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**THIS ACTION IS FUNDED BY THE EUROPEAN UNION**

**ANNEX**

**of the Commission Implementing Decision on the Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Kosovo\*  
for 2023**

**Action Document for State and Resilience Building Contract for Kosovo**

**ANNUAL ACTION PLAN**

This document constitutes the annual work programme in the sense of Article 110(2) of the Financial Regulation, and annual and multiannual action plans and measures in the sense of Article 9 of IPA III Regulation and Article 23(2) of NDICI - Global Europe Regulation.

**1. SYNOPSIS**

**1.1. Action Summary Table**

<b>Title</b>	State and Resilience Building Contract for Kosovo Annual Action Plan contributing to the Western Balkans Energy Support Package in favour of Kosovo for 2023
<b>OPSYS</b>	ACT-61599
<b>ABAC</b>	JAD.1103794
<b>Basic Act</b>	Financed under the Instrument for Pre-accession Assistance (IPA III)
<b>Team Europe</b>	No
<b>Beneficiary of the action</b>	Kosovo
<b>Programming document</b>	IPA III Programming Framework
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>Window and thematic priority</b>	Window 3 – Green agenda and sustainable connectivity Thematic Priority 2: Transport, digital economy and society, and energy (60% tentatively) Window 4 – Competitiveness and inclusive growth Thematic Priority 1: Education, employment, social protection and inclusion policies, and health (25% tentatively)

\* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.

	Thematic Priority 2: Private sector development, trade, research and innovation (15 % tentatively)			
<b>Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 7 Ensure access to affordable, reliable, sustainable and modern energy for all Other significant SDGs: - SDG 5 Achieve gender equality and empower all women and girls - SDG 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all - SDG 9 Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation - SDG 10 Reduce inequalities within and among countries - SDG 13: Take urgent action to combat climate change and its impacts - SDG 17 Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development			
<b>DAC code(s)</b>	15110 - Public sector policy and administrative management 15142 - Macroeconomic policy 16010 - Social protection – 30% (indicative, pending final Action Plan approved) 23110 –Energy policy and administrative management 32130 - Small and medium-sized enterprises (SME) development 23183 - Energy conservation and demand-side efficiency - 70% (indicative as above)			
<b>Main Delivery Channel</b>	12000 – Recipient government			
<b>Targets</b>	<input checked="" type="checkbox"/> Climate <input type="checkbox"/> Gender <input type="checkbox"/> Biodiversity			
<b>Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>Internal markers and Tags</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Digitalisation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Tags	YES	NO	
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital governance	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital entrepreneurship	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital skills/literacy	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	digital services	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Connectivity	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<b>Internal markers and Tags</b>	Tags	YES	NO	
	digital connectivity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
	transport	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	health	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	education and research	<input type="checkbox"/>	<input checked="" type="checkbox"/>	
	Migration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	COVID-19	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>BUDGET INFORMATION</b>				
<b>Amounts concerned</b>	Budget line: 15 02 02 01 Total estimated cost: EUR 75 000 000.00 Total amount of EU budget contribution EUR 75 000 000.00 The contribution is for an amount of EUR 75 000 000.00 from the general budget of the European Union for 2023, subject to the availability of appropriations following the adoption of the relevant annual budget by the Budgetary Authority, or as provided for in the system of provisional twelfths.			
<b>MANAGEMENT AND IMPLEMENTATION</b>				
<b>Implementation modalities (type of financing and management mode)</b>	Budget Support <b>Direct management</b> through: Budget Support: State and Resilience Building Contract			
<b>Relevant priorities and flagships from Economic and Investment Plan for the Western Balkans</b>	Contributing to the Economic and Investment Plan (EIP):	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No		
	Priorities: "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development"			

<b>Final Date for conclusion of Financing Agreement</b>	At the latest by 31 December 2023
<b>Final date for concluding contribution / delegation agreements, procurement and grant contracts</b>	Not applicable
<b>Indicative implementation period</b>	24 months following the conclusion of the Financing Agreement
<b>Final date for implementing the Financing Agreement</b>	Eight years following the conclusion of the Financing Agreement

## 1.2. Summary of the Action

Energy prices in Europe began soaring in 2021 after the lifting of COVID-19 pandemic lockdowns. The situation further exacerbated following Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general. This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan<sup>1</sup> and its EU external energy strategy. The current energy crisis is unprecedented, and it is a challenge for not only the EU Member States but also for the Western Balkans partners. Kosovo has insufficient power production capacity to cover the domestic demand therefore it is dependent on power imports. The energy crisis is expected to deepen during the forthcoming winter as well as during 2023 due to increase of electricity demand for space heating in particular in the household sector.

The overall objective of this Action is to assist Kosovo in mitigating the socio-economic impact of the rising energy prices and of the energy crisis in particular on small and medium sized enterprises and households, and to strengthen the Administration's overall capacity to deliver tailor-made services to vulnerable households and support the long-term socioeconomic recovery, energy security, and energy transition of Kosovo. The action will contribute to an increased access to reliable, energy and resources efficient affordable housing and commercial facilities.

This action will contribute directly to SDG 7 'Ensure access to affordable, reliable, sustainable and modern energy for all', and also to other SDGs, among them SDG 8 'Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all', SDG 9 'Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation', SDG 10 'Reduce inequalities within and among countries', SDG 13 'Take urgent action to combat climate change and its impacts'. The Action directly contributes to the priorities of the Economic and Investment Plan for the Western Balkans related to "Private Sector Support", "Energy", "Green Agenda", "Human Capital Development" and to the IPA III Programming Framework Window 3 "Green agenda and sustainable connectivity" (Thematic Priority 2: Transport, digital economy and society, and energy) and Window 4 "Competitiveness and inclusive growth" (Thematic Priority 1: Education, employment, social protection and

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<sup>1</sup> COM(2022) 230 final, 18.5.2022

inclusion policies, and health and Thematic Priority 2: “Private sector development, trade, research and innovation”).

## 2. RATIONALE

### 2.1. Context

Energy prices in Europe began soaring in 2021 after the lifting of the COVID-19 pandemic lockdowns, followed by Russian war of aggression against Ukraine in 2022. The war upended energy markets, triggering heightened price volatility and energy insecurity impacting the EU and its immediate neighbourhood. The rise in energy prices impacted consequently other sectors as well, like production, transport and all service sectors in general.

This crisis situation has forced the European Commission to refocus its immediate response, through a set of short-term energy security-related measures, in Europe and beyond, as set out in the REPowerEU plan and its EU external energy strategy and as reiterated by the President of the European Commission in her State of the European Union address in September 2022.

The current energy crisis is unprecedented, and it is a challenge not only for the EU Member States but also for the Western Balkans partners. The EU and the Western Balkans partners need to work hand in hand to increase energy security in the EU and in the Western Balkans as a matter of urgency.

Kosovo as a member of the Energy Community Treaty (EnCT) and a party of the SAA agreement has to implement the EU *acquis* on Energy, Climate and Environment. The Action is in line with the key objectives of **IPA III Window 3 “Green agenda and sustainable connectivity”** to accelerate the shift towards a low-carbon economy. The Action is also consistent with the flagship VI Renovation wave of the Economic Investment Plan for the Western Balkans. In the context of the European Green Deal<sup>2</sup>, the “EU renovation wave” is expanded to the Western Balkans. The refurbishment of the building stock has a crucial role in the pathway towards a decarbonised energy system given that the buildings sector is the largest energy consumer in Kosovo.

The European Commission Kosovo Report of 2022<sup>3</sup> acknowledges that Kosovo’s new draft energy strategy has ambitious targets for the share of renewables and energy efficiency, however the adoption of the strategy is delayed due to the energy crisis.

In line with the **Guidelines for the implementation of the Green Agenda in the Western Balkans**<sup>4</sup>, the Action follows up on Western Balkans commitment to pursue a clean energy transition and sustainable development. This transition should reduce energy imports, develop renewable energy sources, strengthen regional energy security, unlock greater economic growth, and address persistent air and related health pollution challenges.

In early October 2022, the authorities of Kosovo have launched a first call for grant subsidy for energy efficient technologies (EUR 6 million) for the residential sector, whereas another call amounting to EUR 5 million will be launched soon. Based on the law on energy efficiency, the Kosovo energy efficiency fund (KEEF) will expand its operation with energy efficiency intervention in the residential and private sectors. The authorities aim to implement further investments in the residential sector in the next 1-2 years with the aim to achieve 60ktoe of energy saved.

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<sup>2</sup> COM(2019) 640 final, 11.12.2019

<sup>3</sup> SWD(2022) 334 final, 12.10.2022

<sup>4</sup> SWD(2020) 223 final, 6.10.2020

The Action builds on previous EU-funded assistance in the field of energy efficiency and renewables, namely in policy development, implementation of the energy efficiency measures in the public buildings jointly with the World Bank, development of district heating systems, as well as studies for development of renewable energy projects.

The US-funded Millennium Challenge Corporation (MCC) programme has implemented pilot projects in the residential sector in single houses (around 1000) and apartment blocks (25 blocks) through grant subsidies of up to 80%.

Against this background, the privileged relationship of the Western Balkans, has allowed to extend to the Region several initiatives that were taken in the EU in the last months.

For instance, as immediate response to the energy crisis at EU level there are several objectives that focus on the gas sector. Under the mandate of the European Council, the European Commission and the EU Member States work together on establishing joint purchases of gas. Those efforts are accompanied by supporting measures: international outreach to current and potential gas exporters, and regional and pan-EU work streams for ensuring the most efficient use of the existing infrastructure under new patterns of gas flows. This work will also serve as a basis for the development of the global hydrogen market.

