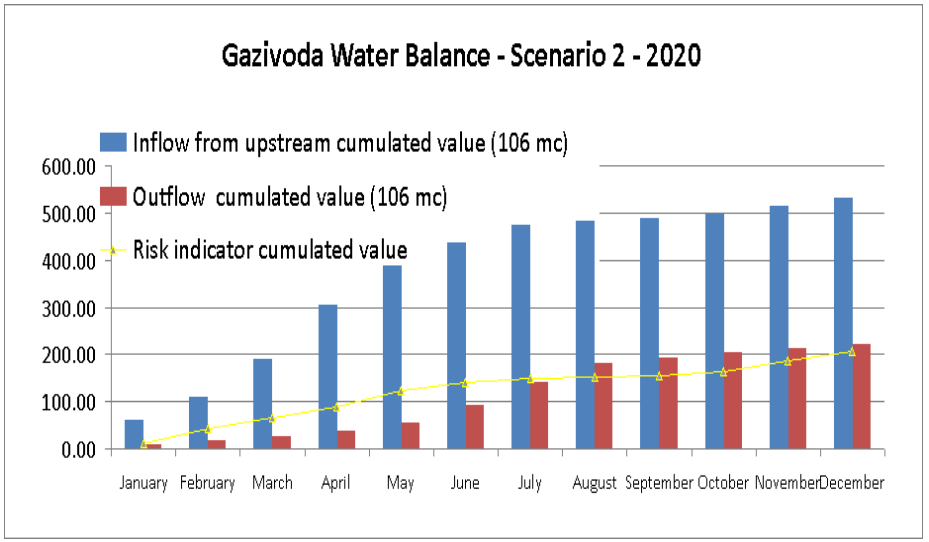


Figure 48 : Gazivoda Water Balance – Scenario 2 – 2020



Results interpretation:

- A 2020 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 47. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring season, but we can have problems in the summer period. The graph above (Figure 48) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which means that for the 2020 situation, the system 1 satisfied all its demands.

- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 1; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.

- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that even in a worst case situation (very dry year), the demand will be however satisfied taking into account also the effect of climate change on water consumption increasing.

- For 2035

Figure 49 : Gazivoda Monthly Inflow and Outflow – Scenario 2 – 2035

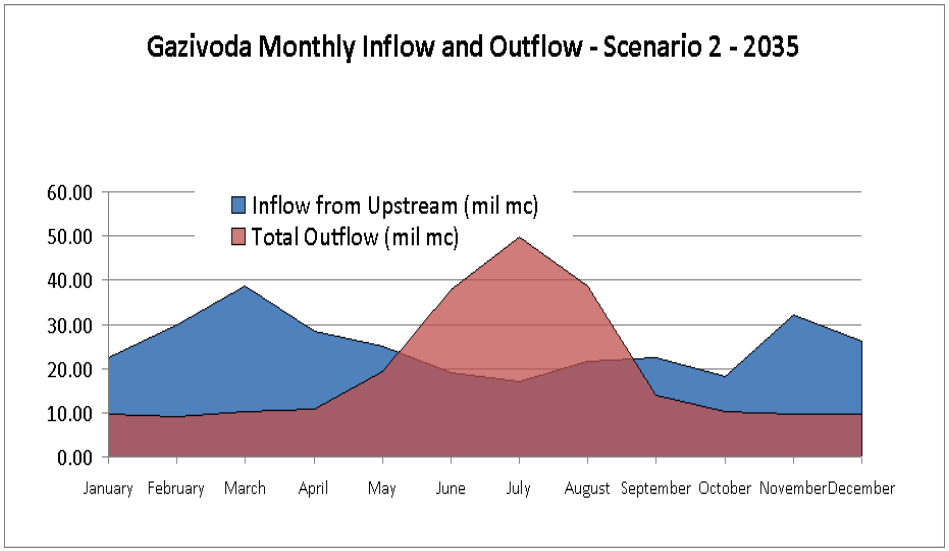
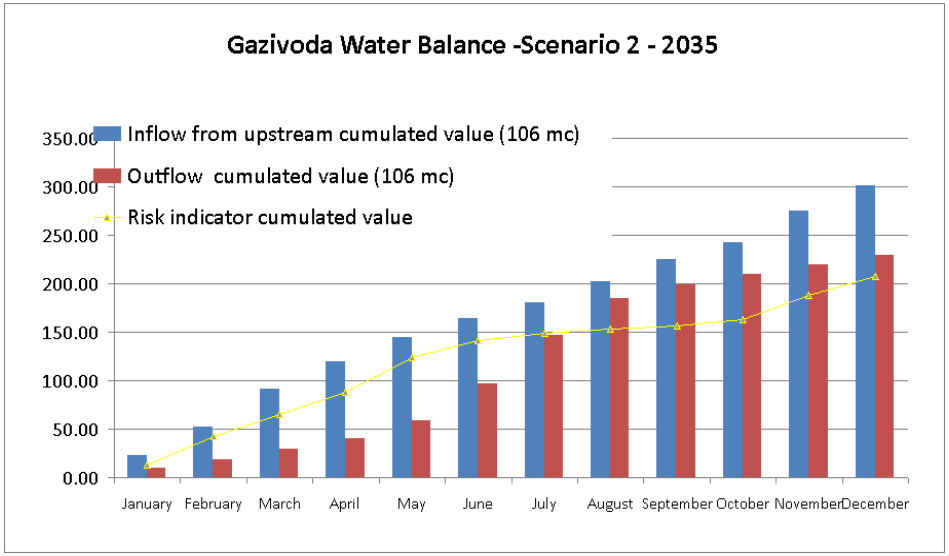


Figure 50 : Gazivoda Water Balance – Scenario 2– 2035



Results interpretation:

- A 2035 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 49. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring and winter seasons, but we can have problems from May to September. The graph above (Figure 50) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which means that for the2035 situation, the system 1 satisfied all its demands.

- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not required to think about potential measure for assuring water security.

- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to say that in a worst case situation (very dry year), the demand will not be satisfied taking into account the effect of climate change on water consumption increasing.

- General impact of population and agriculture growth on water demand

Table 27 : Results for System 1 (population growth + agriculture growth)

	2010	2020	2035
Inflow (in mil mc)	415.09	532.14	301.12
Outflow (Water demand in mil mc)	130.09	220.91	228.83

The impact of population + irrigated area growth on water demand for system 1 is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 99 mil mc, which means an increasing rate of 76 % (see Table 27).

Figure 52 : Population +Agriculture Growth Impact for System 1 Water Demand

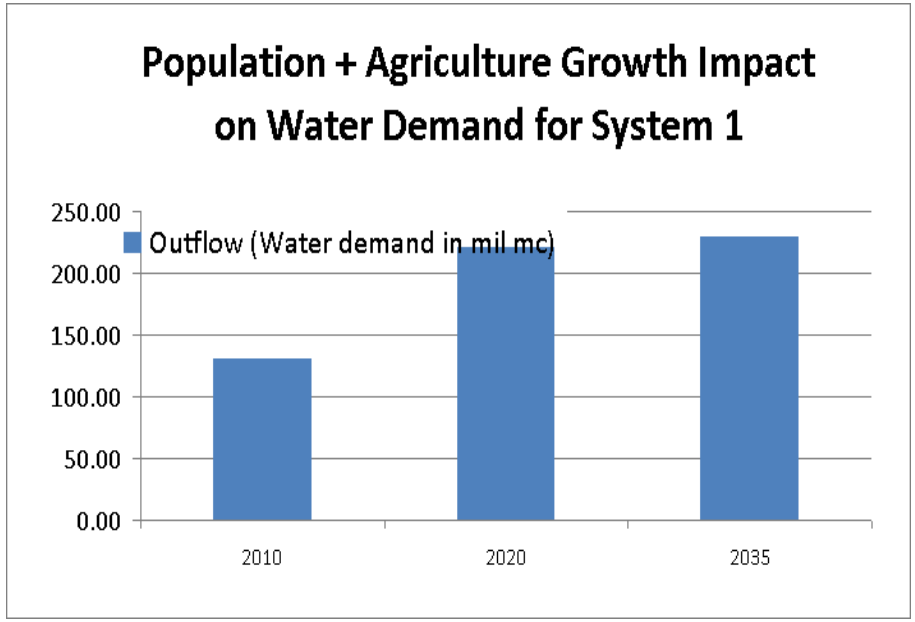
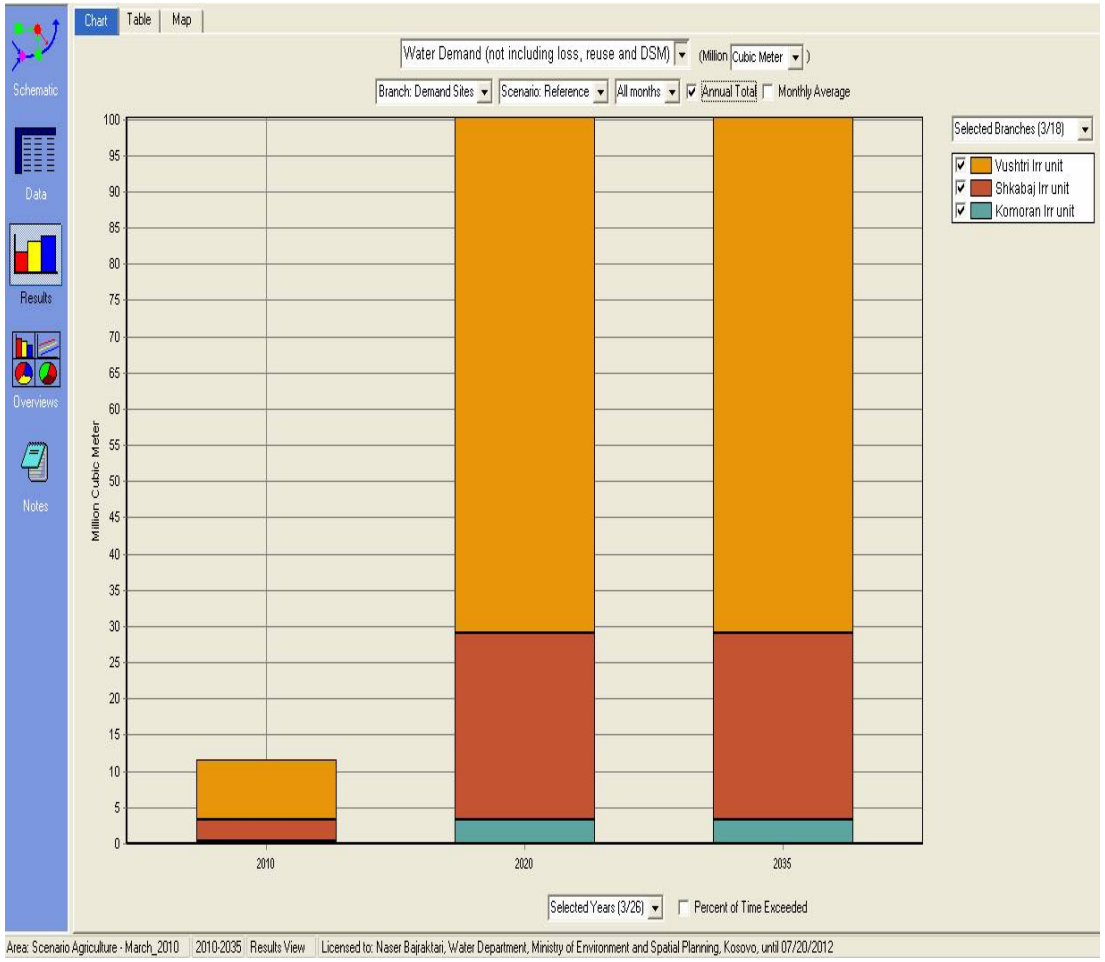


Figure 51 : WEAP Water Demand for Irrigation in System 1



C. Scenario 3: Population growth + agriculture growth + increasing of industry activities (Only for Gazivoda system)

- For 2020

Figure 53 : Gazivoda Monthly Inflow and Outflow – Scenario 3– 2020

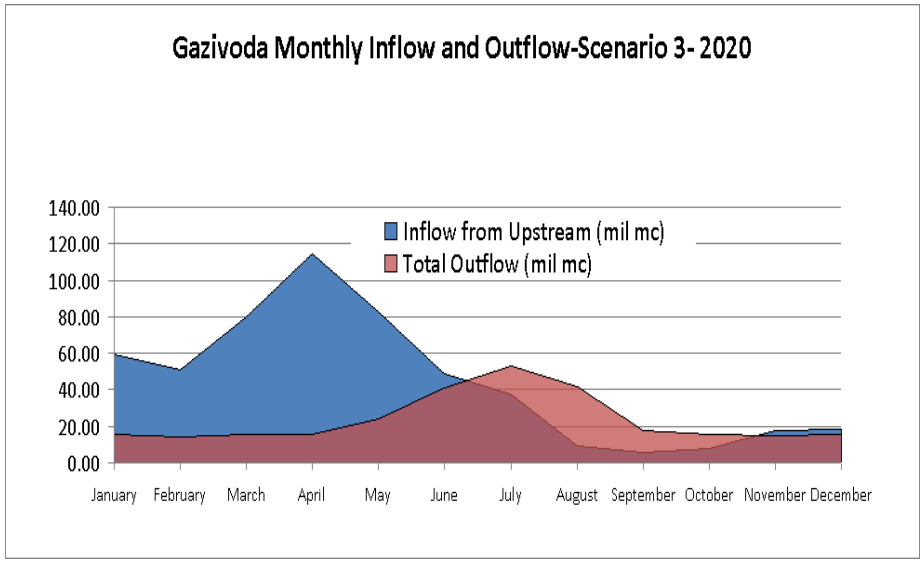
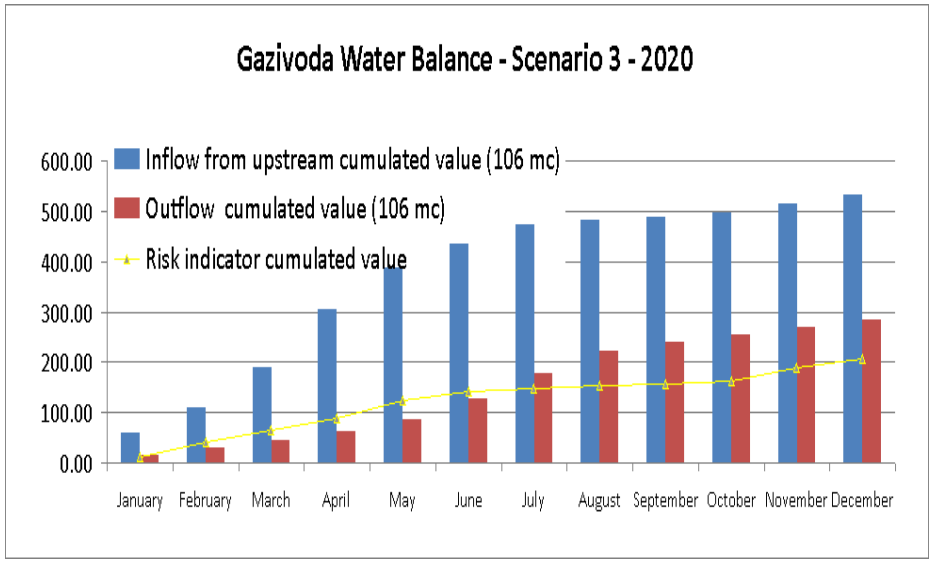


Figure 54 : Gazivoda Water Balance – Scenario 3– 2020



Results interpretation:

- A 2020 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 53. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring season, but we can have problems in in the rest of the year. The graph above (Figure 54) shows clearly that the cumulated demand for Gazivoda dam (red column) is under the cumulated inflow normal year (blue column) which means that for the 2020 situation, the system 1 satisfied all its demands.

- The comparison of the cumulated inflow normal year (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 1; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.

- For 2035

Figure 55 : Gazivoda Monthly Inflow and Outflow – Scenario 3– 2035

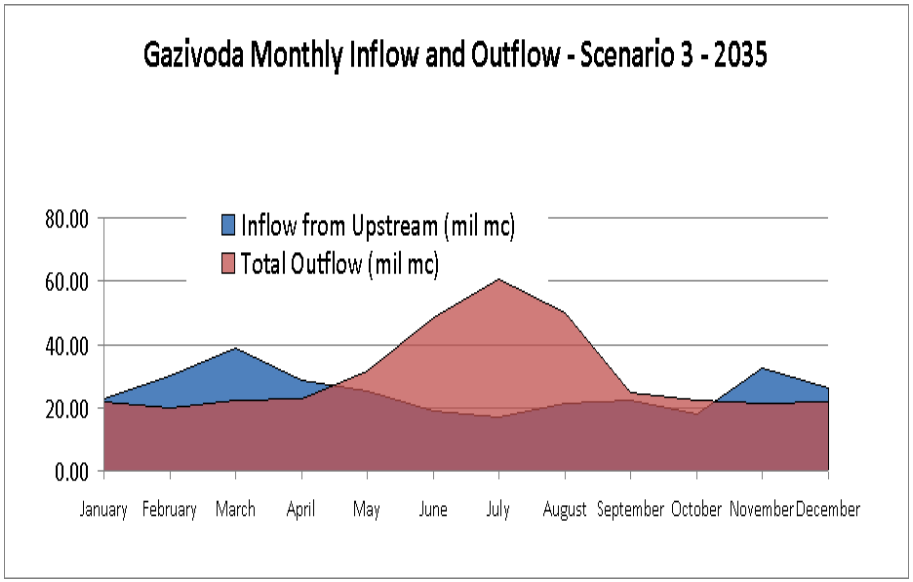
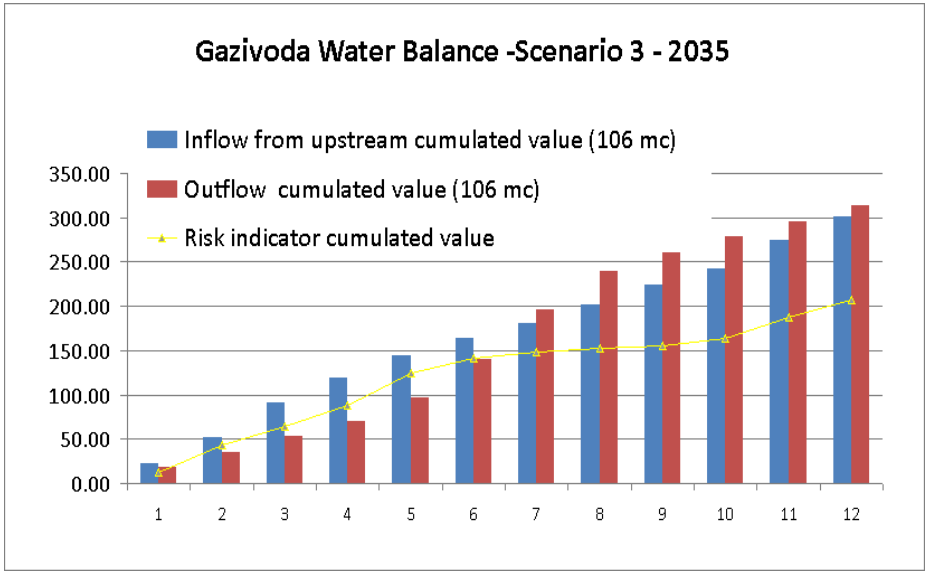


Figure 56 : Gazivoda Water Balance – Scenario 3– 2035



Results interpretation:

- A 2035 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 55. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially during spring and winter seasons, but we can have problems from May to October. The graph above (Figure 56) shows clearly that the cumulated demand for Gazivoda dam (red column) is above the cumulated inflow normal year (blue column) which means that for the2035 situation, the system 1 does not satisfy all its demands.

- General impact of population, agriculture and industry growth on water demand

Table 28 : Results for System 1 (population growth + agriculture growth + industry growth)

	2010	2020	2035
Inflow (in mil mc)	415.09	532.14	301.12
Outflow (Water demand in mil mc)	130.09	284.84	314.09

The impact of population, irrigation and industry growth on water demand for system 1 is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 184 mil mc, which means an increasing rate of 141 % (see Table 28).

Figure 58 : Population +Agriculture + Industry Growth Impact for System 1 Water Demand

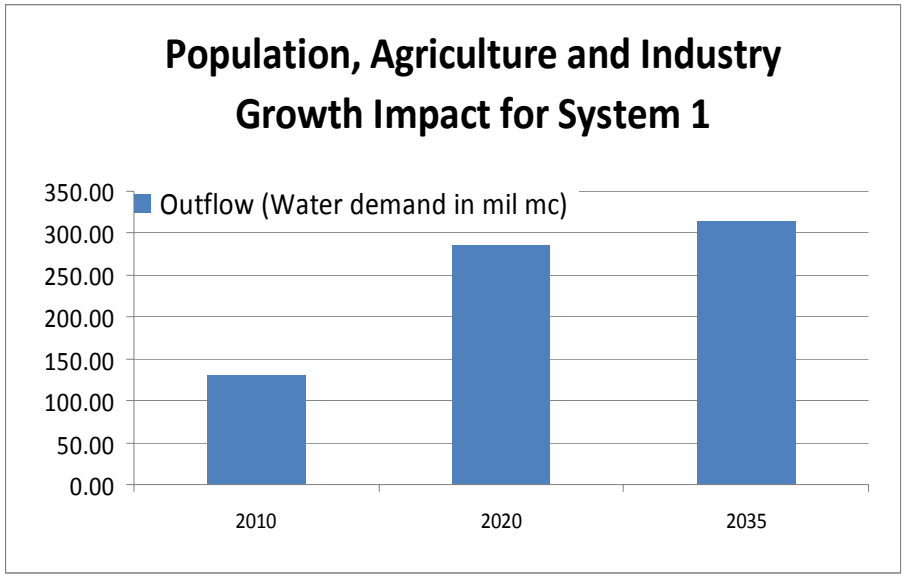
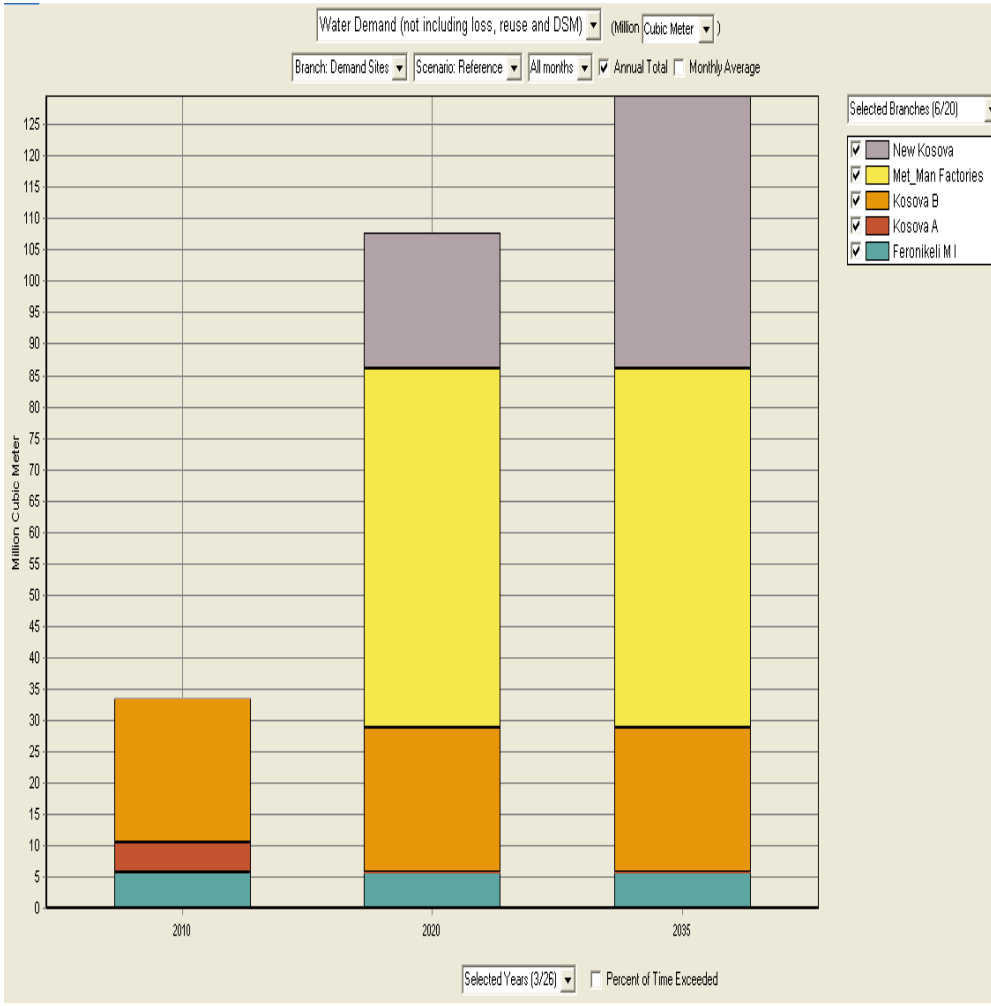


Figure 57 : WEAP Water Demand for Industry in System 1



D. Scenario 4: Population growth + agriculture growth + increasing of industry activities + climate change effect

1. Climate change effect for a Dry year period

a) System 1 – Gazivoda dam

- For 2020

Figure 59 : Gazivoda Monthly Inflow and Outflow – Scenario 4– 2020

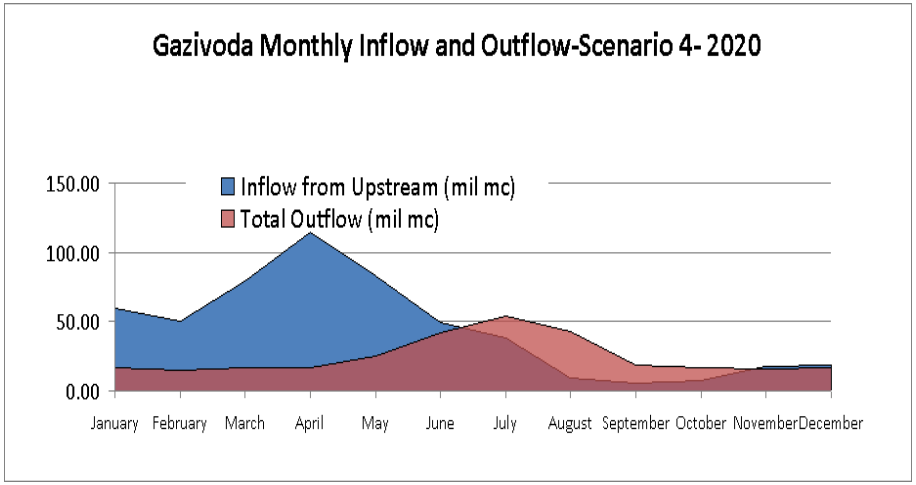
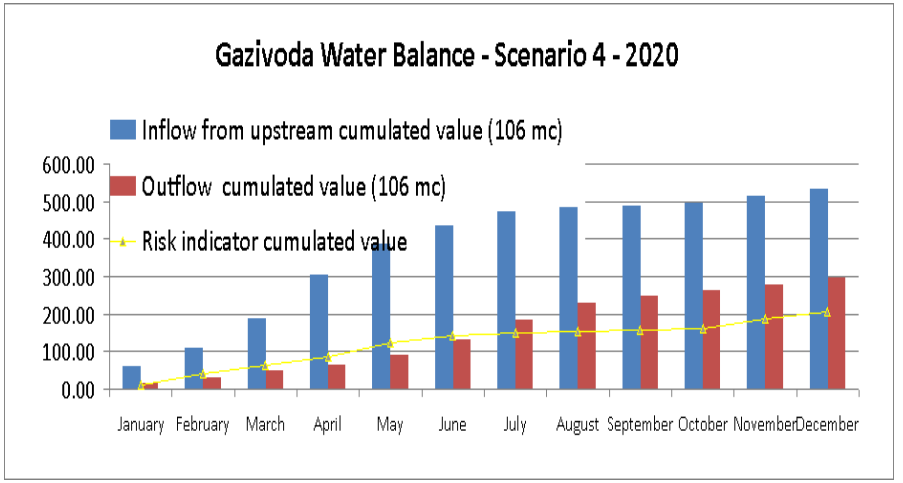


Figure 60 : Gazivoda Water Balance – Scenario 4– 2020



Results Interpretation:

- A 2020 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 59. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system especially between January to June before the irrigation season (Julyt to October), where the demand is higher at the inflow in this system and at this period. However, this higher demand can be satisfied by the cumulated effect of water in the system as show the above graph (Figure 60). In fact the Gazivoda system could cumulate inflow water (blue column) in order to satisfied the corresponding system demand (red column) in 2020, and for some specific conditions during all the year cumulated demand (red column) will stay all long down the cumulated inflow (blue column) for all the year.

- The comparison of the cumulated inflow (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in order to assure Water Security for system 1; in fact more close the blue column will be to the yellow line, it will be required to think about potential measure for assuring water security, before the blue column is going under this critical yellow line.

- Finally, the comparison of the water demand or outflow (red column) and the cumulated inflow for a very dry season (yellow line), allows us to confirm that even in a worst case situation (very dry year), the demand will not be satisfied.

- For 2035

Figure 61 : Gazivoda Monthly Inflow and Outflow – Scenario 4– 2035

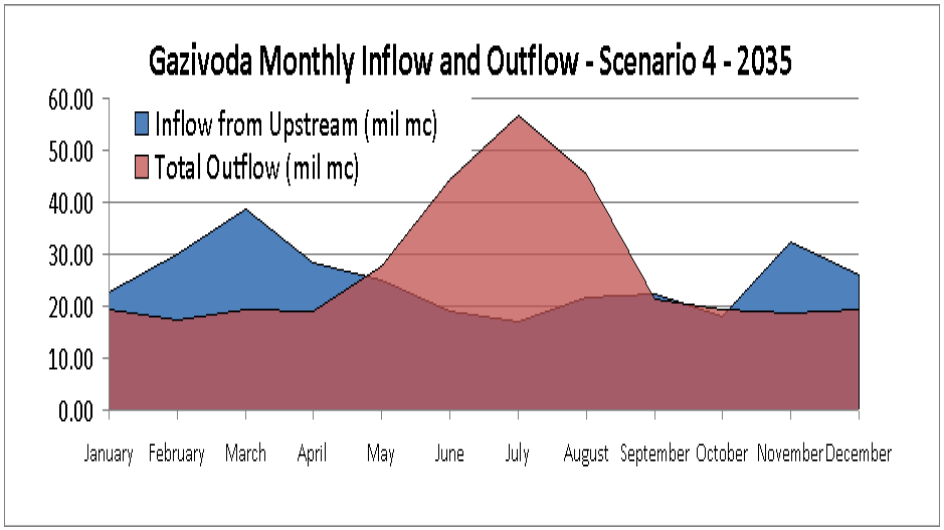
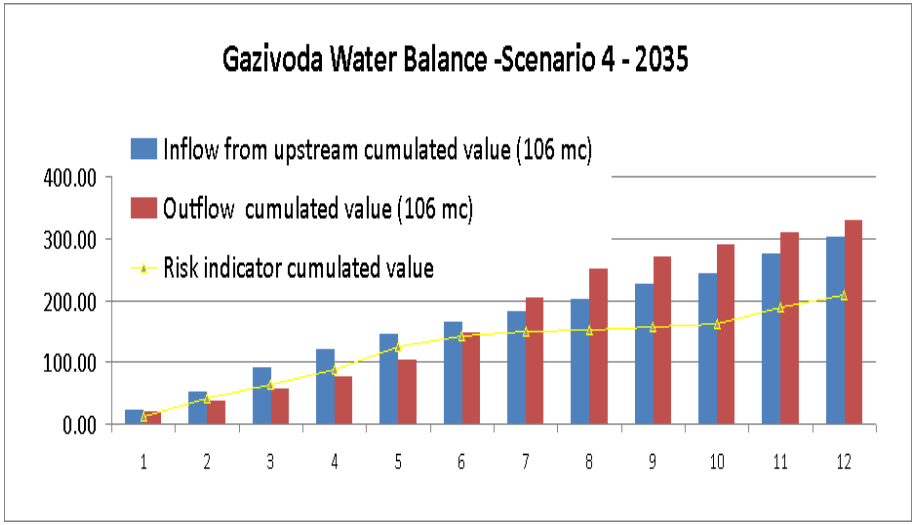


Figure 62 : Gazivoda Water Balance – Scenario 4– 2035



Results interpretation:

- A 2035 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 61. The figure 62 represents the water balance of the system (inflow / demand) in cumulated values. We notice that the water demand from May to September is upper at the inflow available in the system and that the water cumulated function of the Gazivoda dam is not enough for satisfied the demand. For this situation, some measure has to be implemented in order to assure water security for the Gazivoda system. This conclusion is also clearly demonstrated by the comparison of the cumulated water demand or outflow (red column) and the cumulated inflow for the very dry year (yellow line).

