<table>
<thead>
<tr>
<th>Project Name</th>
<th>Lignite Power – Generation, Efficiency and Sustainability Technical Assistance Grant</th>
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<tbody>
<tr>
<td>Region</td>
<td>EUROPE AND CENTRAL ASIA</td>
</tr>
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<td>Sector</td>
<td>Central government administration (40%); Power (30%); Mining and other extractive (30%);</td>
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<td>Project ID</td>
<td>P097635</td>
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<tr>
<td>Borrower(s)</td>
<td>UN Interim Administration Mission in Kosovo</td>
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<td>Implementing Agency</td>
<td>Ministry of Energy &amp; Mining</td>
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<tr>
<td>Environment Category</td>
<td>[ ] A  [X] B  [ ] C  [ ] FI  [ ] TBD (to be determined)</td>
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<tr>
<td>Date PID Prepared</td>
<td>January 13, 2006</td>
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<td>Estimated Date of Appraisal Authorization</td>
<td>March 13, 2006</td>
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<td>Estimated Date of Board Approval</td>
<td>April 27, 2006</td>
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1. **Key development issues and rationale for Bank involvement**

Kosovo is struggling to rebuild its economy in the aftermath of the 1999 conflict and under the ongoing international talks on final status. After the cessation of the conflict, Kosovo\(^1\) inherited an economy that was damaged by poor economic policies, broken trade links, international sanctions, a lack of investment, and no functioning government. Already in the 1990s, economic output had fallen by half, and with the conflict, it fell by another 20 percent, while unemployment became high and chronic. The 2004 GDP per capita of Kosovo was estimated at 1,230 Euros, which is one of the lowest in Central and Southeastern Europe.

The urgency to support the developmental goals of Kosovo’s population is growing. Kosovo is now nearing the end of the reconstruction period as post-conflict support subsides and the economy needs to generate sufficient opportunities to reduce unemployment and poverty.

In this context, the Provisional Institutions of Self-Government (PISG) has asked the World Bank, the European Commission (EC) and several bilateral donors to support Kosovo’s development agenda by facilitating investments in key sectors of the economy with high growth potential. Because mining and power generation are potential sources of growth, Kosovo aims to develop its lignite reserves by employing modern technology to meet its own energy needs and also export power to Southeast Europe where demand is increasing in a sustainable fashion. Further, concern over energy security is also increasing the desire for diversification of energy supply across Europe. This could provide (i) a substantial long-term source of income to pay for priority development programs and much-needed social services for Kosovo’s population, and (ii) an opportunity to significantly boost trade links between Kosovo and Southeast Europe and thus facilitate closer integration with the rest of Europe by assisting in meeting EU standards in

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\(^1\) Kosovo is currently under the administration of the United Nations Interim Administration Mission in Kosovo (UNMIK) under the terms of UN Security Council Resolution 1244 (1999).
the energy sector. The shortage of reasonably priced alternative new power sources elsewhere in the region, combined with the recent establishment of the Energy Community of Southeastern Europe (ECSEE), provides an opportunity for Kosovo’s energy sector to become an engine of growth instead of a constraint and drain on public resources.

The Bank’s involvement would complement the role of donors such as the EC, which has been providing significant contributions to the energy sector through the European Agency for Reconstruction (EAR), and bilateral institutions from the US, Germany, and the Netherlands. There is an emerging consensus among donors and the PISG on strategic and comprehensive specific actions in the energy sector. These actions include: a) developing and implementing a broad-based Power Sector Action Plan to improve billing & collection and energy efficiency through demand side management measures; b) developing a plan and mobilizing financing for a new mine to ensure uninterrupted operation of existing power plants and reduce blackouts; c) undertaking measures to reduce air and water pollution from the existing power plants; (d) reclaiming lands covered by ash piles and overburden material to agriculture and alternative uses; and (e) establishing enabling frameworks and building local capacity for attracting private sector investments in new power plants and mine with modern technologies in a transparent, environmentally and socially sustainable, and fiscally responsible manner.

The above broader energy strategy supported by the PISG and donors would bring several tangible benefits to Kosovo’s population. These include:

- **Revenues for Development.** On the social and economic front, the revenues from the export of power would be directed appropriately to contribute to broader development issues and to reduce poverty in Kosovo. This would be consistent with the World Bank Group Management Response to the Extractive Industries Review. The PISG, in conjunction with the DFID (UK), have started the initial work towards implementing the Extractive Industries Transparency Initiative (EITI), which would improve transparency of revenue management, strengthen sector governance and help anti-corruption measures.

- **Modern Technology.** Burdened with outdated and antiquated equipment, Kosovo needs to update facilities to meet its domestic needs and export demand. The strategy would promote design and procurement to enable Kosovo to adopt more climate-friendly technology ahead of business-as-usual practice in the region and benefit from potential trade in emissions reductions credits. This would be compatible with the Gleneagles Plan of Action recently approved by the G8 Gleneagles Summit.