The European Commission and the European Council have invited the Western Balkans to join the platform for joint purchases of gas to lower dependency on Russian gas. The regional platform for South East Europe has prepared a detailed action plan outlining quick measures needed to accurately assess the gas demand and infrastructure potential in the region. Serbia and North Macedonia have participated in this discussion (all IPA III Western Balkans were invited). It should be noted that currently only three of the Western Balkans have gas infrastructure (Serbia, North Macedonia and Bosnia and Herzegovina). The EU Gas Storage regulation was incorporated in the Energy Community law on 30 September, making the filling targets and arrangements as well as storage certification mandatory also in the Western Balkan countries.

While supporting citizens and businesses to face energy and electricity price increase is the urgency, the short and medium term objectives for the region (decarbonisation, energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors) stay unchanged to achieve the targets set under the Green Agenda for the Western Balkans. The upcoming Energy Community Ministerial Council in December 2022 is expected to adopt 2030 climate and energy targets for each Energy Community Contracting Party. They will also develop National Energy and Climate Plans that will provide the roadmaps to achieve 2030 renewable energy and energy efficiency targets and commit to coal phase-out dates.

In addition, in order to provide additional direct support to the Western Balkans region, at the Berlin Summit of 3 November 2022, the European Commission announced a pledge for the Energy Support Package of EUR 1 billion in EU grants, with expectations to leverage investments of up to EUR 2.5 billion. The Energy Support Package aims at addressing immediate, short-term and medium-term needs in the Western Balkans and in the context of the ongoing energy crisis:

- The immediate needs are related to the price increases in energy and specifically the electricity, which require the provision of budget support under this Action.
- The short- and medium-term needs relate to the energy transition, namely energy diversification, renewable energy generation, energy efficiency, connectivity of electricity and gas networks and interconnectors supported by the funding under the Western Balkans Investment Framework (WBIF).

The new Energy Support Package is expected to provide to the Western Balkans approximately EUR 500 million budget support in the form of State Building Resilience Contracts as immediate assistance under IPA III. The present Action addresses the immediate term by means of budget support to mitigate the impact of rising energy prices and to support the energy sector and businesses in coping with the rapid increase of prices of energy.

The Energy Support Package is consistent with and further reinforces the EU policy framework for cooperation with and for financial assistance to the Western Balkans, first and foremost the **Economic and Investment Plan for the Western Balkans**<sup>5</sup> (EIP) adopted by the European Commission on 6 October 2020.

Through the EIP, and its flagship projects, the EU support in the field of energy has been reinforced. Strong emphasis is put on energy market integration, decarbonisation and clean energy, increased use of renewable energy sources, increased digitalisation of the energy systems and smart grids, energy efficiency, including modernisation of district heating, and energy security. Enhanced connectivity and extension of the Energy Union to the Western Balkans is also instrumental for a successful clean energy transition in the region. In addition new funding has been approved to replenish the Regional Energy Efficiency Programme in support to energy efficiency projects for public and private buildings.

The **Green Agenda for the Western Balkans** is an essential element of the EIP. Western Balkan leaders endorsed the EIP and the Green Agenda at the Sofia Summit in November 2020.

The **IPA III Programming Framework**<sup>6</sup> sets the overall objectives of the EU's assistance under Window 3. The overall objectives of the EU's assistance under Window 3 are to promote the green agenda by reinforcing environmental protection, contributing to mitigation, increasing resilience to climate change, accelerating the shift towards a low-carbon and circular economy and develop the digital economy and society. The current action will contribute to boosting resilience of the Western Balkans partners in the current energy crisis. The action is also relevant for Window 4, particularly for supporting private sector and vulnerable households.

On 12 October 2022, the European Commission adopted its **2022 Enlargement Package**<sup>7</sup>, providing a detailed assessment of the state of play and the progress made by the Western Balkans and Türkiye on their respective paths towards the European Union, with a particular focus on implementing fundamental reforms, as well as clear guidance on the reform priorities ahead. When it comes to the energy crisis, the package refers to the need of closer coordination of actions and cooperation amongst the Western Balkans partners and with the EU to tackle the energy crisis.

## 2.2. Problem Analysis

### Short problem analysis

According to the Energy Community Secretariat the security of supply risk profile for the season 2022/23 in the Western Balkans is considered “low” for Bosnia and Herzegovina and Serbia and “medium” for the remaining four partners (compared to “high” in Ukraine and the Republic of Moldova). The specific risk profile for Kosovo is as follows:

**Energy Community risk assessment 2022/23 LEVEL OF RISK** (high, moderate, low): *Moderate*

Sources of risk: coal-fired units availability, affordability issues

**Total final energy supply by source (approx. 110 000 TJ):** 14% biofuels, 29% oil, 57% coal.

- imports: 97 TJ coal, 3 343 TJ electricity, 31 627 TJ oil products.

- exports: 212 TJ coal, 3 258 TJ electricity, 332 TJ oil products.

**Gas:** No gas power plants in Kosovo, neither other types of gas consumption → independent from Russian and any other source of gas

<sup>5</sup> COM(2020) 641 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions An Economic and Investment Plan for the Western Balkans

<sup>6</sup> C(2021) 8914 final, 10.12.2021

<sup>7</sup> COM(2022) 528 final, 12.10.2022

**Electricity:**

Electricity production mix: 95% coal, 4% hydropower, 1% wind and solar

- Electricity imports will be needed during the following winter and in a case of high wholesale market prices affordability issues will arise;
- System balancing is also an issue, since there is no flexible electricity production, the automatic Frequency Recovery Response (aFRR) and manual Frequency Recovery Response (mFRR) are provided by the Albanian Power System as result of operation of Transmission System and Market Operator (KOSTT) in Control Block AK;
- The interconnection lines between Kosovo and Serbia are still not available for commercial use;

**EIP priority projects:** North Macedonia-Kosovo based on the ongoing works on the North Macedonia-Greece interconnector

The most significant problem in the region in the short term is related to prices of imported electricity. Western Balkans partners, except for Bosnia and Herzegovina, are systematically net importers of electricity. The import needs in 2022 are further exacerbated by the lower outputs of hydro plants due to draught.

Electricity prices in all countries of the region – particularly for domestic users – are centrally regulated and have remained below the production / import price, as well as below the European market price (between 22-41% of the EU average). This puts additional pressure on partners' budgets to cater for the financial losses of the Utility providers.

An increase of electricity prices to market level is perceived by partners as destabilising the social situation, being not affordable for the majority of residential consumers, and even a factor leading to bankruptcy for commercial users.

Kosovo has insufficient power production capacity to cover the domestic demand therefore it is dependent on power imports. The two old lignite power plants have an installed capacity of 1519MW of which around 900MW is available with an output of 5806GWh planned for 2022. Both plants have exceeded the designed operational lifetime however they continue to play a crucial role in the security of supply. At Kosovo B power plant, the EU has committed over EUR 74 million for environmental measures aiming at the reduction of dust and NOx emissions in order to comply with the directive on large combustion plants and directive on industrial emissions. There is also a 280MW of renewable energy capacity, (including hydro) installed in Kosovo which provides around 792GWh. The total energy distributed in the distribution network (KEDS) for 2022 is 6,482GWh including losses in the grid. The estimated electricity demand for Kosovo (including Northern municipalities) is 7,144GWh so the shortage of 661GWh is to be covered through imports. The electricity import prices are expected to be higher during the winter. The measures undertaken by the authorities aim to reduce the electricity consumption which consequently would reduce the imported electricity amount.

The consumption in the north is estimated at 367GWh which is over 55% of total import. Due to unpaid electricity consumption in the Northern municipalities, the Kosovo transmission system and market operator (KOSTT) is facing financial difficulties due to the obligation for the system balancing. The unpaid electricity consumption (rapid increase of consumption in the last years) in the Northern municipalities is an overburden for the public budget. The EU Office in Kosovo is considering financing the supply of electricity meters for the consumers in the Northern municipalities in order to replace the old metering devices and facilitate the electricity billing in those municipalities.

The energy crisis is expected to deepen during the forthcoming winter as well as during 2023 due to increase of electricity demand for space heating in particular in the households sector. In the final energy consumption of the households, the biomass and electricity are the most consumed with 51% and 44% respectively. The next tariff review for electricity in 2023 will very likely increase further the tariffs. In 2022 the retail tariff scheme was adjusted to reflect higher costs for the electricity used for heating or consumers with consumption over 800KwH (EUR 125/MWh). Between end of 2021 and until now, the Administration has allocated around EUR 120 million to cover electricity price increase in the form of subsidies towards the vulnerable households, businesses and towards the electricity distributors such as KEDS and KESCO but so far managed to pay out only around EUR 66 million until September 2022.



Last August, Kosovo announced controlled power cuts. The delay of transferring EUR 90 million in energy subsidy to the public electricity supplier KESCO, together with soaring import prices, insufficient domestic production capacities and growing debts of public energy enterprises, resulted in an energy crisis. The government adopted several energy saving measures such as an export ban on fuels, a ban to use electricity for cryptocurrency mining, support for the transmission system operator KOSTT for ensuring the security of energy supply and measures to cut electricity consumption by all state institutions. In September the government announced a new financial support package for vulnerable households and firms worth a total of EUR 150 million.

24,627 families/beneficiaries (around 100,000 persons), are benefiting from the current social assistance scheme. In the framework of COVID-19 recovery support the administration has continued with doubled assistance to its beneficiaries since 2020, to date. However, the reform of the social assistance scheme system is still outstanding. There is a clear need to reform the social assistance scheme in Kosovo as the eligibility criteria under the current social assistance scheme are very narrow and lead to a situation where many poor households are not eligible for this support. In addition, the reform will require parallel reforms of activation measures in particular to encourage beneficiaries to participate in reskilling and upskilling to step up their job search. The authorities have signed a financial agreement with the World Bank (worth USD 45 million) to reform the scheme, however, the Assembly has twice failed to secure the 2/3 majority that is needed for adoption. In Kosovo there is insufficient gender analysis related to energy usage (Kosovo Women Network, Kosovo gender Analysis 2018). Neither the public heating company, Termokos, nor the Electricity Distribution System (KEDS) and the Universal service supplier (KESCO) maintain gender-disaggregated data on bills paid or complaints received.