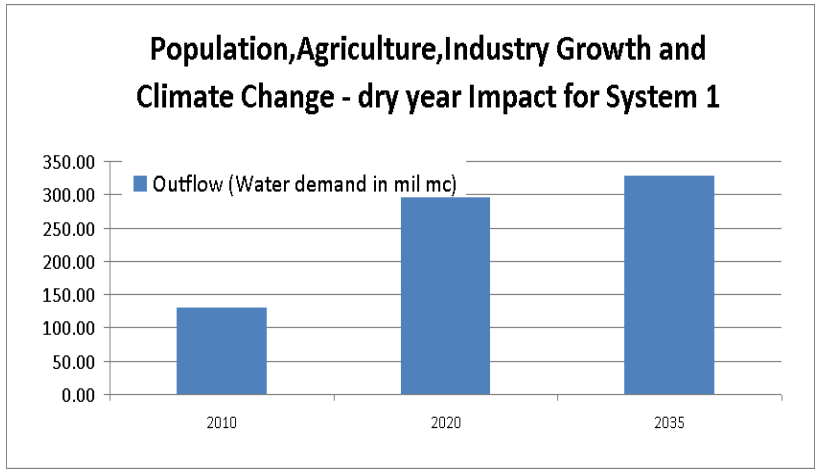
- General impact of population, agriculture, industry growth and climate change on water demand

Table 29 : Results for System 1 (population growth + agriculture growth + industry growth + climate change – dry year)

	2010	2020	2035
Inflow (in mil mc)	415.09	532.14	301.12
Outflow (Water demand in mil mc)	130.09	294.83	327.81

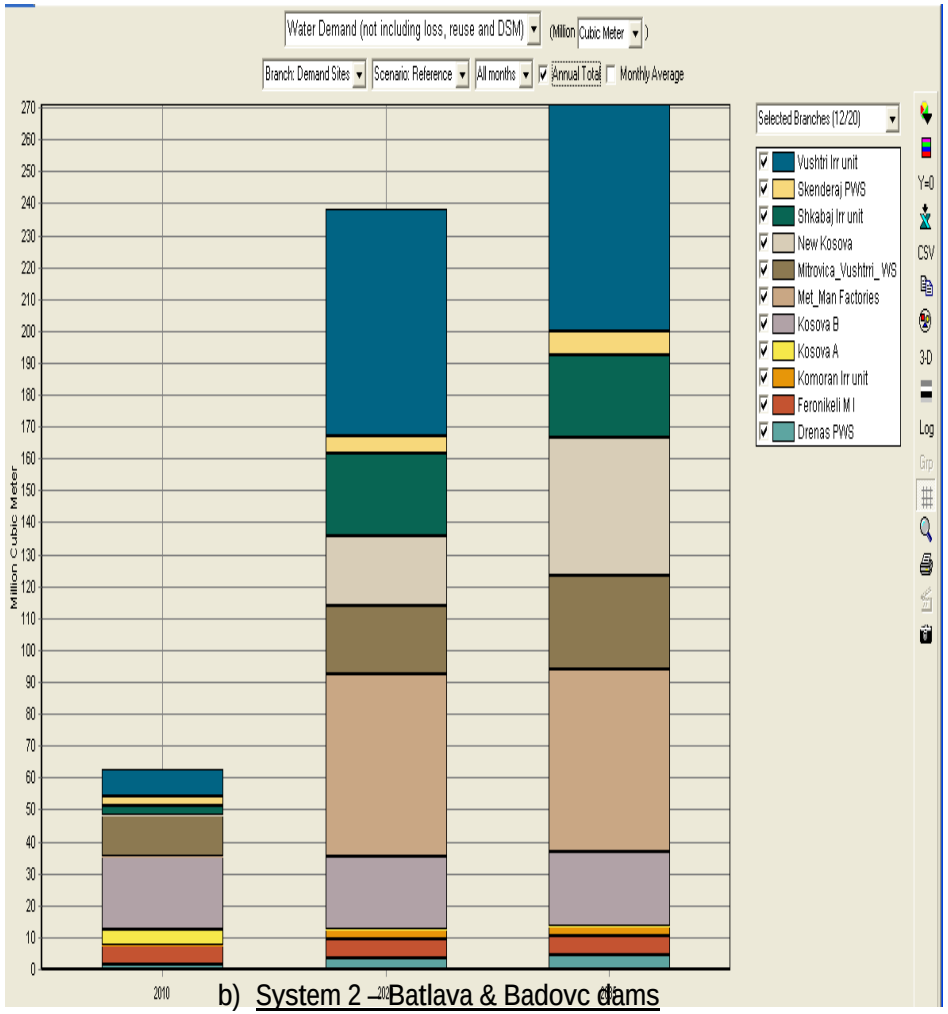
The impact of population, irrigated area, industry growth and climate change - dry year - on water demand for system 1 is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 197 mil mc, which means an increasing rate of 151 % (see Table 29).

Figure 64 : Population, Agriculture, Industry Growth and Climate Change Impact on System 1 Water Demand



- For 2020

Figure 63 : WEAP Water Demand for all System 1 demands



b) System 2 – Batlava & Badovc dams

Figure 65 : Batllava Monthly Inflow and Outflow – Scenario 4– 2020

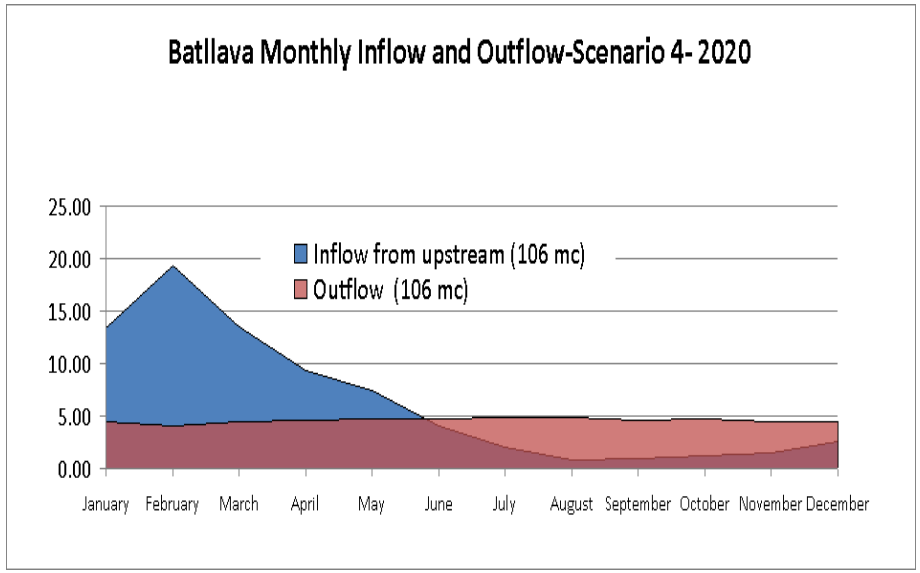
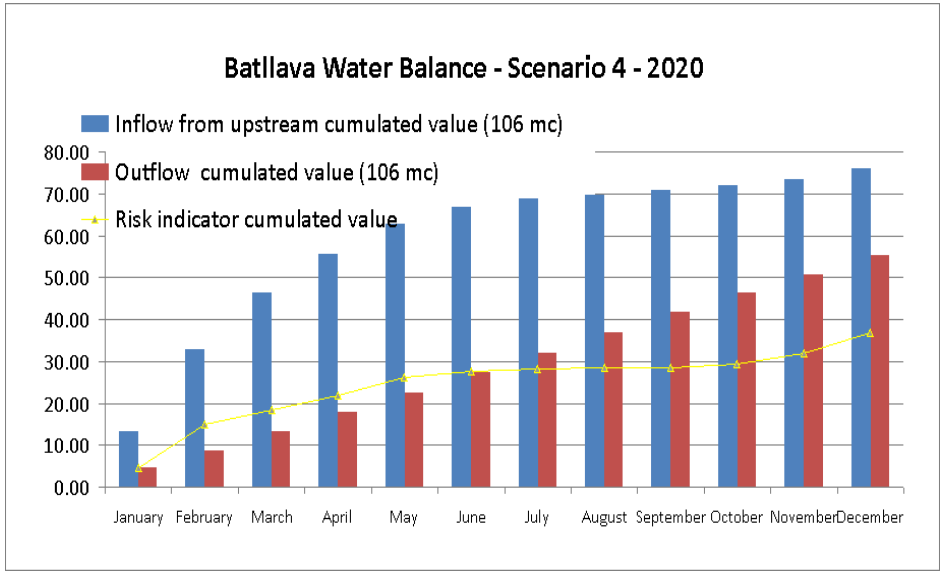


Figure 66 : Batllava Water Balance – Scenario 4– 2020



Results Interpretation:

- A 2020 monthly distribution of the inflow and outflow of Batllava reservoir can be seen in Figure 65. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system till June but due to the water cumulated effect of the dam the water demand it is satisfied (see Figure 66)

- The comparison of the cumulated inflow (blue column) and the cumulated inflow for a very dry season (yellow line) affirms that it is not necessary right now to implement new measures for bulking water in Batllava dam; We still have some merge before to reach the inflow supposed during the very dry year season (yellow line).

Figure 67 : Badovc Monthly Inflow and Outflow – Scenario 4– 2020

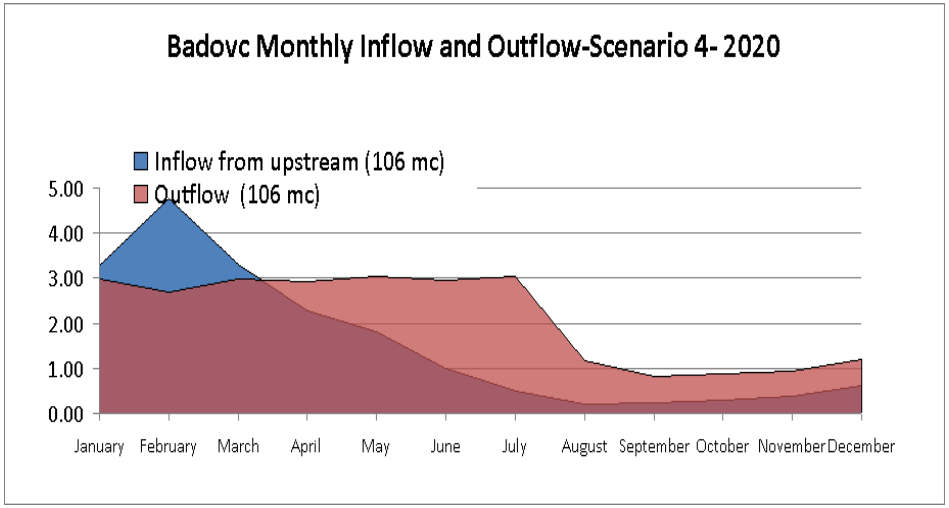
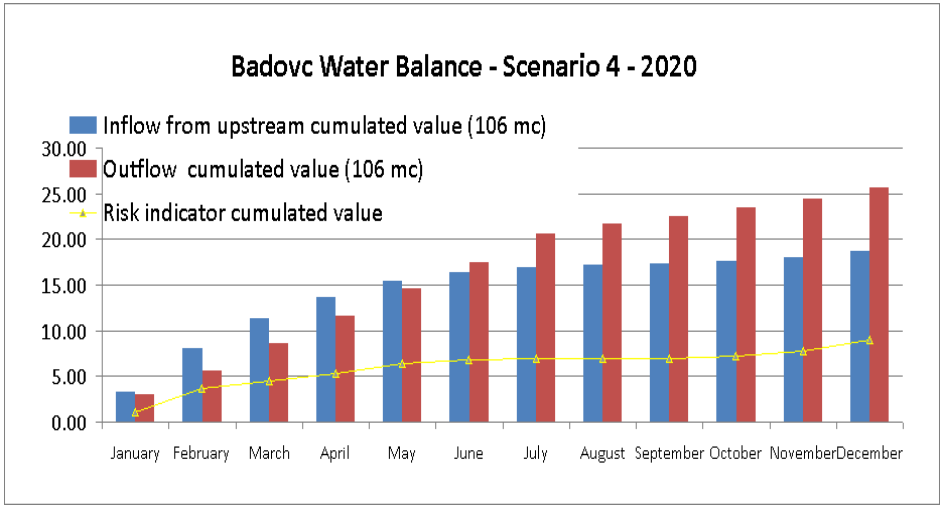


Figure 68 : Badovc Water Balance – Scenario 4– 2020



Results Interpretation

A 2020 monthly distribution of the inflow and outflow of Badovc reservoir can be seen in Figure 67. If we make a comparison between the inflow and outflow values of each month, we can observe that the water demand (outflow) requested during the irrigation season is upper to the water available (inflow) for the same period. However the demand will not be satisfied during l the year even do we take into consideration the cumulative effect of Badovc dam (See the Figure 68). These last figure also present the necessity to think about potential measures in order to avoid the future hydraulic stress.

- For 2035

Figure 69 : Batllava Monthly Inflow and Outflow – Scenario 4– 2035

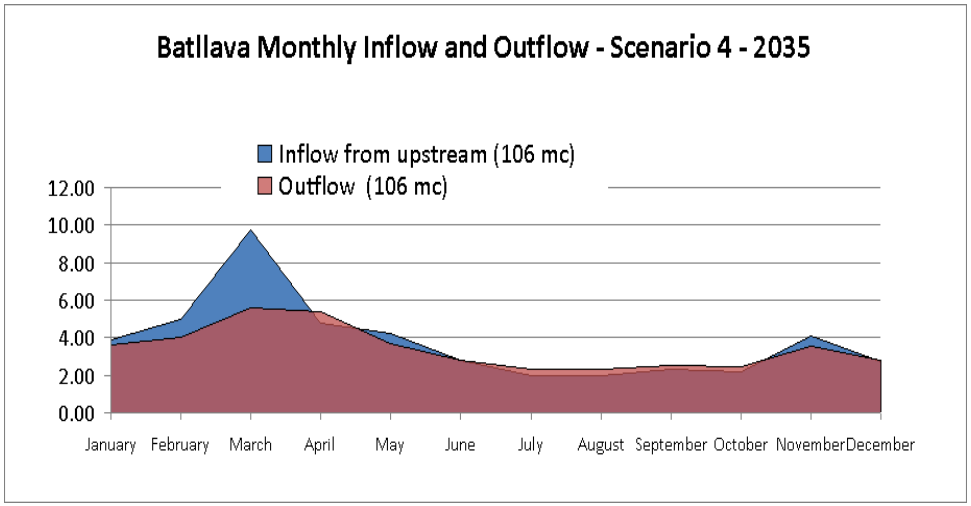
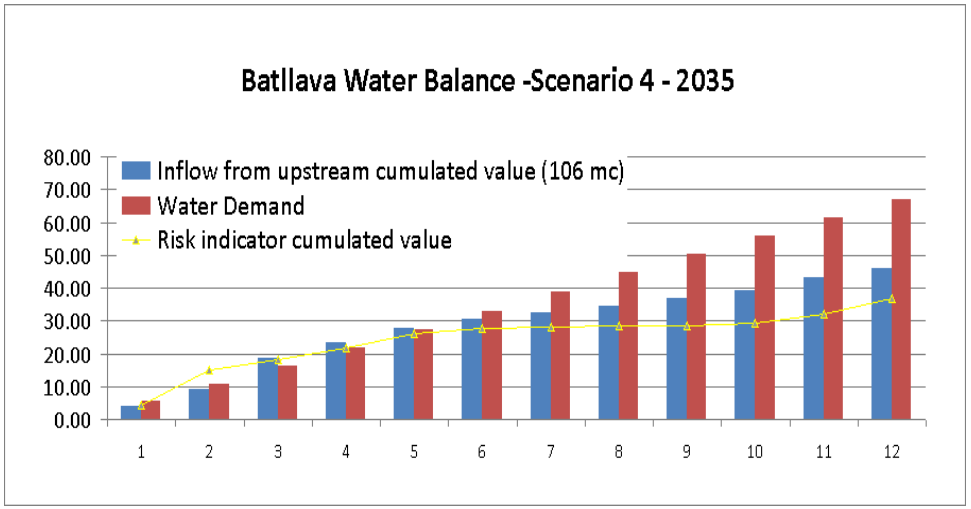


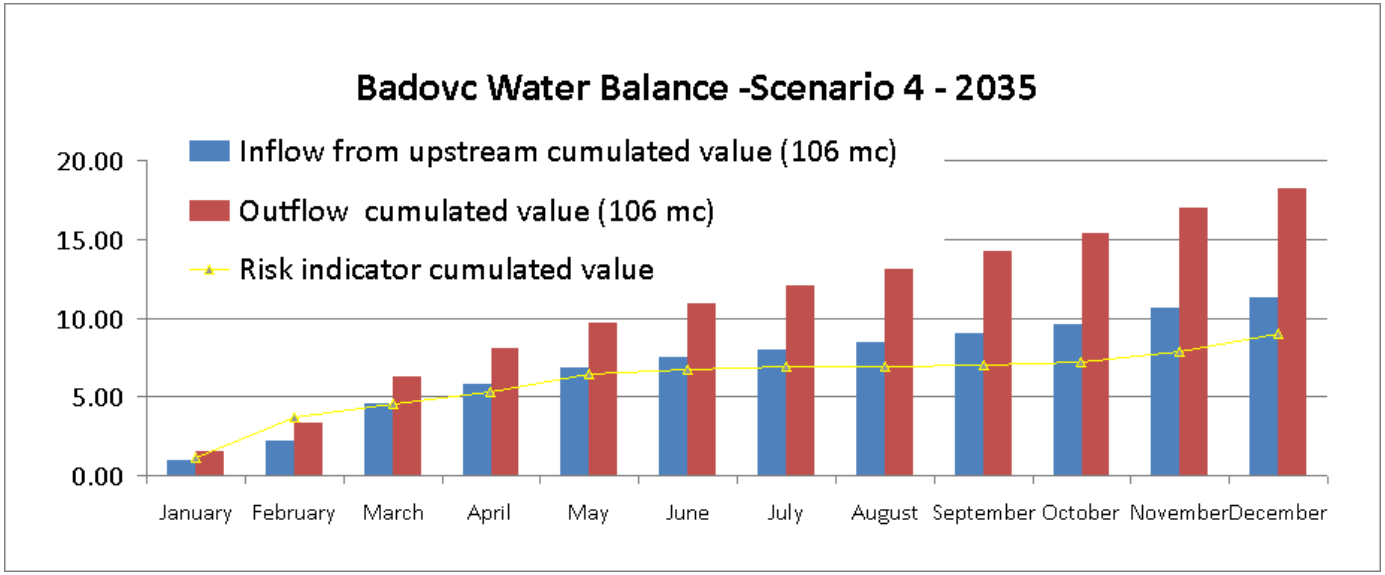
Figure 70 : Batllava Water Balance – Scenario 4– 2035



Results Interpretation:

A 2035 monthly distribution of the inflow and outflow of Batllava reservoir can be seen in Figure 69. If we make a comparison between the inflow and outflow values of each month, we can observe that we don't have enough water available in the system, point confirmed by the Figure 70.

Figure 71 : Badovc Water Balance – Scenario 4– 2035



Results Interpretation:

A 2035 water balance graph shows that the demand will not be satisfied during the year by the Badovc dam (See the Figure 71).

That's indicate the fact that t is time to think to any measure in order to assure water security distribution from Badovc system.

- General impact of population, agriculture, industry growth and climate change on water demand

Table 30 : Results for System 2 (population growth + agriculture growth + industry growth + climate change-very dry year)

	2010	2020	2035
Inflow (in mil mc)	91.73	94.58	57.12
Outflow (Water demand in mil mc)	67.01	90.48	102.98

The impact of population, irrigated area, industry growth and climate change - dry year - on water demand for System 2 (Batllava + Badovc) it is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 42.8 mil mc, which means an increasing rate of 64% (see Table 30).

Figure 73 : Population +Agriculture + Industry Growth + Climate change Impact for System 2

Water Demand

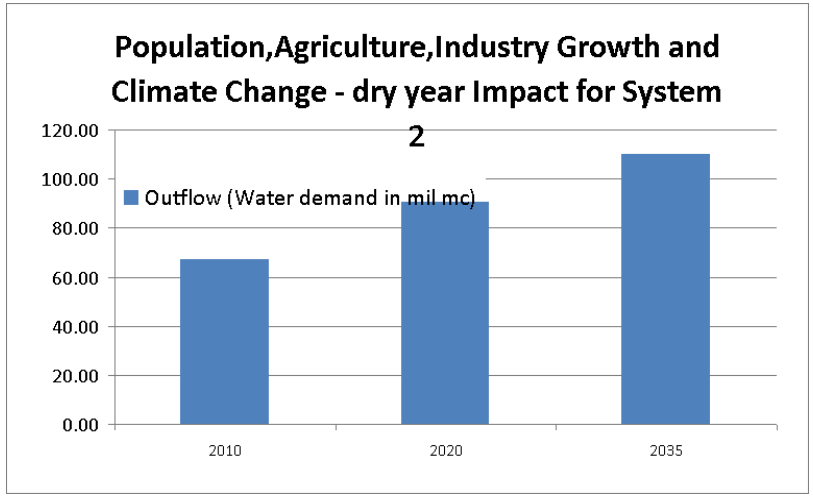
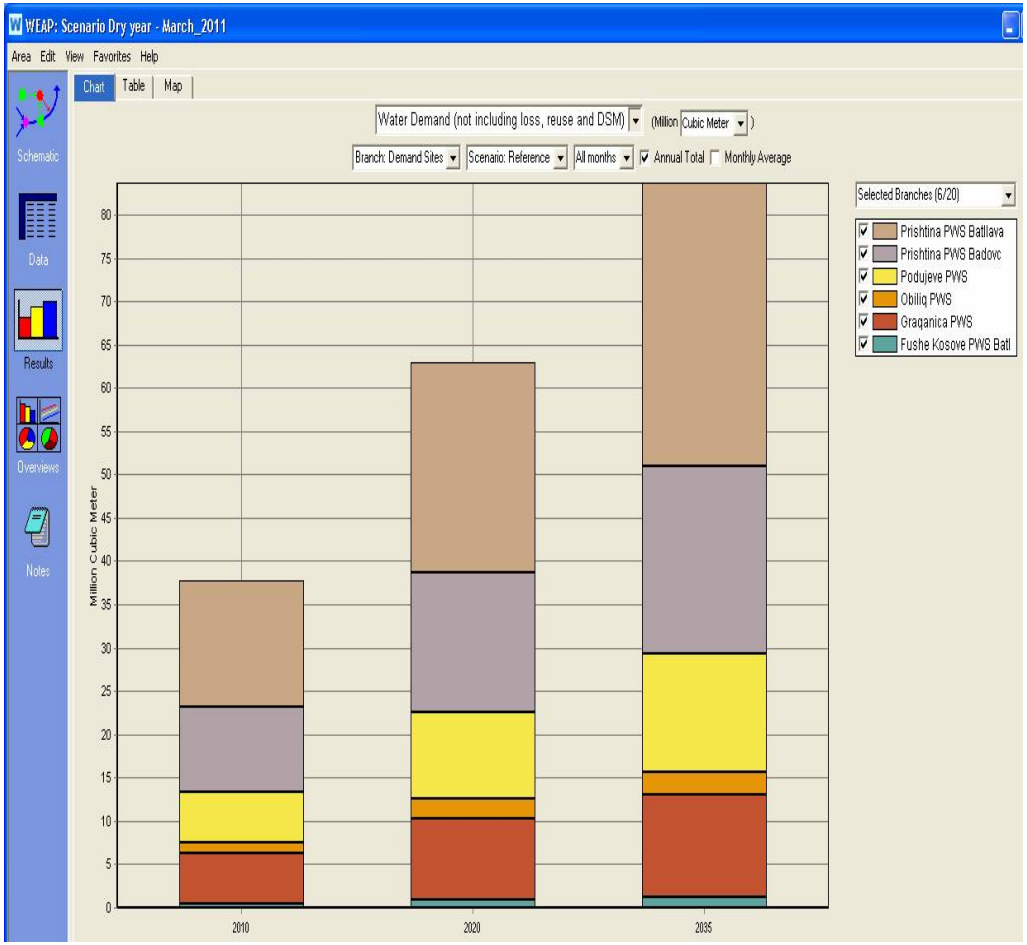


Figure 72 : WEAP Water Demand for Industry in System 2



c) System 3 – Groundwater

- General impact of population, agriculture, industry growth and climate change on water demand

Table 31 : Results for System 3 (population growth + agriculture growth + industry growth +climate change)

	2010	2020	2035
Inflow (in mil mc)	11.98	14.05	14.71
Outflow (Water demand in mil mc)	7.44	12.63	18.33

The impact of population, irrigated area, industry growth and climate change - dry year - on water demand for System 3 (Groundwaters) it is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 11 mil mc, which means an increasing rate of 146.4% (see Table 31).

Figure 75 : Population +Agriculture + Industry Growth + Climate Change Impact for System 3

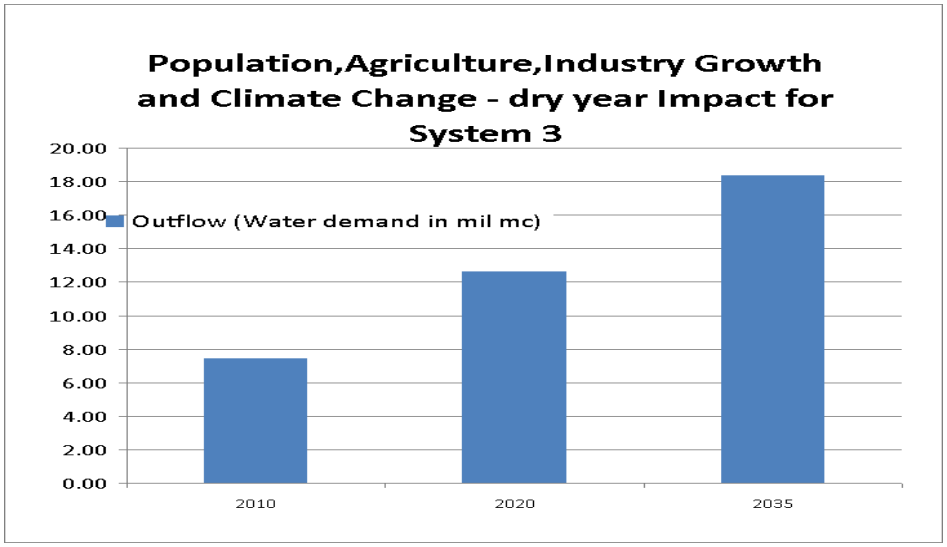
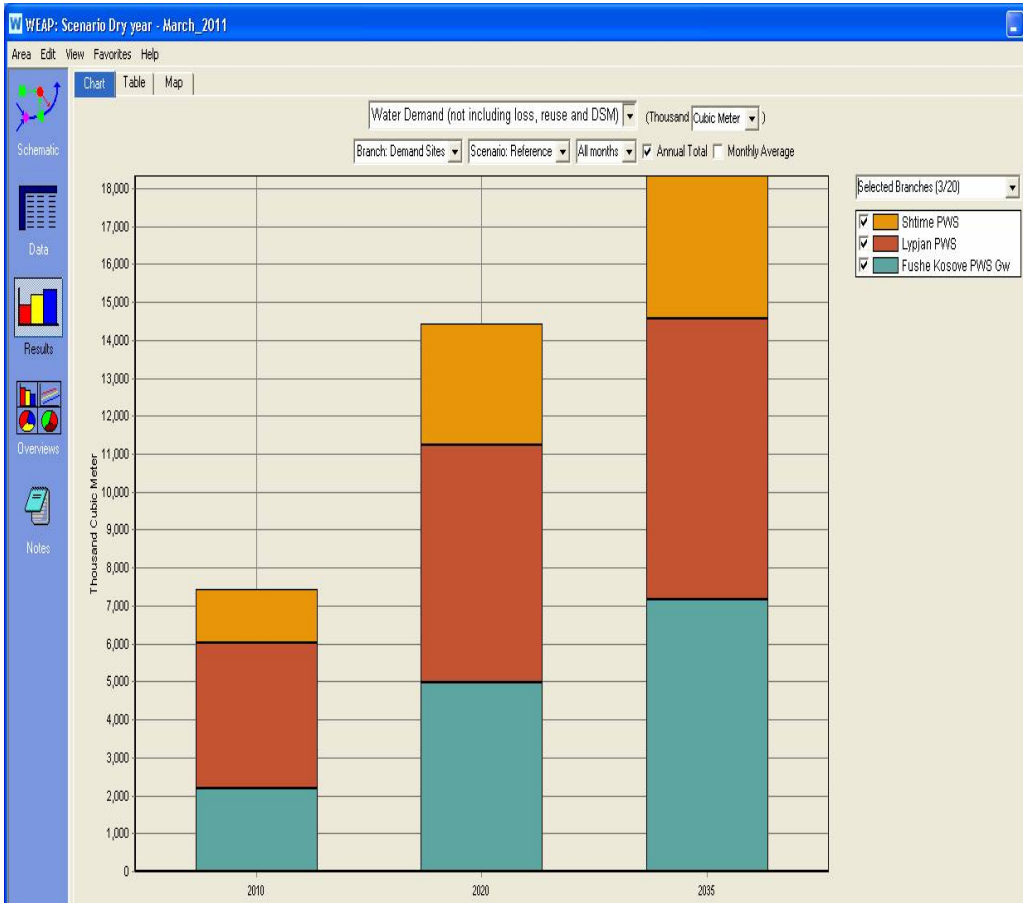


Figure 74 : WEAP Water Demand in System 3



2. Climate change effect for a very dry year period (the worst case scenario)

a) System 1 – Gazivoda dam

- For 2020

Figure 76 : Gazivoda Monthly Inflow and Outflow – Worst Case Scenario – 2020

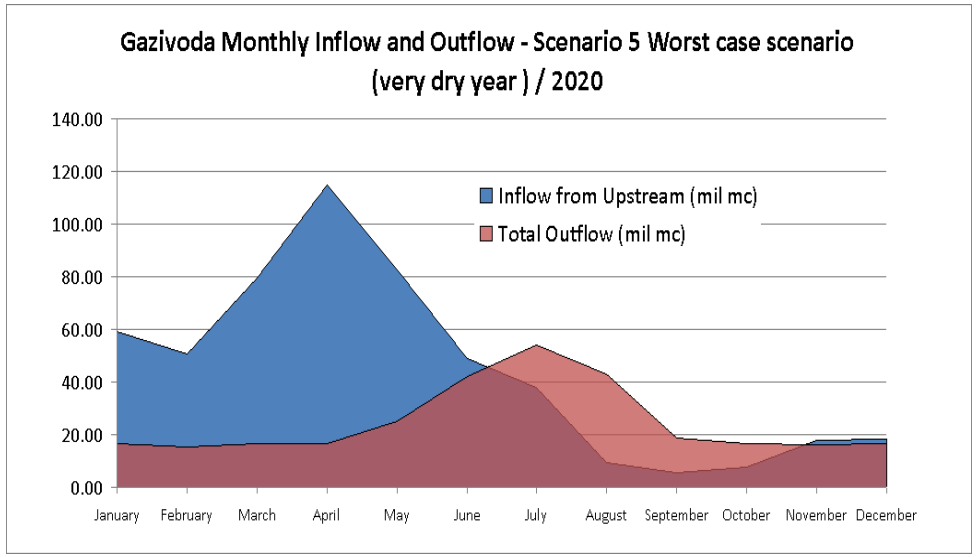
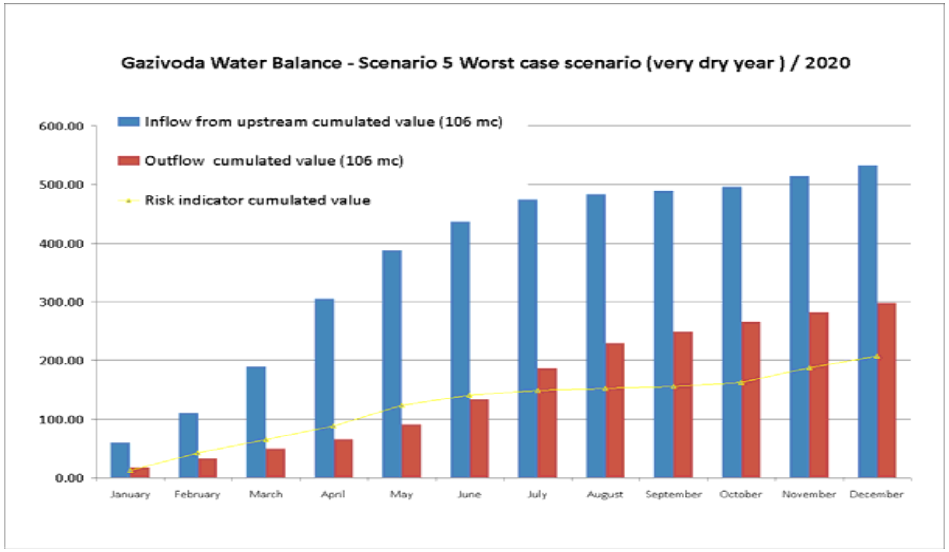


Figure 77 : Gazivoda Water Balance – Worst Case Scenario – 2020



Results Interpretation:

A 2020 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 76. If we make a comparison between the inflow and outflow values of each month, we can observe that we have enough water available in the system from January to May but during and after the irrigation season we can have problems. However, due to the water cumulated effect of the dam (see Figure 77) the Gazivoda System it is satisfying his demands.