- **Cleaner, Healthier Air and Water.** Currently, Kosovo-A power plant emits unhealthy amounts of particulates into air and pollutes the water. The strategy ensures adoption of measures, including new electrostatic precipitators (ESP) for the units in operation and ash handling & disposal, a waste water treatment system, and an environmental monitoring system for the entire Kosovo-A power plant.

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2 See “Regional Electricity and Generation Investment Study”, December 2004, carried out by Pricewaterhouse Coopers for the European Union and the World Bank
• **Land reclamation.** Considerable amount of land covered by large ash heaps and overburden material could be reclaimed and utilized productively, such as farming. The World Bank, in addition to the proposed TA project, is in parallel preparing an investment project which supports land reclamation efforts. This Clean-up and Land Reclamation Project will contribute to building up expertise in Kosovo for future mining development based on mining development and closure plans that foresee and design for land reclamation after mine closure.

• **Social and Environmental Framework.** The social policies on community consultation and resettlement to ensure that people impacted by sector development are not adversely affected are still in the stages of formulation and are weak. With regard to safeguards, the PISG’s recent efforts to develop an effective institutional structure for environmental regulation have defined the most important actors, their roles and supporting legislation, but the structure is still very weak. This strategy will develop the environmental and social frameworks according to international best practices and build the capacity for effective consultation and resettlement of populations that may be affected by future investments in the sector.

As part of the broader efforts of donors to support the strategy, the World Bank’s proposed $8.5 million technical assistance (TA) grant would enable the Kosovo government to establish the enabling framework for qualified strategic investors to invest in new power plants and mines. In this context, the project would also build local capacity to adopt and implement international guidelines on the social, economic and environmental aspects of sector development. Attracting highly qualified and experienced investors from private sector is necessary because: (a) KEK (the publicly-owned Energy Company of Kosovo) is currently not financially viable and lacks the necessary financial resources; and (b) the private sector would bring construction and operational efficiencies that KEK is not in a position to match. The proposed investment would provide a boost to further FDI in Kosovo and contribute to an economic solution to closing the generation capacity gap in ECSEE. By supporting the strategy, the World Bank Group (World Bank, IFC and MIGA), would play a catalytic role in helping to attract world-class, private strategic investors to develop and utilize Kosovo’s lignite resources in a transparent, environmentally and socially sustainable, and fiscally responsible manner.

The proposed project (LPGESG), with co-financing from the EC, would support the development of an enabling framework for attracting qualified investors to develop a large capacity (500 MW and above) thermal power plant and an associated lignite mine. The LPGESG builds on, and complements, the rest of the World Bank’s ongoing and planned assistance program to Kosovo. In the energy sector, LPGESG builds upon the previous and ongoing Energy Sector Technical Assistance Projects ESTAP I, II, and III, and EC-funded financial and technical assistance towards rehabilitation of power plants. This will be complemented by a second grant (the Clean-up and Land Reclamation Project - CLRP), which would support a pilot post-mining reclamation project that would build the capacity of environmental officials in this area through hands-on experience and make land available for alternative uses. The CLRP is proposed to be co-financed through bilateral support from other donors.
In parallel, the proposed LPGESG is closely linked to, and supported by, the Bank’s previous, ongoing and future work on the management of public finances. The recent Fourth Economic Assistance Grant supported crucial reforms to improve the transparency and accountability of public spending and the allocation of resources in line with medium-term priorities. The ongoing Economic Policy and Public Expenditure Management TA Grant (PEMTAG) provides further technical support to improve efficiency and transparency in budget formulation and execution, internal audit, and procurement. The Fiscal Policy Adjustment Grant (FPAG) envisaged under the upcoming Interim Strategy Note would support policies to enhance the sustainability and improve the management of Kosovo’s public finances, including reforms to reduce the direct and hidden burden which the energy sector currently places on public finances. A possible follow-on project to the PEMTAG could support further institutional strengthening to improve the management and use of revenues from power exports for the benefit of the population along the lines of the World Bank Group Management Response to the Extractive Industries Review.

2. Proposed objective(s)

The objectives of the Bank’s support for the strategy are to work in concert with other donors to boost Kosovo’s long-term development, enhance the electricity supply, improve its badly-polluted environment and provide cleaner air and water for the population. By building local capacity, it would enable the PISG to attract, in a transparent manner, qualified world-class strategic investors into building new capacity for lignite thermal power generation conforming to high standards of environmental and social sustainability.

The LPGESG objective will be attained through: (a) developing and strengthening the enabling policy, legal and regulatory frameworks in the energy sector, including mitigating environmental impacts and developing a framework for expropriation and resettlement; (b) developing an institutional structure and capacity for implementing the broader sector strategy, including mobilizing financing and dealing with FDI in the energy sector; and (c) technical consultancies for seeking qualified strategic investors in the proposed pilot independent power plant (IPP).

