

April 17<sup>th</sup>, 2013

## **Kosovo Civil Society for Sustainable Development Comments on EBRD's Kosovo Country Strategy**

KOSID welcomes the opportunity to comment on EBRD's proposed Country Strategy for Kosovo. Kosovo Civil Society Consortium for Sustainable Development is an umbrella for Civil Society groups in Kosovo that follow projects with the aim of contributing to more sustainable solutions vis-à-vis the projects. KOSID consists of think tanks, civic initiatives, public information and outreach organizations, and specific professional institutions and associations; those work together as a group in following the projects.

Currently KOSID consists of the following members: Balkan Investigative Reporting Network (BIRN), DokuFest, Forum for Civic Initiative (FIQ), Group for Legal and Political Studies (GLPS), Institute for Advanced Studies (GAP), Internews Kosova, Institute for Development Policy (INDEP), Kosovar Lung Association (ASPUKO), and Youth Initiative for Human Rights (YIHR).

More information on KOSID is available here: [www.kosid.org](http://www.kosid.org) or at KOSID's Facebook page.

### **General Remarks**

The EBRD Draft-Country Partnership Strategy is heavily based on Kosovo's Government agenda and orientation, and does not reflect Kosovo's needs in terms of market development and overall development-oriented agenda that should replace the current myopic stance of the Government. The civil society's stance on this issue was absolutely outside of the Strategy, whereas the latter seemed to neglect more visionary views that organizations like KOSID propose in that direction;

The EBRD Country Partnership Strategy offers a weak and poor policy background for the country's developmental agenda. It neither foresees any development-oriented objective that is both tangible and visionary, nor ensures that EBRD will engage with local organizations to construe such a vision on the country's market development;

The Country Partnership Strategy does not strike a balance between country's social indicators that are key to developing a middle class supportive of democratic statebuilding, furthermore, ignores the country's significant social tensions arising of poorly-planned privatization processes that might prove risky for the short- to long-term market development;

The Draft Strategy Country Partnership contains numerous errors and misleading facts about Kosovo's energy sector, and intentionally favors government-fed agendas. The Strategy clearly hinders Kosovo's renewable energy sources against coal investments which the Strategy seeks to favor.

The Strategy also contains numerous errors on Kosovo's distribution and supply energy market, and does not account for Kosovo's international obligations under the Energy Community Treaty and the Third Package of Single Electricity Directive of the EU which Kosovo needs to address in its integration process;

The Strategy fails to account for the monopoly established in the supply level of the energy market, which the new contract between the Government and the privatizing company establish. It also fails to take into account the social troubles that the contractual clause sets when it reads that the 300.000 million investments of the new company have to be reflected in the price caps of ERO;

The Strategy fails to take into account the need to cooperate with the Civil Society organizations both in continual but also project-based evaluations. It is of immense importance for the Strategy to foresee that civil society's voice is included in the EBRD's risk and opportunity evaluations, and that there is a clear equity between the government and civil society organizations when it comes to the evaluation of bank's investments and loan guarantees.

The Strategy should ensure that the core elements of Kosovo's investments in the energy sector are followed by a close observation of the Government's implementation of renewable and energy efficiency legislation, and a re-framed and modernized strategic policy on these two issues;

The Strategy fails to account for a bigger picture of how Kosovo should invest in integrating to the regional markets of energy, wherein clean energy forms part of the main target which Kosovo should seek in terms of foreign direct investments.

The whole draft strategy of the EBRD classifies Kosovo as not a stable country in the macroeconomic aspect, in budgetary stability, with corrupted institutions, but in the list of the projects to be supported, it selects projects of Class A, or projects with high risk potentials to be managed.

The support of EBRD for the projects in the field of mines, such as “Kosova B” and the construction of the new power plant “Kosova e Re”, is based on their belief that Kosovo has the legislation and the strategy for the protection of the environment and the quality of air, such as the Kosovo Strategy for the Protection of the Environment, Kosovo Strategy for the Protection of Air Quality, etc. These documents do not exist and have never been approved by the Government of Kosova. This proves one more time that EBRD has not shown the necessary seriousness in drafting the strategy for Kosova.

### **Consultation Process**

Assuming that the Board receives the draft Strategy and the Report on the Invitation to Comment at least 7- 10 working days before the approval date, this schedule allows insufficient time for bank staff to seriously take into account the input from the consultation process before submitting the draft Strategy to the Board, and appears to indicate that the bank has no intention of making serious changes to the document as a result of the public consultation, thus rather denying the point of the consultation.