- For 2035

Figure 78 : Gazivoda Monthly Inflow and Outflow – Worst Case Scenario – 2035

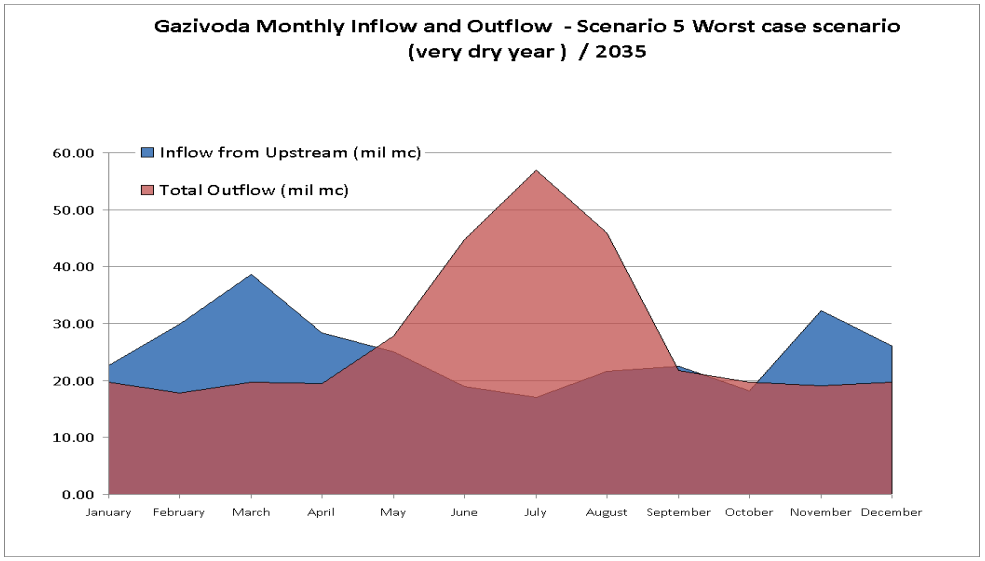
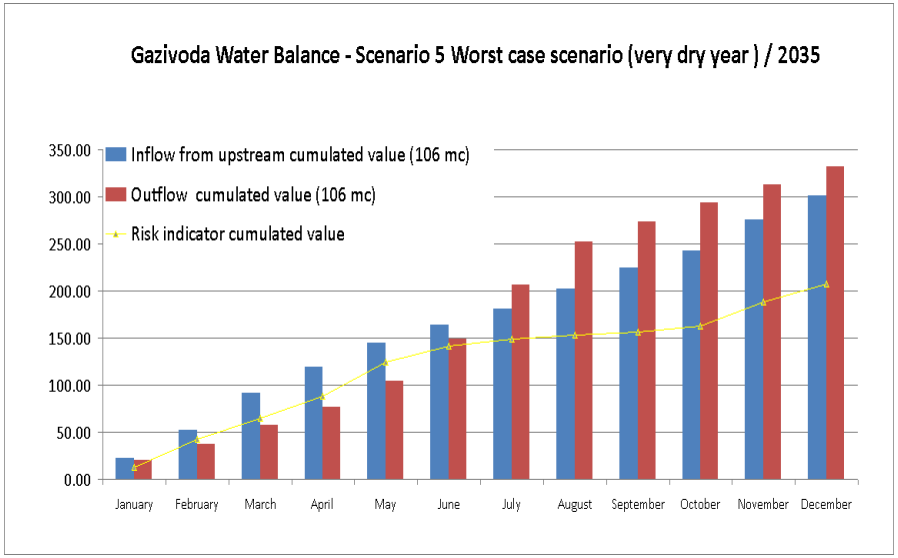


Figure 79 : Gazivoda Water Balance – Worst Case Scenario – 2035



Results interpretation:

A 2035 monthly distribution of the inflow and outflow of Gazivoda reservoir can be seen in Figure 78. If we make a comparison between the inflow and outflow values of each month, we can observe that the water demand (outflow) requested during the irrigation season is upper to the water available (inflow) for the same period. We can also notice that the demand in June to December is not satisfied (See figure 79 - The red column is over the blue one) This results indicate clearly that in a 2035 investment perspective, it will be necessary to implement new measure, in order to bulk enough water, and then ensure the water security distribution from the Gazivoda dam.

- General impact of population growth on water demand

Table 32 : Results for System 1 (worst case scenario)

	2010	2020	2035
Inflow (in mil mc)	415.09	532.14	301.12
Outflow (Water demand in mil mc)	130.09	298.16	332.38

The impact of population, irrigated area, industry growth and climate change - very dry year - on water demand for system 1 is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 202.29 mil mc, which means an increasing rate of 155% (see Table 32).

Figure 81 : Worst case scenario Impact of System 1 Water Demands

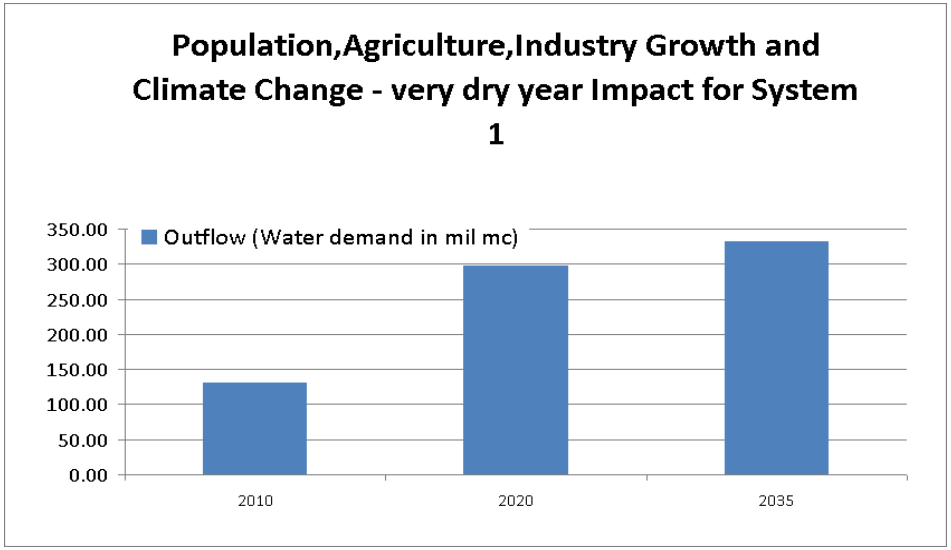
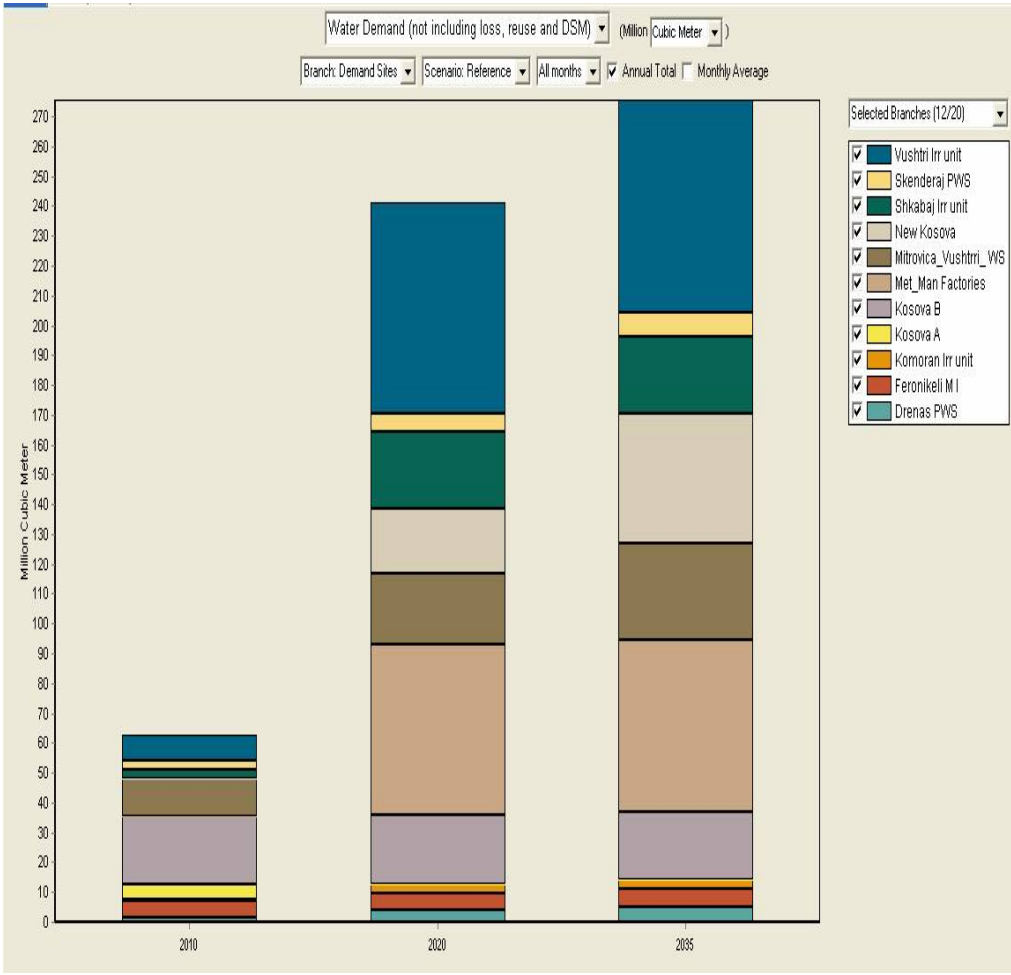


Figure 80 : WEAP Water Demand for all System 1 Demands



b) System 2 – Batlava & Badovc dams

- For 2020

Figure 82 : Batllava Monthly Inflow and Outflow – Worst Case Scenario – 2020

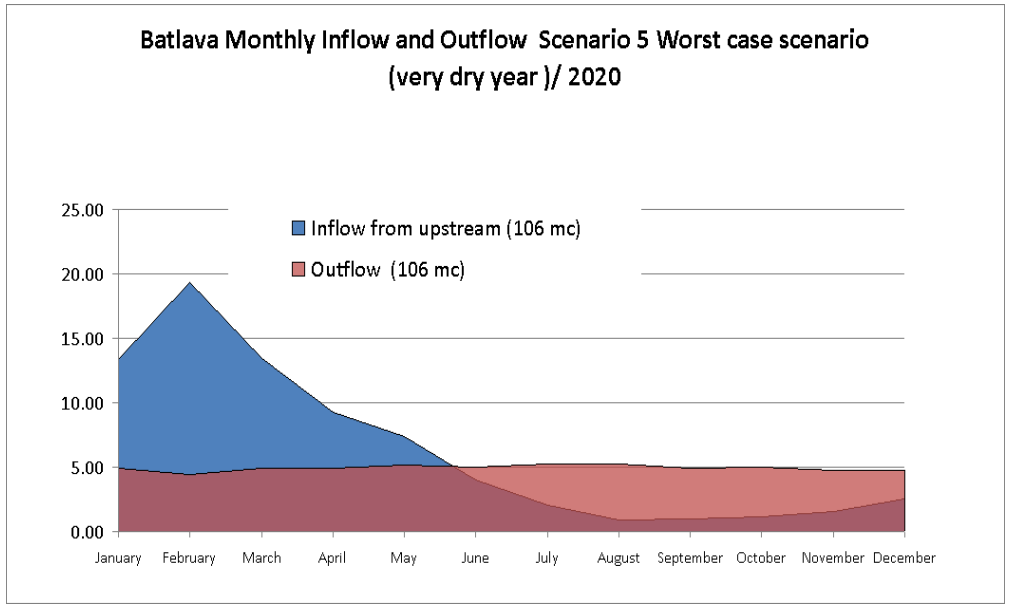
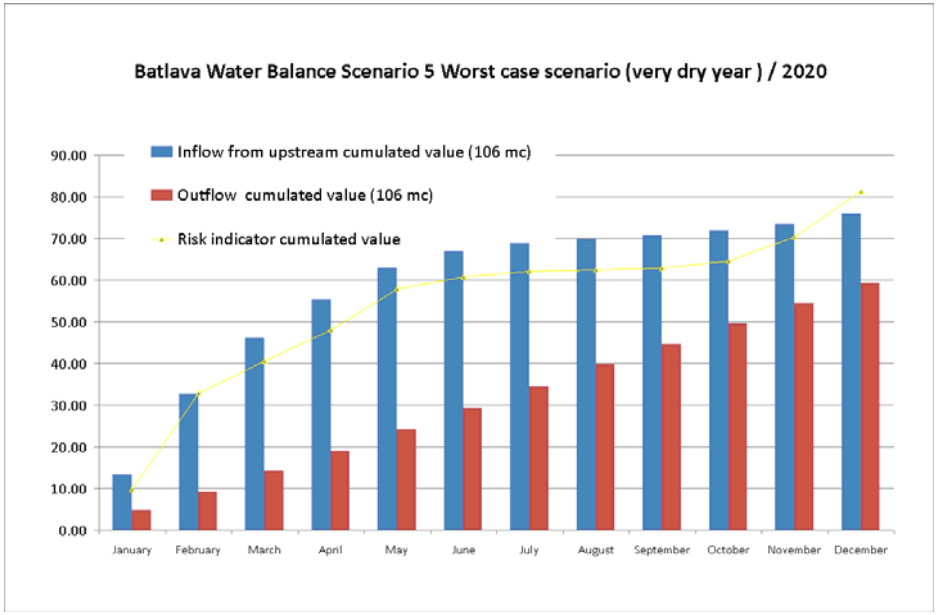


Figure 83 : Batllava Water Balance – Worst Case Scenario – 2020



Results Interpretation:

Figure 83 shows that we have enough water available in the system, even if the water demand during the irrigation season.

Then for a prospection of 2020, no measures are requested to be implemented, in order to satisfy all the future demand from this Batllava reservoir.

Figure 84 : Badovc Monthly Inflow and Outflow – Worst Case Scenario – 2020

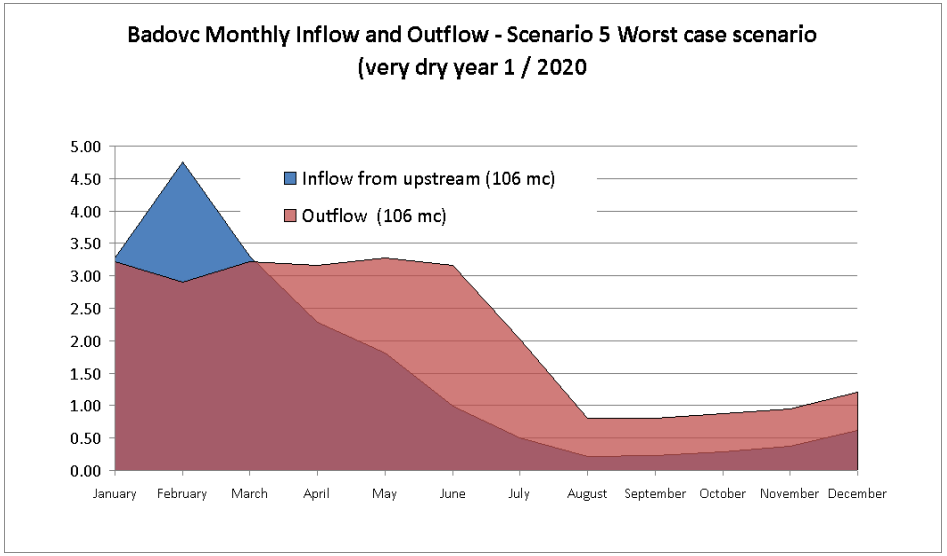
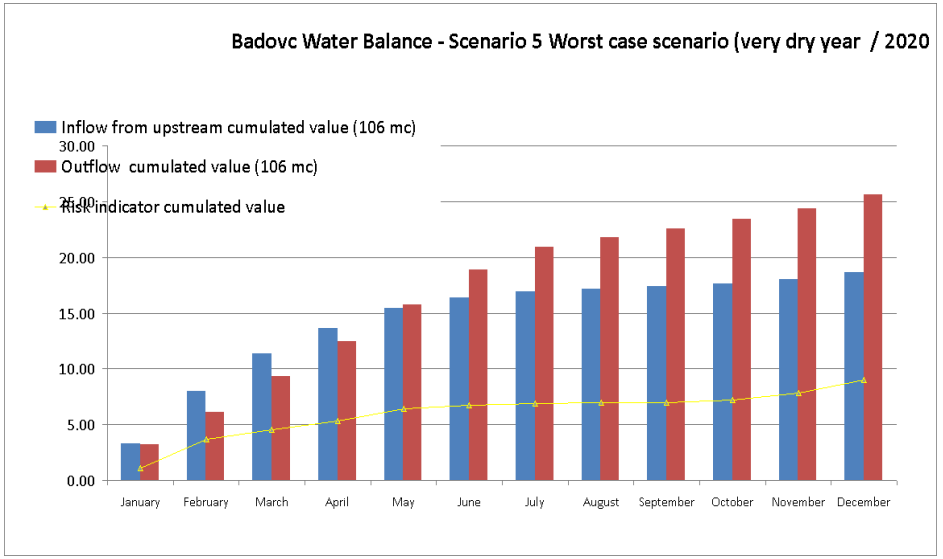


Figure 85 : Badovc Water Balance – Worst Case Scenario – 2020



Results interpretation:

A 2035 monthly distribution of the inflow and outflow of Badovc reservoir can be seen in Figure 84. If we make a comparison between the inflow and outflow values of each month, we can observe that the water demand (outflow) requested during the irrigation season is upper to the water available (inflow) for the same period. However the demand will not be satisfied during the year (See the Figure 85).

- For 2035

Figure 86 : Batllava Monthly Inflow and Outflow – Worst Case Scenario – 2035

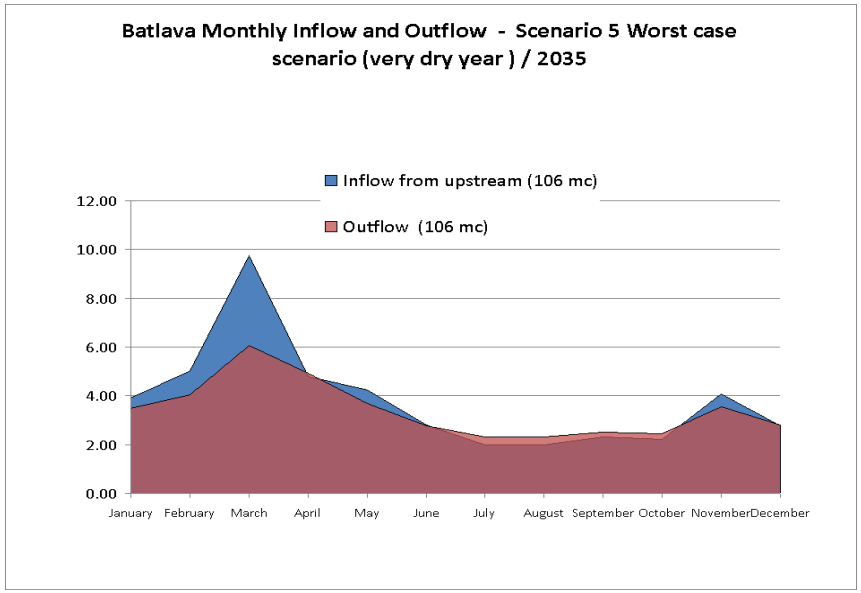
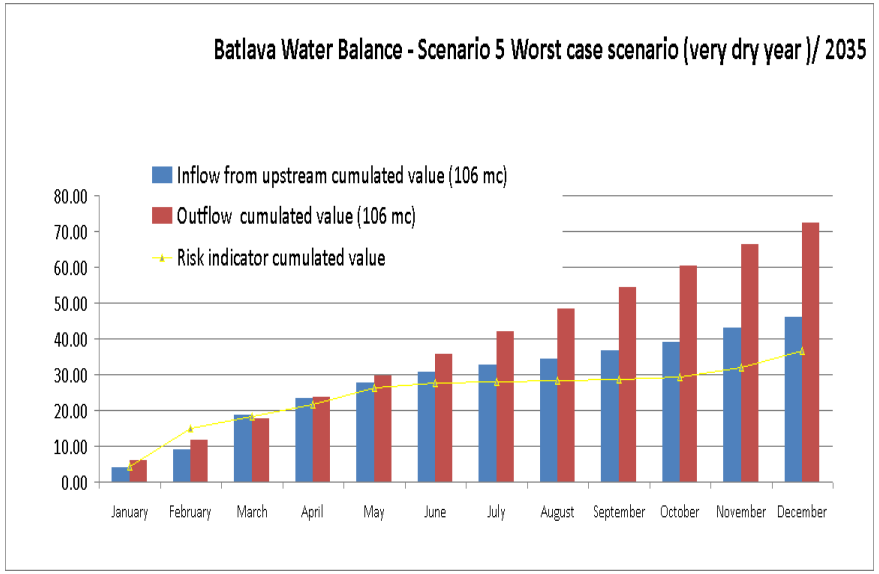


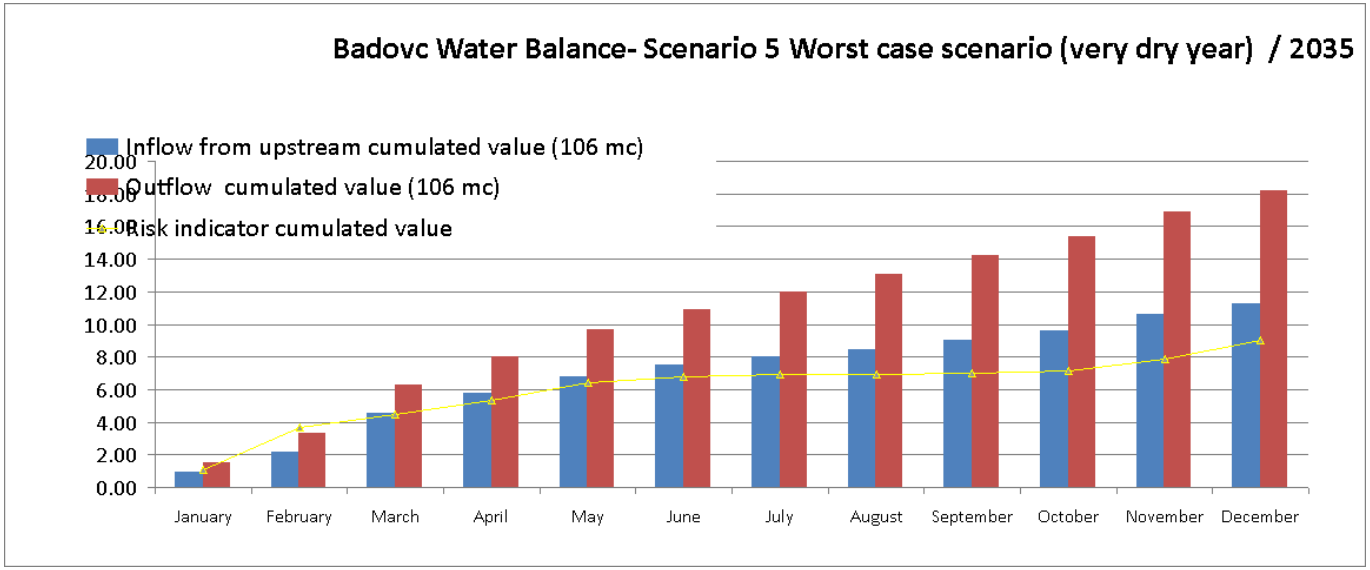
Figure 87 : Batllava Water Balance – Worst Case Scenario – 2035



Results Interpretation:

A 2035 monthly distribution of the inflow and outflow of Batllava reservoir can be seen in Figure 86. If we make a comparison between the inflow and outflow values of each month, we can observe that we don't have enough water available in the system all the year, point confirmed by the Figure 87.

Figure 88 : Badovc Water Balance – Worst Case Scenario – 2035



Results interpretation

A 2035 water balance graph shows that the demand will not be satisfied during the year by the Badovc dam (See the Figure 88).

- General impact of population growth on water demand

Table 33 : Results for System 2 worst case scenario

	2010	2020	2035
Inflow (in mil mc)	91.73	94.58	57.12
Outflow (Water demand in mil mc)	67.01	90.48	109.82

The impact of population ,irrigated area, industry growth and climate change - very dry year - on water demand for System 2 (Batllava + Badovc) it is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 42 mil mc, which means an increasing rate of 64% (see Table 33).

Figure 90 : Worst Case Scenario Impact on System 2 Water Demands

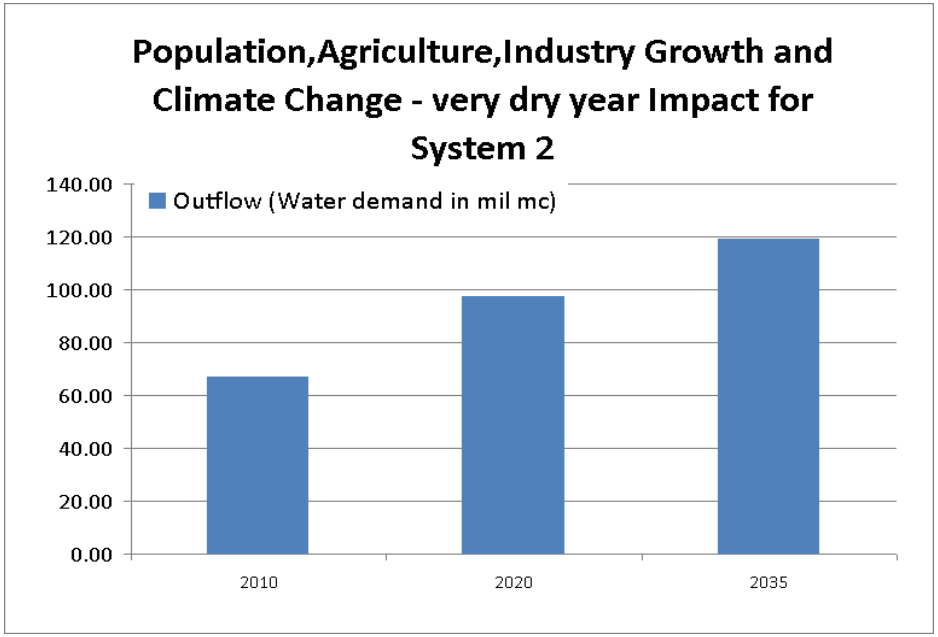
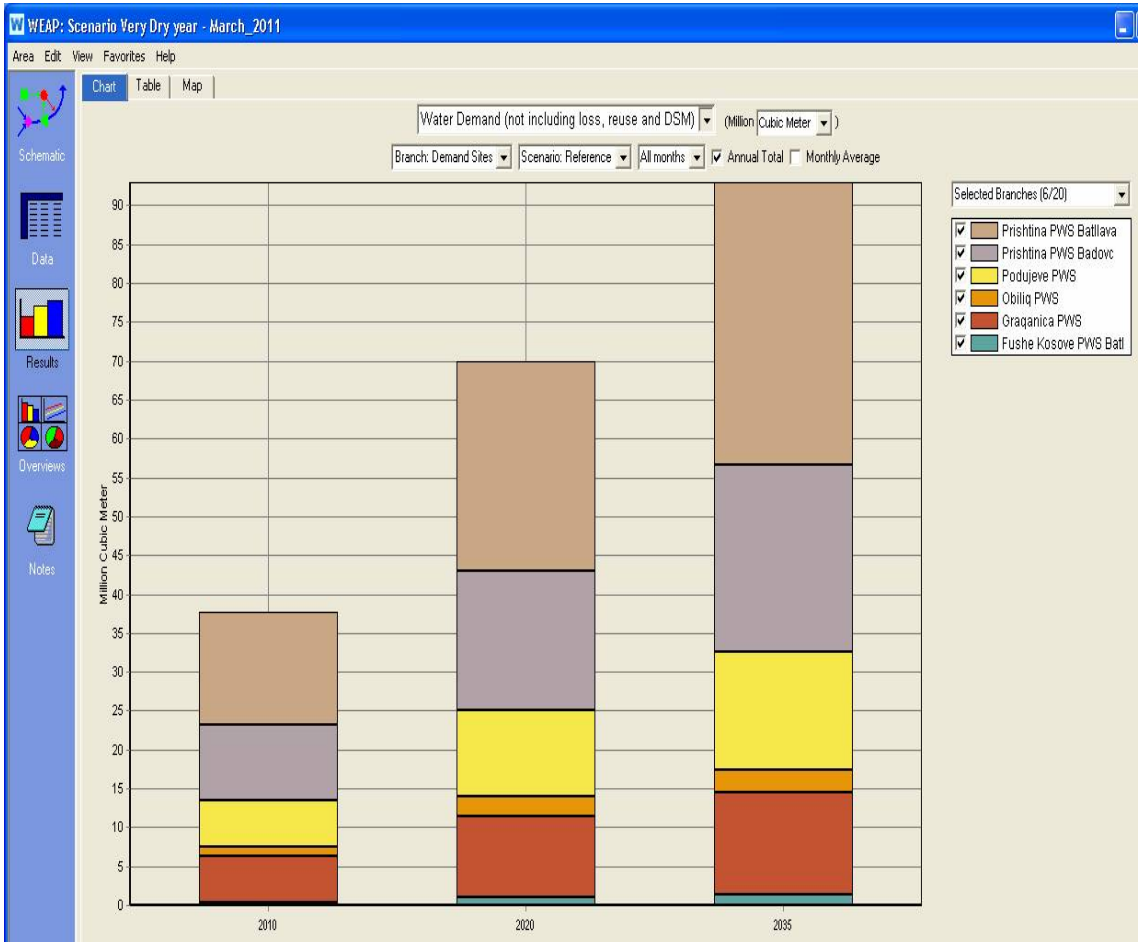


Figure 89 : WEAP Water Demand in System 2



c) System 3 – Groundwater

- General impact of population growth on water demand

Table 34 : Results for System 3 Worst Case Scenario

	2010	2020	2035
Inflow (in mil mc)	11.98	14.05	14.71
Outflow (Water demand in mil mc)	7.44	12.63	18.33

The impact of population ,irrigated area, industry growth and climate change - very dry year - on water demand for System 3 (Groundwaters) it is synthesized as follows: in comparison with 2010 situation, in 2035 the water demand will be bigger with 11 mil mc, which means an increasing rate of148% (see Table 34).

