**Country and Sector Background**

The main objectives of the Country Partnership Strategy (CPS) FY12-FY15 are to support Kosovo to (i) accelerate broad-based economic growth and employment generation; and (ii) improve environmental management. The main focus of the new lending under the CPS 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.

The Kosovo Energy Sector Clean-up and Land Reclamation Project (CLRP) has been under implementation for several years and was planned to close in December 2012. Some of the original expected outcomes were partial (due in part to limited availability of funding) and some works on ash dump remediation and land reclamation were to be completed by the Implementing Agency the Kosovo Energy Corporation (KEK) itself, after the Project’s original closing date. To support these efforts, the World Bank has included in its CPS the proposed Additional Financing for the Energy Sector Clean-up and Land Reclamation Project, which, inter alia, will finance additional tree planting at the overburden dumps and the removal of all hazardous chemicals from the gasification site as well as assist the Ministry of Environment and Spatial Planning (MESP) in the identification, monitoring and assessment of environmental and social impacts related to the proposed Kosovo Power Project through the preparation of an Environmental and Social Impact Assessment (ESIA) in line with World Bank’s policies.

**Objective(s)**

The CLRP of the original Project aims at supporting the beneficiary, KEK and the Kosovo authorities to address environmental issues related to open dumping of ashes from the mines on land. Specifically, the CLRP’s objectives are to: (a) address environmental legacy issues related
to open dumping of ashes on land; (b) enable KEK to free land for community development purposes currently taken by overburden material and to enable KEK to remediate the Kosovo A Ash Dump; and (c) build capacity in KEK for continued clean-up and environmentally good practice mining operations.

The Additional Financing will lead to a minor change in the development objective of the project. In general, the proposed additional financing will in fact contribute to the achievement of CLRP’s development objective by scaling-up existing activities and supporting additional activities that further enhance its overall impact as well as strengthen sector development. However, some of the proposed additional activities will build capacity not only at KEK but also at the Ministry of Environment and Spatial Planning (MESP) in Kosovo; hence, under the additional financing, section (c) of the PDO will be further elaborated to state: (c) support KEK and MESP to implement continued clean-up operations and environmental good practices in the mining and energy sector.

3. **Rationale for Bank Involvement**

The activities for hazardous chemical removal are an integral part of a least-cost financial option for a relatively costly reclamation program that would yield significant financial and environmental benefits. The Bank’s involvement would complement the role of donors such as the EC, which has been providing significant contributions to the energy and mining sector and bilateral institutions from the US and the Netherlands.

The objective of the Environmental and Social Impact Assessment for the proposed Kosovo Power Project (KPP) and associated infrastructure is to inform the decision-making process of the proposed investment under the KPP, including the Bank’s decision on the possible partial risk guarantee, and to increase the monitoring and management capacity of the MESP.

4. **Description**

There are no additional or new activities proposed under components A (Preparation of the Mirash Open Pit Mine for Ash Management) and B (Relocation of Kosovo A Ash Dumps into Mirash Open Pit Mine). The proposed changes to the other components under the Additional Financing will be:

**Component C: Reclamation of Overburden Dump Areas.** This component intends to invest in reclaiming about 6.5 km² of land through reshaping and re-cultivating the overburden dump areas in the South Field and locations west of the Bardh mine. Overall, the reclaimed land should represent in the future an area suitable for purposes such as agriculture, new housing developments or recreation. The Additional Financing will fund only one activity: (i) additional tree planting in overburden areas.

**Component D: Project Management.** The original project provided support to KEK to implement the project. It included support for overall project management and technical assistance in such areas as detailed design, construction supervision, procurement and financial management. The Additional Financing is expected to finance: (i) project management for both KEK and MESP; (ii) short-term experts; and (iii) office equipment for MESP and audits.
**Component E: Removal of Hazardous Chemicals from Kosovo A’s Gasification Site.** This component intends to secure and remove high priority hazardous chemicals that were left at the Kosovo A’s gasification site. The Additional Financing will: (i) fund scale-up the ongoing tar deposits/tar sludge removal activity to ensure that all found tars are removed from site and properly disposed; and (ii) continue financing of a supervision engineer to monitor the implementation of tar sludge and tar deposits removal.

**Component F: Environmental Monitoring and Management.** This will be an additional new component with the focus to improve the review and monitoring function of the Ministry of Environment and Spatial Planning regarding environmental and social impacts of large power plant projects and in particular the proposed Kosovo Power Project (KPP). The Additional Financing will fund: (i) Air Monitoring Equipment to measure baseline air quality data; (iii) Soil and Water Monitoring to collect data on current pollution baseline data in soil and water; (iii) the Environmental and Social Impact Assessment (ESIA) for the proposed Kosovo Power Project; (iv) Monitoring of the implementation of the Resettlement Action Plan (RAP) for the Shala neighborhood of Hade village; (v) Panel of Environmental and Social Experts; and (vi) Low carbon growth energy strategy.

