

Ministry of Foreign Affairs – (Department for European Neighbourhood)

Meeting in the Council for Development Policy on 30 June 2022

Agenda Item No. 9

- | | |
|---|---|
| 1. Overall purpose: | <i>For discussion and recommendation to the Minister</i> |
| 2. Title: | Kosovo – Denmark Partnership for Green and Just Energy Transition |
| 3. Presentation for Programme Committee: | 29 April 2022 |
| 4. Previous Danish support presented to UPR: | No, this is the first presentation to UPR |

Kosovo-Denmark Partnership for Green and Just Energy Transition 14.06.2022

Key results:


















- Increased renewable energy (RE) capacity and a more robust and diversified energy mix, measured in terms of tonnes/year CO₂ reduced/avoided and contributions to improved legal and regulatory framework for EE and RE, e.g. including competitive auctioning of RE.
- Increased energy and resource efficiency (EE) in the residential, small and medium enterprises (SME) and possibly public sector, measured as energy saved and tonnes/year CO₂ reduced/avoided.
- Other outcomes for government-to-government, peer-to-peer cooperation to be defined in an inception phase, including capacity development outcomes in Kosovan partner institutions.

Justification for support:

- Kosovo relies for over 90% of its domestic production of electricity on two lignite coal-fired heavily polluting and outdated power plants.
- Achieving a Just Green Transition will be challenging, as one in six live below the poverty line.
- New government in place, with majority in Parliament and political will to change.
- Support fully consistent with Danish goals re SDG 7 and 13.

Major risks and challenges:

- Delays in the Kosovan Government's approval of enabling policies and legislation for the green energy transition. Mitigation measure: Partnership dialogue, including through EBRD.
- Limited capacity of Kosovan public sector institutions. Mitigation measure: Initial focus on private sector, building on well-proven EBRD programmes. Gradual phase-in of peer-to-peer public sector cooperation and capacity development.
- Denmark is not represented in Kosovo. Mitigation measure: Delegated cooperation through EBRD.

| | | | | | | | | |
|-------------------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|--------------|
| File No. | F2 2021-20061 | | | | | | | |
| Country | Kosovo | | | | | | | |
| Responsible Unit | EUN | | | | | | | |
| Sector | Energy | | | | | | | |
| | <i>DKK million</i> | 2022 | 2023 | 2024 | 2025 | 2026 | 2027 | Total |
| Commitment | | 75.00 | 129.75 | | | | | 204.75 |
| Projected disbursement | | 39.15 | 74.40 | 74.65 | 8.40 | 8.15 | 0 | 204.75 |
| Duration | Q4/2022-Q4/2027 (5 years) | | | | | | | |
| Finance Act code. | § 06.34.01.40 | | | | | | | |
| Head of unit | Lars Bo Møller | | | | | | | |
| Desk officer | Mogens Blom | | | | | | | |
| Reviewed by CFO | Max Mortensen | | | | | | | |
| Relevant SDGs | <div>  No Poverty  No Hunger  Good Health, Wellbeing  Quality Education  Gender Equality  Clean Water, Sanitation </div> <div>  Affordable Clean Energy  Decent Jobs, Econ. Growth  Industry, Innovation, Infrastructure  Reduced Inequalities  Sustainable Cities, Communities  Responsible Consumption & Production </div> <div>  Climate Action  Life below Water  Life on Land  Peace & Justice, strong Inst.  Partnerships for Goals </div> | | | | | | | |

Objective:

The objective of the development cooperation is that Kosovo is on a solid social just transition path towards climate neutral energy according to its National Energy Strategy, based on heightened energy efficiency, transformational use of renewable energy sources and integration in the pan-European market..

Environment and climate targeting - Principal objective (100%); Significant objective (50%)

| | Climate adaptation | Climate mitigation | Biodiversity | Other green/environment |
|---------------------------------|--------------------|--------------------|--------------|---|
| Project 1 | 0 | 100% | 0 | Resource efficiency benefits and co-benefits, including reduced air pollution reduction |
| Project 2 | 0 | 100% | 0 | Resource efficiency benefits and co-benefits, including reduced air pollution. |
| Total green budget (DKK) | 0 | 100% | 0 | |

| Project 1: Danish-Kosovan Green Fund | Partner | Total thematic budget: [DKK million] |
|---|----------------|---|
| Engagement 1 - the development project | EBRD | 185.50 |
| Engagement 2 – green energy finance analyst | EBRD | 2.00 |
| Total | EBRD | 187.50 |

| Project 2: Government to government, peer-to-peer support | Partner | Total thematic budget: [DKK million] |
|--|-----------------------------|---|
| Engagement 1 - the development project | Danish Energy Agency | 10.75 |
| Engagement 2 – long-term advisor (tbc) | Danish Energy Agency | 6.00 |
| Total | Danish Energy Agency | 16.75 |

| | | |
|--------------------------------|--|------|
| Inception and Mid-term Reviews | | 0.50 |
|--------------------------------|--|------|

| | |
|--------------|---------------|
| Total | 204.75 |
|--------------|---------------|