Figure 92 : Worst Case Scenario Impact on System 3 Water Demands

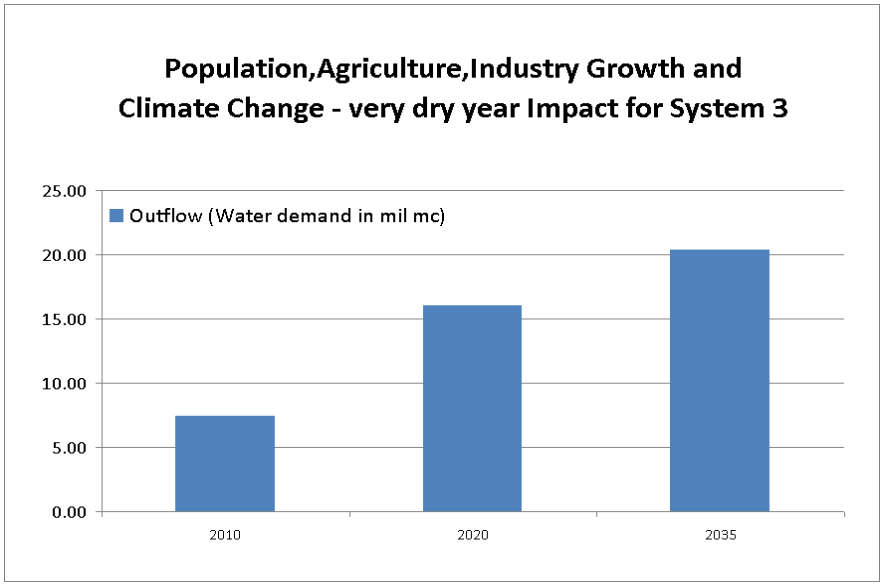
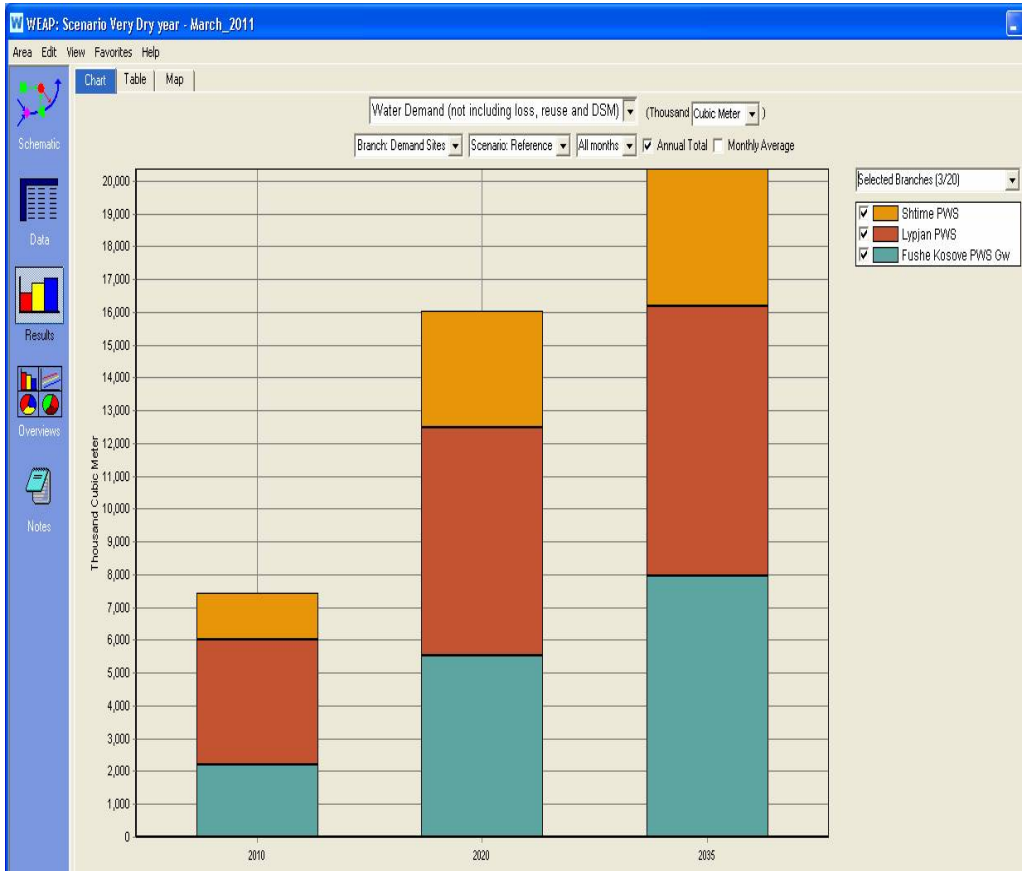


Figure 91 : WEAP Water Demand in System 3



IV. CONCLUSIONS

Using WEAP modeling software, the hydraulic team had built step by step 6 hydraulic models /scenarios in order to be able to analyze the water balance in Iber River Basin.

The 6th scenarios are:

1. baseline scenario -2010
2. population growth scenario
3. population + agriculture growth scenario
4. population + agriculture + industry growth scenario
5. population + agriculture + industry growth + climate change (dry year) scenario
6. population + agriculture + industry growth + climate change (very dry year) scenario = worst case scenario

It has to be mentioned that the quality of the results is depending on major issues, like quality of data available and especially a too short duration of the project, which didn't allowed a calibration of the models built.

As can be seen in the Tables 24, 27, 28, 29 and 32 (analyzing each of the scenario tested for the period 2011 – 2035), the data corresponding to the inflow for Gazivoda reservoir are similar. The explanation is that the data which are changing depending of the scenarios have a directly effect only on the outflows values (quantity of water supplied).

For the climate change scenarios, the inflow values are represented by the risk indicator values (the yellow line from the water balance graphs, representing 50% less then the normal year inflow).

Table 35 is summarizing the impact of each parameter (population, agriculture, industry, climate change) on the water demand values for each system.

Table 35 : Impact of different parameters on the Water Demand from Iber River Basin

System	Population Growth Impact (%)	Agriculture Growth Impact (%)	Industry Growth Impact (%)	Climate Change – dry year- Impact (%)	Climate Change – very dry year- Impact (%)
System 1 - Gazivoda System	7.7	68.3	72.7	78.3	82.3
System 2 – Batllava System	27.5	-	-	38.5	52.5
System 2 – Badovc System	18.3	-	-	41.7	55.4
System 3 – Groundwater System	25	-	-	121	148

HOT POTS IDENTIFICATION

In this paragraph, only results regarding the simulation of scenarios 1, 4 and 5 will be presented, because only these scenarios present a deficiency to assure water security in central Kosovo.

Table 36: Water missing in Gazivoda system – System 1

	Water missing (million cubic meter) - Values extracted from WEAP					
	2035 Dry year			2035 Very dry year		
	August	September	October	August	September	October
Gazivoda system 2035	**9.195**	**3.381**	**0**	**12.240**	**6.802**	**3.559**
Total	**12.6**			**22.6**		

Figure 93: Unmet demand in Badovc system – System 2 – Population Scenario – 2020

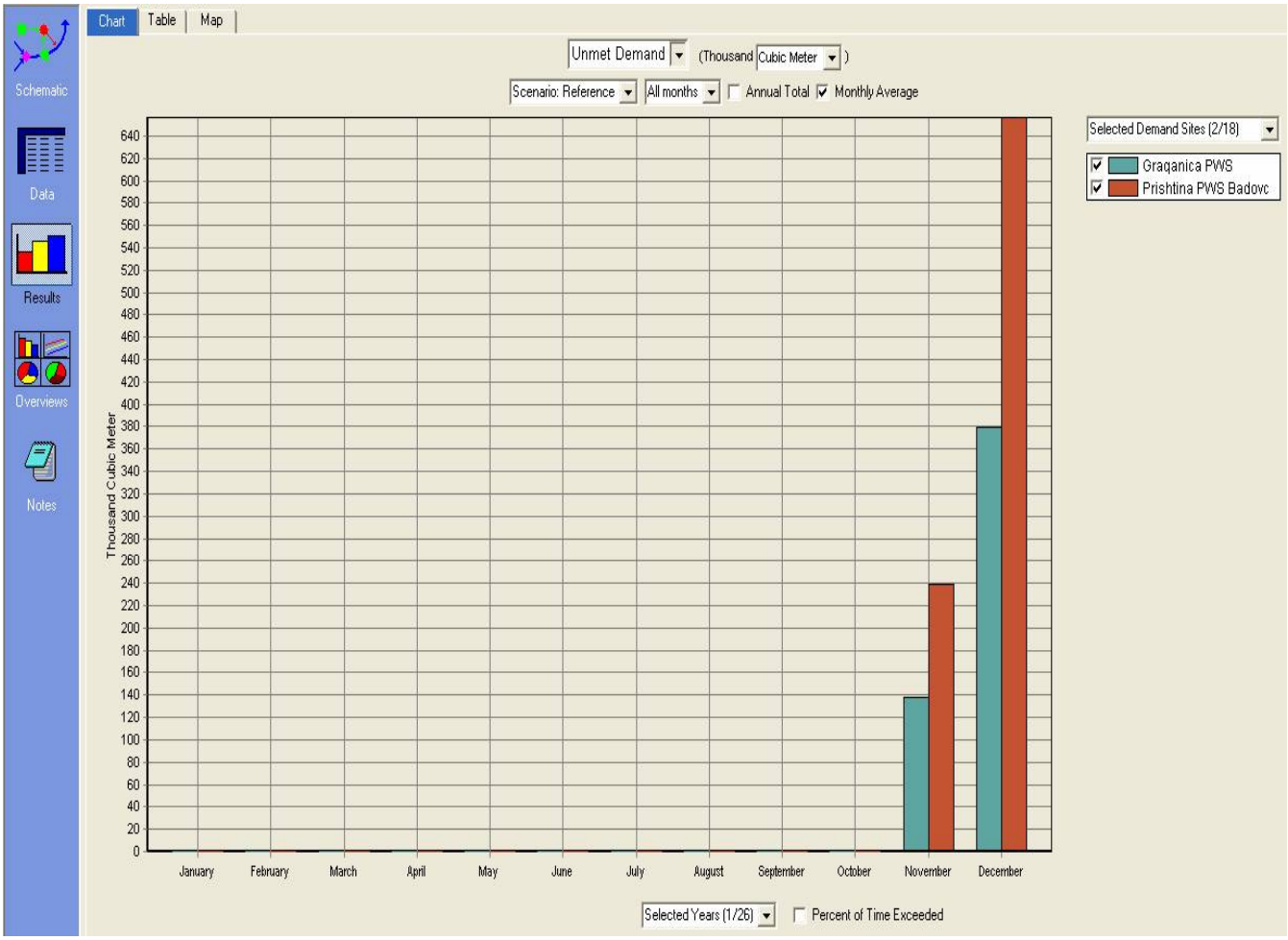


Figure 94: Unmet demand in Badovc system – System 2 – Population Scenario – 2035

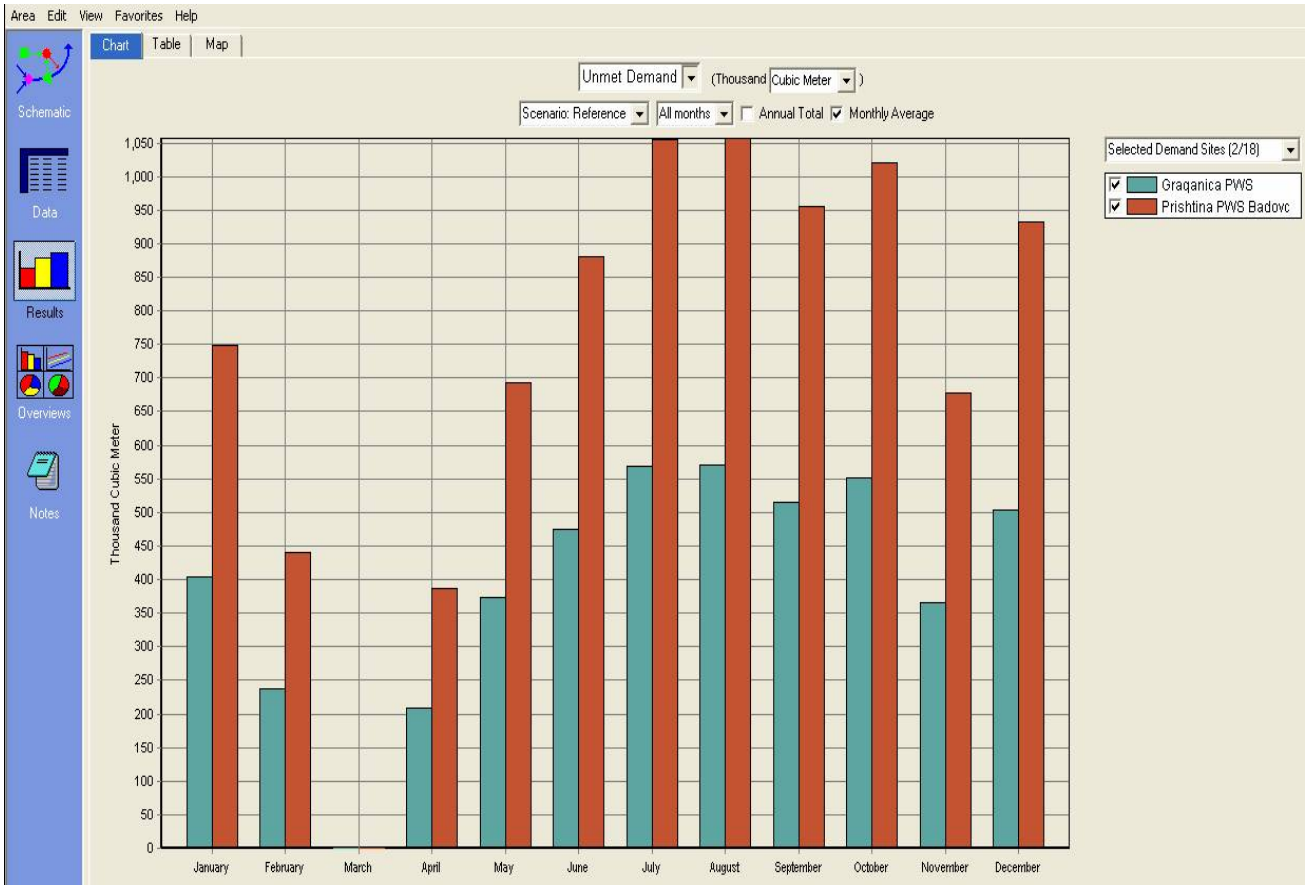


Figure 95: Unmet demand in Badovc system – System 2 – Dry year Scenario – 2020

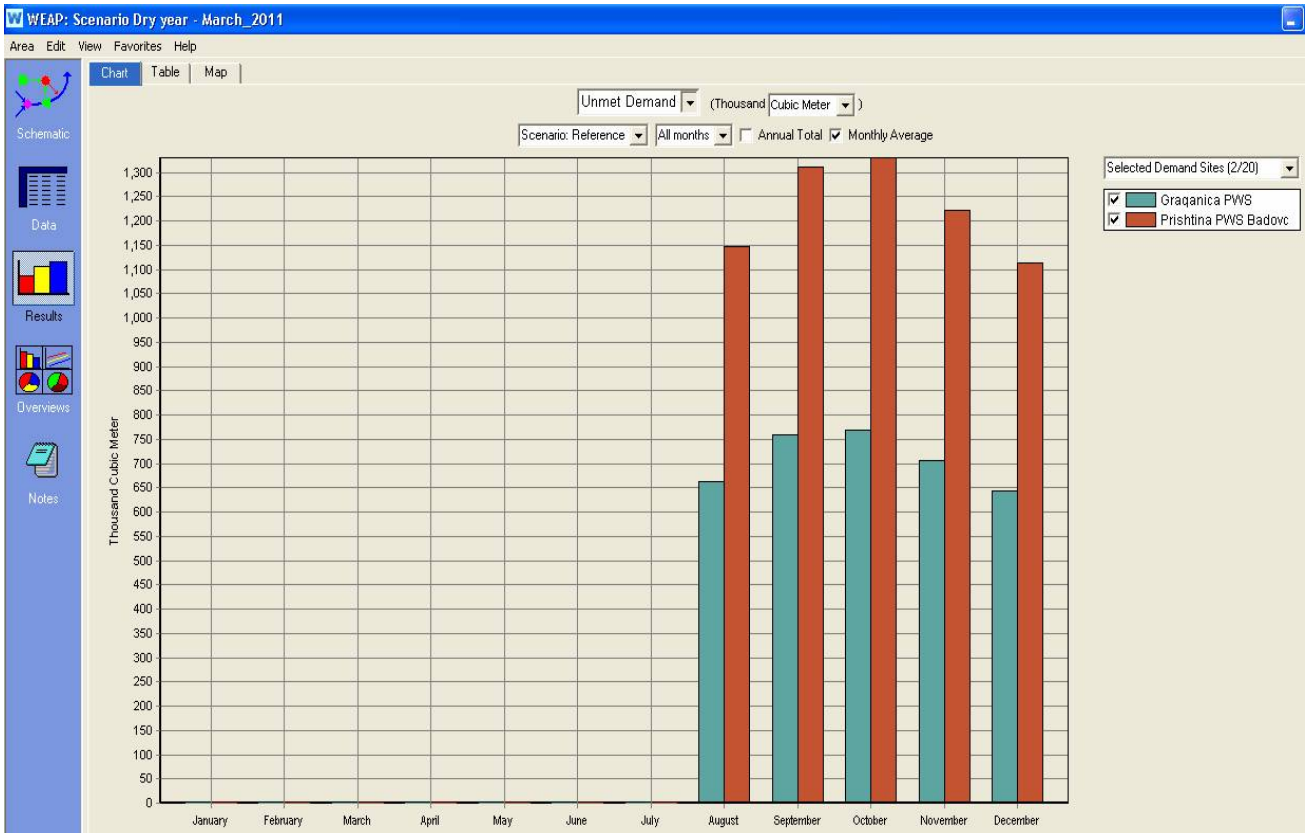


Figure 96: Unmet demand in Badovc system – System 2 – Dry year Scenario – 2035

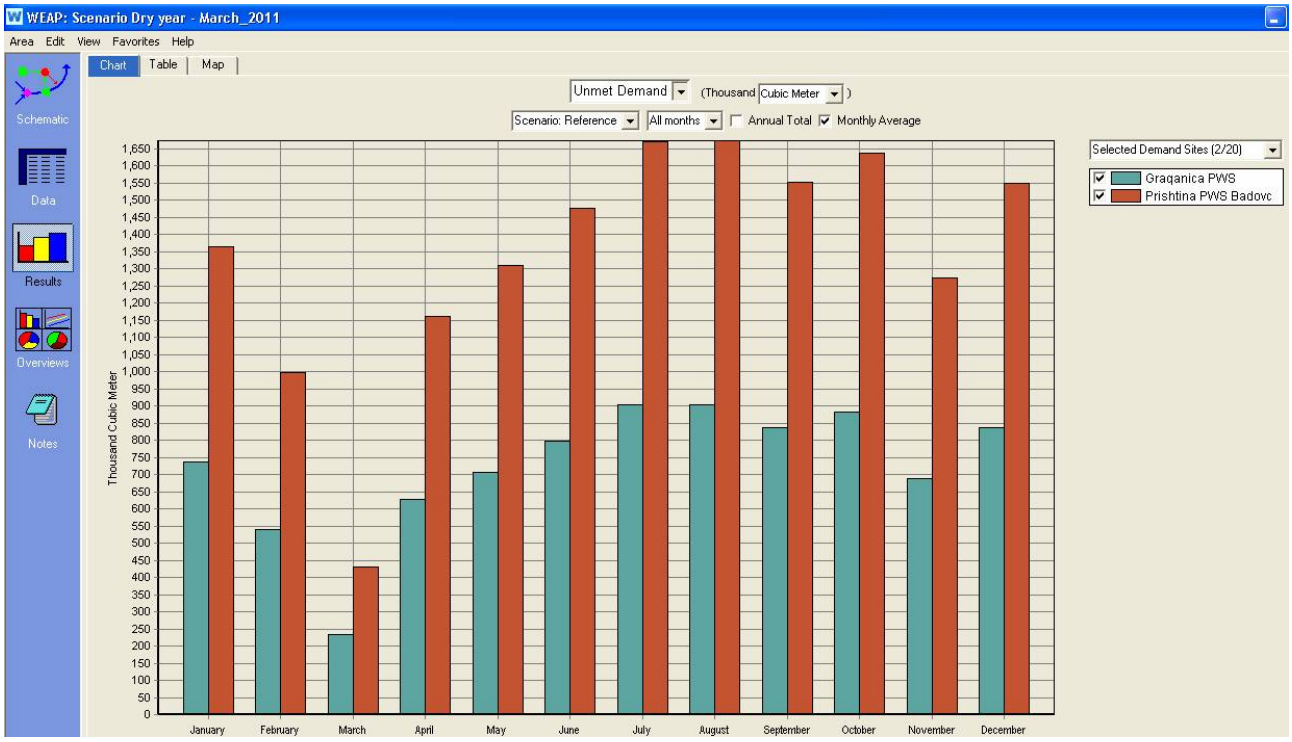


Figure 97: Unmet demand in Batllava system – System 2 – Dry year Scenario – 2035

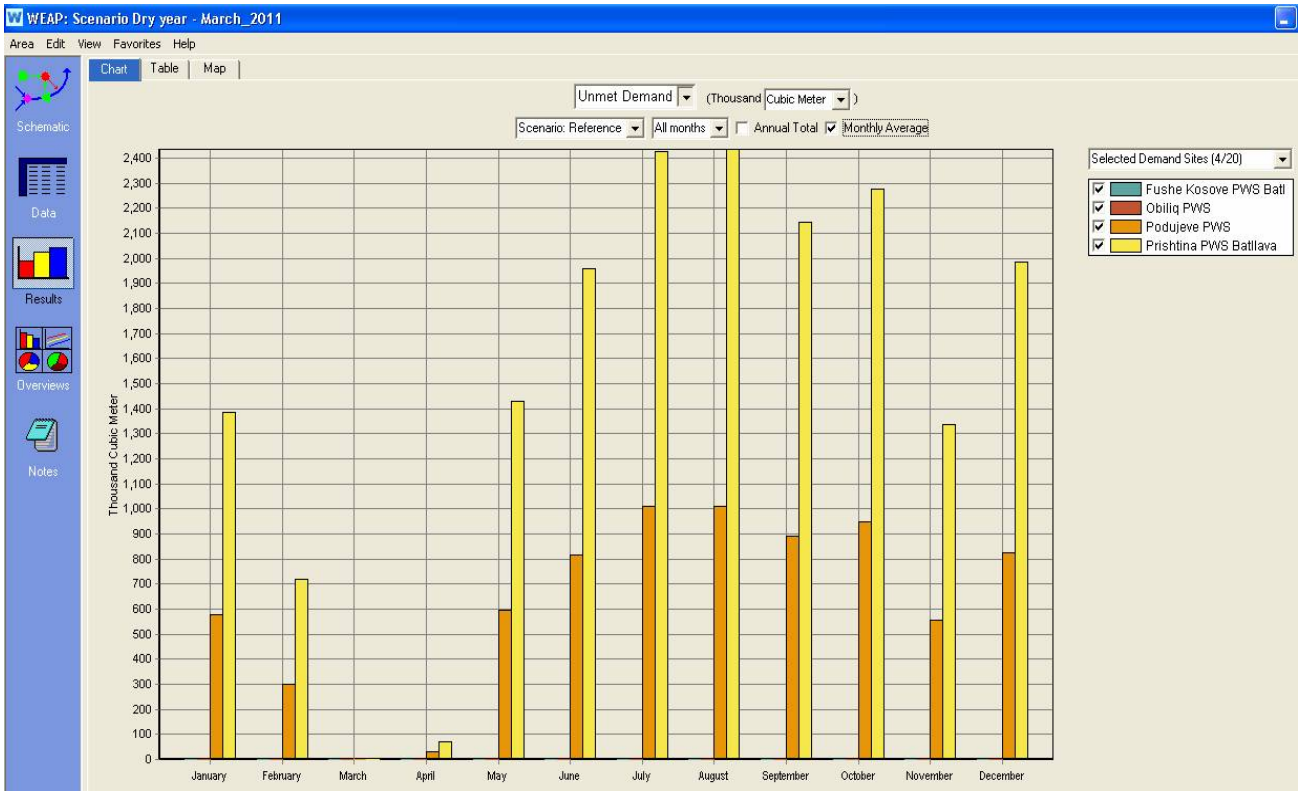


Figure 98: Unmet demand in Badovc system – System 2 – Very dry year Scenario – 2020

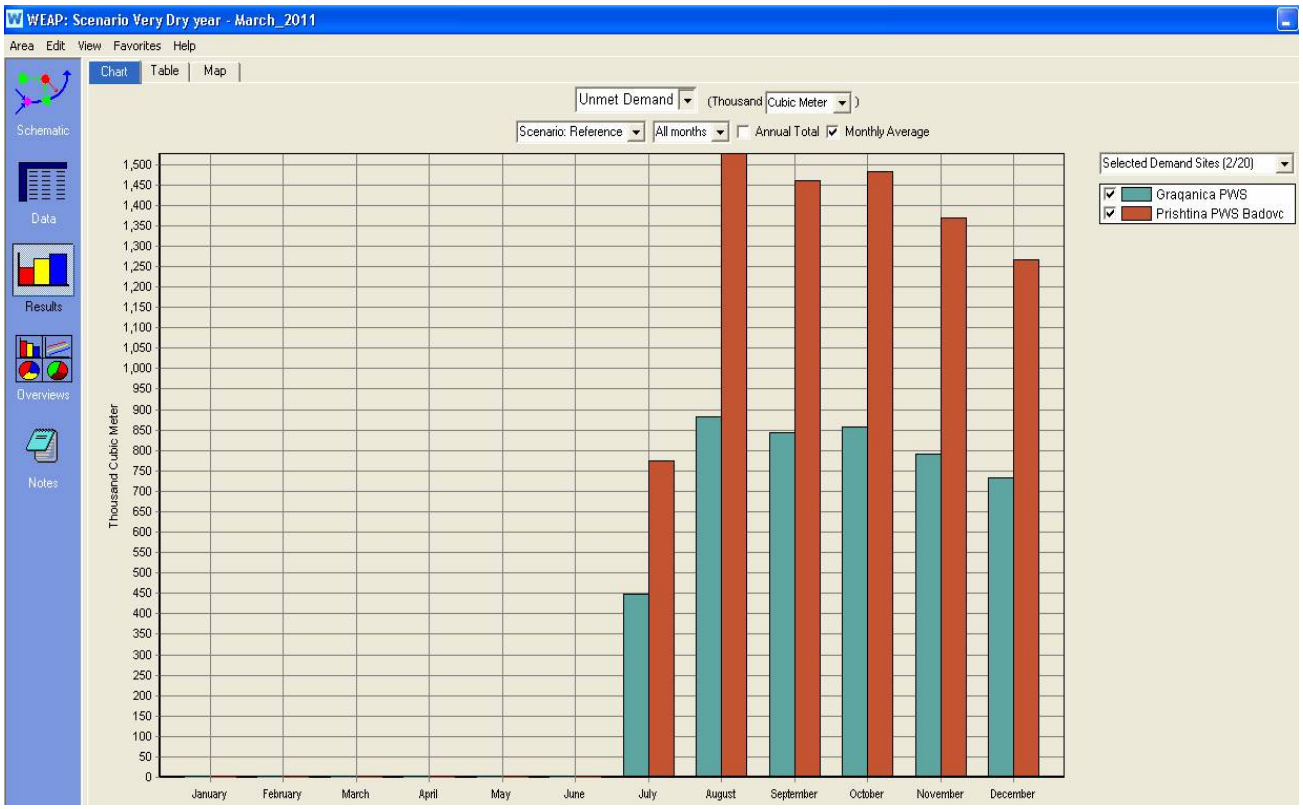


Figure 99: Unmet demand in Badovc system – System 2 – Very dry year Scenario – 2035