Based on the policy guidelines issued by the Energy Community Secretariat (ECS) the energy poor consumer is a consumer who cannot access adequate warmth, cooling, lighting, and energy to power appliances necessary for essential services that underpin a decent standard of living and health. Based on the assessment of the ECS in Kosovo it is estimated that up to 40% of households are in energy poverty. Kosovo has a total of 566,619 households so around 226,647 households are estimated to be in energy poverty. The ECS policy guidelines proposes as a short term measure, the direct financial support and protection from disconnection from the supply for alleviating the energy poverty

In addition, Kosovo has 92,370 commercial consumers which includes Small and Medium-Sized Enterprises (SMEs). SMEs contribute to the economic performance and sustainable and inclusive development of societies. The SMEs in Kosovo were hit hard by the COVID-19 crisis, which negatively affected their liquidity, and now the recent increases in inflation and the energy crisis (cuts and costs), risk limiting SMEs recovery. This has largely disrupted their business operations.

A green and just recovery path can put Kosovo's private sector back on track – creating new jobs, reducing greenhouse emissions and boosting competitiveness, while on route to a climate resilient future. However, SMEs still largely remain dependent on external financial support.

Energy-price volatility and uncertainty, induced by recent external shocks, generate challenges for survival and growth of SMEs. At the same time, SMEs can be a source of innovative solutions to address these challenges. Therefore, investing and scaling up incentives and instruments for SME greening are crucial for way forward.

To accelerate SMEs transition to a green economy and their uptake of greening measures, governments need to mainstream the topic in broader SME, sectoral and innovation policy frameworks, and ensure that climate and environmental policies (including the circular economy) better take into account the perspective of SMEs and entrepreneurs. Efforts to encourage SMEs' green transition need to be harmonised in particular with energy policies, because the subsidisation of coal-fired power generation across the Western Balkans, which lowers energy prices, cancels out and even reverses efforts to reduce Green House Gas (GHG) emissions.

Many SMEs are willing to invest in more energy-efficient and environmentally friendly processes, but they require reliable partners for financing their investments. In general, small enterprises face greater challenges with respect to access to finance than larger enterprises.

The recently established Kosovo Credit Guarantee Fund (KCGF), signed an agreement with the KfW in November 2021 to support micro, small and medium-sized enterprises for green investments (EUR 6 million grant), in particular energy efficiency, resource efficiency and investments in renewable energy. Millennium Foundation Kosovo launched the “Women Energy Entrepreneurs Programme” in 2020, which combines technical assistance with investment grants to support the growth of women-owned businesses in Kosovo through efficient energy use.

Kosovo’s National Energy Efficiency Fund (KEEF) focuses on large and mainly infrastructural projects and does not yet target SMEs. Credit lines extended by international financial institutions and disbursed through local commercial banks can be a good approach to improving access to green finance for SMEs. Financial support programmes for SMEs, financed by international development co-operation partners, are common in the region and increasingly focus on green development<sup>8</sup>.

Kosovo has a well-developed legislation on energy efficiency. The Law on energy performance of the buildings and the Law on energy efficiency have partially transposed the directive on energy performance of the buildings<sup>9</sup> and the directive on energy efficiency<sup>10</sup>. The authorities are working on the revision of both laws to align with the latest directives. However, the national plan for nearly zero energy buildings and the strategy for buildings’ renovation are not adopted yet. Final energy consumption is 1543ktoe of which the buildings’ consumption is 628ktoe (annual report on implementation of the energy efficiency directive, Dec 2021). On energy efficiency products’ labelling, the legislation needs to be further developed as per regulations on labelling applicable under the Energy Community. The legislation on renewables is being revised to include the procedure for auctioning/competitive bidding for development of RES projects and for prosumers. The draft energy efficiency strategy has envisaged a 100MW solar capacity installed at prosumers by 2031.

In line with the energy efficiency target stated in the draft energy strategy, the energy savings in the building sector should be 266.4 ktoe in 2031. The administration is planning in the next 1-2 years to provide subsidy in the amount of EUR 140 million to the energy efficiency measures to achieve around 60 ktoe of energy savings in the buildings sector, primarily in residential buildings. The measures would include building insulation, replacement of windows/doors, and deployment of new technologies for heating/cooling systems. In addition the administration plans to provide subsidies up to 40% for installation of solar PV applications in the residential buildings, SMEs, agriculture, industry with a total capacity of 10MW.

***Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action***

- Ministry of Economy (ME) is in charge of strategy and policy development in the energy sector including the energy efficiency policy and renewable energy.
- Ministry of Finance, Labour and Transfers (MFLT) is responsible for budgetary policy and process and management and accountability of public finance, and the social welfare policy.
- Energy Regulatory Office (ERO) is responsible for the review and approval of the maximum allowed revenues and tariff applications for the energy enterprises in the energy market, namely for the transmission and distribution system operators, for the universal supplier of electricity, district heating companies.

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<sup>8</sup> SME POLICY INDEX: WESTERN BALKANS AND TURKEY 2022 © OECD 2022

<sup>9</sup> DIRECTIVE 2010/31/EU of 19 May 2010 on the energy performance of buildings

<sup>10</sup> DIRECTIVE 2012/27/EU of 25 October 2012 on energy efficiency

- Ministry of Industry, Entrepreneurship and Trade in charge for development and implementation of strategy and policy of Industry, Entrepreneurship and Trade sector.
- Kosovo energy efficiency fund (KEEF) – is an independent public institution responsible for energy efficiency investments in the public sector, residential sector and private sector. The Fund is governed by the Board of members from the central authorities and Association of Kosovo municipalities.
- The Kosovo Credit Guarantee Fund (KCGF) is an independent legal entity that provides credit guarantees for micro, small and medium enterprises (MSMEs), by sharing the credit risk with financial institutions. The fund KCGF issues guarantees for the principal only and the guarantees do not cover interest or other amounts owed to or other costs borne by the lender. KCGF provides guarantees for investments on energy efficiency as well as on renewable energy for self-consumption and for prosumers.

### 2.3. Lessons Learned

In the aftermath of the COVID-19 pandemic, the European Commission adopted several crisis-response programmes as State and Resilience Building Contracts (in addition to a significant refocus of ongoing budget support programmes to meet the arising socio-economic needs) to support the partner Governments in their efforts to mitigate the socio-economic impact of the pandemic specifically on vulnerable households and Micro, Small and Medium Enterprises (MSMEs) and implement their Crisis Response Action Plans. This approach was assessed in a fast-track evaluation of the COVID-19 response in 2020-2021<sup>11</sup>. The evaluation found that the crisis response (including the SRBC approach) has been effective in granting the beneficiary countries the fiscal space enabling budgetary rearrangements to respond to the social needs of the vulnerable actors (households and economic stakeholders).

Several recommendations are relevant for the current crisis response action:

- To maximise the use of policy dialogue as a leverage to inform and monitor the implementation of the crisis response plans of partner countries
- To pursue support to medium- to longer-term fiscal and public expenditure reforms aimed at increasing domestic revenue mobilisation and at promoting debt sustainability during both crisis and post-crisis responses.
- To support partner countries in developing their capacities for the vertical and horizontal expansion of social protection systems in EU partner countries to increase crisis preparedness and resilience.
- To further cooperate with partner governments to be more open and accountable in their present and future crisis policy response and crisis spending.

In 2020, the COVID-19 Resilience programme for Kosovo included indicators that were meant to safeguard the integrity of the crisis expenses and a reform of the social assistance plan which will be observed as well through this action.

The previous EU-funded support has contributed to institutional development and reforms in the energy sector including preparation of the law on energy efficiency and support to establishment of the Kosovo energy efficiency fund (KEEF). Support is being provided under IPA 2017 to the fund on improving the energy efficiency measures in the public buildings such as schools, health care centres, municipal buildings, public lighting. The fund will need to strengthen the capacity to expand the operation into the households sector. The coordination on energy efficiency will need to further improve between the central and local (municipal) level in order to accelerate investments in the households sector. Several important lessons should be indicated to

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<sup>11</sup> Fast-track assessment of the EU initial response to the COVID-19 crisis in partner countries and regions (2022), available at [https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020\\_en](https://international-partnerships.ec.europa.eu/policies/monitoring-and-evaluation/strategic-evaluation-reports/fast-track-assessment-eu-initial-response-covid-19-crisis-partner-countries-and-regions-2020_en)

achieve energy-efficient buildings and cost savings:

- Set clear, measurable goals to achieve energy savings.
- Use an integrated design approach.
- Provide training to the beneficiary users and evaluate system performance.

To achieve maximum cost-effective energy efficiency and operability, the Fund (KEEF) will need input from all stakeholders and disciplines throughout the design process. This collaborative approach will help ensure that experience is accounted for in the design and layout of the buildings' systems and spaces.

## **2.4. Additional Areas of Assessment**

### **2.4.1. Public Policy**

The main strategic documents in the Kosovo's energy sector is the energy strategy document. The energy strategy (2017-2026) has been revised in Q1 2022 for the period 2022-2031 but is not adopted yet due to energy crisis.

The other important policy document is the National energy and climate plan (NECP) which is being drafted and will be concluded in early 2023. The NECP will set the targets for 2030 for the reduction of greenhouse gas emissions (GHG), for energy efficiency and for the share of renewable energy in the final energy consumption.

As required by the Energy Community Secretariat, Kosovo has prepared the action plan for energy efficiency 2009-2018 with the target of 91ktoe energy saved in 2018 and the following plan for 2019-2021 for 110ktoe of energy savings, whereas from 2022 to 2031 the new targets for energy efficiency will be set in the NECP. In the draft strategy 2022-2031 the target for energy efficiency is to limit the final energy consumption 1877ktoe by 2031 compared to projected final energy consumption of 2226ktoe in 2031. The total cumulative savings in the residential and commercial buildings would be 23.3ktoe in 2024 and 247ktoe in 2031. The target number for nearly zero energy buildings is 10 in 2024 and 150 in 2031.