Considering the particularly complex situation in Kosovo and the need for the bank to promote best practices in public participation in decision-making and transparency, it would be advisable to ensure that the views of Kosovar civil society are properly discussed and incorporated into the Strategy. This is all the more so given the following particular features regarding Kosovo that

need to be seriously considered in determining the priority directions of the strategy, among them:

- poverty level<sup>1</sup>
- unemployment level<sup>2</sup>
- corruption level<sup>3</sup>
- high air pollution levels<sup>4</sup>
- unreliable national energy strategy, lacking a proper analysis of alternatives to lignite<sup>5</sup>
- 98% of Kosovo's electricity generation is lignite-based
- unsatisfactory track record of meaningful consultation and public participation in decision-making in Kosovo
- failed privatization processes of socially-owned enterprises and public enterprises<sup>6</sup>

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<sup>1</sup> In 2009, slightly more than one-third of the population (34 percent) lived below an absolute poverty line of €1.55 per adult equivalent per day, and 12 percent lived below the extreme poverty line of €1.02. – “Consumption Poverty in the Republic of Kosovo in 2009”, Statistical Office of Kosovo, The World Bank Europe and Central Asia Region Poverty Reduction and Economic Management Unit May, 2011

<sup>2</sup> Kosovo's unemployment rate is estimated at 46 percent in the 2009 Labor Force Survey (Statistical Office of Kosovo 2010) and 48 percent in the World Bank's Country Economic Memorandum (World Bank 2010). The employment rate is only 26 percent (World Bank 2010).

<sup>3</sup> Based on the Corruption Perceptions Index 2012, Kosovo remains among the countries with the highest level of corruption. Kosovo is ranked number 105, in the same place as Algeria, Armenia, Bolivia, Gambia, Mali, Mexico and Philippines. [http://www.transparency.org/news/pressrelease/20121205\\_corruption\\_is\\_still\\_hindering\\_the\\_prospect\\_of\\_kosovo](http://www.transparency.org/news/pressrelease/20121205_corruption_is_still_hindering_the_prospect_of_kosovo) The European Court of Auditors found that the almost €700 million in EU funds spent in Kosovo between 2007 and 2011 to improve the rule of law and rein in corruption have produced dismal results. <http://euobserver.com/foreign/118071> European Union prosecutors have indicted eight judges in Kosovo, including the former head of the city court in the capital, Pristina, and, in a separate case, the former head of Kosovo's anti-corruption taskforce. <http://www.europeanvoice.com/article/2012/august/kosovo-s-former-anti-corruption-chief-indicted/74961.aspx>

<sup>4</sup> According to a 2012 World Bank report, these cause annually 835 early deaths; 310 new cases of chronic bronchitis; 22,900 new cases of respiratory diseases among children (most often asthma); 11,600 emergency visits to country's hospitals; Over 100 million euro in direct costs connected to this problem, all of which have been paid from the pockets of the already impoverished Kosovar public. <http://siteresources.worldbank.org/INTKOSOVO/Resources/KosovoCEA.pdf>

<sup>5</sup> The University of California Berkeley has looked into Kosovo's Sustainable Energy Options and has concluded that depending solely on lignite for the country's energy needs is not sustainable and needs to be addressed immediately: <http://coolclimate.berkeley.edu/sites/all/files/Kosovo20May2012.pdf>

<sup>6</sup> Kosovo's Institute for Advanced Studies looked into one of the largest privatization processes carried out in Kosovo and provides an overview on the issues related with the process: <http://www.kosid.org/wp-content/uploads/2012/09/KEDS.pdf>

Given that the sector-level transition challenges have not yet been assessed and that there is not sufficient time to take CSO comments into account with the currently planned schedule, the Strategy in our opinion needs to be withdrawn from the Board schedule for 1st May, updated, subjected to a second stage of public consultation, and then approved once the inputs have been taken into account and appropriate changes made in the strategy and changes reported back to the CSOs that commented on it.

### **Kosovo's Energy Sector - Concerns on EBRD's Strategy**

KOSID strongly opposes EBRD's intention shown on the proposed country strategy to invest on new coal energy projects in the country. This for many reasons and provided further below.

Kosovo needs only 600MW of coal generated electricity to cover its base load needs for the entire country. This amount of electricity can be generated from the existing coal plant, named "Kosova B", which can produce up to 635MW. In addition, Kosovo needs to urgently invest in three fields that directly affect the supply with electricity in the country, i.e.:

- a. Decrease technical losses – through direct investments in the amortized electricity grid to decrease these losses from 17% what the figure is today to as low as 5%, which is an acceptable European threshold for such losses;
- b. Decrease commercial losses – through investments in public education vis-à-vis the need to pay for the electricity bills and to avoid electricity theft, as well by strengthening the rule of law and police in the country. This would help in decreasing these losses from around 19% what the toll is today to a minimum loss of not more than 3%;
- c. Investments in energy efficiency project – Kosovo energy demand is by at least 30% higher than the normal demand due to lack of efficiency programs in the country. Kosovars do not insulate their homes and do not invest in other efficiency programs and as such spend at least 30% more energy than they normally would need.