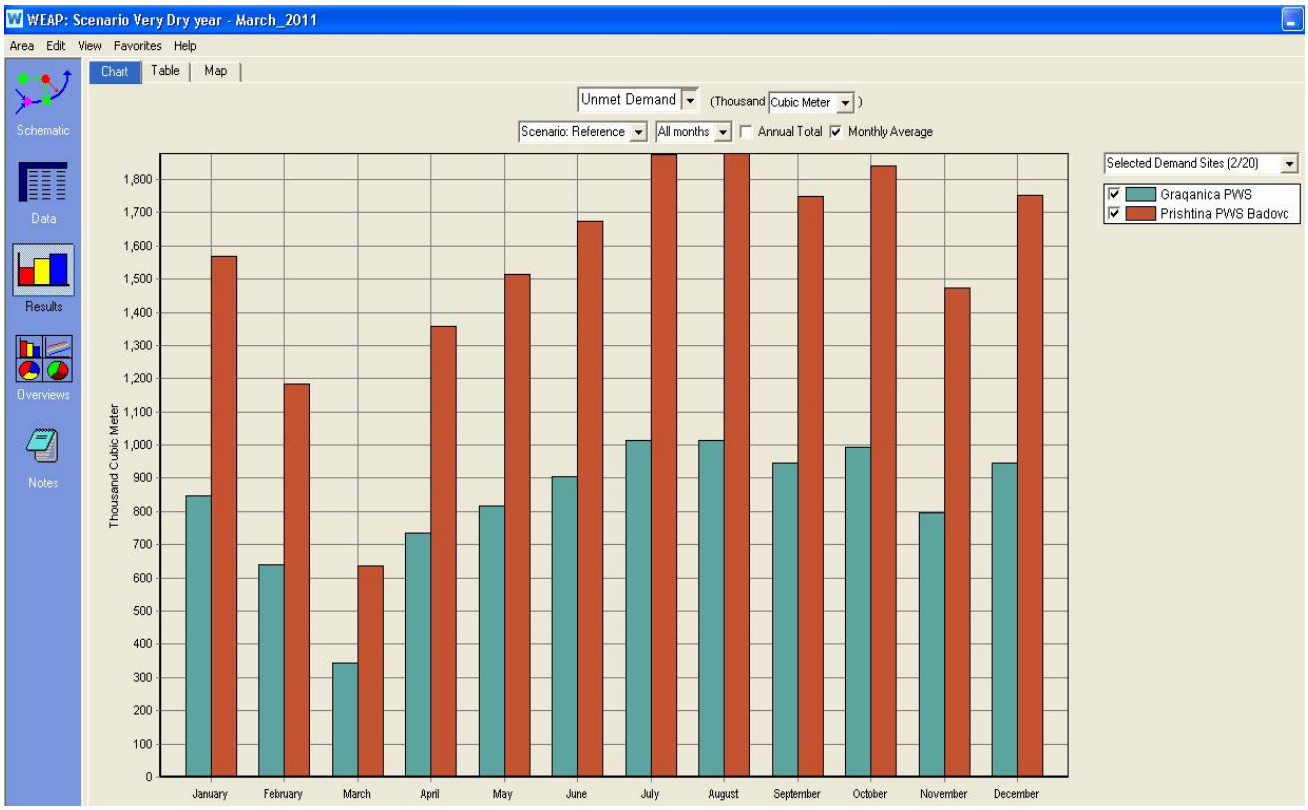


Figure 100: Unmet demand in Batllava system – System 2 – Very dry year Scenario – 2035

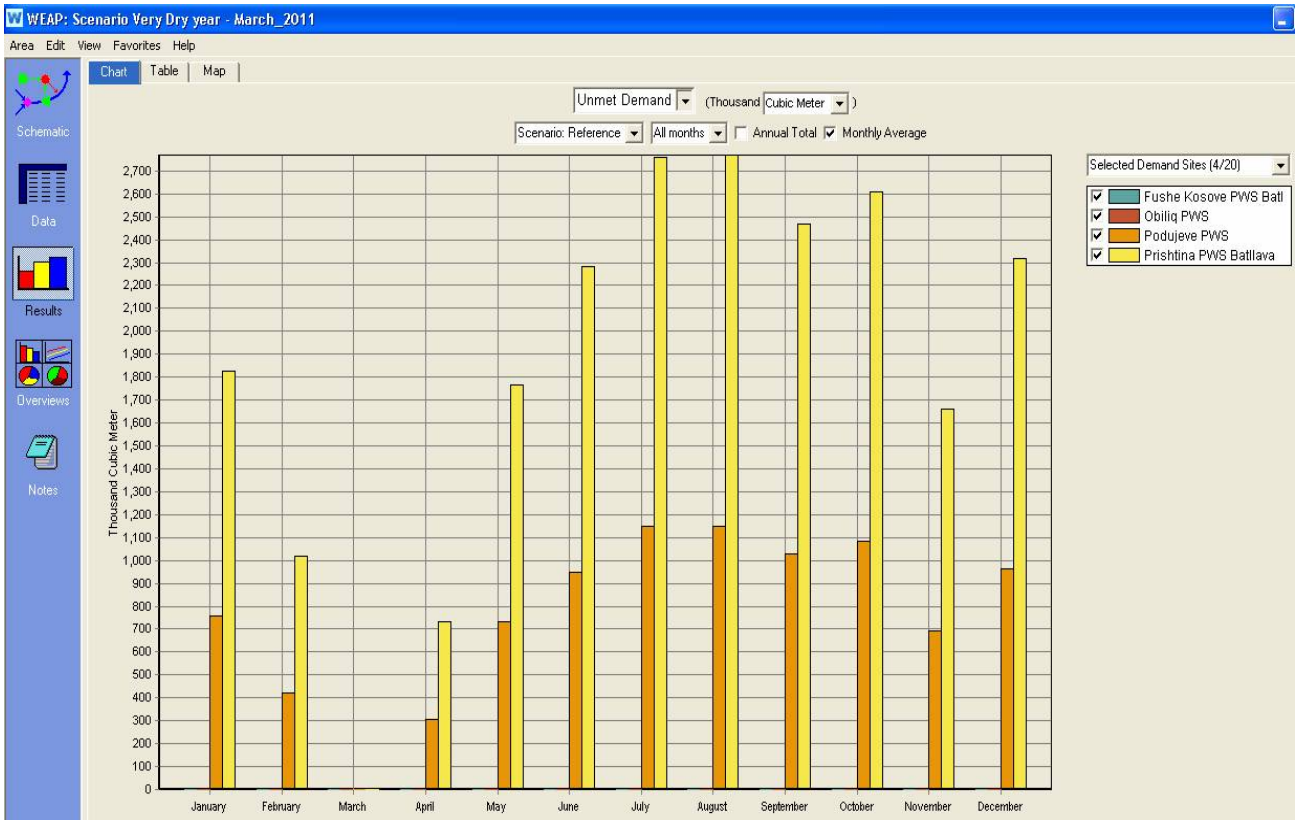


Table 37 is summarizing the analysis made on the results obtained under WEAP model development.

Table 37 : WEAP Results Analysis

System	Scenario	2020	2035
System 1 - Gazivoda System	Scenario 1		
	Scenario 2		
	Scenario 3		
	Scenario 4		
	Worst Case scenario		
System 2 – Batllava System	Scenario 1		
	Scenario 2		
	Scenario 3		
	Scenario 4		
	Worst Case scenario		
System 2 – Badovc System	Scenario 1		
	Scenario 2		
	Scenario 3		
	Scenario 4		
	Worst Case scenario		
System 3 – Groundwater System	Scenario 1		
	Scenario 2		
	Scenario 3		
	Scenario 4		
	Worst Case scenario		

Water security assured – nothing to do

Water security assured but limited – Start to think about measures to implement

Water security not assured anymore – Measures required with best investment have to be implemented

Not eligible

The WEAP results show that only in the population, industry and climate change scenarios there are difficulties for bulking water..

There is insufficient supply for the part of:

- Different demand points supplied by the Badovc and Batllava Lake – System 2
- Lypjan and Shtime supplied by Groundwater - System 3
- Different demand points supplied by Gazivoda Lake – System 1 (see Figures 101, 102)

Figure 101 : IL Hotspots identification – dry year

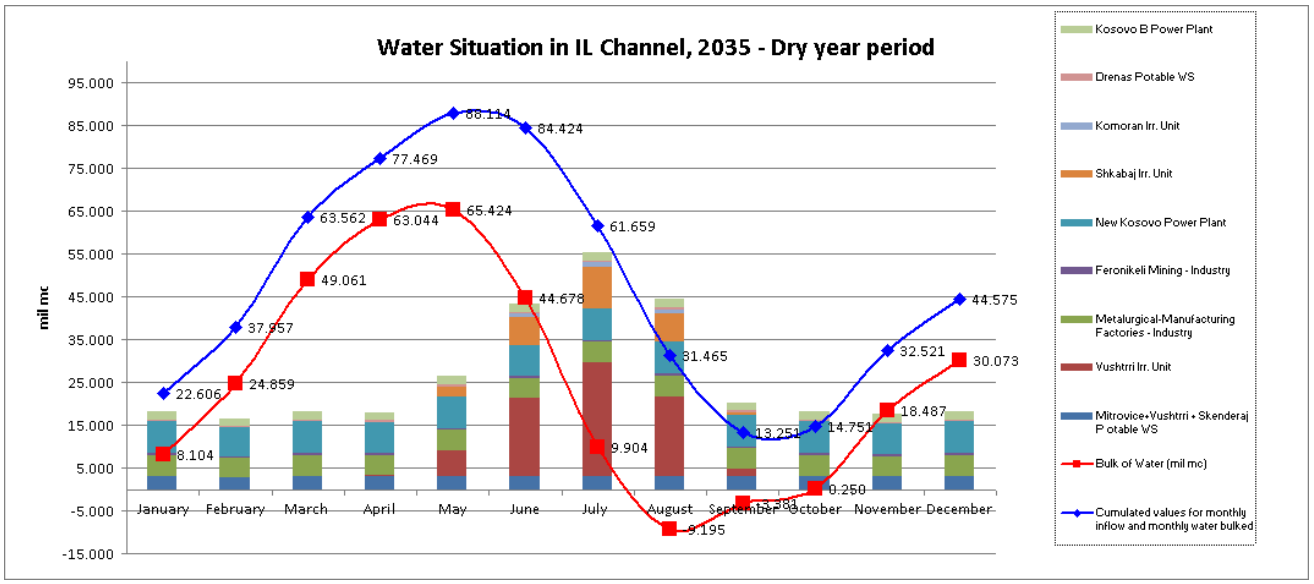
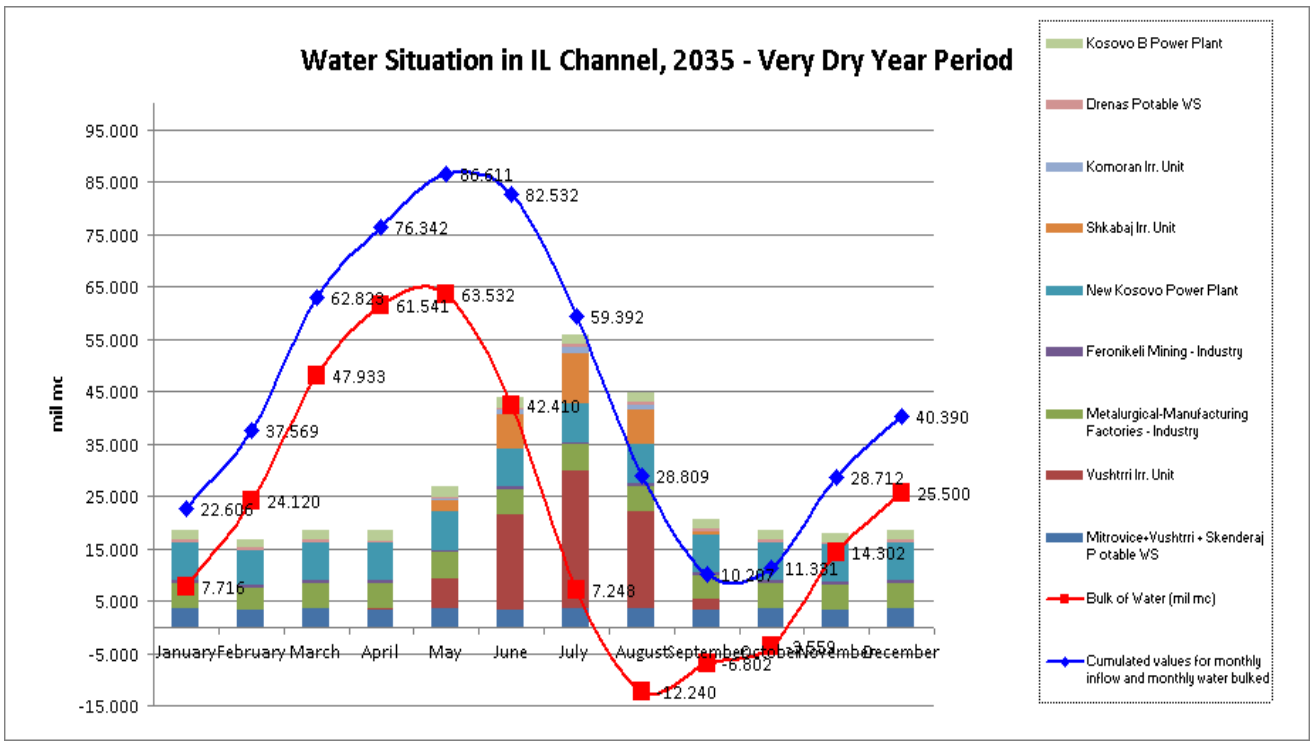


Figure 102 : IL Hotspots identification – very dry year



In addition of these modeling activities developed, the WEAP modeling output can be used in a multi-criteria analysis context, in order to define clearly what would be the better investment which will allow assuring the necessary water demand including all sectors for 2010 and 2035, with the lower budget investment.

For defining the better investment for this project, the output provides by modeling activities could be directly forward to the RAND Team. They have to provide inputs in the priority analysis, with the method used for Robust Decision Making (RDM).

ANNEX 6. COMPARATIVE EVALUATION OF THE BANK'S OPTION STUDY WITH SIERRA CLUB REPORT

Kosovo's Energy Options:

Response to the Sierra Club/INDEP Report: Re-evaluating Kosovo's Least Cost Electricity Option

Background

1. In December 2011, the World Bank issued a study entitled "Development and Evaluation of Power Supply Options for Kosovo: A Background Paper." This "Options Study" reviewed a variety of previous studies commissioned by the Government of Kosovo, the power sector entities, the World Bank, and other donors. Many of these studies considered a variety of alternatives to a new, large lignite-fuelled power plant that the Government of Kosovo is planning to build. However, a systematic, consolidated and up-to-date comparison and evaluation of the costs of energy alternatives had not yet been presented.

2. The Options Study provides this evaluation by covering the subjects necessary to any evaluation of a power generation project:

- power demand forecast
- power supply options
- alternative power supply development plans composed of a sequence of supply options
- comparison of the costs of meeting forecast power demand from each of the power supply development plans (incl. power plant construction and operating costs and the environmental and health costs related to these activities)
- sensitivity analysis of the results of the evaluation to changes in assumptions about key planning variables.

The Options Study concluded that Kosovo needs a mix of renewable and thermal (lignite) power generation capacity to meet its base load and peak load.

3. The Options Study presents a preliminary evaluation of a project to build 600 MW (2x300 MW generating units) of new lignite-fuelled power generating capacity (the proposed Kosova e Re Power Plant or KRPP), rehabilitate the existing Kosovo B generating plant, and open the new Sibovc lignite mine (collectively called "Kosovo Power Project"). Importantly, the existing Kosovo A power plant would be closed in conjunction with this project.

4. In January 2012, the following paper was also published about the Kosovo Power Project: "Reevaluating Kosovo's Least Cost Electricity Option" by B.C.Buckheit, prepared on behalf of the Sierra Club and the Kosovar Institute for Development Policy (INDEP) (referred to as "the Sierra Club/INDEP Report"). The Sierra Club/INDEP Report comments on two separate documents: the Expert Panel's Terms of Reference and the Options Study. The Expert Panel report was issued in January, 2012, in English and Albanian languages and was discussed by the Panel with civil society in Pristina in August 2011 and February 2012. Because a Terms of Reference for a study is not comparable to a fully scoped study, this note only responds to various points raised in the Sierra Club/INDEP Report about the Options Study.

Responses to Sierra Club/INDEP Comments on the Options Study

5. **Summary of the Sierra Report Study Recommendations.** The Sierra Club/INDEP Report concludes that the Options Study:

a. "Fails to demonstrate the need for a new base load coal plant" and recommends instead that Kosovo meet future demand growth through reductions in technical and non-technical losses, through improvements in energy efficiency, and by investing in generation intended to serve peak load on the Kosovo power system. This recommendation is put forth as an alternative to the KRPP base load plant recommended in the Power Option study.
b. "Fails to analyze the impact of developing KRPP on end-user tariffs or on Kosovo's economy."

Many of the Sierra Club/INDEP Report comments concern the amount and type of new capacity proposed by the Options Study. These comments question whether new coal-fired, gas-fired, or renewable power capacity should be added and whether capacity suited to meeting base load or peak load is needed. Separate responses to the comments about the magnitude of capacity needed, the fuel used, and the portion of the load shape served most economically by a new plant, are given in the following paragraphs below. The remaining responses deal with the tariff issue and with other comments in the Sierra Club/INDEP Report.

6. **Magnitude of new capacity needed.** The Sierra Club/INDEP Report asserts in many places that the Options Study concludes that more than 1,200MW of base load generating capacity should be brought online before other measures to balance future supply with demand. This assertion is incorrect. The only new baseload generating capacity proposed by the Options Study is the 600MW KRPP. About 700 MW of renewables included in the Options Study are either peaking (Zhur hydropower) plant, seasonal small hydropower plants, or intermittent renewables. If the Sierra Club/INDEP Report includes the reentry into service of the rehabilitated Kosovo B plant in its total of 1,200MW new base load capacity, this would ignore the obvious fact that the net addition to this capacity is zero (in fact a small reduction since the rehabilitated capacity is a little less than the rated capacity of the existing plant). The Options Study proposes the installation of some new renewables capacity and the initiation of loss reduction measures before KRRP enters service.

The demand-supply analysis used by the Sierra Club/INDEP Report to make its case is incorrect. It compares demand in 2010 in terms of the 2010 load curve provided in the Options Study, with the amount of new supply capacity proposed by the Options Study to come online gradually during the 2015-2025 time period. The Sierra Club/INDEP Report therefore does not compare like with like, because it does not recognize the considerable changes in both demand and supply that are projected to occur between 2010 and 2025. Demand will grow and supply will change as Kosovo A is retired and the output of Kosovo B is temporarily scaled back during plant rehabilitation. A correct analysis of the need for new generating capacity must take account of these changes by comparing demand and supply in the same year and for each year over the

planning period. The Options Study does this through simulated hourly dispatch of demand and available supply.

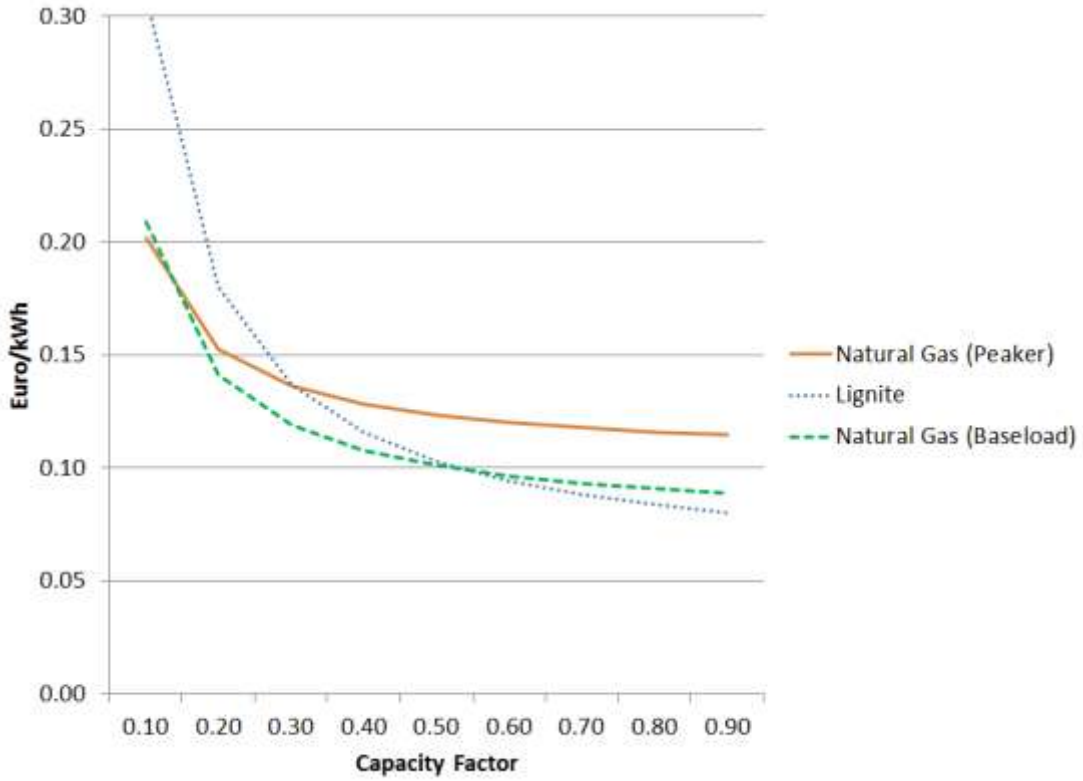
7. **Need for new base load or peaking capacity.** The Sierra Club/INDEP Report questions the need for new capacity to meet base load, recommending instead that Kosovo develop capacity to meet its peak loads. The Options Study, in contrast, finds that Kosovo needs new capacity to meet **both** base load and peak demand in the future.[1] This is provided by a mix of thermal energy, renewables, reductions in losses, and improvements in energy efficiency (referred to in the Options Study as the Lignite+RE plan). The Options Study assumes that the 300 MW Zhur Hydropower Plant and imports will be used to meet peak demand, as may some of the non-dispatchable renewables (small hydro or wind). The Sierra Club/INDEP Report does not address how Kosovo will meet its substantial intermediate load, instead erroneously presenting Kosovo B and KRPP as alternatives for meeting the base load. In fact, both plants are needed to meet the base load plus intermediate load. Kosovo has no reasonable alternatives to using this combination of plants for meeting these loads with sensible plant management.[2] The Options Study's assumptions about renewables are already aggressive, given what is known (and summarized in the Options Study) about the economic viability of different types of renewables in Kosovo, and firm import capacity is not likely to be readily available, given the tight power supply in the region.

8. **Need for a new lignite plant instead of a gas plant.** The Sierra Club/INDEP Report also suggests that a gas plant could be used to serve peak load in Kosovo. Gas peaking plants have lower capital costs than gas base load plants, but higher fuel costs per unit of electricity produced when this capacity is operated above certain low capacity utilization levels (e.g., below 10%).

[1] Plants used to meet peak demand have different cost and operational characteristics from plants used to meet base load. Plants used to meet peak demand typically have higher operating costs (fuel and non-fuel) and lower fixed costs (primarily, construction costs) than plants used to meet base load demand. It is also easier to adjust the output of so-called peaking plants to wide variations in demand. In practice, all types of plants (base load and peaking plants) are used to meet peak demand, but the peaking plants can more rapidly and cost-effectively be scaled up and down to meet hourly fluctuations in demand.

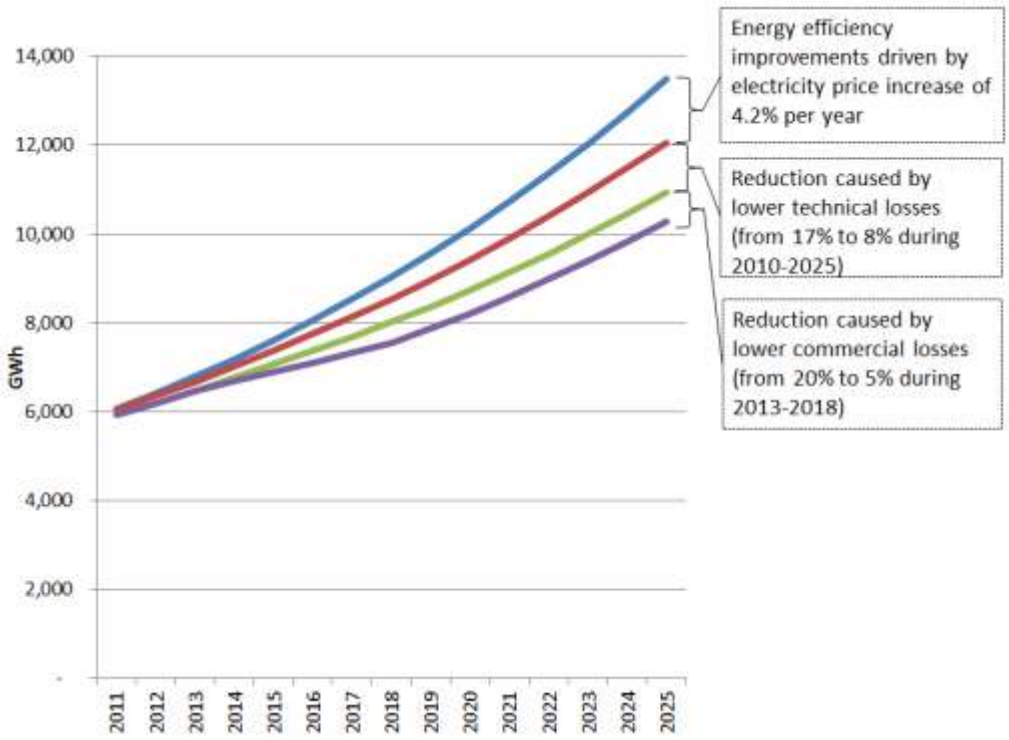
[2] In actual power system operation, unnecessary cycling of coal units will be avoided by taking units out of service, especially during period of low demand, and taking the opportunity to carry out scheduled maintenance.

The figure below compares the cost (including environmental externalities) of an open cycle gas peaking plant to those of the gas plant and lignite plant used in the Options Study.[3]



9. Need to reduce losses and improve energy efficiency. The Sierra Club/INDEP Report recommends that reducing technical and non-technical losses, and improving energy efficiency, should be made priorities. This agrees with the approach in the Options Study. The demand forecast in the Options Study assumes reductions in technical and non-technical losses. Technical losses are assumed to reduce from 17% to 8% of net energy generation by 2025. Non-technical losses are assumed to reduce from 20% in 2013 to 5% in 2018. The Options Study also assumes improvements in energy efficiency, driven by a real increase in the tariff of 4.2 percent per year. The figure below shows the magnitudes in improvements in energy efficiency and reductions in losses assumed relative to the Options Study's base case demand forecast (the bottom, purple line). The Sierra Club/INDEP Report asserts that the reduction in commercial losses assumed by the Options Study is more aggressive than is realistic, and that the reduction in technical losses is insufficiently aggressive, but it does not provide evidence to support these assertions.

[3] The gas plant is assumed to have 38% efficiency, capital costs of €575/kW, fixed O&M of €6.9/kw-year, and variable (non-fuel) operating and maintenance expenses of €.075/kWh. Fuel purchase costs are assumed to be the same as for the gas plant in the Power Supply Options Study. The figure shows that the levelized energy cost of the gas peaking plant is higher than for the gas base load plant if it were to be used at capacity factors above 10%.



10. **Effect of the tariff increase on end-users and Kosovo's economy.** The Sierra Club/INDEP Report asserts that: (a) the Options Study underestimates the required increase in Kosovo's electricity tariffs to finance the costs of developing KRPP and (b) the Options Study assumes that the tariff increase has already been increased to fund this project. The first of these assertions arises from confusion between economic and financial analysis[4] and the second assertion is incorrect. In fact, the Options Study did not address the question of tariffs at all, because it undertakes an economic analysis and does not deal with financial matters such as electricity tariffs. Moreover, the Options Study certainly did not assume that this tariff has already been increased to fund this project. The Options Study did estimate the price for electricity that would cover the economic cost of increasing long-term power supply capacity to meet the forecast growth in power demand, but only for the purpose of deriving an economically efficient level of power demand on which to plan the expansion of Kosovo's power supply capacity. The impact of the project on tariffs will form part of the project appraisal process within the World Bank, which is being planned. However, because the lignite plant has the lowest **economic** cost of all the thermal generating options analyzed by the Options Study (including environmental externality costs that are part of economic analysis only, not

[4] Economic analysis is concerned with the costs of a particular generation option to a country's economy or society as a whole. Financial costs are concerned with the costs to investors (which investors will pass on to customers).

financial), with similar financing terms, the lignite option will also require the lowest **financial** increase in electricity tariffs out of the thermal options.

11. **Other recommendations of the Sierra Club/INDEP Report:** The Sierra Club/INDEP Report further recommends that Kosovo B should be given dispatch priority over whatever new plants are built (criticizing the Options Study for assuming that the new lignite plant would be dispatched before Kosovo B). This recommendation means running more expensive, more polluting plants in favor of less expensive, cleaner ones. Such a recommendation cannot be reasonably justified for operational reasons, as well as for environmental/human health reasons. Commonly accepted industry practice is to dispatch the units with the lowest variable operating costs (sum of fuel cost and Operating and Maintenance cost per unit of energy generated).

Responses to the Sierra Club/INDEP Report's Additional Concerns

The Sierra Club/INDEP Report raised some additional concerns about the omission of the cost of opening a new mine in the Options Study, stressed water supply and its impact on agriculture, and resettlement. These issues are clarified below.

Cost of new mine. The cost of opening and operating a new mine for meeting the fuel needs of a new 600 MW power plant, rehabilitated Kosovo B, and Kosovo A for its remaining life is reflected in the cost of lignite (€10.5/ton) that is used in the Power Options Study[5].

Water supply. Although KRPP is expected to increase water consumption in the region, there is currently sufficient capacity in water supply to the region, in particular from the Iber-Lepenc canal to provide water to KRPP and all other consumers, including the supply of drinking water[6]. Improvement to the Iber-Lepenc canal system would help reduce leakages from and increase supply for all users. To support future provision of water to the area for all water needs, the World Bank will prepare additional investment projects. Such investments have been included in the Country Assistance Strategy for Kosovo for 2012-15.

The Environmental and Social Impact Assessment (ESIA) for the proposed project will examine the water resources and needs, assess possible current and future risks associated with the KPP's water consumption, and identify actions and investments that need to be made to eliminate or

[5] Table 4.1 of "Development and Evaluation of Power Supply Options for Kosovo" December 2011

[6] "Water Supply from the Iber-Lepenc Hydro System for the proposed Kosovo C Power Plant" COWI and others 2007. The study showed that there was enough water available for the new 2000 MW power plant, increase in sown area from 650 ha to 10,000 ha, and for industrial and domestic users. Please note that the 2007 study assumed a 2000 MW Kosovo C, while the proposed capacity is only 600 MW.

mitigate these risks, if any. An important requirement of the ESIA is that all stakeholders, including the local population, will have the opportunity to voice concerns and request that specific issues be covered in the ESIA and to discuss draft results and mitigation actions to assess whether these are acceptable.

Resettlement. Development of the KPP will require, over time, the relocation of people primarily from the new lignite mine concession area in Sibovc. The new mining concession, which forms part of the KPP, is being developed to provide coal only to KRPP (600 MW) and Kosovo B, and to Kosovo A for the remainder of its life span. However, the new concession area covers only a part of the large reserves found in Sibovc. No household reported earning income from agriculture though some used it as a complementary activity. Currently only a part of the Shala neighborhood would require relocation. However, during consultations the members of the Shala community expressed their desire to be relocated together, as one social unit. Responding to the community's wish, the Resettlement Action Plan has been prepared for the entire Shala neighborhood, which will relocate to the proposed site at Shkabaj village.