Kosovo has also prepared the action plan for the renewable energy 2011-2020 with the mandatory target of 20% in the final energy consumption, the target for 2031 will be set in the NECP. In the draft energy strategy 2022-2031 the target for renewable energy share in the electricity consumption is 13% in 2024 and 35% in 2031. The target for prosumer capacity is 10MW in 2025 and 100MW in 2031.

The Energy Strategy of Kosovo identifies vulnerable consumers and obliges the authorities to define a programme for their protection. The Electricity Act and the Natural Gas Act use the term ‘‘consumers in need’’ stipulating that the relevant ministry for social policy develop criteria for identifying consumers in need as well as the scope of rights and measures aimed at protecting such consumers in meeting their electricity and gas demands.

The new draft energy strategy 2022-2031 sets objectives in the following areas: the protection of vulnerable consumers (including social assistance scheme beneficiaries and other low-income families, female-headed households, elderly households, etc.) to guarantee affordability of the energy bills and investments in energy efficiency (of buildings and household equipment) and heating solutions. The draft strategy also stipulates that the price-support scheme will be improved in terms of targeting and it will aim to cover all individuals/households in (risk of) energy poverty.

In coherence with the above-mentioned medium to long term energy strategies, the Administration is set to prepare an Energy Crisis Action Plan that will focus on the immediate needs to avoid energy poverty among vulnerable households, support SMEs to foster the 2022-2023 winter and continue along its path on energy sustainability. The Action Plan is being developed in cooperation with EU services and should anchor the immediate crisis response in the overall energy strategic framework.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore, the policy can be supported by the Commission with the proposed budget support contract.

#### 2.4.2. Macroeconomic Policy

Kosovo benefited from an EU Macro-Financial Assistance loan to an amount of EUR 100 million, divided into two equal tranches to respond to the challenges caused by the COVID-19 pandemic in 2020 and 2021. The disbursement of the second tranche was attached to a number of policy conditions. Following submission of the supporting documents by Kosovo authorities and the sources of verification, DG ECFIN assessed that all agreed conditions were broadly met. Hence the second tranche was disbursed to the Kosovo treasury in May 2021, following the disbursement of the first tranche in October 2020. In addition to the MFA, Kosovo authorities benefitted from the EU4 Resilience State Building Contract amounting to EUR 26,250 million with the first fixed- tranche amounting to EUR 20. 50 million disbursed in December 2020 and the second-variable tranche amounting to EUR 5,250 million disbursed in September 2022. Other EU-funded budget support contracts are the Public Finance Management contract amounting to EUR 21 million (last variable tranche of EUR 5 million was paid in July 2022 concluding the contract) and the Public Administration Reform contract for a total amount of over EUR 15 million, with a still outstanding payment of EUR 5.5 million pending positive assessment of meeting the agreed performance indicators.

In October 2022, the International Monetary Fund (IMF) conducted their Article IV<sup>12</sup> consultation mission, followed by the publication of the staff concluding statement in 4 November 2022. *[The report is expected to be published by end-November]*. The key priority recommendations in the concluding statement relate to:

- The additional fiscal stimulus provided to mitigate the impact of the surge of energy costs should be temporary and well targeted. While past fiscal measures during the COVID-19 crisis were assessed to adequately target the affected groups, the future fiscal measures should be better defined, particularly social transfers to be more equitable, while containing the fiscal cost. The IMF statement promotes revision of electricity tariffs to at least once a year particularly to apply higher tariffs during the peak-hour for the non-vulnerable consumers, to stimulate more energy savings and reduce the financial imbalances during the winter period;
- The administration should address the long-standing structural challenges, such as closing the infrastructure and skills gap, in particular addressing the high non-technical and commercial losses in electricity sector. There should be more focus on greener electricity supply as a path towards meeting the commitments in reducing carbon emission, but also exploring possibilities for regional market integration.

In the area of the economic governance, the IMF praised the functionalisation of the Procurement Review Board which in some degree stalled the public procurement processes, however emphasised the need for the administration to make progress in “beneficial ownership reporting” and increase the staff capacity of the recently established Commercial Court to be able to deliver to its mandate. The IMF staff urged against additional withdrawals from the pension fund (KPST), as this would harm the viability of the pension system and domestic capital market development and encouraged the authorities to keep efforts at implementing the EU-Kosovo Stability and Association Agreement.

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<sup>12</sup> <https://www.imf.org/en/News/Articles/2022/11/04/Kosovo>

In 2021, Kosovo's economy made a remarkable recovery with an estimated real GDP growth by 10.75% outpacing baseline projections and compared to the negative growth rate of 5.3% in 2020. The IMF Article IV assessment of 2021 outlines that growth levels were primarily achieved due to extraordinary diaspora inflows (including remittances, tourism and real estate investments) accounting for about 43% of GDP in 2021, as global travel restrictions were relaxed and Kosovo achieved a relatively good vaccination rate. In terms of other external financial inflows, exports of services grew by 96.4% in 2021 after a severe fall of 40% in 2020 and, over 13% compared to 2019. The large trade deficit improved slightly in 2020 mainly due to a decline in imports of goods. However, in 2021 the situation reverted back to historical trends. In December 2021, Kosovo's overall trade deficit expanded by 27.8%, higher than the same period in 2020, amounting to over EUR 3.8 billion, due to the continued increase in import of goods and services and as an effect of imported inflation. In 2021, the Current Account deficit remained at the same level of 7% of GDP as in 2020, due to increased levels of imports and a decline in the exports of nickel from Kosovo (one of the main component of exports of goods), as nickel production was directly affected by the increased energy prices in Europe.

In terms of fiscal developments, despite numerous temporary tax exemptions legalized in 2020 through the Law on Economic Recovery, administration's balance sheets improved significantly in 2021 with a budget deficit of only 0.4% of GDP as opposed to 6.4% in 2020, reducing the need for external financing. Despite this positive turnout, the government decided to keep the temporary suspension of the fiscal rule on budget deficit level from 2% of GDP to 6.5% and it plans to enforce the rule only in 2023. The improved fiscal position by October 2022 was mainly due to the strong rebound of mobilized revenues and driven by inflationary pressure due to Kosovo's high dependency of imported goods (EUR 2.1 billion, increase by 13% compared to 2021 same period), while spending levels (EUR 1.8 billion) declined by 50% mainly affected by the low absorption of capital investments. Capital investments in 2022 were budgeted at over EUR 704 million but with an execution rate of 25% (EUR 178 million) as of October. The high inflation rates and legal challenges on enabling revision of prices on construction sector limited heavily implementation rate of capital expenditure. In addition, low administrative capacities in planning, execution and monitoring of capital projects are another critical challenge on improving realisation of capital investments.

Recurrent expenditure in 2022 are planned to EUR 2.1 billion, but 16.5% higher than in 2021 and much higher than pre-pandemic levels, mainly because of the financing of recovery fiscal measures, i.e. increased direct transfers on social assistance, pensions and subsidies. However, the recurrent expenditure for 2023 is projected to further increase by 5.8% compared to 2022. During 2021, the authorities continued to finance pandemic-related measures to mitigate the impact of the crisis. It adopted the Economic Revival Programme worth EUR 420 million (5.7% of GDP) and implemented around EUR 310 million (4.1% of GDP) of it. The new programme extended most of the emergency measures from 2020, introduced already under the Kurti 1 administration, such as direct transfers to vulnerable households, employment support and fiscal stimulus to the firms financially affected by the pandemic. The programme introduced by the Hoti administration in August 2020 was worth EUR 365 million and extended some of the Kurti 1 administration's measures, while introducing some new ones. One of the measures was targeting support to the private sector, and it allocated and disbursed EUR 60 million uniform to all active businesses with the single criteria of the number of employees. This action was received with a lot of criticism since a number of large businesses benefited from the package, regardless of their financial turnover. In fact, some of those companies had a positive financial performance during the year (especially those that were not affected by the lockdown restrictions, such as the mineral industry and supermarkets).

The following Revival Programme introduced by the Kurti 2 administration during 2021, in broad terms targeted adequately the affected groups from the pandemic, and has shown some gains in the formalisation of the economy, mainly with regard to the formalisation of employment. The authorities also included new measures as part of the government programme priorities, such as child benefits and maternity allowances (at an estimated annual cost of 1.20% of GDP). The administration has explicitly committed to making these permanent through laws, which would increase the recurrent expenditures of the budget annually by EUR 40 million. The programme also included financial support to publicly-owned enterprises (POE) to improve their operations, including those lately affected by the energy price increases. For this, the authorities allocated an

additional EUR 100 million as subsidies from the recovery programme where it earmarked EUR 100 million in the initial budget for 2022 to finance different recovery fiscal measures.

The ongoing Russian war against Ukraine has affected Kosovo's economy as well, with continuously increasing prices in energy, food and oil commodities. This is reflected in Kosovo statistical data between January and September 2022 with the average inflation rate soaring to 11.4%, (from a rate of 7.1% in January to a rate of 12.7% in September). Although the positive GDP growth is expected to continue during 2022, the prospects of economic growth have already been revised downwards from the soaring prices in commodity goods and in energy due to the ongoing Russian war of aggression against Ukraine and as the chain-supply disruptions continued from the pandemic crisis. The low level of execution of capital investments mainly due to the instability of prices on construction sector is also contributing to the slowdown. To address the price instability, the administration has approved the draft Law on price revision that is yet to be adopted at the parliament. During the 2nd quarter of 2022, the statistics office reported a real GDP growth of 2.14% compared to governments forecasts of annual GDP growth of 5.7%. The IMF and World Bank forecast real GDP growth for 2022 of 2.7% and 3.1% GDP respectively, well below the historic trend of 3.8%. On the other hand, due to low level of capital execution, the usable bank balance has improved from 4.5% fiscal ceiling to 6.3% of GDP or around EUR 700 million as of October 2022, providing some fiscal buffers against the vulnerability towards external and endogenous budgetary shocks.