3. Preliminary description

The project will have four main components:

Component 1 - Capacity Building

Sector administration is currently shared between (i) UNMIK, on behalf of Kosovo, as a signatory of the Athens Memorandum of December 2003 (which established ECSEE), and as a signatory of the ECSEE treaty of October 2005, and (ii) PISG which passed the Law on Energy, the Law on Electricity and the Law on the Energy Regulator in mid-2004 and which has established the Ministry of Energy and Mining (MEM) for policy making. Many other ministries are in their infancy, including the Ministry of Environment and Spatial Planning (MESP).

This TA would support capacity-building for the key ministries and agencies (including MEM and MESP), for inter-ministerial coordination, and for the implementing entity for the Project. This component will help PISG to implement the broader strategy, including developing policies and strategies for promoting renewable energy and energy efficiency in Kosovo. The implementing entity would be responsible for the procurement of all consultants and advisors.
required and also responsible for all coordination and supervision of the Project. Building on the ESTAP III community development program, this TA will also provide a mechanism for civil society input in the design of the proposed IPP. Further, the TA will include funding for designing the communications strategy for PISG and incremental costs of the implementing entity.

Component 2 - Policy, Legal & Regulatory Consultancies
This TA would primarily build on the IPA-Norton Rose diagnostics report on policy, legal and regulatory frameworks, and focus on preparing the key legislation, including any required amendments, that will facilitate the IPP transaction. In the first phase (implemented during the first 18 months of project implementation), the consultants will identify the gaps and define the actions for improving the investment environment. In the second phase (from about the 18th to the 36th month of project implementation), the consultants will work closely with the transaction advisors (under Component 4, below) and with relevant ministries to develop and help adopt the final legislative and regulatory framework. This would include development of a comprehensive resettlement framework that will serve as a practical guide for expropriation and involuntary resettlement activities in Kosovo and drafting legislation and regulations needed to assure that future expropriation and resettlement programs meet international standards.

This component would also provide TA for the preparation of a Strategic Environmental and Social Assessment (SESA) specific to energy sector development. The SESA would identify environmental and social issues of projected developments in the power generation and related lignite mining sectors. For the scoping and consultation steps of the SESA, the EU SEA Directive (2001/42/EC) will serve as a reference. The SESA can be regarded as the first stage overarching environmental and social assessment of sector developments prior to the EIAs and other analyses that will be prepared for the decision making on individual investments. The SESA will be instrumental to outline the needs for institutional strengthening and capacity building to assess, monitor and regulate the environmental impacts of mining and power generation. This could include the preparation of legislation, regulations, monitoring systems and institutional changes that are necessary to fill any gaps. The SESA will provide inputs to the development of the comprehensive resettlement framework. This component will provide support for the development of the terms of references for Environmental Impact Assessment, Social Assessment and Resettlement Action Plan.

Component 3 - Technical Consultancies
This component would provide TA to cover the essential technical aspects of the proposed IPP. The different tasks would include: (a) a mine site assessment to define a long term mining plan for the existing and the proposed new power plants; (b) a power plant feasibility study to prepare conceptual designs, equipment configuration, cost estimates, construction plans, etc.; (c) a transmission system and market assessment study to examine potential purchasers of the output of the proposed IPP facility, identify necessary upgrades to the transmission system for effective utilization of the proposed IPP, and associated costs; and (d) a power plant interconnection study to assess the adequacy and reliability of the transmission system in Kosovo to support the interconnection of one or more lignite-fired power plant units.

Component 4 - Transaction Advisors
Building on the previous components, this TA would support the PISG in carrying out the
transaction process through to the financial close of the proposed IPP. The transaction advisors would structure the procurement based on market soundings and would take into consideration, among other things, the proposed IPP revenue management recommendations of the FPSG. In the first phase (from the 8th to about the 18th month of project implementation), investors would be short-listed based on responses to a RFQ, and a detailed RFP would be prepared along with a bid evaluation methodology and a financial model; in the second phase (from about the 18th to the 36th month of project implementation), the preferred bidder would be selected through a bidding/evaluation process and, finally, the transaction advisors would assist through to financial close of the proposed pilot IPP.

4. Safeguard policies that might apply

This technical assistance project is rated as a category B project. The proposed project will help strengthen legislation and institutional structures for regulating the environmental and social impact of mining and power projects, including resettlement, and also build capacity in the relevant ministries to implement, monitor and enforce the regulations. During project preparation, the Government of Kosovo will prepare and adopt an Environmental and Social Safeguards Framework for the execution of the LPGESG. This Framework prescribes the standards and procedures for identifying, assessing and regulating environmental and social issues and includes procedures for public consultations in the decision-making process. The Framework will identify procedures such as EIA, Social Assessment and Resettlement Action Plans for the investments in the energy sector that may follow the technical assistance stage.

5. Tentative financing

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<td>IDA Grant</td>
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<td>European Commission</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>11.0</strong></td>
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6. Contact point

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