This resettlement is being carried out in conformity with the Kosovo Resettlement Policy Framework and the applicable World Bank requirements. In preparing the RAP, the Shala community was widely consulted and involved in the design of the resettlement, with a focus on achieving a satisfactory and sustainable relocation. The community supports the identified resettlement area, which is in a good location and close to the main highway to Prishtina. At present, work is being conducted by the GoK to prepare the resettlement site. Housing plots are being developed and will be provided with services (access roads, water, electricity, etc.). Most of the people moving from Shala have chosen to build their own houses in the resettlement area. Government is committed to provide assistance for lodging and subsistence to those relocating during the interval between leaving Shala and moving into new housing at the resettlement area. The MoESP, as the implementing agency, provides information on implementation progress through an on-going consultation process with affected parties and municipal officials.

12. **Conclusion.** We agree with theSierra Club/INDEP Report that technical and non-technical losses should be reduced and end-use energy efficiency increased to reduce the required amount of new power generation capacity and the environmental impact of power generation. These priorities are reflected in the Options Study. We emphasize that the Options Study presents an economic analysis, rather than a financial analysis that would be carried out as a part of the World Bank's appraisal of the proposed project. Future financial tariffs will depend on the terms for construction of KRPP offered under competitive bidding which depend partly on the financing terms that investors are able to obtain for these generation investments, as well as on the pace of efficiency improvements, loss reduction, and network improvements that will be included in the power suppliers' rate base by the energy regulator, and demand-side measures implemented by the distribution and supply licensee.

ANNEX 7. COMPARATIVE EVALUATION OF THE BANK'S OPTION STUDY WITH RAEL REPORT

Kosovo's Energy Options:

A Comparison of Two Recently Published Reports

Background

1. In December 2011, the World Bank issued a study entitled "Development and Evaluation of Power Supply Options for Kosovo: A Background Paper." This "Power Options Study" reviewed a variety of previous studies commissioned by the Government of Kosovo, the power sector entities, the World Bank, and other donors. Many of these studies considered a variety of alternatives to a new, large lignite-fuelled power plant that the Government of Kosovo is planning to build. However, a systematic, consolidated comparison and evaluation of the costs of energy alternatives had not yet been presented.

2. The Power Options Study provides this evaluation by covering the subjects necessary to any evaluation of a power generation project:

- power demand forecast
- power supply options
- alternative power supply development plans composed of a sequence of supply options
- comparison of the costs of meeting forecast power demand from each of the power supply development plans (incl. power plant construction and operating costs and the environmental and health costs related to these activities)
- sensitivity analysis of the results of the evaluation to changes in assumptions about key planning variables.

The Power Options Study concluded that Kosovo needs a mix of renewable and thermal (lignite) power generation capacity to meet its baseload and peak demand.

3. The Power Options Study presents a preliminary evaluation of a project to build 600 MW (2x300 MW generating units) of new lignite-fuelled power generating capacity (the proposed Kosova e Re Power Plant or KRPP), rehabilitate the existing Kosovo B generating plant, and open the new Sibovc lignite mine (collectively called "Kosovo Power Project"). Importantly, the existing Kosovo A power plant would be closed in conjunction with this project.

4. In January 2012, the following papers were also published about the Kosovo Power Project:

- "Sustainable Energy Options for Kosovo" by The Renewable and Appropriate Energy Laboratory, University of California, Berkeley, January 19, 2012 ("RAEL Report"); and
- Response dated January 31, 2012, from Dr. Dan Kammen et al to the World Bank comments dated January 26, 2012, on the RAEL Report.

5. Draft versions of the Power Options Study were shared by the World Bank with RAEL. The RAEL Report covers similar ground to the Power Options Study without referring to the latter document. This comparison focuses on the technical and economic assumptions and approaches to power capacity development used in the Power Options Study and RAEL Report.

Detailed Comparison with the RAEL Report

6. **Improvements to efficiency of power supply and energy use**. The RAEL Report and the Power Options Study agree on the need to reduce the excessive energy losses (technical and non-technical) and to improve energy efficiency throughout the Kosovo power system (power supply, transmission, distribution and end-use). Technical losses are projected to decline from 14% to 11% of total consumption in the RAEL Report and from 16.6% to 8% of gross energy supply in the Power

Options Study. Non-technical losses are projected to decline from 17% to 1% of total consumption in the RAEL Report and from 20% to 5% of gross energy supply in the Power Options Study.

7. **Power demand forecasts.** The RAEL Report adopts the base case demand scenario prepared by KOSTT - the Kosovo Electricity Transmission System and Market Operator. The Power Options Study models power demand in terms of projections of the power price and the national GDP, thereby deriving a forecast of demand at an electricity price that reflects the economic cost of meeting the demand. Both studies incorporate the projected reduction in losses in their forecasts of the required amount of energy to meet demand. Nevertheless, the difference between these demand forecasts is not large. For example, for the respective base case forecasts in 2020, the RAEL Report projects demand at 7,531 GWh, while the Power Options Study forecasts demand of 8,208 GWh, which is 8.25% higher.

8. **Projections of the power and energy demand-supply balance**. **The RAEL Report does not take into account peak demand forecasts (power capacity) to determine new power plant requirements; instead, the analysis is limited to energy requirements.** This is an important issue because the RAEL Report does not follow well-established industry practices. In the power sector, the need for new power plants is determined by comparing the peak demand forecasts to the available capacity (during peak demand time). This is a fundamental requirement deriving from the need of the power company to guarantee energy supply at all times. In fact, the available capacity during peak demand time should be higher than the maximum demand by a reserve margin, usually 15-25% depending on the size of the power system and the level of interconnection with neighboring power systems. Without this modeling, a power supply plan could lead to power shortages by failing to add new generation capacity when needed by the power system such as during a cold winter. Based on communication with the RAEL Report team, it is our understanding that capacity analysis during peak demand was not carried out. The Power Supply Options study included peak demand analysis but it did not add any reserve margin. Addition of the reserve margin would increase the need for more new power capacity.

9. **Length of period covered by projected demand-supply balance**. The RAEL Report projects the demand-supply balance to the year 2020, whereas the Power Options Study projects this balance further to 2025. The significance of this difference lies in the estimated total power supply capacity that can be met without adding new power units to the system. RAEL Report scenarios show that Kosovo's renewable energy options would be exhausted and additional capacity would be needed for meeting growth in power demand beyond 2020. This additional capacity would need to use lignite unless a presently unavailable or unproven supply resource, such as natural gas or geothermal, emerges in the near future. The Power Options Study extended its analysis to 2025 to address this issue and to indicate the expected build-up in capacity utilization of the Kosovo B and C plants.

10. **Development of indigenous renewable energy resources.** Both the RAEL Report and the Power Options Study consider that Kosovo's renewable energy resources ("renewables") are important options for developing power supply capacity that should be exploited to their full technical and economic potential. Their assumptions about the technically exploitable potential of these resources are of a similar magnitude, as shown in the table below.

Comparison of Potential Power Capacities from Kosovo's Renewable Energy Resources (MW)

Renewables Resource	Power Options Study	RAEL Report	
	Base Case	Base Case	Low Carbon Case
Small Hydro	60	182	182
Wind	257	141	281
Solar PV	0	0.8	8
Biomass	18	16.5	165
Biogas	67	0	0
Total	**402**	**340.3**	**636**

11. **Attribution of firm supply capacity to power generated from renewables**. The availability of power generated from renewables is uncertain at any point in time because the sun, wind, and rain (for hydro) are intermittent and variable. Therefore, the amount of available power output that can meet demand on the power system ('firm' capacity) is substantially less than the amount of generating capacity installed to exploit these resources. The Power Options Study uses proportions of installed capacity that are treated as firm power supply (specifically 100% for medium hydropower with storage capacity, 53% for small hydropower without storage capacity, and 25% for windpower). Though it is not clearly stated but it seems the RAEL Report attributes 100% of the installed capacity to firm capacity which would probably lead to power shortages if used for determining the installed amount of new power generation capacity.

12. **Installed capacity at the KRPP**. Although the reports use different installed capacities at the KRPP plant, they draw similar conclusions about the required capacity at this plant. The RAEL Report evaluates the KRPP with 1000 MW (2X 300MW Units and 1X 400 MW Unit), whereas the Power Options Study evaluates the Kosovo e Re power plant with 600 MW (2X 300MW Units). The RAEL Report concludes that very little power is required from the 400 MW Unit in its base case energy scenario. The Power Options Study finds that the demand-supply balance in its base case scenario is acceptable with the two 300 MW units at the KRPP plant.

13. **Kosovo B rehabilitation**. Under the European Commission's Large Combustion Plant Directive, the Kosovo B units have to be retrofitted with environmental controls by 2017. The Power Options Study assumes that one Kosovo B unit will be off-line during 2017 (after the two new units for KRPP come on line) and the second Kosovo B unit will be off-line during 2018, during which the units will be fitted with equipment to reduce their emissions, improve their efficiency, and extend their working lives. The RAEL Report assumes that the Kosovo B units will be rehabilitated and its capacity and output increased without any outage and reduction during the rehabilitation period.

14. **The projected utilization factors for Kosovo B and KRPP differ substantially between the two studies**. The RAEL Report assumes that the unrehabilitated Kosovo B units are dispatched before the KRPP units to meet the demand on the power system. The Power Options Study assumes that the KRPP units are dispatched before Kosovo B units because the KRPP units have a lower unit variable operating cost (sum of fuel cost and Operating and Maintenance cost per unit of energy generated) than the Kosovo B units. The Power Options Study assumption follows the well-established industry order of dispatching power generating units. The difference in dispatch order is significant because it means that a much higher energy output was attributed to Kosovo B and a much lower output was attributed to the

KRPP units in the RAEL Report than in the Power Options Study. The dispatch order in the RAEL Report overestimates the cost of lignite-fuelled power generation from the Kosovo B and C plants.

15. **Energy conversion efficiency and emission rates for KRPP**. The RAEL Report assumes that the KRPP units will have the same emission rates and plant efficiency as the Kosovo B units. With currently available technology, KRPP units would be required to achieve at least 38% or higher efficiency while the Kosovo B units are 30% efficient. Also, KRPP will comply with the European Union Industrial Emissions Directive, which specifies very low emission levels (150 mg/Nm3 SO2; 150 mg/Nm3 NOx and 10 mg/Nm3 particulates). The emission rates for the Kosovo B units are presently much higher than these levels, although after rehabilitation they also will comply with EU Directive. The RAEL Report's assumptions therefore overstate the fuel and emission costs of KRPP.

16. **Carbon emission rates from lignite combustion differ substantially.** The RAEL Report uses much higher carbon emissions from the Kosovo plants and correspondingly higher carbon penalties for burning lignite than the levels used in the Power Options Study. This is because the RAEL Report assumes that 20% by weight of lignite is converted to "unburned hydrocarbons," whereas the Power Options Study considers that unburned carbon would form less than 1% of the fuel by weight. Because Kosovo lignite contains about 24 % of carbon by weight, the RAEL Report's assumption implies that most of the carbon is not burnt, which is not correct. The high level used in the RAEL Report cannot realistically be reconciled with the physical properties of lignite.[1] Moreover, the RAEL Report converts all pollutants to CO2-equivalent even though they are not greenhouse gases, with the result that hydrocarbons, NOx and particulates contribute 87 % of the total CO2-equivalent emissions and the actual CO2 from the plant accounts for only 13% of the total CO2-equivalent emissions in the report.

17. **Sulfur emission rates.** Both Kosovo B and C will be equipped with SO2 control devices that remove more than 90% of the sulfur in the plant emissions. However, the RAEL Report assumes that 67% of the sulfur in Kosovo lignite combusted in the KRPP units would become particulate matter. This is excessive because most of this sulfur would be removed as solid by-products.[2]

18. **Levelized energy cost for KRPP**. The two studies use similar assumptions for KRPP power plant[3], but they arrive at substantially different estimates of the levelized energy cost (LEC) for this plant.[4] The RAEL Report uses the U.S. DOE/Energy Information Administration (E.I.A.)'s published estimate of the direct cost of power from this type of lignite-fuelled plant under conditions in the U.S.A., whereas the Power Options Study built up the overall LEC from detailed assumptions about construction and operating costs under Kosovo conditions. Yet the RAEL Report estimates this LEC to be

[1] This is because Kosovo lignite has 24% carbon by weight, so the Berkeley Report implies that most of the carbon becomes "unburned hydrocarbons". But well-designed and operated coal-fired power plants do not emit any "unburned hydrocarbons". The only unburned substance is a small amount of CO, which can be reduced or eliminated with good combustion system tuning and operation.

[2] The sulfur in lignite reacts with calcium oxide (CaO) and magnesium oxide (MgO) in the ash to form calcium sulphate (CaSO4) and magnesium sulphate (MgSO4).

[3] These assumptions cover unit construction cost, plant emission standards, plant working life, cost of capital, O&M costs, fuel cost and energy conversion efficiency.

[4] Levelized energy cost (LEC) is the sum of all project costs per unit of electricity generated under a project, over the lifetime of the supply capacity provided under the project. Costs include costs that are internal to the project - construction costs, O&M costs, and the cost of capital, as well as costs that are external to the project - -particularly health and environmental costs imposed on society from the project. Annual costs over the project lifetime are expressed in economic terms and discounted to a present value (PV), and annual amounts of energy produced under the project are discounted to a present value. LEC is defined as the ratio of the PV costs to the PV energy.

$94.8/MWh whereas the Power Options Study estimates it to be $63.56/MWh. The US$94.8/MWh estimate of the LEC is not compatible with its input assumptions of US$2600/kW of overnight construction cost. The RAEL Report's explanation for this difference is incomplete.

19. Treatment of externality costs. Both studies incorporate the costs of externalities into their evaluations, including both local externalities – health and environmental costs imposed on the local population from a power plant – and global externalities in terms of the cost of carbon emissions. The RAEL Report draws on studies of externality costs from the U.S.A. and South Africa as benchmarks for externality costs in Kosovo, despite the large differences in socio-economic conditions among these countries. Consequently, the RAEL Report considers that the full socio-economic cost of power from the KRPP plant could lie within the range of 200% to 400% of the direct project costs. The Power Options Study considers that the full socio-economic costs of power from KRPP are equal to 163% of the direct project costs, in present value terms. Added to the US$94.8/MWh (US cents 9.5/kWh) of LEC without externalities, the RAEL Report implies that the full socio-economic cost would amount to US cents 30 to 50 per kWh.

20. **Methodology for the economic evaluation of power supply options**. The present value of the costs of these plans are computed and used as the basis for comparing the plans. The two studies use the same types of renewables for supply options but the Power Options Study considers three fossil fuels (lignite, natural gas, and fuel oil) as supply options whereas the RAEL Report considers only lignite. The RAEL Report compares power supply options[5] only on the basis of LEC, whereas the Power Options Study uses LEC as a means of screening power supply options. The Power Options Study performs its main evaluation by formulating three different power development plans from a combination of supply options developed in sequence over time to meet forecast demand, one of which contains the KRPP project with renewables; the other two plans are based on natural gas and fuel oil, respectively, with renewables. This evaluation approach in the Power Options Study is the standard international method.

[5] These constitute ways to generate power from each type of energy resource (lignite, natural gas, hydropower, windpower, etc).

At-A-Glance Comparison with the RAEL Report

	RAEL REPORT	OPTIONS STUDY
Least cost supply plan (MW)	RAEL study considers levelized energy costs of individual plants but does not analyze the least-cost plan	Considers both the levelized energy costs of candidate plants for selection of plants and capacities and
Planning period	Until 2020	Until 2025
Rehabilitation of Kosovo B	Assumes Kosovo B can be rehabilitated without any outage and reduction in output.	Assumes Kosovo B will be rehabilitated, one Unit at a time during 2017 and 2018, each Unit being out of operation for eight months.
Adequacy of capacity to meet peak demand	Did not consider peak demand (capacity) requirements, only energy balance	System must have enough capacity to serve peak demand (such as in winter); additional capacity to meet obligations for reserve capacity, if added, would require additional capacity of 10-15%
Externalities	Assumes a carbon cost of €11.25/MWh in calculating LEC. Then assumes an additional 200-400% increase to account for local and global externalities, based on studies in the US and South Africa.	Uses EIA forecasts of carbon prices, equal to average €27.65/MWh. Analysis of local externalities in ECOSENSE dispersion model, based on data from Extern-E (European data). Total externalities costs increase LEC by 163%.

ANNEX 8. CHRONOLOGY OF THE BANK'S ENGAGEMENT IN THE ENERGY SECTOR IN KOSOVO

Approval Date	Id	Project name	Objectives	Total IDA	Env. Category
Closed					
25-Apr-2001	P070046	Energy Sector Technical Assistance Project	Assist in the development of satisfactory long-term plans for the economically efficient reconstruction, rehabilitation and restructuring of the power, lignite, district heating and petroleum sectors and development of a natural gas sector	0	C
17-Jun-2003	P079019	Energy Sector Technical Assistance 2 Project	Assist in (i) developing capacity for a commercially sustainable exchange of power with the regional system, and optimizing utilization of existing generation capacity through economic dispatch; and (ii) developing a framework for attracting private sector investment in the energy sector	1.5	C
29-Mar-2005	P088865	Energy Sector Technical Assistance 3 Project	The project's primary objectives are (i) to support Kosovo's integration with the regional energy market through assistance with implementation of its immediate obligations under the Athens Memorandum namely the establishment of an independent Transmission and System Operator (TSO), development of a Grid Code, development of transmission and retail tariffs including subsidy mechanism, and institutional strengthening to participate in the market, and (ii) to develop a policy framework, guidelines, and institutional capacity for the utilization of Kosovo's mineral resources.	2.5	C
12-Oct-2006	P097635	Lignite Power Technical Assistance Project	The objectives are to: (a) help the Government strengthen the enabling policy, legal and regulatory frameworks conducive to newinvestments in the energy sector; and (b) assist the Government to attract qualified private investors to develop lignite mines andbuild new capacity for lignite thermal power generation, guided by high standards of environmental and social sustainability.	8.5	B
28-Jun-2007	P106580	LPTAP Additional Financing 1	The additional financing does not propose any changes to the original Project Development Objective, original project components, outcomes, design, or scope	2	B
09-Apr-2007	P093932	Kosovo: Study of Heat Market and Environmentally Clean Fuel Options		0	
Active					
13-Jun-2006	P096181	Energy Sector Cleanup and Land Reclamation Project	Objectives are: (a) address environmental legacy issues related to open dumping of ashes on land from KEK's Kosovo A thermal power plant; (b) enable KEK to free land for community development purposes currently taken by overburden material; and (c) initiate structural operations in KEK for continued clean-up and environmentally good practice mining operations.	5.5	
28-Jun-2007	P105870	Kosovo Energy Sector Clean-up of Gasification Site	Additional financing does not propose any changes to the development objectives to the original CLRP, The hazardous chemicals cleanup will be incorporated as Component E and will contribute to development objective (c).	5	
Pipeline					
25-Sep-2012	P131539	AF - CleanUp & Land Reclamation Project		3.2	
10-Dec-2013	P118287	Kosovo Power Project		50	

ANNEX 9. "KOSOVA E RE" POWER PROJECT TIMELINE

	Completion date of activity	Expected date for the completion of the activity	
		From	To
The Kosovo e Re Investors Conference	January 11, 2010		
Announcement of 4 prequalified bidders	March 5, 2010		
Issuance of Draft RfP	August 10, 2010		
Due Diligence	August 10, 2010		September 28, 2012
Receipt of Exceptions*			May, 2012
Receipt of Proposal from Bidders*			September 28, 2012
Evaluation of Bids*		September 28, 2012	November 15, 2012
Announcement of winning bidder*			November 15, 2012
Negotiation of legal agreements *		November 15, 2012	December 27, 2012
Execution of Project Agreement*			December 27, 2012
Financial close			July 1, 2013
Air Quality Monitoring		September 15, 2012	September 15, 2013
Start soil and water quality monitoring		September 15, 2012	February 1, 2012
Start of ESIA		October 2012	
Completion of ESIA			October 2013
Board Presentation			expected date 2014
* Because of delay in the privatization of electricity distribution it is likely that the proposed KPP transaction will also be delayed by one or two months.			

ANNEX 10. RESPONSES TO TECHNICAL ANNEX

No.	**Claim (serial numbers in this column refer to the Technical Annex to the Request)**	**Response**
1.	**IV (A). Environmental and Health Harms.** Obiliq is one of the most polluted municipalities in Kosovo. The main source of pollution is the existing coal-burning power stations (Kosovo A and Kosovo B), along with heating and drying processes associated with coal production. The burning of coal releases toxic substances and dust into air and ground water, causing significant contamination of the surrounding environment. Despite deficiencies in pollution monitoring in the area, preliminary studies indicate that emissions levels and heavy metal contamination is concerning. In this context, replacing Kosovo A with a new power plant would significantly extend the time span during which this area would have to continue facing pollution from coal mining and combustion. Although both Kosovo B and the new plant will be more efficient than the existing plants, efficiency will also increase capacity, therefore it is unclear (absent strict pollution controls, which are as yet undecided) how much the project will result in diminished pollution overall. Due to the already fragile environmental conditions in this area, the cumulative impacts of the KPP are substantial.	Please see the response under Item 1, in Annex 1, which addresses this issue in some detail. Management would emphasize the following: • An important objective of the proposed Kosovo Power Project (KPP) is to reduce environmental impacts and introduce high standards, including EU standards of compliance for KRPP. To comply with its obligations under the Energy Community Treaty, the Government of Kosovo intends to decommission Kosovo A, which is one of the largest point sources of pollution in Europe, and bring Kosovo B into compliance with EU standards by improving its operations and environmental performance. • The analysis available to date shows that implementation of the proposed KPP and closure/ decommissioning of Kosovo A will reduce emissions of particulate matter by at least 90 percent and sulfur and nitrogen oxides by over 70 percent. • Management agrees that the data concerning pollution in the area are deficient. The planned ESIA, to be prepared in consultation with the affected communities, will investigate the emissions and other environmental impacts of the proposed KPP including: (i) the reduction in impacts due to proposed decommissioning of Kosovo A; (ii) impacts likely to be caused by emissions from the proposed KRPP; (iii) the (reduced) impacts from proposed improvements to Kosovo B; (iv) impacts from the proposed further development and operation of the Sibovc South lignite mine; and (v) implications of the proposed KPP for air, soil and water quality and other environmental parameters such as noise levels. It will also examine any other impacts from the proposed KPP which could, directly or indirectly, impact people and the environment in the proposed Project area.
1(a)	The proposed project will contribute significantly to the pollution in the area. While effects of pollution can be far ranging, the Obiliq municipality and the dense urban capital of Prishtina will be the most heavily impacted by the proposed project. The Requesters will suffer health risks arising from the construction and operation of both the proposed lignite power plants and the lignite mine. These harms include specific disease burdens caused by pollutants and industrial waste, nuisances caused by noise or dust from the operation of the coal mine and coal-fired	Please see the response above. Again, the ESIA will look at these impacts and mitigation strategies in specific detail.

No.	Claim (serial numbers in this column refer to the Technical Annex to the Request)	Response
	power plants, and the effects of pollution on vulnerable populations, like children. The Sibofc coal mine and the operation of the Kosovo B and Kosovo C power plants will release toxic pollutants into the atmosphere, including particulate matter, sulfur dioxide, mercury, lead, heavy metals, oxides of nitrogen, carbon dioxide, and acid gases. These air pollutants cause damage to the nervous and circulatory systems. They also exacerbate existing health conditions, like asthma, prevalent in the populations living in the project area due to years of exposure to air pollution. Prishtina Children are also at risk from exposure to lead and mercury, which impair cognitive development, and the acid gases like hydrogen chloride, which cause lung damage.	
1(b)	The Requesters will also suffer harms from water and land pollution. Pollution of the water will occur from industrial materials including coal ash containing heavy metals, fly ash laced with mercury, wastewater from the washing of lignite coal containing selenium, and overflow or failure of impoundments storing "coal sludge," a toxic waste product. Impoundments can fail, causing toxic floods of sludge that render rivers dead zones and contaminate ground water sources. The harm from this water pollution will be exacerbated because the riparian systems of the Kosovo Valley are already highly stressed. The impact of water and land pollution on farmers, who comprise 60% of the population in the affected area, will be particularly profound: farmers rely on agricultural land and water for crop cultivation (including commercial and subsistence farming), thus their livelihoods will be significantly affected by pollution. Food contamination from such pollution is also likely. Moreover, coal waste not only creates surface water contamination, it also pollutes soil and ground water.	Please see the response under Item 2 in Annex 1, which addresses the issue of water pollution. The proposed KPP would be required to comply with EU standards with respect to any potential source of waste and waste water. More detailed analysis of environmental impacts and the identification of additional control measures (if needed) will be addressed in the ESIA.
2.	**IV (B). Labor Harms** The proposed activities, particularly the proposed privatization of mine and plant operations, could adversely affect labor rights. In light of past experience with privatization in Kosovo, it is highly likely that this will harm the rights of Requesters to unionize, organize, and bargain collectively. Requesters are concerned that privatization will lead to job cuts, salary reductions, worsened working conditions, and create a situation in which legal procedures are neglected. The Bank has not sufficiently analyzed the dynamics of the labor market, job creation or unemployment. The Bank assumes that the mine and coal-fired power plants will create jobs, the wages of which will then spill over to the local economy. However, the Requesters are concerned that the jobs that are created will be either temporary, in the case of construction, or will not employ the local workforce without extensive and costly education and job training. The Bank has provided no analysis or accounting of the training necessary to ensure that the economic growth created by the new jobs is local and permanent. Furthermore, the Requesters are concerned that if employees are laid off as a result of the project, there will be no programs to help compensate them.	Please see the response under Item 7 in Annex 1, which addresses this issue. Management understands from the Government that the new private companies involved in mining and power generation will be required to retain all staff (who wish to continue to work) for a period of at least three years, on terms and conditions of employment substantially similar to those offered by KEK. After this three-year period, if the new company needs to make changes to its staffing, it will have to follow the applicable Kosovo labor laws. The Bank plans to conduct a detailed analysis of the impact of the proposed KPP on the current employees of KEK to recommend to the Government appropriate actions to mitigate adverse impacts through active employment and social assistance measures. The overall impact of the proposed KPP on the Kosovo economy of alleviating the energy constraint is likely to be significantly positive, spurring economic and job growth in

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		the medium term. The long term impact on employment of the KPP is likely to be positive.
3.	**IV (C). Resettlement Harms.** Coal mining and the operation of coal-fired power plants will require the resettlement of populations throughout the 150 km2 area of the "New Mining Field" (NMF), assessed in the spatial plan for the KPP prepared under the LPTAP. Impacts resulting from involuntary resettlement will cause widespread harm to Requesters. Many Requesters expressed concern during consultations about the adequacy of the resettlement plans, and in particular about proper compensation for destroyed homes and impacts on their work and livelihoods. Physical and economic displacement will also harm subsistence farming in the region, and diminish the livelihoods earned from forest timber products and other secondary income streams. Resettlement will require compensation for agricultural families in the form of productive agriculture lands. However, there is significant doubt that sufficient fertile land exists for this purpose. Resettlement will also harm the social and cultural fabric of communities such as Hade, Leshkoshiq, Shipitulle, and Sibofc. Resettlement could also mean the destruction of important mosques, schools and historic monuments in the region.	Please see the response under Item 6 in Annex 1, which sets out information on resettlement issues in the proposed KPP area. Management notes that the overall NMF area covered by the Spatial Development Plan is much larger than the area expected to be concessioned in Sibovc South for the KPP-associated minefield. The Sibovc South mine field constitutes about 7 percent (about 10.5 km^2) of the total NMF (see attached Map) and the entire proposed KPP site constitutes an additional area of about 6 percent of the NMF. In the event that the Bank decides to support the proposed KPP, the Bank will ensure that Bank policies and procedures are applied to any resettlement carried out in connection with the proposed KPP and will draw Government's attention to the need to address the legitimate concerns of residents in the non-KPP portion of the NMF area.
	Policy Violations	
4.	**V. POLICY VIOLATIONS.** The studies and plans conducted through the LPTAP, and reviewed by the Expert Panel, do not meet Bank requirements for Category A projects, the classification for the KPP. If the KPP proceeds as planned, the Bank's failure to comply with its policies will result in significant harms to the Requesters. **V (A). OP 4.01 – Environmental Assessment.** OP 4.01 "requires environmental assessments (EA) of projects proposed for Bank financing to help ensure that they are environmentally sound and sustainable, and thus to improve decision making." While the Bank has not made clear whether the SESA conducted under the LPTAP will serve as the Environmental Assessment for the KPP, at this stage it can only be assumed that this SESA, reviewed by the Expert Panel, is the sole document intended to meet the requirements of OP 4.01. Hence, the SESA is analyzed against the standards of OP 4.01. Further, because the nature of the project assessed by the SESA is a Category A project, it should be assessed against OP 4.01 standards for Category A projects.	Please see the response provided in Item 1, Annex 1. **It is essential to note that the SESA is not the ESIA for the proposed KPP.** Many of the allegations of policy violations arise from the Requesters' mistaken assumption that the SESA is the sole document intended to satisfy the requirements of OP 4.01 with respect to environmental and social assessment of the proposed KPP. The SESA to which the Requesters refer was developed in 2008, and considered issues relating to the development of a different power generation plant with a capacity of 2000 MW (Kosovo C). Following further consideration and studies, the proposed Project is planned for a generation capacity of 600 MW, for which the ESIA will be prepared. The ESIA will be prepared in consultation with the affected communities and will take into account all relevant aspects of Kosovo's own legislation, applicable policies of the World Bank Group, and relevant EU Directives. The draft Terms of Reference (TOR) for the ESIA have been prepared, and will be shared with the public for consultations, after approval by the Government and review by the Bank. The

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		Government expects to hire independent consultants to start the process of ESIA preparation, which is expected to take 12 to15 months to complete.
4.(a)	There is a fundamental assumption in the SESA that construction of a new power plant (Kosovo C) and the shuttering of an outdated plant (Kosovo A) will be more efficient and hence better for the environment and the people of Kosovo. However, better efficiency would result in increased capacity, and without knowing pollution control measures, it is unclear to what extent overall pollution will diminish. Nevertheless, even if efficiency does result in a marginal improvement, and prospective harms are distinguished from existing ones, the assumption is flawed because of the SESA's failure to account for the full range of environmental impacts of the project. Replacing Kosovo A with Kosovo C will condemn an already heavily contaminated environment with significant health impacts to decades of the same harms that have led to its existing condition. Such prolonged exposure to those harms could cause long-lasting, and possibly irreversible, impacts to the area. It is therefore necessary that the Bank consider existing environmental conditions and assess the long-term cumulative effect of continuing lignite-based power generation.	Please see response to Item 4 above.
5.	The current SESA fails to meet the requirements of OP 4.01 in the following areas: inadequate consideration of environmental, health and social impacts; inadequate consideration of viable alternatives; and inadequate and unrepresentative consultations with affected communities. Thus, the Inspection Panel should find that the Bank must conduct a more comprehensive assessment that complies with the requirements of OP 4.01. **V (A) (1). Consideration of Environmental, Health, and Social Impacts.** The SESA did not adequately consider relevant environmental, health, and social impacts that would arise from the KPP. OP 4.01 requires evaluation of a "project's potential environmental risks and impacts." It also provides in relevant part that the "EA take into account the natural environment (air, water, and land); human health and safety; social aspects (involuntary resettlement, indigenous peoples, and physical cultural resources); and transboundary and global environmental aspects." Further, the assessment must examine ways of improving the project by "preventing, minimizing, mitigation, or compensating for adverse environmental impacts." The SESA notes in a number of instances that appropriate monitoring devices or data were not available to conduct certain assessments, thus conceding from the outset an inability to fully assess relevant impacts. Failures to adequately consider relevant impacts in the SESA include: air pollution; water and land pollution; unsustainable water usage; transboundary impacts; impacts to the workforce; agricultural impacts; and cumulative impacts.	Please see response to Item 4 above. The ESIA will consider and investigate issues raised by the Request.
5 (a).	***a. Air Pollution.*** Operation of the lignite mine and power plants will result in the emission of toxic gases and particulates that have adverse effects on health. The current state of the environment is already very poor; the air is difficult to breathe,	Please see response to Item 4 above. The ESIA will consider and investigate issues raised by the Request. Management notes that the

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	and dust from emitted substances lines the ground throughout surrounding villages. The toxicological effects arising from exposure to emitted substances including fine particulates, carbon dioxide (CO2), sulfur dioxide (SO2), oxides of nitrogen (NOx), acid gases, dioxins, mercury and other heavy metals, are significant and are discussed below. The Requesters are concerned about continued exposure to these pollutants because they already face significant health impacts from existing operations. In general, there is insufficient information on expected pollution controls and resulting emissions estimates, as well as data on air quality for the SESA to adequately assess the impacts of air pollution. With respect to emission levels, OP 4.01(6) presumes that in the absence of a "full and detailed justification for the levels and approaches chosen for the particular project or site[,]" the recommended limits in the Bank's Environment, Health and Safety Guidelines ("EHS Guidelines") apply to Bank projects. For "[p]rojects with significant sources of air emissions," the Bank's EHS Guidelines recommend emissions levels of particulates, NO2, and SO2 lower than 150, 200, and 125 µg/m3, respectively. The SESA does not identify what specific emission controls would be implemented at the refurbished Kovoso B and Kosovo C, and thus does not adequately assess what emission levels are expected. Without this information it is impossible to assess whether the project would comply with EHS guidelines or OP 4.01 more generally. Furthermore, while the concentration of the acid gases may be effectively reduced through systematic use of scrubbers, the Bank's SESA has not provided a detailed plan to show how Kosovo, with its limited resources and chronic history of underinvestment in maintenance of infrastructure, is equipped to control emissions of acid gases over the long term. Indeed, the Requesters have already expressed concerns that existing filters in Kosovo B are switched off at convenient moments to reduce costs, and that operating more advanced scrubbers will result in water shortages in the area. The Bank must demonstrate how pollution controls would be managed to alleviate these concerns. The Bank must also assess whether ambient air quality will be within accepted limits, current monitoring data on air quality is inadequate and needs to be updated. Noting that the impact of air pollution cannot be fully assessed without knowing the pollution controls and emission levels, a few examples of gaps in data and impacts of air pollution are highlighted below. At the outset, the SESA acknowledges that air quality data is unavailable and that monitoring systems need significant capacity development. In assessing the impact of fine particulates, the SESA notes that the main component of emissions is generated by the mines, but that data on air emissions inside the mines is not available and thus cannot be assessed. Additionally, the SESA does not detail mechanisms that will ensure that monitoring devices to measure emissions levels function as designed over the life of the project. Inefficient removal processes and inadequate monitoring device create uncertainty as to the amount of particulates being	Environmental Management Plan (EMP) for the proposed Project will include environmental mitigation measures; monitoring requirements; and an assessment of the institutional capacity to undertake these tasks. The EMP will set out the responsibilities for each of these functions.