In April 2022, the authorities allocated another EUR 100 million to the economic recovery package, extending fiscal support to vulnerable households and a support of EUR 100 each to all (80,000) public sector employees and (300,000) private employees. The latter was received with criticism, since it was not based on any needs assessment. During September, the authorities allocated additional EUR 150 million to the economic recovery package, similarly to the first one, but in this round introducing some targeted measures on energy, promoting electricity savings by reimbursing a share of the cost in case the applicant has spent less than in 2021 for the respective month.

The public debt levels in 2022 are forecasted at 20.1% of GDP and for the 2023 public debt is projected at 22.8% (mainly as a base effect of the slowdown of GDP growth rate). In the medium-term public debt is projected to increase to 23.5% of GDP on average. Such a level is still assessed to be sustainable, well below under the 40% of GDP debt ceiling rule, and under the 30% of GDP level that the IMF assesses to be sustainable for Kosovo. However, limited absorption capacities of government debt placements in domestic market, the absence of access to international markets and overall increasing contingent liabilities, particularly stemming from underperforming POEs are issues that highlight some of the fiscal risks. The projected financing gap for 2023 is forecasted to decline by 37% compared to 2022 budget allocation, considering that the usable bank balance remains over the fiscal rule.

In terms of the financial sector, due to the high liquidity of the banks, according to the Central Bank of Kosovo data, the sector continued to expand with 1.6% higher loan portfolio in August 2022 compared to the same period 2021, and non-performing loans remained at 2.1% in August 2022, lower by 4 pp compared to the same period in 2021. All other financial soundness indicators are well above the minimum requirements.

In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

### **2.4.3 Public Financial Management**

A new Public Financial Management (PFM) strategy is currently being finalised. The new strategy for the years 2022 – 2026 aims to incorporate Public Procurement and Public Internal Financial Control into the overall PFM reform strategy, as these previously had separate strategies. The preliminary findings from the 2021 Public Expenditure and Financial Accountability (PEFA) report has guided the identification of the priorities for the new strategy. The previous strategy, the PFM Reform Strategy 2016-2020, expired at the end



of 2020, but in the meantime a so-called “Transitory Action Plan for PFM” covering the year 2021 was prepared. This action plan was extended in early 2022, and expired at the end of September 2022.

The PFM Reform Coordination Group takes the lead for the preparation, monitoring and reporting on the PFM strategy. In general, the administration reported on the implementation of the strategy in a timely manner, but due to the COVID-19 pandemic, the annual report on the implementation of the PFM Reform Strategy 2016-2020<sup>13</sup> for the year 2020 was published only in November 2021, while the annual report for the year 2021 was published only in September 2022.

The PEFA 2021 was published in October 2022 and can be seen as a measurement of how reforms in this area has advanced during the past five years. Compared to the previous PEFA that provided input for the previous PFM reform strategy, with regard to *aggregate fiscal discipline* the score has both improved and deteriorated, but overall there is no improvement in the overall budget credibility and budget execution processes. Most aspects of the budget outcome have either improved or remained the same. The revenue projections improved and resulted in better revenue aggregate outturn. The efficiency of payroll control also improved through having monthly reconciliations between payroll and Human Resources (HR) database in time for salary payment and immaterial retroactive adjustments. Effectiveness of internal control has improved through expanded coverage of internal audit and application of international standards.

The *strategic allocation of resources* has not significantly improved. The observable changes identified are: (a) improvement in performance in the effectiveness of tax revenue coverage due to implementation of electronic registration system; and (b) improved control functions of both revenue collecting entities in deployment of compliance improvement plans.

*An efficient use of resources for service delivery* is observed in the performance of public services that are better managed, monitored, and controlled. This is mainly achieved due to the improvements in the access to all key procurement information that is now made available to the public through the e-procurement portal and the general use of competitive procurement methods.

The budget process is clear and with set rules and deadlines in place. Nonetheless, better planning of capital expenditure spending would result in more efficient use of resources and more accurate budget projections. Similarly, inaccurate budget projections may lead to fiscal risks stemming from underspending of capital expenditures. These affect overall macroeconomic and fiscal projections as capital expenditure has a significant role in public investment and revenue projections. For the revenue outturn the deviations are small.<sup>14</sup> The budget classification system is consistent with international Government Finance Statistics/ Classification of the Functions of Government (GFS/COFOG) standards with majority of budget documentation provided to the public. Having all revenue and expenditure in the Single Treasury Account is essential for aggregate fiscal discipline. This ensures that all resources in financial reports are adequately managed and consistent with government policies and procedures. There is efficiency and effectiveness in resource allocation with financial transfers being rule based. However, the performance information for service delivery does not meet the international standards of recording, monitoring, and reporting.

Generally, the administration has an electronic data management system that produces accurate data processing, supervision and monitoring with appropriate authority level and control, coverage of most, if not all, budget users, and easy access and transparency.

Allocation of resources is supported by an acceptable management of assets and liabilities. However, monitoring of these does not ensure that risks are adequately identified, hence relevant management of risk

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<sup>13</sup> Link: <https://mf.rks-gov.net/desk/inc/media/290A2ECF-F7D9-4816-A608-E4993BCA5D06.pdf>

<sup>14</sup> PEFA, 2021: <https://www.pefa.org/node/5026>



mitigation measures cannot be made. Public investments do not provide value-for-money and asset maintenance is not comprehensive nor covering all of government owned assets. There are verifiable macroeconomic and fiscal projections to support the development of a predictable and sustainable fiscal strategy contributing to an aggregate fiscal discipline. The fiscal strategy is clear and alignment with fiscal targets supports budget policy decisions.

Resources are allocated as intended and through Kosovo Financial Management Information System (KFMIS) they are controlled and used only for the authorised and committed purposes. There are some concerns regarding data accuracy with regard to misclassification of expenditure, but this does not undermine the financial data integrity. All budget data in the Single Treasury Account (STA) are presented in the annual financial statements. They are complete, timely, and consistent with International Public Sector Accounting Standards (IPSAS) cash basis accounting principles and standards.

Oversight arrangements for external audit and legislative scrutiny of audit reports are effective and generally reliable and control efficient use of public resources. There is transparency in the use of public funds thus contributing to achieve budget outcomes and giving all stakeholders an accurate picture of financial results.

Going forward, to ensure desired policy outcomes, there should be a closer link between budgeting and the longer term policy planning. Both the PEFA and SIGMA<sup>15</sup> reports published in December 2021, draw attention to the relatively large amount of budget reallocations during the year. The general under-execution of capital expenditures contributes to the need for intra-year budget reallocations.

The medium-term expenditure framework (MTEF) allows for the matching of policy planning with budgeting over a three-year cycle. The Ministry of Finance, Transfers and Labour draws up the MTEF annually and issues it to Parliament every year prior the first budget circular in May. The MTEF sets budget ceilings which are reflected in the circular and the MTEF reflects the administration's priorities in line with strategic documents such as the Economic Reform Programme and the National Plan for the Implementation of the Stabilisation and Association Agreement (NPISAA). However, to be effective, the MTEF should maintain consistency with the annual budgets over time. The ceilings included in the MTEF are frequently revised before the annual budget is presented to the parliament and such revisions can be substantial. No explanation is currently provided by the ministry in the budget documents of changes that have been made to the ceilings. Generally, the annual MTEF document aligns with annual budget projections whereas figures for the two following years in most of the cases are not accurate. The 2022 budget contains information on the outturn of 2019 and 2020 and presents the medium-term fiscal envelope for 2022 and 2023. However, it fails to provide any explanation of the changes to expenditure estimates between the second year of the last medium-term budget and the first year of the current medium term budget at the aggregate level.

The accuracy of Kosovo's forecasting of revenues is good, but the tax compliance gap remains large. This suggests that improvements are to be found in reducing the gap between what should be collected and what is collected. A 2014 World Bank study revealed a VAT gap of 34%, a Corporate Income Tax (CIT) gap of 17% and a Personal Income Tax (PIT) gap of three times what is currently collected. For property taxes the gap is also significant. The tax compliance gap is the result of high levels of informality in the economy. The latest EU-funded assessment of informality in Kosovo put the percentage to be close to 38% of GDP (against an EU average of 23%). Informality also negatively impacts competitiveness and foreign direct investment which in turn has knock-on effects on economic growth and hence future tax revenues. Commonly cited key drivers behind Kosovo's high informality rates include longer term systemic factors (lack of trust in official institutions, corruption, society's acceptance of informality) but also factors which can be more immediately addressed (prolonged litigation and inefficient justice administration, weak enforcement, sparsely used

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<sup>15</sup> The government report on the Implementation of Public Administration Reform For 2020: Public Financial Management Reform Strategy 2016-2020, <https://mf.rks-gov.net/desk/inc/media/C001C2D7-3D8D-4B04-AD70-1D235E5A6B5F.pdf>

sanctions, and the prevalence of cash-based transactions). Increasing electronic payments by 10 percent annually for at least four consecutive years can reduce the size of the informal sector by up to 5 percent.

The budget documentation submitted to the legislature contains no quantification of tax expenditure (i.e. revenue foregone due to preferential tax treatments). The use of tax expenditures is often hidden from the public eye, often approved only once and then not debated again in the budget processes. The tax administration is currently engaged in an exercise to estimate the value of tax expenditures in Kosovo, with the support of the World Bank. Recent reports conducted in neighbouring countries point to a cost of 3-5% of GDP for tax expenditures. This implies that Kosovo could be forgoing up EUR 200-300 million per year in exemptions, deductions, credits and tax breaks.

The Customs authority collects ca. 70% of revenue while the Tax administration of Kosovo collects ca. 30%. In terms of tax policy, the domestic tax base should be broadened over time to substitute for diminishing border revenues in light of ongoing trade integration. The authorities started undertaking a tax policy review in February 2021, but no results have been shared with the public yet from this exercise.