Regarding the **air monitoring equipment**, three online air quality monitoring stations will be established in the proposed project area to collect baseline data on the air quality at their locations. The equipment will monitor Sulfur Dioxide, Nitrogen Oxides, PM2.5 and PM10, Carbon Monoxide, Ozone, temperature, relative humidity, and wind speed and direction.

An elaborate **soil and water sampling and laboratory analysis program** will be undertaken to collect and analyze the baseline environmental data in the soil, groundwater and surface water and river sediments. This activity will serve to collect data related to existing lignite mining activities; operation of the power plants Kosovo A and Kosovo B; and environmental rehabilitation activities undertaken under the clean-up and land reclamation project. The data will underpin the environmental baseline for the ESIA for the KPP, taking into consideration the existing mining activities in Bardh and Mirash open cast mines as well as already abandoned open cast and underground mining activities; the current disposal of ash and waste water of existing plants Kosovo A and B; and fresh water supply related to existing fresh water consumption of the power plants.

The objective of the **Environmental and Social Impact Assessment** for the proposed Kosovo Power Project and associated infrastructure is to inform the decision-making process of the proposed investment, including the Bank’s decision on the possible partial risk guarantee, and to increase the monitoring and management capacity of the MESP. Normally, it is the responsibility of the investor, in this case the winning private sector bidder for each of the concessions for the proposed KPP, to prepare an Environmental Impact Assessment. This ESIA, as financed under the CLRP AF, is not intended to serve as the document to inform national permitting and other authorizations. Financing of the Environmental and Social Impact Assessment for the proposed KPP under the CLRP AF does not imply that assumptions as to the financing of the KPP have been made. In addition, a Grant from the Government of the Netherlands will support strengthening of the capacity of MESP in terms of applicable EU standards, mitigation measures and environmental conditions to be expected from KPP bidders in line with IPPC permit procedures.
With regard to the monitoring contract for RAP implementation, a Resettlement Policy Framework (RPF) has been developed by the Government consistent with Bank policies with financing from the now closed Lignite Power Technical Assistance Project (LPTAP) that would govern the relocation and resettlement of any population that might be displaced by 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 Shala neighborhood of Hade village will be relocated 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. In order to provide an extra level of oversight and support, the Additional Financing will assist the Hade Project Office under the Ministry of Environment and Spatial Planning which is responsible for the implementation of the RAP, through support for a monitoring contract to oversee implementation of the RAP. Also a resettlement completion audit of the RAP will be included. Preparation and implementation of possible future RAPs related to the proposed KPP will not be part of the AF of the CLRP. The monitoring contract will also not cover the people displaced in 2004 from Hade village, which was carried out by UNMIK, though 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. Resettlement has not been and will not be needed for the Clean-up and Land Reclamation Project itself.

An Independent Panel of Environmental and Social Experts will be recruited for both the ESIA as well as the RAP to assist the government of Kosovo in the supervision of the ESIA preparation and RAP implementation.

A low carbon growth energy strategy will be prepared to help reduce demand and promote renewable energy projects for perspective investments by the private sector and others, which will help identify the opportunities for reducing future demand of electricity, increase power generation without increasing emissions, and possibly reduce Greenhouse Gas (GHG) emissions. The strategy will include: (i) building an energy sector GHG inventory; (ii) identification of mitigation options in the energy sector (both on the demand and supply sides); (iii) conducting an economic analysis that will generate Marginal Abatement Cost (MAC) curves and indicating which technology would be the preferred choice dependent on different carbon prices; (iv) describing/quantifying the potential for reducing future emissions based on MAC; (v) identifying barriers against the implementation of low carbon options; and (vi) reviewing existing mitigation measures and proposing new applicable measures. This strategy will be developed in close cooperation with the Ministry of Economic Development, which is responsible for Kosovo’s energy strategy.

5. **Financing**

Source: ($m.)

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1 A marginal abatement cost curve or MAC curve is a set of options available to an economy to reduce pollution starting with the measure which has the lowest costs and then ranking the abatement costs for pollution reduction in accordance with their marginal costs. Typically, MAC curves cover emissions reduction opportunities across a number of sectors in an economy including power, industry, waste, buildings, transport, agriculture, and forestry.
6. Implementation

The CLRP AF is envisaged to be implemented over the period until December 2014. The additional funds will be implemented through the institutional arrangements that already exist for CLRP and, in addition, to new arrangements within the MESP. The Project Management Unit (PMU) in KEK established under CLRP will continue to oversee, monitor and evaluate the overall performance of scaled-up activities to be implemented by KEK. This PMU will be supplemented with a second PMU under the MESP to manage the new activities under new Component F: Environmental Monitoring and Management. The MESP will work closely with the Ministry of Economic Development, in particular for the development of the low carbon growth energy strategy. A public information center will be established in the municipality of Obiliq.