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	emitted and therefore are cause for concern. The World Health Organization has reported a link between fine particulates and respiratory illnesses such as asthma, reduced lung function, and higher incidence of bronchial infections in children. Due to their small sizes, fine particulates easily enter the bloodstream from the lung, and may result in inflammation of the heart and cardiac system. These particulates are also believed to exacerbate the development of lung cancer. Pneumoconiosis or black lung disease is also a serious problem, particularly for mine workers. Without reliable information on the emissions and the related health impacts, it is not possible to adequately consider these impacts. With respect to sulfur dioxide the SESA fails to adequately detail how sulfur-containing compounds will be effectively removed from the power plants' gas flues. The SESA recommends that a feasibility study be completed for updating of Kosovo B's electrostatic precipitators, which means that further analysis is required to evaluate what abatement measures can be implemented, including any additional impacts. Additionally, as noted above, the SESA fails to adequately detail what, if any, mitigation technologies will be used at Kosovo C. The SESA assumes that Kosovo C will have mitigation technology installed; yet, the SESA also states that "SO2 could increase from present 13.8 Mt/y to 19.1 Mt/y," possibly due to a capacity increase. Thus, it is unclear what SO2 emission levels are likely to be. Health impacts of SO2 pollution, which include coughing, wheezing, inflammation of breathing passages, and in some cases, can destabilize heart rhythms, are also inadequately discussed in the SESA. The Bank's SESA also fails to adequately consider how nitrogen-containing compounds will be removed from the new and existing power plants' gas flues. Inhalation of NOx results in decreased lung function and respiratory diseases in children. Children, the elderly and asthmatic patients are most at risk of harm. There is also insufficient consideration of the health impacts of other pollutants, such as mercury, dioxins, polycyclic aromatic hydrocarbons ("PAHs"), and acid gases.	
5(b).	***V (A) (1)(b). Water and Land Pollution.*** The Bank's SESA overlooked the impact of heavy metal contaminants (principally mercury and lead) on surface and groundwater sources. For example, mercury emissions can contaminate surface water, and effluent containing mercury can contaminate soil and ground water. This can result in damage to the environment including elevated levels of heavy metals and PAHs in soil and ground water. The contaminated water may become non-potable and unsafe for recreational purposes. Requesters state that surface mining has already contaminated wells in the surrounding area causing health problems for local communities, for example in the village of Cerna Vodica. In addition, preliminary results from the geochemical studies in the SESA showed that concentrations of mercury and nickel in soil already exceed threshold safety levels. An adequate assessment of heavy metal pollution from emissions and effluent and measures that would minimize or mitigate impacts is therefore necessary to comply with Bank policy. However, the Bank did not adequately assess the health and environmental	Please see response to Item 4 above. Many of the impacts described were caused by legacy mining operations. These impacts will be investigated under the ESIA, as part of baseline conditions, and will be taken into account in assessing potential impacts of the proposed KPP.

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	impacts of heavy metals such as mercury. For instance, there is a correlation between environmental pollution and bioaccumulation of heavy metals in some produce. Ingestion, of mercury-contaminated produce can cause damage to the brain, nervous system, kidneys, and skin. Mercury has also been linked to reproductive problems and birth defects. Lead is another heavy metal, released during the combustion of coal, that contaminates water. Exposure to lead has adverse health effects including damage to the developing nervous system, memory, and kidneys. More generally, the Bank did not adequately consider adverse impacts from the disposal of coal ash and other waste primarily due to insufficient data. It does, however highlight some significant problems with respect to storage of coal ash, noting that some dump sites are not rehabilitated and there is monitoring. Coal ash poses significant health hazards: ash contains arsenic, lead, cadmium and mercury, and depending on how it is stored may leach into the soil and contaminate groundwater sources. Noting that Kosovo's waste inventory is incomplete, at the time of the SESA, ash made up the largest component of the inventory; and the ash landfills for Kosovo A and B have exceeded their originally intended volume capacities. New mining and power plant operations will compound this problem. Studies to date have not adequately considered these disposal issues. Thus, the Bank needs to provide measures that will adequately address ash disposal as well as other waste. The Bank's SESA has not adequately addressed reclamation of mining lands following cessation of mining operations. Mitigation of long-term harms could be achieved by reclamation of abandoned mine lands in the future. However, the Bank's SESA has neither provided plans for future reclamation of land at mining sites following cessation of mining activities nor allocated adequate funds to complete restoration of mining sites.	
5 (c).	***V(A)(1)(c). Unsustainable Water Usage.*** The Bank failed to fully evaluate the sustainability of water usage, in violation of OP 4.01(1) and (2). According to the SESA, water flow rates at the existing power plants are not measured, calling into question the accuracy of the water consumption rates that were used in the SESA. Additionally, due to the lack of clarity on air pollution controls, it is unclear to what extent current water estimates include increased water consumption as a result of measures like sulfur scrubbing and carbon capture and storage (CCS). Given competing water demands for irrigation and other uses, this oversight prevents development of meaningful strategies to mitigate the risk of water shortage. The proposed project therefore requires a more accurate water supply analysis and a sustainable water management plan to ensure reliable water supply to all relevant sectors. Furthermore, the Bank must investigate how the project will affect any vested water rights in the area as part of their due diligence. Kosovo A and B are supplied by the Llapi River and the Iber-Lepenc Canal, respectively; during summer months when the river flow rate is low, water is taken from the Iber-Lepenc canal. The new Kosovo C power plant is expected to get its water	Please see response to Item 4 above. In addition, on the issue of water, please refer to detailed response in Annex 1, Item 3.

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	supply from the Iber-Lepenc water system. Even if the Bank's projections of water usage are accurate, the heavy water usage at Kosovo C raises questions about the long-term sustainability of the KPP. In fact, communities in the villages of Dardhishte and Cerna Vodica are particularly concerned that a new plant will result in water shortages in the area, and lead to a trade-off between operating the plant and domestic water consumption. According to the SESA, consumption of water at Kosovo C could account for almost 25% of the total demand across the country depending on the land acreage under irrigation. This projection is based on assumptions that might not hold – no significant changes in weather and rainfall patterns, loss of water in the waterways can be capped at less than 25%, and reducing water consumption by almost 42% in the Prishtina and Mitrovica municipalities by 2016. As the SESA itself notes, reducing consumption in the Prishtina and Mitrovica municipalities "is realistic only if significant investments in the internal potable water distribution network are made." Despite identifying that significant investments in the water management infrastructure will be required, the SESA does not detail how this task will be accomplished. In addition, unresolved water usage issues, and attendant effects on irrigation, could have adverse effects on attempts to achieve reconciliation among the various ethnic groups within Kosovo. Limited water resources could impose a heavy burden on Kosovo's agricultural industry and could lead to competition between the farmers in rural areas and industrial users in urban areas. SESA has acknowledged the possibility of "competing water demands . . . emerg[ing] in the medium-term (5-10 years) and . . . longer term." The history of civil strife within Kosovo and the region at large underscores the need to monitor catalysts with the potential to rekindle remnant tensions.	
5 (d).	***V(A)(1)(d). Transboundary Impacts.*** The Bank did not adequately consider transboundary effects of the KPP in violation of OP 4.01(3), which requires consideration of "transboundary and global environmental aspects." Air pollution can have significant transboundary impacts on the environment and human health. While CO2 does not directly affect human health, the costs of increased emissions and global warming disproportionately affect members of the developing world within the Balkans and beyond. Transboundary impacts from SO2 and acid rain were not adequately considered in the Bank's SESA. Acid rain has devastating impacts on the environment including damage to lakes, streams, and forests. In addition, the transboundary impacts from exposure to toxins were inadequately accounted for in the Bank's SESA. Hydrogen Fluoride particulates can travel distances as far as 500 km. Given that major metropolitan capitals of the Balkans are less than 500 km from Prishtina, the potential scope of injury is significant with individuals in Albania and Macedonia most at risk of injury due to winds blowing in from the north-east. The Bank has also failed to ensure or to effect notification of riparian states of potential changes in allocated water quotas, in violation of OP 7.50(4). OP 7.50(4) requires that "[t]he Bank ensure[] that the international aspects of a project on an international waterway are dealt with at the earliest possible	Please see response to Item 4 above. **As noted previously, the SESA is not the ESIA for the proposed KPP.** The ESIA will comply with Bank policies and investigate, *inter alia,* transboundary impacts, including impacts on international waterways. Subject to the findings of the ESIA, the proposed Project will comply with the requirements of OP 7.50.

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	opportunity. If such a project is proposed, the Bank requires the beneficiary state, if it has not already done so, to formally notify other riparians of the proposed project and its details. If the prospective borrower indicates to the Bank that it does not wish to give notification, normally the Bank itself does so. If the borrower also objects to the Bank's doing so, the Bank discontinues processing of the project. The executive directors concerned are informed of these developments and any further steps taken." OP 7.50(8) also requires that if no consent is obtained, the Bank staff have to assure the board that the project will not adversely impact the other riparian states. It is unclear whether Kosovo has notified riparian states regarding either foreseeable changes in its allocated quota of water or discharges of industrial effluents into the river without treatment. The KPP could place large burdens on Kosovo's allocated quota of water. For example, while the concentration of SO2 and other acid gases may be effectively reduced through systematic use of scrubbers, use of scrubbers could have implications for enhanced water usage at the power plant.	
5(e).	***V(A)(1)(e). Impacts on Workforce.*** The Bank has also not adequately considered potential impacts of the local work force. *Local Unemployment*: The Bank's assumption that the Sibofc mine and the coal plants will employ a meaningful number of local workers is questionable. According to the Bank, "the number of people employed in mining activities will decrease (due to modernization of technology), will be more than compensated by the increase of people employed at the plants." However, the updated plants will operate with technology that could well eliminate many jobs. Further, Requesters are concerned that employees who are laid off from mining activities and decommissioning Kosovo A will not be re-hired or provided programs for financial support. Additionally, the Government decision to give the management of the existing Kosovo B power plant to the same company that would win the contract for the construction of the new power plant would simply transfer the current monopoly from the public (state-owned enterprise, KEK) to the private sector. This is against the interests of current local employees because they are concerned that privatization will lead to significant salary reductions and job cuts, and infractions of existing laws. Furthermore, due to a lack of adequate provisions in the plan for training, Requesters also fear that skilled labor may be brought in from outside the local region. Without programs to either retrain and/or help provide financial support to workers who are laid off, local communities will suffer significant harms, and the SESA should have taken these considerations into account.	Please see the response in Item 2 above. As noted in Item 2, the Bank plans to conduct a detailed analysis of the impact of the proposed KPP on the current employees of KEK to recommend to the Government appropriate actions to mitigate adverse impacts through active employment and social assistance measures. On a broader scale, current power shortages in Kosovo are a major impediment to job creation. Nine out of ten firms surveyed in the 2010 Business Environment and Enterprise Survey (BEEPS) cited lack of reliable electricity supply as one of the principal obstacles to investment. Improving power supply and services should facilitate investments by small business that would create jobs in Kosovo. Other obstacles to doing business are being addressed by the Bank through an ongoing Business Enterprise Technical Assistance operation and by the International Finance Corporation (IFC) through focused advisory services. In addition, the Bank, through the Sustainable Employment Development Policy Operations project, is helping to lay the institutional and legislative foundations for sustainable employment and social safety nets.
5(e)(i).	*Work Safety*: Work safety is another significant concern for the local work force. In the last decade, more than 30 work-related fatalities and injuries have been recorded in the whole complex. In some cases, the injuries resulted in significant physical impairment. The use of outdated technology is a contributing factor to these fatalities and injuries. Additionally, during working hours, employees are exposed to emissions of gases,	Issues related to safe working conditions and practices will be considered in the context of the ESIA.

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	dust, smoke, loud noises, and other health and safety threats. Even though current management has done little to resolve these problems, Requesters are concerned that without strict state regulation, the conditions will only worsen under a private monopoly. This is in light of past instances where, when daily operations were handled by a private company, working conditions worsened. The Bank should have considered the impacts of privatization in this respect in the SESA.	
5(e)(ii)	Beyond the occupational dangers of coal mining, the proposed privatization of mine and plant operations could interfere with the right to associate and organize among the coal and power plant workers, as discussed below in section V.D. This is due in large part to past experiences with privatization in Kosovo.	Please see the response to item 5 (e) above.
5(f)	***V(A)(1)(f). Impacts on Agriculture.*** The Bank has not fully considered the KPP's impact on agriculture within Kosovo, in violation of OP 4.01(3). Heavy metal contamination of produce could reduce demand for Kosovo's produce. In 2006, the agriculture sector accounted for the largest share of employment in Kosovo and contributed to 25% of the Gross Domestic Product. In rural areas, where approximately 60% of the population lives, agriculture provides the main source of income. As of 2005, export of agricultural produce accounted for 16% of the country's export earnings. Decreases in GDP from reduced agricultural exports could reverberate through the economy and threaten delivery of services to vulnerable members of society. Additionally, the expansion of the mine will displace sizable portions of land currently under cultivation for which there is no adequate replacement; much of it used for subsistence farming.	The ESIA will consider and investigate issues raised by the Request. In accordance with the RPF, RAPs will be developed for each community that may need to be displaced by the proposed KPP. The RAPs will include socio-economic baseline surveys and, in consultation with the affected households, will set out compensation for loss of assets and alternatives for restoration of livelihood.
5(g).	***V(A)(1)(g). Cumulative Impacts.*** As noted above, consideration of cumulative impacts is particularly important in the context of these projects. OP 4.01(1) provides that the environmental assessment "helps to ensure that [the project is] . . . environmentally sound and sustainable." OP 4.01(3) requires that the "EA consider[] natural and social impacts in an integrated way." These requirements support the consideration of cumulative effects. The project environment is already under significant stress; air pollution, soil and water contamination, and associated health impacts, when taken together, have considerable cumulative impacts for communities living in the area. Simply continuing the same pattern of pollution will only exacerbate the harms to human health and the environment suffered earlier. Even though an older plant would be replaced by a new one under the KPP, the continued contamination of an environment that has suffered significant harms from existing mines and power plants over the past decades could cause irreversible impacts to the environment and human health. And, the KPP would lock the region into decades of the same or worse harms. Furthermore, given the difficulty and length of time involved in cleanup, the burden on affected communities will persist for a very lengthy period into the future, well beyond the lifetime of the power plants. In short, the KPP will commit the region to a pattern of development that could push the local environment past the tipping point. The SESA has failed to account for this possibility.	Please see response to Item 4 above. The ESIA will evaluate, *inter alia,* the cumulative impacts of the proposed Project.

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6.	**V(A)(2). Consideration of Project Alternatives.** OP 4.01(2) requires examination of project alternatives. It also states that the Bank "favors preventive measures over mitigatory or compensatory measures, whenever feasible." In this instance, the Bank has not adequately considered alternatives that would eliminate the numerous social and environmental harms associated with coal mining and combustion identified above. Particularly given the cumulative impacts involved, project scenarios that *prevent* environmental and social harms are preferred. Recent analyses by the Renewable and Appropriate Energy Laboratory at the University of California Berkeley, and the Kosovar Institute for Development Policy and Sierra Club support the conclusion that a combination of energy efficiency measures and renewable energy sources are meaningful alternatives to the current proposal for Kosovo's energy sector. The SESA reflects the Bank's failure to meaningfully consider viable alternatives in two important respects. First, the Bank did not adequately consider alternative energy efficiency projects that would reduce base load demand and mitigate risks from operation of the power plants. The marginal abatement benefits from such projects are high, they are generally cheaper to implement, and they create more jobs. For example, providing insulation to buildings could significantly reduce existing inefficiencies, and result in many jobs. Furthermore, elimination of transmission losses would reduce base load demand and significantly curtail production of CO2 and other toxic substances. Transmission losses accounted for almost 50% of the electricity generated between 2000 and 2006; the magnitude of these losses exceeded the electricity that was generated from Kosovo A. With upgrades to the transmission grid, Kosovo A could be decommissioned without compromising the production of electricity relative to the status quo. It appears that the Bank is counting on privatization of the grid to remedy these losses. Instead, the Requesters urge the Bank to consider the sector as a whole and stem these losses before deciding to invest in building new generating capacity. Second, the Bank did not adequately consider the potential of renewable energy sources. While the Bank's Project Information Document references hydropower generation, the SESA made no significant mention of this resource. In fact, development of hydropower resources could add up to 365 MW without attendant pollution problems because the energy from a 365-MW hydroelectric plant over 24 hours in a year equals about 3200 GWh. Additionally, despite "initial indications of some limited potential," "the full wind potential has not been studied." The potential for solar energy, particularly small-scale systems, is also not fully examined. The CO2 reduction strategy in the Bank's SESA is also at odds with OP 4.01(2). The SESA notes that CCS is an option for reducing CO2 emissions. However, it also acknowledges that CCS technology is a "relatively untried concept" over the long term. In addition, "the fuel needs of a coal-fired plant with [C]CS [would increase] by about 25%," thereby increasing electricity prices and environmental impacts of the plant. Investment in energy efficiency projects and renewable energy sources would eliminate or reduce the need for CCS and other mitigatory	The ESIA will assess the alternatives to the proposed KPP for meeting energy needs as well as the emissions and impacts of the proposed Project. Over the last 10 years, a large number of studies have been carried out on various aspects of the energy sector and the proposed Project by several donors and the Bank. Prior to providing even its "in principle" expression of support, the Bank commissioned a study entitled "Development and Evaluation of Power Supply Options for Kosovo" (December 2011) that took into account economic, financial and environmental costs—including local and global externalities. The study concluded that the lowest cost reliable energy supply to meet Kosovo's base load and peak demand is a mix of thermal and renewable energy sources that includes about 750 MW from hydropower and other renewable sources, rehabilitation of Kosovo B and construction of the 600 MW KRPP. These findings differ from the findings of the Renewable and Alternative Energy Laboratory (RAEL), Berkeley study cited by the Requesters and another study prepared by the Sierra Club. The Bank team reviewed both these latter studies and does not share their conclusions. Formal comparisons between their findings and those of the Options study can be found in Annexes 6 and 7. These comparisons are also posted on the Bank's Kosovo Energy website along with the Government of Kosovo's own assessments of the various analyses.

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	projects.	
7.	**V(A)(3). Inadequate Disclosure and Consultation.** The Bank did not adequately follow the requirements for public consultation and failed to ensure that access to information in affected communities occurred in a meaningful manner, in violation of OP 4.01(15). OP 4.01(15) addresses disclosure requirements and states that "[f]or meaningful consultations between the borrower and project-affected groups and local NGOs on all Category A and B projects proposed for IBRD or IDA financing, the borrower provides relevant material in a timely manner prior to consultation and in a form and language that are understandable and accessible to the groups being consulted." Requesters state that local consultations were limited, that the harms associated with the project were not meaningfully discussed, that their concerns were rarely addressed in a satisfactory manner, and that the local union was not included in the consultations despite the concerns around local employment. Furthermore, for the last three years, there has been no Bank contact with the local communities about the proposed project. Some of the specific concerns raised during consultations include: uncertainty about the resettlement process and which villages will be resettled; what measures would be taken to improve environmental conditions and access to water for domestic uses; electricity prices, particularly given the expected privatization; and the impact on local employment. In one instance, the Requesters expressed their desire to be informed and consulted in the tendering process for the privatization, however, to date, neither the Kosovo Government nor the Bank have provided them with any information in this regard. Additionally, even though consultations and meetings were arranged with affected villages in Kosovo, the consultations were insufficient and non-representative, for the following reasons: (a) while approximately 20% of the individuals in ten villages within the Obiliq municipality participated in surveys to determine residents' concerns regarding the KPP, in four villages the participation rates were significantly lower than in the other six: less than 100 people participated in the surveys in each of these four villages; (b) the studies do not indicate the extent to which participation across gender and ethnic lines was achieved; (c) at subsequent consultation meetings to disclose survey findings to villages within the Obiliq municipality, the average attendance was seventy; and (d) the proximity of the Obiliq municipality to Prishtina suggests that the 500,000 residents within the greater metropolitan area should have been informed and consulted. These shortcomings underscore the inadequacy of the consultation process.	Please see Annex 1, Item 8.
8.	**V(B). OP 4.12 – Involuntary Resettlement.** The Bank's Resettlement Policy Framework (RPF) and associated documents, developed under the LPTAP and "intended to apply to all aspects of the Lignite Power Project," does not fulfill the requirements laid out by OP 4.12 to avoid, minimize, and fully compensate for involuntary resettlement that the KPP will cause. Thus, the KPP will likely violate numerous provisions of	The ESIA will assess the alternatives for avoiding, minimizing, and mitigating adverse impacts. A Resettlement Policy Framework (RPF) has been developed by the Government consistent with Bank policies and will apply to all resettlement associated with the proposed

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	OP 4.12 necessary to mitigate the "long-term hardship, impoverishment, and environmental damage that involuntary resettlement causes." Although final Resettlement Action Plans ("RAPs") are yet to be developed, the RPF and associated documents, which establish the parameters for the RAPs, can be assessed against OP 4.12 to determine whether the framework adequately incorporates relevant considerations and whether it was developed with adequate consultation. In this regard, the following aspects are particularly relevant: consideration of project alternatives; consideration of the full extent of impacts; compensation for lost agricultural land, and community consultation.	KPP. Based on the RPF, a Resettlement Action Plan (RAP) has been prepared for the Shala neighborhood of Hade village, in consultation with the affected communities. The RPF, the existing RAP and any additional RAPs which will be developed for other affected communities based on the RPF, would govern the relocation and resettlement of any population that may be displaced by the proposed Project. As to the consideration of alternatives to the proposed Project, please see Item 6 and Annex 1, Item 5. As regards consultations with the communities, please see Annex 1, Item 8.
8(a).	**V(B)(1). Consideration of Project Alternatives.** OP 4.12(2) states that "[i]nvoluntary resettlement should be avoided where feasible, or minimized, exploring all viable alternative project designs." This means that when a proposed project is likely to lead to involuntary resettlement, the Bank must explore all viable alternative projects. As noted above, the Bank has not considered viable alternative projects, particularly those that could be carried out with minimal or no resettlement, in contrast to the substantial displacement anticipated by the KPP. Such minimally disruptive alternatives include project scenarios that address transmission losses and increase energy efficiency projects, as well as promote renewable energy projects.	Please see response to item 8 above.
8(b).	**V(B)(2). Consideration of the Full Extent of Impacts.** The KPP will lead to widespread displacement, both in terms of outright confiscation of land and in terms of environmental and health impacts that will render areas within the Obiliq municipality unlivable. It will also result in loss of agricultural lands and livelihoods, and degradation of sites of cultural, historic, and religious importance. These impacts fall within the "direct economic and social costs" that OP 4.12 requires resettlement programs to cover and will likely exceed those accounted for under the RPF. Additionally, when physical resettlement is envisioned, the Bank must ensure that displaced persons are "provided with residential housing, or housing sites, or, as required, agricultural sites for which a combination of productive potential, locational advantages, and other factors *is at least equivalent to the advantages of the old site*." As discussed below, this is unlikely to happen, based on current proposals. While the SESA and the Government Spatial Plan examine a number of impacts associated with resettlement, some issues are not fully analyzed, including: land tenure issues; the extent of displacement; and lost livelihoods as a result of lost agricultural land. Requesters note that because most villages have been designated areas of special economic interest by the Government, they can be relocated at any moment and the municipality cannot function effectively with this uncertainty. The Government has already resettled some residents, and others do not know if or when they will be resettled. Thus, there is great urgency to clarify plans for resettlement and	Please see response to item 8 above.

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	compensation schemes, including for those who have already been displaced. Bank documents make clear that impacts will extend throughout the New Mining Field (150 km2 area), as well as areas affected by plant operations. As part of its due diligence, the Bank should ensure that issues relating to property claims are resolved prior to resettlement. There are two main ways in which property rights issues may arise in this instance: the confiscation of the land itself; and the ownership of land in areas where people will be resettled. Requesters state that in 2004, the Government of Kosovo declared the villages of Hade, Sibofc, Leshkoshiq and Cerna Vodica as areas of special economic interest, which effectively allows the Government to initiate relocation of residents as needed. In March 2009, three additional Obiliq villages of Fushe Kosova, Vushtrria, and Drenas were declared an area of special economic interest due to the granting of the New Mining Field. The Bank must examine whether this government designation of special economic interest and subsequent relocation is in line with Bank policy as well as relevant national and international law. Additionally, the RPF states that in terms of eligibility for resettlement and compensation, if an individual claims ownership of land but cannot show full legal title, the Project Company's resettlement office will review the claim. But, it is not clear what this office is and how it would be managed. The Inspection Panel should consider whether this process is adequate to ensure that any resettlement occurs in line with Bank policy. Further, controversy exists over ownership of lands designated for restoration and resettlement, as "previous land owners (whose lands were expropriated during the nationalization period) have filed cases to regain property rights." These issues must be resolved before further resettlement takes place. While the RPF does envision a grievance process, this is hardly a replacement for resolving land titles beforehand. Due to the declaration of special economic interest and the resulting uncertainty as to when homes will be condemned to make way for the new mine and plant, the economic and social development of the municipality of Obiliq is effectively paralyzed. To date resettlement documents do not clarify the extent of intended resettlement and do not fully consider the fact that the municipality has been in this state since 2004. The impacts of the KPP will require significant resettlement and associated compensation. According to the SESA, KPP development will most adversely affect the Obiliq municipality, which has a population of approximately 21,500. Four villages will be severely affected by new lignite extraction and will require physical relocation. These villages include: Hade (5 km2 and 2900 inhabitants); Leshkoshiq (3.7 km2 and 1300 inhabitants); Shipitulle (1 km2 and 100 inhabitants); and Sibofc (7.4 km2 and 2020 inhabitants). So far, the Government has partially relocated residents of Hade; those who remain continue to live in homes next to the Kosovo Electric Corporation (KEK) mine site. Of the relocated residents, some were relocated to Shkabaj village in Obiliq, others were moved to two residential complexes in Obiliq: Hade 1 and Hade 2. The	

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	Government has failed to adequately compensate displaced inhabitants, or ensure their economic stability and social integration. The remaining settlements, including the municipal center of Obiliq itself, will experience significant impacts from lignite power generation. In particular, three settlements (Dardhishte, Cerna Vodica, and Berisha), with over 3300 inhabitants, lie "within a triangle of degrading influence" and will be heavily affected by facilities for electricity generation, ash dumps, waste landfills, and mineral developments. For example, in Cerna Vodica, coal transportation belts run right through the village and cause significant disturbance to residents. Additionally, several government documents (attached) indicate that the village of Dardhishte, separated only by a road from the Kosovo A plant, is not fit for inhabitation and should be relocated. However, despite attempts to raise these concerns, residents have received no response from the Government or the Bank, as to whether they will be relocated and if so, how that will happen. Currently, the remaining residents of Hade do not know when relocation will occur. Residents of other villages do not know if they will be relocated or not. Requesters urge that they be informed and consulted about current plans for resettlement, and that any resettlement process be supervised to ensure that they are implemented effectively. The RPF also does not adequately consider the loss of agricultural lands and livelihoods in this context. According to the Kosovo government, approximately 60% of the population living in the region are farmers, working in agricultural enterprises or for subsistence. The majority of residents have "very low" incomes and "depend on extensive agriculture for [their] survival." A quarter of the population also supplements family income by 10% through the harvesting and sale of timber. The new Sibofc mine will directly convert 13% of the land in the Obiliq municipality, comprising fertile agricultural lands, settlements, roads, and forests on which these populations depend for food and livelihoods. The development of infrastructure for transportation of coal and ash, and impacts of dust, acid rain, and ash from landfills will further degrade agricultural lands and forests. The RPF's solution to this land shortage – its heavy reliance on the use of rehabilitated lands as alternative farmland for displaced persons – is inadequate. For example some land has "residual contamination levels" that would make it difficult to rehabilitate for agricultural purposes. Requesters are concerned that there is insufficient agricultural land to restore livelihoods, and that there is no commitment from the Government or the Bank to provide programs for alternative economic integration. If resettlement occurs without suitable solutions to these issues, it would violate Bank policy because displaced persons have not been provided options that are equivalent to their previous situation. Thus, if the Bank cannot provide a better solution for the problems arising from lost agricultural land, it will be unlikely to meet the requirements governing land-based resettlement. KPP development will further compromise the social and cultural infrastructure of the affected zone. The four villages that will require immediate resettlement contain secondary schools,	

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	health facilities, and mosques, as well as historic memorials in both Hade and Shipitulle. The relocation of these communities will "disrupt[] social networks" and "lead to a loss of cultural heritage and local memories." These adverse social and cultural impacts will compound the difficulties that these project affected communities have already endured due to the "vagaries of war and the challenges of living near the mine and power plants." The KPP may also reduce cultural tourism to the Holy Tomb of Sultan Murat II near Obiliq, which brings approximately 20,000 visitors to the area each May. The RPF should include these considerations.	
8(c).	**V(B)(3). Compensation for Lost Agricultural Land.** OP 4.12 states that "preference should be given to land-based resettlement strategies for displaced persons whose livelihoods are land based." When land is offered, it should be "at least equivalent to the advantages of the land taken." OP 4.12 also provides that when land-based options are not available, "non-land-based options built around opportunities for employment or self-employment should be provided in addition to cash compensation for land and other assets lost." At this stage, resettlement plans do not adequately address the compensation implications of the lack of suitable replacement agricultural land for a resettled population. As noted above, the area planned for mining development is largely composed of fertile land, and it is principally inhabited by large families who work in agricultural enterprises or independently as subsistence farmers. The SESA concluded that "there is not enough replacement agricultural land to resettle people who rely on farming for their livelihoods." Additionally, the RPF acknowledges that "there is an acute shortage of good agricultural land in the area around the proposed mining and power complex." Requesters note that relocated Hade residents, mostly farmers, are now housed in apartments with no access to land and little assistance to integrate into their new situations. They are also uncompensated for their lost agricultural land. The Bank must ensure that adequate compensation is provided, and these costs should be included in the externality costs of the proposed project.	Please see response to item 8 above.
8(d).	**V(B)(4). Inadequate Community Consultation.** Inadequate community consultation in development of plans for resettlement to date has led to the underestimation of resettlement and compensation that will be required due to loss of lands, residences, and livelihoods. Community consultation is necessary to appropriately value affected assets, involve the public in decision-making processes, manage impacts on vulnerable groups, and resolve grievances, among other benefits. OP 4.12 Annex A(15) contains requirements for community consultation for resettlement plans, including an RPF. As noted above, the overall community consultation process was inadequate, and there has been little to no contact with local communities for the last three years. While it is important to note that some resettlement occurred before Bank involvement in the project, subsequent Bank consultation around resettlement is inadequate. With regard to prior	Please see response to item 8 above.