Getting value for money in terms of public expenditure requires the feedback of accurate information on service delivery performance. The administration does not monitor and document the performance on delivery of services to the public comprehensively and no information is available on the planned outputs and outcomes. The annual budget contains no performance indicators, while the MTEF summarises some measures. Independent evaluations of the efficiency and/or the effectiveness of service delivery are carried out by the Kosovo National Audit Office (KNAO) and reports are published on the KNAO's website. However, the number of budget organisations covered is low (25%).

Improvements are also needed in the area public investment management to ensure operational efficiency in capital expenditure. Limited transparency both in the planning and implementation phases can reduce the effectiveness of public expenditure. The European Bank for Reconstruction and Development (EBRD) notes that the low level of transparency and unclear economic rationale for large transport projects are of particular concern, with project details and documents often not made publicly available and contracts occasionally awarded without the publication of a tender, contrary to the beneficiary's Public Procurement Law<sup>16</sup>. Established guidelines exist for conducting economic analyses of all proposed public investment projects but there is no requirement that these assessments be published and PEFA shows that the analyses of 50% of major investment projects in 2020 amounting to ca. EUR 36 million were not published. Transparency during the implementation phase is also weak. The monitoring system currently in place maintains records on both physical and financial progress but the information generated is not published systematically.

Fragmentated decision making and problems with coordination of planning impact operational efficiency in public investment. Decision on investment loans before ensuring prerequisites are met and required studies and analyses prepared, leads to delays in implementation of projects. Expenditures for capital projects in relation to the approved budget for capital expenditures for 2021 is 67.5%<sup>17</sup>. According to the IMF, Kosovo suffers from a high public investment efficiency gap (defined as the relationship between the value of the public sector capital stock and the measured coverage and quality of infrastructure assets). In 2016, the efficiency gap for Kosovo stood at 45% as compared to 30% in neighbouring countries (Albania, Montenegro and North Macedonia)<sup>18</sup>. The efficiency gap is driven by fragmented decision making across institutions as well as political pressures to prioritise current expenditures and new infrastructure over maintenance of existing capital stock.

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<sup>16</sup> Kosovo country diagnostic: Private investment challenges and opportunities, EBRD, 2022

<sup>17</sup> Government Presentation, Public Financial Management Policy Dialogue Meeting, 23 September 2022

<sup>18</sup> IMF Public Investment Management Assessment (PIMA), International Monetary Fund, 2016

Despite political stability, the legislative agenda under the Ministry of Finance, Labour and Transfers, has not progressed. In 2021 the new administration started drafting a concept document for a new organic budget law in Kosovo called the Law on Public Finance Management and Accountability, however, the draft has not yet been sent for public consultations, despite being ready since May 2022. Work on drafting the new Public Procurement Law, initiated already in 2020, has neither advanced for public consultations or administration's approval. Both drafts have been extensively supported by the EU technical assistance project "Support to implementation of PFM reforms in Kosovo".

In general, the results of the PEFA assessment paint a good overall picture of the PFM system in Kosovo<sup>19</sup>. In a comparison with other PEFA assessments done in the Western Balkans using the new 2016 framework, Kosovo has the highest number and percentage of the highest achievable score, the A score – 11 and 35.5% respectively. It also has the lowest number and percentage of D scores, the lowest score, – 4 and 12.9% respectively. 74.3% of the Kosovo's PEFA scores are either A and B, which can generally be regarded as a good achievement.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

#### **2.4.4 Transparency and Oversight of the Budget**

Transparency of public finances supports budget credibility. The budget information, financial statements (quarterly, six-monthly, nine-monthly and annual financial reports), budget circulars, forecasts, annual and semi-annual reports on the implementation of the PFM Reform Strategy are available to the general public on the website of the Ministry of Finance, Labour and Transfers (<https://mf.rks-gov.net/page.aspx?id=2,121>), but also on websites of its institutions such as Tax Administration of Kosovo (TAK) (<https://www.atk-ks.org/en/publications/yearly-reports/>) and Kosovo Customs (<https://dogana.rks-gov.net/per-media/publikimet/raportet/>).

The Transparency portal of the Ministry of Finance, Labour and Transfers is also a source for transparent and accountable administration, <https://ptmf.rks-gov.net/Budget/2021/9>. However, the data in the portal has not been updated since September 2021. In terms of COVID-19 extraordinary crisis expenditure, authorities did not publicly provide in a comprehensive report, or a single compiled user-friendly database for the public. The comprehensive reports were done as part of their assessment note for the COVID-19 resilience-disbursement process. However, in terms of allocation and spending specifically for COVID-19 emergency/recovery programmes, Kosovo authorities introduced specific annexes in the annual budget Law, and further in the financial statement. Further, the expenditure were audited as well from the Kosovo National Audit Office, as part of their regular financial statement annual audit process.

The Ministry of Finance, Labour and Transfers is regularly publishing budgetary documents, not only the budget after its approval, but also the draft budget proposal, and the Mid-Term Expenditure Framework Planning. The website of the Ministry of Finance, Labour and Transfers contains the draft and enacted 2017, 2018, 2019, 2020, 2021 and 2022 Budget Laws<sup>20</sup>. The Treasury has continued its regular publication of monthly data-time series on budget revenues and expenditures (<https://mf.rks-gov.net/page.aspx?id=2,29>). Publication and access to financial data every month in electronic format in Excel are enabled on the website of the Ministry, thus providing transparency on the use of public money.

A citizen's information booklet on the Kosovo Budget has been published regularly, including for the years 2020, 2021 and 2022<sup>21</sup>.

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<sup>19</sup> Kosovo score: 5.42/7 (weighted average methodology with an A scoring 7)

<sup>20</sup> Link: <https://mf.rks-gov.net/page.aspx?id=2,16>

<sup>21</sup> Link: <https://mf.rks-gov.net/page.aspx?id=2,132>

The TAK publishes all internal decisions, penalties and reports issued by TAK through their Open data module (<https://www.atk-ks.org/open-data/>), which is placed under their website.

The Annual Audit Reports of the Kosovo National Audit Office are made available to the public regularly through the Kosovo National Audit Office's official website, <http://www.zka-rks.org/en/publications/>.

The Public Procurement Review Commission has continued to maintain and regularly update the information website <https://e-prokurimi.rks-gov.net/Home/ClanakItemNew.aspx>. Through the e-procurement platform, full procurement information is available to the public.

In conclusion, the relevant budget documentation has been published and the eligibility criterion met.

### **3. DESCRIPTION OF THE ACTION**

#### **3.1 Intervention Logic**

The Action consists of a Resilience Building Contract to support the mitigation of the socio-economic impact of the energy crisis and to setup an energy resilience strategy/action plan aligned with the green energy transition focused on energy efficiency and renewable energy.

The budget support contract contributes to the administration's policy to reduce the negative impact of the energy crisis on the Kosovo citizens through investments on energy efficiency, retrofitting of the buildings, and through the use of solar applications for energy self-consumption.

The Overall Impacts of this action are:

- To mitigate the impact of the energy crisis in Kosovo economy and citizens; and
- To generate an effective climate resilient low-carbon economy and society

The Specific Outcomes of this action are:

- More efficient and rational use of energy resources

The Outputs to be delivered and to be directly influenced by this action contributing to the corresponding Specific Objectives are:

Induced outputs:

- Increase socio-economic wellbeing of consumers with focus on vulnerable consumers;
- Increased access to reliable, energy and resources efficient affordable housing facilities;
- Increased access to reliable, energy and resources efficient affordable commercial facilities;
- Improved governance framework allowing for the diversification of energy supplies in a sustainable manner;

Direct outputs:

1. Direct financial support is provided to vulnerable/energy poor households;
2. Improved green housing facilities;
3. Increased access to financial services and products to households and commercial entities to support renewable energy and resource efficiency investments;
4. Strengthened awareness of households and commercial entities to enable / undertake / manage renewable energy and energy efficiency investments or projects.

The underlying intervention logic for this action is that by providing direct financial support to the consumers in energy poverty / the most vulnerable consumers, the action will contribute to the mitigation of the socio-economic impact of the energy crisis due to the increase of the energy bills during the winter months (January-April 2023).

In addition, through the investments in energy efficiency retrofitting of the buildings in the residential sector and MSMEs, at the same time ensuring that support measures do not lead to increase in energy consumption but are coupled with energy efficiency measures, as well as investments on increasing the use of renewable energy (solar) for self-consumption, the action will address the immediate needs for energy security. It will moreover pave the way towards an effective climate resilient low-carbon economy and society, building on and in line with commitments Kosovo has taken under the Energy Community law and in line with the Energy Community Decarbonisation roadmap.

The action will increase the access of energy to reliable energy supply and efficient use of energy for the consumers both households (housing) and MSMEs (commercial).

### **3.2 Indicative Activities**

#### Activities related to Output 1

The forecast for higher energy prices during the winter months and beyond will have an impact on retail tariffs. The Kosovo authorities are developing solutions to minimise the impact on final consumers. In order to reduce the impact on the vulnerable consumers, direct financial support is needed to overcome the increase of the electricity bills. The number of households will be determined with the authorities referring to the social assistance scheme as well as other vulnerable categories including families with disabled person, families with paraplegic and tetraplegic members, pensioners, women headed households etc. These solutions will particularly target vulnerable households that are already struggling in an economic context marked by high poverty levels and the impact of the COVID-19 pandemic.

In 2022, the administration has committed a EUR 90 million subsidy to reduce the impact of the expensive electricity imports on the retail tariff, in addition subsidies for the social assistance scheme have been provided in the amount of EUR 4.5 million for the electricity bills. However further increase of the import prices would be unbearable for many consumers and in particular for the vulnerable and energy poor households.