Kosovo's energy problem does not have to do with the base load needs but because of the above-mentioned losses that result in 65% losses from the overall energy produced and imported<sup>7</sup>. As such, investing in new coal-based plants would increase the base load capacity over the level of basic needs. These plants are otherwise technically impossible to be utilized at a high capacity factor and cannot serve the peak energy needs of the country. These needs need to be fulfilled by investing in alternative sources of energy, namely renewable sources of energy.<sup>8</sup>

Producing electricity from coal has many adverse impacts on the health of Kosovars, as well as the environment. According to the World Bank data, Kosovars annually pay a minimum of EUR 100 million for medical needs to treat pollution related health problems. That on top of 835 premature deaths and around 23,000 new respiratory illnesses registered annually amongst children.

Such costs should also account for water related issues and pollution of land and other agricultural products. Labor related issues and resettlement costs need to be factored in, too. In case all these costs are accounted for, which KOSID advocates for them to be accounted and recognized as costs, then the real price of coal becomes known. This price is way higher than alternative energy costs, such as wind.

According to a study of Berkeley University, Kosovo needs to invest in renewable sources of energy and not new coal. The study calls for tackling energy losses and shifting the focus into efficiency issues as well.<sup>9</sup>

According to the University of California Berkeley, if based on a pessimistic low carbon growth path, Kosovo can produce up to 36% of its overall energy needs from the renewable sources of energy. This mix would come from:

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<sup>7</sup> [http://action.sierraclub.org/site/DocServer/Reevaluating\\_Kosovo\\_s\\_Least\\_Cost\\_Options\\_for\\_Electricity.pdf](http://action.sierraclub.org/site/DocServer/Reevaluating_Kosovo_s_Least_Cost_Options_for_Electricity.pdf)

<sup>8</sup> [http://action.sierraclub.org/site/DocServer/Kosovo\\_Lignite\\_Project\\_Fact\\_Sheet\\_FINAL.pdf?docID=9421](http://action.sierraclub.org/site/DocServer/Kosovo_Lignite_Project_Fact_Sheet_FINAL.pdf?docID=9421)

<sup>9</sup> <http://coolclimate.berkeley.edu/sites/all/files/Kosovo20May2012.pdf>

- a. *Water sources = 140MW (+300MW of peak energy from Zhur hydro station)*
- b. *Wind sources = 300MW*
- c. *Biomass = 165MW*
- d. *Geothermal = 100MW*
- e. *Solar = 75MW*

These sources, if utilized, would be just what Kosovo needs. This as Kosovo does not lack base load capacity but rather peak load capacity. As such, these sources provide for exactly what Kosovo lacks, are cleaner and produce up to three times more jobs compared to new coal projects. All of this at a time when these sources are plentiful for Kosovo needs and cost in the long-term less than a new coal project.

## **Recommendation**

KOSID recommends EBRD to support the Kosovan Government to invest in:

- a. Curbing distribution technical and commercial losses;
- b. Developing efficiency programs that will result in a decreased electricity demand;
- c. Develop the regional energy grids;
- d. Simplify procedures for investing on renewable, and
- e. Investing in renewable energy sources.

## **Other related topics, as presented by the EBRD Draft Strategy**

### **Agriculture**

Based on the estimates for 2007, Kosovo is the country with the highest percentage of agricultural (52%) and arable (27%) land<sup>11</sup>, following Serbia. Having in mind the high priority of

EBRD's investments in this sector, and at the same time Kosovo's potential regarding agricultural land, agribusiness should be one of the sectors where Kosovo could benefit from EBRD's direct investments. As a result, these investments would reduce import, increase employment, reduce poverty and reduce the difference of income between rural and urban areas. According to European Union policies, Kosovo does not expect to have many subsidies, but needs to have infrastructure and necessary conditions for competing in the market. When discussing the conditions of doing business, regardless of the improvement in ranking in the World Bank report 'Doing Business'12, Kosovo is ranked 98th out of 185 countries. Furthermore, it should be mentioned that, even with the increase of the budget for the Ministry of Agriculture, Forestry and Rural Development, the budget of this Ministry for 2013 constitutes only 2% of the central budget, whereas EBRD's investments in agribusiness in the region constitutes around 35% of investments. Based on the Kosovo Budget 2013, this Ministry is allocated only 8,8 million Euros for capital projects.

### **Road Infrastructure**

With regard to road infrastructure, the Medium Term Expenditure Framework plans to spend around 645 million Euros, which constitutes the main focus for capital spending of the Government of Kosovo. One of the attractive projects where EBRD could invest is the building of the highway R6 (Prishtinë-Hani i Elezit). However, when discussing the transport strategy based on this Framework, the Ministry of Infrastructure does not mention the budget for multimodal transport (rail-road-air), overlooking a crucial form with potential for efficient transport, especially for transporting goods. Whereas in the draft budget for 2013 the Ministry of Infrastructure has capital projects for roads and highways amounting to 300million Euros, the Ministry for Economic Development is allocated only 2,8 million Euros for projects in railways and locomotives, which shows that this form of transport is not a priority for the Government of the Republic of Kosovo.