7. Sustainability

The CLRP has the strong support of the Kosovar authorities and KEK. The Ministry of Environment and Spatial Planning (MESP) had identified the ash and overburden dumps as one of Kosovo’s environmental hotspots needing remediation. Similarly, the Energy Strategy of Kosovo 2006-2015 identifies the need to: mitigate ash disposal emissions, remediate ash sites, and reclaim land occupied from mining activities.

The authorities consider the CLRP important to demonstrate to international investors their willingness to manage environmental problems and regulate the sector in an environmentally and socially sustainable manner. The Kosovar authorities and KEK regard good environmental practice and land reclamation activities as an integrated part of sustainable mining and the CLRP as the tool to commence and integrate these activities in mining operations.

The activities under new Component F: Environmental Monitoring and Management, to be implemented by the MESP fall within their institutional mandate.

8. Lessons Learned from Past Operations in the Country/Sector

The CLRP design reflects lessons learned from Bank financed previous and ongoing Energy Sector Technical Assistance Projects (ESTAP I, II, and III), the Lignite Power Technical Assistance Project (LP-TAP) and EC-funded financial and technical assistance for the rehabilitation of power plants. The lessons learned include the importance of ownership by local institutions, preparation of comprehensive implementation arrangements, selection of competent consultants, detailed reviews to ensure quality of consultants’ outputs, realistic timeframe, and wide consultations with local institutions, donors and other stakeholders, and have been taken into account.

9. Safeguard Policies (including public consultation)
In relation to the Additional Financing for component C: Reclamation of Overburden Dump Areas and Component E: Removal of Hazardous Chemicals from Kosovo A’s Gasification site: OP4.01 is already triggered for the original CRLP which is a category A activity. The additional activities foreseen to be implemented by KEK are covered under the existing ESIA and EMP as the additional activities under this additional financing are the same as the original activities, only the quantities are higher than originally estimated. The new Component F: Environmental Monitoring and Management consist of the following activities, the preparation of a category A-ESIA for the proposed Kosovo Power Project and a monitoring contract for the implementation of the Resettlement Action Plan for the Shala neighborhood of Hade village.

A Resettlement Policy Framework (RPF) has been developed by the Government consistent with Bank policies with financing from the now closed Bank financed Lignite Power Technical Assistance Project (LPTAP), which applies and will apply to all resettlement linked with the proposed Kosovo Power Project. Based on this 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 Shala neighborhood of Hade village will be relocated, since it is close to the edge of the mine from which extraction of lignite has started by KEK. The additional financing for the CLRP will finance a contract to assist the Hade Project Office under the Ministry of Environment and Spatial Planning to monitor the implementation of the RAP -financed under the LPTAP. Therefore OP4.12 is triggered for this additional financing. No resettlement was needed for the original CLRP and therefore OP4.12 was not triggered for the original project; resettlement is also not required for the activities which are to be financed under the additional financing.

The draft Terms of Reference for the Environmental and Social Impact Assessment has been disclosed in Kosovo and in the Bank’s Infoshop on July 26, 2012. The Ministry of Environment and Spatial Planning has organized the first public consultations on the draft ToR on September 13, 2012.

The Environmental and Social Assessment will include a social assessment that will describe the current social and economic impacts of the proposed project on directly- and indirectly-affected communities. This socio-economic information will develop a robust sampling base of the affected population regarding the salient demographic and socio-economic characteristics of the population in the project’s area of influence. This assessment will include: (i) anticipated social and economic impacts; (ii) current social and economic baseline characteristics; (iii) assess social and economic impacts; (iv) describe measures for mitigation of adverse impacts and enhancement of positive impacts; and (v) identify community development opportunities and priorities.

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<td>Projects on International Waterways (OP/BP/GP 7.50)</td>
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10. **List of Factual Technical Documents**

- Project Appraisal Document; Kosovo Energy Sector Clean-up and Land Reclamation Project, 2006
- Project Paper, Restructuring Kosovo Energy Sector Clean-up and Land Reclamation Project, 2009
11. **Contact point**

Contact: Katelijn van den Berg  
Title: Senior Environmental Economist  
Tel: +1 (202) 478-5743  
Fax: + 1 (202) 5220895  
Email: kvandenberg@worldbank.org  
1818 H Street, NW  
Washington DC, 20433, U.S.A.

Contact: Kosovo Energy Corporation  
Ms Mimoza Dugolli  
Project Management Unit Director, CRLP  
Tel: +386 49 790 437  
Email: mimoza.dugolli@kek-energy.com  
Bulevardi Bill Klinton no. 3  
Prishtina 10000  
Kosovo

Contact: Ministry of Environment and Spatial Planning  
Mr Arben Citaku, Permanent Secretary  
Telephone No.: +381(0) 517 638 / ext 32 307  
Email: arben.citaku@ks-gov.net  
Str. “Pashko Vasa”, former Rilindja building  
Prishtina 10000  
Kosovo

12. **For more information contact:**  
The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Email: pic@worldbank.org  
Web: http://www.worldbank.org/infoshop