#### Activities related to Output 2

The energy efficiency target in the new energy strategy is to achieve 60ktoe of energy savings in the buildings sector over the next two years which would cost around EUR 300 million, whereas the target for 2031 is 266.4ktoe for the buildings sector. The administration is planning in the next 1-2 years to subsidise the energy efficiency measures in the amount of EUR 140 million to achieve around 60 ktoe of energy savings in the buildings sector. The measures would include building insulation, replacement of windows/doors, and deployment of new technologies for heating/cooling systems including solar based technologies. The Kosovo energy efficiency fund (KEEF) has already experience in procurement and implementation of energy efficiency measures in the public buildings. KEEF will expand the operation to the residential buildings including single houses and the public (municipality owned) multi-apartment blocks where socially vulnerable households live.

The Kosovo energy efficiency fund (KEEF) and the Ministry of Economy will implement an awareness campaign on energy saving and on the program for subsidies for the energy efficiency investments.

#### Activities related to output 3

The new energy strategy promotes the use of renewable energy for self-consumption, the target for 2031 is to have 100MW of solar PV installed at prosumers. This activity will provide subsidies which will be implemented by KEEF (for up to a certain % to be determined) for installation of solar PV in the residential buildings whereas the Kosovo Credit Guarantee Fund (KCGF) will implement energy efficiency and solar PV projects in the MSMEs sector by providing guarantees for those investments. In 2022 the KCGF has created a new window to support energy efficiency and RES in MSMEs through guarantees for the loans.

#### Activities related to Output 4

KEEF, KCGF, the Ministry of Economy and the Ministry of Finance will implement an awareness campaign on promoting the use of renewable energy to cover part of their buildings' demand thus cutting their energy bills and also contributing to the overall energy security. In line with the awareness campaign on promoting the use of renewable energy technologies for self-consumption, apart from the ministries buildings, the action will subsidize also a certain number of households.

### **3.3 Mainstreaming**

#### **Environmental Protection, Climate Change and Biodiversity**

Environment represents the main target of the proposed intervention. All environmental laws, regulations and directives abided by in Kosovo that are directly linked to this action are taken into account in designing the action proposal, i.e. the Law on Environmental Protection, the Law on Air Protection, the Law on Environmental Impact Assessment, the Law on Waste, the Law on Water etc.

In addition, energy efficiency investments deliver a number of environmental benefits. It notably reduces GHG emissions, both direct emissions from fossil fuel combustion or consumption, and indirect emissions reductions from electricity generation. Energy efficiency has a central role in tackling climate change, a task made all the more urgent by the recent rise in emissions and the limited time to achieve mitigation targets, as outlined by the recent Intergovernmental Panel on Climate Change (IPCC) special report on Global Warming of 1.5°C.

#### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that gender equality is a significant objective of the action. A challenging issue remains participation of women in key institutions throughout Kosovo. While representation of women in the environment sector in Kosovo is moderate with 34% women in decision making positions at the Ministry of Environment, female employees at Kosovo Energy Corporation (KEK) make up only 5.61% of its workforce, predominantly in administrative positions. Given this very low share of female employees at KEK, alignment of the action with GAP III Agenda for Gender Equality<sup>22</sup> and Women's Empowerment in EU External Action<sup>23</sup> is really challenging. However, opportunities for increased participation of women throughout the implementation of the action will be explored.

Based on the activities to be conducted in the framework of the Action, vulnerable women and men shall be provided with social support to cope with the negative effects of the rising energy prices. The project will hence have a direct impact on women and men as final beneficiaries of the Action. During the implementation stage and through policy dialogue, a focus on gender-specific issues will be taken into account.

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<sup>22</sup> SWD(2020) 284 final

<sup>23</sup> JOIN(2020) 17 final

Specifically, the Action will have positive impact on women by increasing the quality of indoor air and better housing conditions. Women spend more time than men in unpaid household work. This means that women spend more time at home and are therefore more dependent than men on heating and indoor air quality. In addition, women are more dependent on energy to use household devices (e.g. ovens, dishwashers and vacuum cleaners). Poor housing conditions (such as poorly insulated environments) and pollutant electronic devices and fuels may have a negative impact on women's health.

The European Commission research carried out by the European Institute for Gender Equality suggests that more women than men may be subject to energy poverty. Elderly women are at higher risk of fuel poverty due to their higher life expectancy and lower pensions. This risk is also shared by lone female-headed households that have lower incomes. The Action will consider a higher number of women households and gender equality in the implementation of its outcomes.

### **Human Rights**

The action under this budget support operation will apply the human rights based approach and be based on the principles of good governance, equality and the inclusion of socially or economically deprived or vulnerable groups.

### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D1. This implies that the inclusion of persons with disabilities is an important objective of the Action. The Action envisages to provide targeted social support to women and men, girls and boys with disabilities to cope with the negative effects of the rising energy prices.

### **Conflict sensitivity, peace and resilience**

The action under this budget support operation will maintain a certain flexibility to ensure that context specificities and needs of people are met locally through a non-discriminatory and rights-based approach. Vulnerable individuals belonging to ethnic minority communities are also included in targeted actions of this budget support, designed to address their social and economic needs. These individuals could indicatively belong to the constitutionally recognised ethnic communities of Kosovo including, Roma, Ashkali, and Egyptian.

### **Disaster Risk Reduction**

The contract is intended to increase the overall resilience of economy and society to external shocks.

## **3.4 Risks and Assumptions**

<b>Category</b>	<b>Risks</b>	<b>Likelihood (High/ Medium/ Low)</b>	<b>Impact (High/ Medium/ Low)</b>	<b>Mitigating measures</b>
Planning, processes and systems	Lower economic growth, soaring prices in commodity goods and in energy due to the ongoing Russian war in	Medium	Medium	<ul style="list-style-type: none"> <li>- Continuous coordination with international partners (IMF, WB, EU MS) to agree on short to medium term response.</li> <li>- EUD to observe Kosovo's adherence to the Energy Community Platform and application of its reduction targets.</li> </ul>

	Ukraine and the chain-supply disruptions from the pandemic all hamper the economic growth, affect the implementation of social reforms and increase the poverty gap among different groups.			- EUD to promote the social assistance reform that will expand the eligible beneficiaries, in coordination with the WB.
Planning, processes and systems	The crisis response measures are not part of the regular budget mechanism and reporting.	Low	Medium	<ul style="list-style-type: none"> <li>- EUD to promote the independence and role of the Supreme Audit Institution, including by a request for a performance audit on the emergency measures implemented in 2022-2023.</li> <li>- EUD to engage on regular policy dialogue observing the adoption and implementation of the PPP law.</li> <li>- EUD to involve in its regular policy dialogue the Supreme Audit Institution and civil society organisations.</li> </ul>
Political external environment /	Risk of social instability caused by the high costs of living leading to government instability.	Low	Medium	- EUD to support the Government in the implementation of its external communication strategy informing public stakeholders on the nature of the crisis and of the measures in place to alleviate the economic burden on the most vulnerable.
Planning, processes and systems	The energy efficiency fund's ability to implement the investment package within the given period of time 2023-2024	Medium	Medium	The fund to ensure sufficient resources for implementation;
Planning, processes and systems	Delay in setting the criteria for selection of beneficiaries in the households sector	Low	Medium	The Kosovo authorities and the fund will engage support from the World Bank on assessment and selection criteria for the households sector. For the commercial-SMEs the Kosovo credit guarantee fund (KCGF) will use the present instrument Window Grow for green recovery and opportunity window.
Political external environment /	Increase of prices for the energy efficiency technologies/devices in the market	Medium	Medium	The Kosovo authorities to perform regular market inspection and monitoring to minimise the risk of any abuse by the private operators/traders.



	as a result of grant subsidy scheme			
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## External Assumptions

- The financial input will provide the fiscal space for the Kosovo administration to implement measures that alleviate the socioeconomic burden on vulnerable households during the 2022-2023 winter and support SMEs to continue their economic activity through the implementation of specific measures and thus contribute to safeguard jobs during this period.
- The continuous policy dialogue between the EU and Kosovo administration will help identify the vulnerable categories (possibly expanding the basis covered by the present social assistance programme) and provide that the measures are targeted towards them. The development of the energy crisis action plan is one output of this dialogue and is the framework in which the type of support measures are jointly identified.
- Performance assessment and policy dialogue will closely observe that the budget allocations are in line with internal fiscal rules and Public and Private Partnerships (PPP) law and accountability is ensured.
- Despite the continuous energy crisis of the 2022-2023 winter generated by Russian war of aggression against Ukraine, the Kosovo administration is engaged in providing immediate support measures and continues a stability oriented macroeconomic policy.
- Kosovo authorities will need to complete the legal and regulatory framework to enable the implementation of the Action including the law on renewable energy sources, the law on environmental impact assessment, the revision of the law on energy performance of the buildings and the subsequent legislation. In addition, the regulations such as the draft regulation on authorisation of the new energy generation capacities including for self-consumption should be adopted to allow for a higher share of the renewable energy in the buildings' energy demand. The regulation on energy performance certification of the buildings should be enforced by local and central level authorities.