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	consultation, the SESA itself notes that consultation with communities in the area was "poor or non-existent," and led to widespread discontentment and the migration of residents from surrounding villages. In the village of Hade, for instance, previous activities related to the proposed project activities resulted in the resettlement of 85 families, who have been left with inadequate housing and compensation. The 495 families remaining in Hade endure economic hardships and suffer from environmental and health impacts, including from "current pollution levels, extensive noise coming from current activities at the power plant and insecurity about the future progress the new mine." Nevertheless, even after Bank involvement, and more than seven years after the decision to relocate Hade residents, the process of relocation is incomplete, residents have not been compensated adequately, and there is little to no information about how residents' concerns will be addressed. The citizens who are still in Hade, expecting to be relocated, have no information on how their relocation is going to take place, the location of their future settlement, how they will be compensated, or when this process will begin. Residents of other villages where resettlement could take place in the future are also concerned by the lack of information and consultation. These hardships will likely continue under the development of the KPP unless the Bank remedies deficiencies in community consultation and compensation.	
9.	**V(C). OP 10.04 – Economic Analysis.** The Bank's current economic analyses for the proposed Kosovo C fail to meet the requirements of OP 10.04. According to OP 10.04(1), the Bank must "conduct [an] economic analysis to determine whether the project creates more net benefits to the economy than other mutually exclusive options for the use of the resources in question." This includes exploring project alternatives and considering the externalities of a particular project, neither of which were done adequately in this case. OP 10.04(2) explains that the Bank is required to ensure that (1) "the expected net present value ("NPV") of the project's net benefits [is] not . . . negative" and that (2) the NPV is "higher than or equal to the expected net present value of mutually exclusive alternatives." In conducting an NPV analysis the Bank must consider a number of different factors, including "domestic and cross-border externalities," long-term sustainability, and risk. Although an economic analysis was conducted, presumably under the LPTAP, this analysis was cursory and incomplete, and does not meet the requirements of OP 10.04. As described below, it fails to adequately account for project costs and externalities, fails to consider alternatives such as, energy efficiency schemes, hydropower, wind power, or solar energy, and fails to adequately consider long-term sustainability. The Expert Panel reviewing the KPP commissioned a new analysis, which the Bank release in December 2011 entitled Background Paper: Development and Evaluation of Power Supply Options in Kosovo. However even this analysis falls short of OP 10.04 requirements for similar reasons. Further, even if the Bank corrected the shortcomings of the current analyses and accounted for relevant costs and risks listed below, the KPP would very likely not meet the Net Present Value test required	No economic analysis has yet been done for the proposed KPP, because the proposed Project is still at the concept stage. As part of the Bank's appraisal of the proposed Project, an economic analysis will be undertaken (in addition to environmental, social, technical, financial and fiduciary analyses). In line with Bank policies, the economic analysis will take into account criteria for acceptability, alternatives, non-monetary benefits, sustainability, risks, poverty impacts, and externalities.

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	by OP 10.04(2).	
9(a).	**V(C)(1). Project Costs and Externality Costs.** The Bank claims "Kosovo's lignite is currently the least-cost option even after accounting for externalities." However, the Bank failed to adequately consider project costs, including externality costs. For example, the analysis fails to appropriately account for the costs of: improved water provision and transportation infrastructure; employee training; environmental and health harms, abatement technologies and associated impacts; lost agricultural production and resettlement; and mine closure. These costs, if properly factored in, will significantly increase overall project costs. The Bank's analyses are silent on the costs of managing and already stressed water system, and the costs of building adequate transportation infrastructure. Stress on the supply of water is a significant concern in the Iber-Lepenc water system, which is the expected source of water for the new mine and power plant. To meet the increased demand, the costs of improving the water systems must be accurately measured. Additionally, the project will require updating transportation infrastructure. The heavy industrial equipment needed for the KPP may need to be shipped from outside of Kosovo and airlifted into the project site. Updating this infrastructure, or alternatively airlifting industrial parts around it, has not been not adequately priced. With respect to local employment, although the Bank's analysis assumes that the project will create jobs, it does not examine the cost of training programs necessary to ensure that local populations will have employment at the coal mine and the coal-fired power plants. The Bank does not adequately address costs associated with damage to the environment and human health. First, the analyses so far focus *solely* on the environmental costs of air pollution. Beyond air pollution, the Bank's analysis fails to cover other relevant costs, such as waste management and health impacts of land and water pollution. Furthermore, the cost of abatement technologies and related impacts, particularly for dealing with harmful air pollutants is not adequately considered. Also, the Bank's economic analysis compares the environmental costs of the lignite power plants only with fuel and gas alternatives, not renewables. This significantly affects the cost benefit analysis in relation to project alternatives. Second, the assumptions used for the 2006 environmental cost estimates are unclear and the estimates do not provide a clear picture of the environmental and health costs associated with the project. The Bank's projection for environmental costs for the Kosovo plants is 15 Euros per MWh, and it is unclear what assumptions were made in the modeling that led to this figure. As yet, it is unclear what specific pollution controls will be in place for Kosovo B and C, and thus what the emission levels and associated costs will be. The Bank's analysis also does not adequately account for lost agricultural land and costs of resettlement. Sixty percent of the population in the project site relies on agriculture for their livelihood, either through subsistence farming or cash crop production. In addition to lost production because of competition	Please see response to item 9 above.

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	for water resources, the mine is converting fertile land. The Bank's analysis does not acco.unt for these opportunity costs, nor does it account for the lack of agricultural land to resettle persons who rely on farming for their livelihoods. Furthermore, the SESA contemplates the use of "reclaimed land" for agricultural uses, presumably for populations displaced by the project. Converting reclaimed land into land suitable for farming will entail substantial costs. These costs were not included in the Bank's analysis. Finally, at the end of the project period, the Sibofc mine will need to be closed and the land returned to its previous condition. The Bank's economic analysis does not address these costs, though the costs associated with mine closure and reclamation will be substantial.	
9(b).	**V(C)(2). Meaningful Alternatives** The omissions of significant costs and a failure to capture key variables in its risk analysis are symptoms of the Bank's general failure to conduct a proper analysis of meaningful alternatives, which is "one of the most important features of proper project analysis." The Bank's analysis does not examine a meaningful mix of base, load-following and peaking units. It also fails to analyze the cost-effectiveness of a common clean source peaking unit: hydropower. Hydropower resources are particularly relevant for the KPP project area, as the Bank describes the Kosovo's river system as a "well developed hydrological network." The Kosovo Energy Plan discusses at least two feasible hydropower sources: the HPP Zhhur and the HPP Ujman. In another study the Bank and the EU Commission describe Kosovo as having "significantly more potential" for hydropower development than is currently utilized. Furthermore, the analysis does not contain assessments of other renewable energy sources, such as the potential for wind and solar power, nor adequate consideration of energy efficiency measures. As noted above, recent studies show that Kosovo could meet its energy needs by using a combination of an upgraded Kosovo B, energy efficiency measures, and renewable energy sources. The Bank should consider these alternatives before deciding to fund a new power plant in an already stressed environment.	Please see response to item 9 above.
9(c).	**V(C)(3). Risk Analysis and Long-term Sustainability** The Bank's economic analysis omits critical risk analysis variables that, if included, would significantly impact the NPV. To assess risk, the Bank must conduct a risk analysis that "estimates the switching values of key variables . . . and the sensitivity of the project's net present value to changes in those variables." To perform these calculations, Bank guidance specifies "identifying the variables that most influence a project's net benefits and quantifying the extent of their influence." First, the Bank's analysis did not consider variation in electricity demand due to time of day, season, and weather. This temporal variation in use means that cost-effective energy supply of electricity is best achieved through a mix of base load units, load following units, and peaking units. Second, the Bank's analysis fails to incorporate volatility in the price of coal. Coal inputs can be a significant and highly volatile variable in the	Please see response to item 9 above.

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	cost of generating electricity. The Bank erroneously assumes a 10-year old cost estimate of 0.89 € /GJ, substantially lower than estimates for other countries in the region. Third, the Bank's analysis fails to account for the highly volatile construction costs of the project. Since the Bank's economic analysis was performed, construction costs have spiked. These key variables, if adequately addressed, would substantially alter the NPV for the KPP. Additionally, the Bank must "assess[] the robustness of the project with respect to economic, financial, institutional, and environmental risks," including "whether critical private and institutional stakeholders have or will have the incentives to implement the project successfully." It appears that the Bank assumes the KPP will provide a significant opportunity to provide electricity to the regional market. An important factor here is the regulatory landscape in the European Union (EU), which is moving towards incentivizing renewable energy-based power generation and disincentivizing dirty energy sources. This could make fossil fuel-based power much less lucrative to export (and exports are expected from Kosovo C), especially to EU member countries, and thus threaten the long-term sustainability of the project and its development impact. Additionally, if Kosovo plans to accede to the EU in even the next 20 years, they would be subject to pollution pricing pursuant to the EU Emissions Trading Scheme or Directive 2003/87, which could be a significant financial burden. The Bank's due diligence should include these types of legal requirements that are likely to apply during the lifetime of the plant, particularly because of this context. However, the Bank's analysis did not contain any consideration of the EU's regulatory trend and its potential development risk.	
10.	**V(D). Compliance with Rights Protected by the Kosovo Constitution** Bank policies require that financed projects do not contravene country obligations as found in "national legislation[] . . . related to the environment and social aspects[] , , , and obligations . . . under relevant international environmental treaties and agreements." Similarly, the Bank "tries to work within existing law to the extent possible." Kosovo's Constitution incorporates the following agreements and instruments directly into their constitution: (1) Universal Declaration of Human Rights; (2) European Convention for the Protection of Human Rights and Fundamental Freedoms and its Protocols; (3) International Covenant on Civil and Political Rights and its Protocols; (4) Council of Europe Framework Convention for the Protection of National Minorities; (5) Convention on the Elimination of All Forms of Racial Discrimination; (6) Convention on the Elimination of All Forms of Discrimination Against Women; (7) Convention on the Rights of the Child; (8) Convention against Torture and Other Cruel, Inhumane or Degrading Treatment or Punishment. Article 22 of the Constitution guarantees the human right and freedoms protected by these instruments. Further, Article 3(2) of the Constitution accords "full respect for internationally recognized fundamental human rights and freedoms." Additionally, Article 53 of the Constitution states that Kosovar interpretation of those	An Environmental and Social Impact Assessment (ESIA) is a key next step being undertaken by the Government. The Government expects to hire independent consultants to start the process of ESIA preparation, which is expected to take 12 to15 months to complete. It will be conducted in accordance with the relevant Bank policies and in assessing the environmental and social impacts of the proposed KPP, will take into account the requirements of Kosovo national legislation and obligations of Kosovo under relevant international environmental treaties and agreements which pertain to KPP activities. Management would expect the Government to comply with national laws and regulations and relevant international environmental obligations as they pertain to the proposed KPP.

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	"human rights and fundamental freedoms" shall be consistent with the jurisprudence of the European Court of Human Rights. The human rights guaranteed pursuant to those provisions are incorporated directly into Kosovo's national laws via the Constitution. Thus, the Bank must evaluate whether the project complies with Kosovar law and what effect this project will have on relevant human rights. In accordance with the Panel's decision in the *Honduras Land Administration* claim, the Panel the Bank must also assess the impacts of the domestic legal framework on the protections afforded to affected peoples the Bank's policies. There are a number of areas where rights are implicated. The Bank's SESA currently under consideration makes no mention, nor provides even a framework for assessing the impact on the following rights.	
10(a).	**V(D)(1). Impacts on the Labor Union** In addition to the concerns related to local employment and safe working conditions raised in Section V.A, there are significant concerns about the privatization of Kosovo B and Kosovo C. In the past, the state-owned company in charge of mining and plant operations, KEK, has been managed by private entities, and there is a history of problems associated with collective bargaining and freedom of association. More generally, Requesters are concerned because instances of privatization in other sectors within Kosovo show that at times existing unions have faced significant discrimination. Against the backdrop of these problems, both generally and specific to the energy sector, the Bank must ensure that project activities would respect the following rights: *The right to collective bargaining and freedom of association*: Kosovo's Constitution directly recognizes the right to freedom to establish trade unions. The European Convention on Human Rights also protects freedom of association, and is thus guaranteed by the Constitution. The right to collective bargaining is necessary to enjoy this right. Through the Universal Declaration on Human Rights (UDHR), the Constitution also recognizes the right of peaceful assembly and association and the right to form and to join trade unions for the protection of worker interests, the right to freedom of association with others. Freedom of association has been recognized by the EU in multiple cases. *The right to health*: (including safe working conditions) Through the UN Declaration on Human Rights (UDHR), Kosovo's Constitution recognizes the right to "just and favourable conditions of work and to protection against unemployment" and "the right to a standard of living adequate for the health and well-being of himself and of his family, including … the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control." European jurisprudence, especially through the Council of Europe's Social Charter, has recognized the right to health with respect to working conditions. Although Kosovo is not a member of the European Union, as noted above, it does have aspirations to accede. Given the long-term nature of the proposed project and Kosovo's aspirations to accede, the Bank should consider this project in the context of potential accession to the EU; the Bank's due diligence should include legal	Please see response to item 10 above.

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	requirements that will apply during the lifetime of the project.	
10(b).	**V(D)(2). General Impacts from Proposed Activities** The Bank must demonstrate how project activities would respect the following relevant rights within the context of the broader environmental and social impacts of the project, such as pollution and changes to land use patterns: *The right to health*: As discussed above, the Kosovar Constitution guarantees the right to health. The proposed project will have numerous negative, long-term impacts on the health of the population in the affected region. The Bank must assess these impacts in the context of the right to a health. *The right to food*: The UDHR recognizes the right to food, and thus guaranteed by the Constitution. The project will have impacts on land-use patterns in the project area as well as serious broader impacts on access to water for irrigation for agricultural uses. Moreover, pollutants emitted from the power plants and mines can contaminate local produce and livestock. The Bank must assess the impacts of the project on the right to food. *The right to water*: The right to water is necessary for the enjoyment of the right to food. The right to water can be interpreted through the lens of work done in other bodies and could be considered by the Bank. This right should further be viewed in the context of the 2010 United Nations General Assembly resolution recognizing the right to water and sanitation. The project is likely to have severe impacts on local water supplies and the Bank should assess these impacts in the context of the right to water. *The right to housing*: Kosovo recognizes "the right to a standard of living adequate for the health and well-being of himself and of his family, including … housing." Particularly, in the context of resettlement related to the project, the Bank must assess the impacts on this right. Furthermore, the Bank must assess whether the implementation of the resettlement schemes, and the application of the "special economic interest" designations are sufficiently protective of the claimant's rights under the Kosovo Constitution and their interests under Bank policies.	Please see response to item 10 above.
11.	**V(E). OMS 2.20 – Project Appraisal** OMS 2.20 details the major aspects and associated procedures of the Bank's project appraisal process. Generally, appraisal involves examining six aspects of a project: "(a) economic, e.g., project costs and the size and distribution of benefits; (b) technical, e.g., engineering design and environmental matters; (c) institutional, e.g., management and organization; (d) financial, e.g., requirements for funds and the financial situation of the implementing agency and of other beneficiaries affected by the project; (e) commercial, e.g., procurement and marketing arrangements; and (f) sociological aspects, e.g., socio-cultural factors and impact on specific target groups such as women." For reasons already detailed above, the Bank has failed to adequately appraise the proposed project, particularly with respect to quantifying economic costs, incorporating environmental and social impacts, and considering the implications of privatizing power generation.	Management notes that appraisal of the proposed KPP has yet to be undertaken. The proposed KPP is still at the concept stage.

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	Additionally, OMS 2.20 requires the Bank to ensure that the projects it supports are consistent with international obligations of the host country regarding the environment, health and public welfare. OMS 2.20 provides that: [A] project's possible effects on the country's environment and on the health and well-being of its people must be considered at an early stage… Should international agreements exist that are applicable to the project and area…the Bank should be satisfied that the project plan is consistent with the terms of the agreements. The Inspection Panel has previously concluded that the Bank has specific, auditable due diligence requirements under this provision of OMS 2.20. In its inspection report on the *Honduras: Land Administration Project*, the Inspection Panel concluded that OMS 2.20 creates an independent obligation for the Bank to consider whether the proposed Project plan and its implementation would be consistent with the host country's obligations under its relevant international agreements. In the instant case, the World Bank has not done the due diligence required under OMS 2.20 to ensure that the project's plan and implementation would be consistent with Kosovo's obligations under the *Energy Community Treaty*. The *Energy Community Treaty* is an agreement between the European Community, Kosovo, and eight other Contracting Parties in South East Europe to establish an integrated market in natural gas and electricity based on common standards and norms. Towards this end, the *Energy Community Treaty* requires Kosovo to implement the European *acquis communautaire* on energy, environment, competition and renewables, among other standards. In particular, the Bank has not properly considered whether the project: • Is being implemented in a manner consistent with the public consultation requirements of Directives 85/337/EEC, 97/11/EC, and 2003/35/EC referenced in Article 16. See, sections V(A)(3), V(B)(4); • Complies with the requirements of Directive 2001/80/EC as amended on the limitation of emissions of certain pollutants into the air from large combustion plants, and Directive 96/61/EC on Integrated Pollution Prevention and Control (IPPC) which is closely associated with Directive 2001/80/EC.	
12.	**VI. CONSISTENCY WITH THE BANK'S STRATEGIC FRAMEWORK ON DEVELOPMENT AND CLIMATE CHANGE** The Bank's Strategic Framework on Development and Climate Change (SFDCC) specifically sets out criteria under which the Bank should assess investments in coal projects, such as the KPP. The SFDCCC Expert Panel's report for the KPP found that the proposed activities are consistent with these criteria, however there is inadequate consideration of numerous issues and thus, the report does not appropriately assess the project against the guidance. In the first instance, the terms of reference for the Expert Panel were insufficient to provide for a full analysis of relevant factors. For example, the terms of reference did not adequately explore viable alternatives; failed to consider Kosovo's need for a mix of	In its assessment of whether the proposed Project is consistent with the six criteria stipulated in the Strategic Framework for Development and Climate Change (SFDCC), the Expert Panel took into account a large number of studies and analyses prepared over more than ten years. These studies address important issues raised by the Requesters from various perspectives. They included donor-funded reports, analyses provided by academics and civil society representatives (such as Sierra Club, Renewable and Alternative Energy Laboratory at UC Berkeley), as well as the

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	base load, load following, and peaking capacity; and underestimated published estimates of electricity prices. The ultimate report still does not adequately address these issues, and, in addition, does not adequately address environmental and health externalities. The Bank's failure to adequately demonstrate development impacts, such as improving energy access for the poor or energy security, is inconsistent with Criterion I's requirement to demonstrate development impacts. While the Expert Panel concludes that a new plant will address the supply/demand gap, energy access also encompasses issues of price, income, and affordability for vulnerable groups. Additionally, the Bank significantly underestimates electricity rates, as well as the impact of privatization leading to a de facto monopoly on power generation. Thus, it is not clear what the actual development benefits will be. The failure to adequately consider energy efficiency measures and renewable energy alternatives is inconsistent with SFDCC Criteria II, III, and IV. Criterion II requires that "assistance is being provided to develop low carbon projects," and Criterion IV requires full consideration of viable alternatives to the least cost (including environmental externalities) options." Without fully examining the role of alternatives in the context of Kosovo's need for a mix of base load and peaking capacity, the project cannot meet the requirements of either criterion. Additionally, the inadequate consideration of energy efficiency solutions is inconsistent with the Criterion III requirement that "energy sources are optimized, looking at the possibility of meeting the country's needs through energy efficiency (both supply and demand) and conservation." In Kosovo, energy generation is not optimized due to substantial unresolved technical and commercial losses. In 2007, only 53% of the gross energy consumption was billed; and from this billed energy, only 76% was successfully collected. In 2007, these commercial losses amounted to 1,333 GWh, equivalent to the sum of the entire production of Kosovo A, all production from the hydro power plants and part of Kosovo B production. It appears that the Bank is counting on privatization of the grid to remedy these losses. Instead, the Requesters urge the Bank to stem these losses before deciding to invest in building new generating capacity. With respect to externalities, although the report states that the KPP is still the least cost option even after accounting for environmental externalities, the analysis is inadequate. First, as far as Requesters can ascertain, the externalities only extend to air pollution. Second, the modeling for externalities may not reflect the most current standards. Based on the 2011 World Bank Background Paper for the project, it appears that the externality costs were calculated in 2006; these calculations should be updated to reflect current modeling standards, at the very least consistent with European standards. Furthermore, without specifying pollution controls and expected emission levels, it is impossible to adequately assess externalities. This failure to properly account for externalities coupled with concerns about monitoring pollution (described above) is not only inconsistent with Criterion IV, it is also inconsistent with	Bank study entitled "Development and Evaluation of Power Supply Options for Kosovo." The SFDCC provides guidance for the Bank's engagement with respect to the proposed KPP.

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	Criterion VI, which requires “an approach to incorporate environmental externalities in project analysis.” For these reasons, the Expert Panel report does not contain an accurate assessment of the project against the SFDCC guidance.	

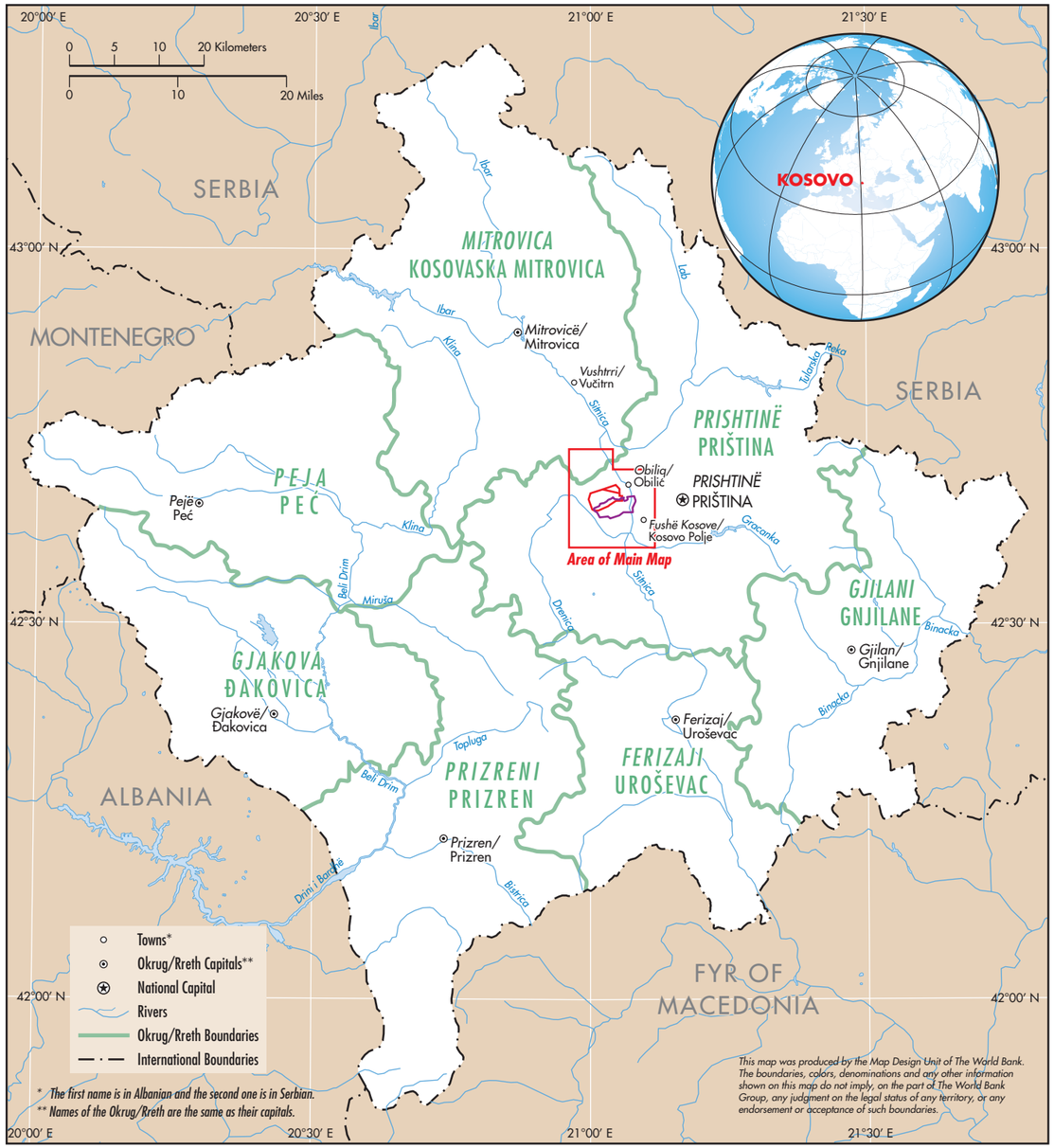
IBRD 39302

KOSOVO

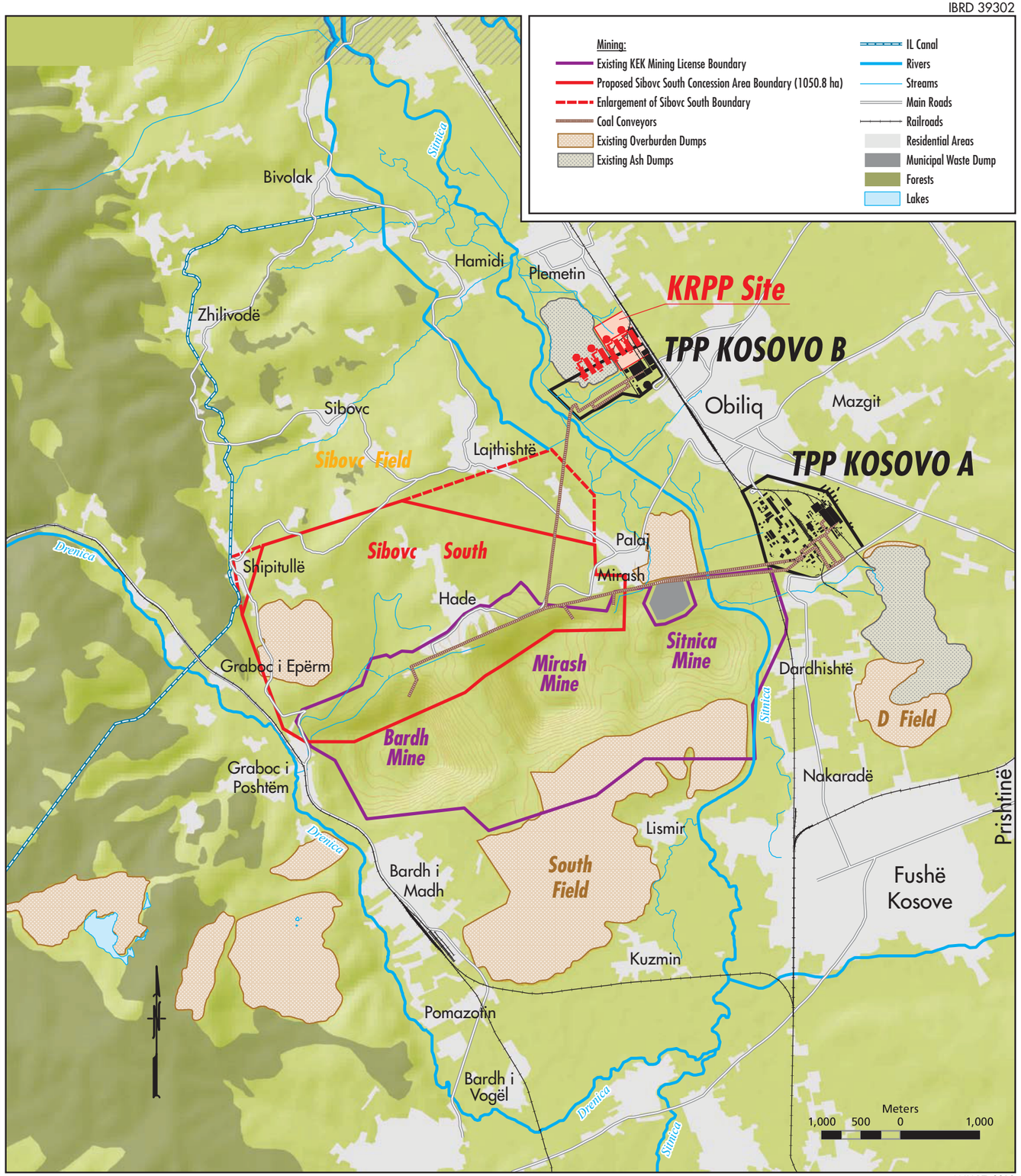
PROPOSED KOSOVO POWER PROJECT (KPP)

Request for Inspection

Thermal Power Plants:
- KRPP Project Site
- Proposed KRPP Project Site Facilities
- Existing Thermal Power Plant (TPP) Boundaries
- Existing Thermal Power Plant (TPP) Facilities



* The first name is in Albanian and the second one is in Serbian.
** Names of the Okrug/Rreth are the same as their capitals.



MAY 17, 2012