## 3.5 Indicative Logical Framework Matrix

Results	Results chain	Indicators	Baselines (value and year)	Targets by the end of the budget support contract (value and year)	Sources of data
<b>Indicative Impact of the policy</b>	To mitigate the impact of the energy crisis in Kosovo economy and citizens;	% of RE energy/electricity generated GDP growth level			Partner's strategy/policy and reporting
<b>Expected Outcomes of the policy</b>	More efficient and rational use of energy resources and to generate an effective climate resilient low-carbon economy and society.	Level of total final energy consumption  Share of RE capacity for self-consumption	1596 ktoe (2021)  2MW (2022)	1709 ktoe (2024)  5 MW (2024/25) <sup>25</sup>	Energy strategy 2022-2031  National annual report for implementation of the Energy Efficiency Directive

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<sup>25</sup> Based on the Kosovo draft energy strategy 2022 - 2031

<b>Induced Outputs</b>	Increase socio-economic wellbeing of consumers with focus on vulnerable consumers	Number of vulnerable consumers	Over 36,000 (2022)	Around 200,000 (2023/24)	Reports on social assistance of the Ministry of Finance and Kosovo Statistics Agency;
	Financial incentive mechanisms is set by KEEF for residential consumers;	New mechanism for residential consumers in place	0	1	Energy Regulatory office published authorisation for prosumers;
	Financial incentive mechanism is optimised by the KCGF for the MSMEs;	To be defined	To be defined	To be defined	Annual report of the Energy Efficiency Fund.
	Improved governance framework allowing for the diversification of energy supplies in a sustainable manner	Adoption of the Law on Renewable Energy drafted in cooperation with the Energy Community Secretariat	0 (2022)	Adopted Law (Q2 2023)	Annual Report of the Kosovo credit guarantee fund (KCGF)
		Adoption of the new Law on Environmental Impact Assessment	0 (2022)	Adopted amendments (Q1 2023)	Reporting to the Energy Community Secretariat  Official Gazette of the Government of Kosovo
<b>Direct Outputs</b>	1. Direct financial support is provided to vulnerable/energy poor households;	Number of vulnerable / energy poor households	36,000 (as of 2022 24,627 on the social scheme and other vulnerable groups)	Around 200,000 (2023 and possibly 2024)	Partner's strategy/policy and reporting;

	2. Improved green housing facilities;	Number of residential buildings	including 7,000 <sup>26</sup> RAE(Roma, Ashkali,Egypti an) households  1,000 single houses (2022) - to be verified	Additional 1,000 single houses and 5 to 10 public multi-apartment blocks for vulnerable households (2024) <i>of which at least 10% are women led households</i>	Reports on social assistance of the Ministry of Finance; Kosovo Statistics Agency reports on social wellbeing;
	3. Increased access to financial services and products to households and commercial entities to support renewable energy and resource efficiency investments;	Number of households (women and man) benefiting from heating appliances and other energy efficient and RES/solar technologies  Number of MSMEs who benefitted from guarantees	2,377 households (2022)  Indicatively 2 SMEs, exact number to be confirmed (2022) <sup>27</sup>	Additional 3,000 households  Around 540 MSMEs <i>of which at least 30% (to be confirmed) are women led MSMEs (2024)</i>	The annual report of KEEF 2023 and 2024;  Energy Regulatory office published authorisation for prosumers;  KCGF report on SMEs window growth
	4. Strengthened awareness of households and commercial entities to enable / undertake / manage renewable energy and energy efficiency investments or projects.	Number of campaigns on energy savings	1 campaign (2022)	2 campaigns (2023/2024)	Visibility material as published on the site of Min of Economy and Min of Finance, KEEF

## **4 IMPLEMENTATION ARRANGEMENTS**

### **4.1 Financing Agreement**

In order to implement this action, it is envisaged to conclude a financing agreement with Kosovo.

### **4.2 Indicative Implementation Period**

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 24 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### **4.3 Implementation of the Budget Support Component**

The Programme will be subject to direct management by the European Union Office in Kosovo.

#### **4.3.1 Rationale for the Amounts Allocated to Budget Support**

The amount allocated for budget support is EUR 75 000 000. No complementary support is foreseen.

This amount is based on the commitment of Kosovo to allocate national budget resources to mitigate the socio-economic impact of the energy crisis generated by Russian war of aggression against Ukraine. This amount is informed by a comprehensive discussion with the stakeholders and by the preparation of a National Action Plan to address the consequences of the energy crisis, particularly on vulnerable households and micro, small and medium enterprises.

#### **4.3.2 Criteria for Disbursement of Budget Support**

##### **a) Conditions.**

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the National Energy Crisis Action Plan to address the consequences of the socio-economic impact of the energy crisis.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.
- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

##### **b) Fundamental values**

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<sup>26</sup> Kosovo Population Census 2011 (35,000 citizens and 5.8 the average household size)

<sup>27</sup> Source Ministry of economy/Kosovo credit guarantee fund

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### 4.3.3 Budget Support Details

The budget support component consists of two fixed tranches. Budget support is provided as direct untargeted budget support to the national treasury.

#### 4.4 Indicative Budget

<b>Indicative Budget components</b>	<b>EU contribution (amount in EUR)</b>
<b>Budget support</b> - cf. section 4.3	75 000 000
<b>Evaluation</b> – cf. section 5.2 <b>Audit</b> – cf. section 5.3	will be covered by another Decision
<b>Communication and visibility</b> – cf. section 6	will be covered by another Decision
<b>Contingencies</b>	N.A.
<b>Total</b>	75 000 000

#### 4.5 Organisational Set-up and Responsibilities

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

High-level political support to the action will be ensured through the Office of the Deputy Prime Minister that reports to the Kosovo administration and where the National IPA Coordinator is placed. Apart from the Minister of Economy which is in charge for drafting and implementing policies which encourage economic growth and stability and ensure sustainable and perspective development of energy and mining resources, the Minister of Finance will be also closely involved in the implementation of this budget operation.

The EU Office may participate at the stakeholders working groups established by the administration for the energy strategy action plan and the working group for the national energy and climate plan. The EU Office participates as observer in the Board of the Kosovo energy efficiency fund due to ongoing IPA 2017 programme on energy efficiency in public buildings.

Among potential policy dialogue priorities:

- The status of the social assistance reform and particularly crisis response;
- Robust PFM and transparency and accountability of extraordinary expenses (including with the SAI);
- Development of the National Energy and Climate Change Plans, meeting the targets under the Energy Community Platform, resilience and diversification of energy sources.

## **5 PERFORMANCE MEASUREMENT**

### **5.1 Monitoring and Reporting**

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its Outputs and contribution to the achievement of its Outcomes, and if possible at the time of reporting, contribution to the achievement of its Impacts, as measured by corresponding indicators, using as reference the partner's strategy, policy or reform action plan list. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The administration should make publicly available the conditions and criteria for allocation of support under all the foreseen measures under this contract stemming from the Energy Support Package. The information should be publicly available on the websites of the relevant ministries. Similarly, once the fund allocations are decided upon, information (names, amount of publicly funded aid) should be publicly available on the relevant ministry or administration website with regard to transfers and subsidies to legal entities in all sectors targeted. For the Commission, the monitoring and assessment of the eligibility criteria for the disbursement of the tranches will be carried out by the EU Office in Kosovo and the geographical unit of DG NEAR, when necessary, by other Commission services and/or international organisations.

The donor coordination mechanisms operating under the Officer of the Prime Minister/NIPAC Office will ensure coordination with other international organisations, whereas the Governance Sector Working Group, led by the Ministry of Economy will serve as a discussion forum for discussing the progress of the budget operation.

The consultation mechanism established to facilitate communication between the authorities and civil society will also be utilised to discuss the reports produced by the Kosovo institutions.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment is based on the published report of the Kosovo Statistics Agency, on social welfare, report on annual energy balance, and survey on SMEs. In addition, the reports and policy document of the relevant institutions have been consulted, such as: Draft Energy Strategy, Energy Regulator's annual reports etc.

### **5.2 Evaluation**

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the beneficiary's authorities, other budget support providers and relevant stakeholders.

In case an evaluation is not planned, the Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner.

The Commission shall form a Reference Group (RG) composed by representatives from the main stakeholders at both EU and national (representatives from the authorities, from civil society organisations (private sector,

NGOs, etc.), etc.) levels. If deemed necessary, other donors will be invited to join. The Commission shall inform the implementing partner at least 2 months in advance of the dates envisaged for the evaluation exercise and missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the beneficiary and other key stakeholders following the best practice of evaluation dissemination. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the beneficiary, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract. The financing of the evaluation shall be covered by another measure constituting a financing Decision.

### **5.3 Audit and Verifications**

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

## **6 STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY**

All entities implementing EU-funded external actions have the contractual obligation to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. To that end they must comply with the instructions given in the 2022 guidance document [\*Communicating and raising EU visibility: Guidance for external actions\*](#) (or any successor document).

This obligation will apply equally, regardless of whether the actions concerned are implemented by the Commission, the beneficiary, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU Member States. In each case, a reference to the relevant contractual obligations must be included in the respective financing agreement, procurement and grant contracts, and contribution agreements.

This programme is part of the EUR one billion Energy Support Package, which comprises also direct support to the six IPA beneficiaries through the Western Balkans Investment Framework for energy diversification, energy transition and energy security. Visibility and communication activities should be pursued strategically also in this context and with the aim to promote the Package as a whole at regional and national level. Visibility and communication aspects shall be complementary to the activities implemented by the Directorate-General for Neighbourhood and Enlargement Negotiations and will be jointly coordinated with the EU Office, to ensure coherence of narrative and message, as well as horizontal strategic communications.

All communication with regard to the budget support should be closely coordinated with the European Union Office and cannot be considered in isolation of the policy or reforms that the contract is supporting. It should be planned strategically as the contract is being designed. Due to the nature and the duration of the action, regular communication on the aspects the policy reforms, the target beneficiaries and the progress on achievement of results with the planned indicators, needs to be carried out.

## **7 SUSTAINABILITY**



This action responds to immediate crisis needs aimed at supporting vulnerable stakeholders – households and SMEs - throughout the winter of 2022-2023. Nevertheless, through this action, the EUD will observe the status of the social assistance reform – especially relevant in identifying the eligible beneficiaries - and the DRM related strategies. The third strand of the programme, also sets the basis for clean energy in line with ECP commitments.

The Kosovo energy efficiency fund will establish the unit for implementation of the energy efficiency scheme and for the solar PV for prosumers scheme. The energy efficiency measures to be implemented at the residential and commercial buildings will be performed by the private operators. The market of energy efficiency services and technologies is pretty much developed in Kosovo. The availability of sufficient numbers of skilled workforce for implementation of the measures is a challenge since skilled workers are migrating to European countries.