Ministry of Economy of the Republic of Kosovo
Ministry of Foreign Affairs of Denmark (MFA)

**Kosovo-Denmark Partnership
for Green and Just Energy Transition
2022-2027
Programme Document**

Final
14 June 2022

MFA file number Ref: F2 2021-20061

Key Abbreviations and Acronyms

Note: Some abbreviations or acronyms used only once, or a few times, may not be in this list but are then spelled-out where they are used.

| | |
|-----------------------|---|
| acquis | EU energy acquis communautaire |
| ALPEX | Albanian Power Exchange |
| AMG | Danida Aid Management Guidelines |
| CBAM | EU Carbon Border Adjustment Mechanism |
| CSDP | Common Security and Defence Policy |
| CSO | Civil society organisation |
| CSP | Competitiveness Support Programme |
| DANEP | Danish Eastern Neighbourhood Programme |
| Danida | Brand name for Danish development assistance under the Ministry of Foreign Affairs of Denmark |
| DCFTA | Deep and Comprehensive Free Trade Area Agreement |
| DEA | Danish Energy Agency |
| DH | District heating |
| DKK | Danish Kroner |
| EBRD | European Bank for Reconstruction and Development |
| EE | Energy efficiency |
| EKF | (Danish) Export Credit Fund |
| ENTSO-E | European Network of Transmission System Operators for Electricity |
| EOD | Embassy of Denmark in Vienna, Austria |
| ERO | Energy Regulatory Office |
| ERA | European Reform Agenda |
| ESCO | Energy service company |
| EU | European Union |
| EULEX | European Union Rule of Law Mission in Kosovo |
| EUN | MFA Department for European Neighbourhood |
| EUR | Euro |
| FRR | Final results report |
| GDK | MFA Department for Green Diplomacy and Climate |
| GEFF | EBRD Green Energy Finance Facility |
| GET | Green Economy Transition |
| GHG | Greenhouse gas |
| GJ | Giga Joule |
| IFI | International Finance Institution |
| IFU | Danish Investment Fund for Developing Countries |
| IPA | EU Instrument for Pre-Accession Assistance |
| KEEA | Kosovo Energy Efficiency Agency |
| KEDS | Kosovo Energy Distribution Services Company |
| KEFF | Kosovo Energy Efficiency Fund |
| KEK | Kosovo Energy Corporation |
| KESCO | Kosovo Electricity Supply Company |
| KFOR | NATO Mission in Kosovo |
| KOSTT | Kosovo transmission system operator |
| KPI | Key performance indicator |
| Ktoe | Kiloton of oil equivalent |
| kWh | Kilowatt hour |
| LOI | Letter of intent |

| | |
|------------|--|
| LTA | Long-Term Advisor |
| ME | Ministry of Economy, Kosovo |
| MFA | Ministry of Foreign Affairs of Denmark |
| MOPAN | Multilateral Organisation Performance Assessment Network |
| MOU | Memorandum of Understanding |
| MTR | Mid-term review |
| MWh | Megawatt hour |
| NDC | Nationally Determined Contribution |
| NECP | National Energy and Climate Plan |
| NES | National Energy Strategy (the draft Energy Strategy of the Republic of Kosovo 2022-2031, as launched in June 2022: internet link) |
| NGO | Non-governmental organisation |
| OECD DAC | Organisation for Economic Co-operation and Development - Development Assistance Committee |
| PAP | Process Action Plan |
| PD | Programme Document |
| PFI | Partner Financial Institution |
| PV | Photo voltaic |
| Q | Quarter |
| RE | Renewable Energy |
| RES | Renewable energy sources |
| RO | Resident office of EBRD in Kosovo |
| SAA | The EU-Kosovo Stabilisation and Association Agreement |
| SC | Steering Committee |
| SDG | Sustainable Development Goal |
| SME Reboot | EBRD Sustainable Reboot SME Programme |
| TA | Technical assistance |
| TOC | Theory of Change |
| TOR | Terms of Reference |
| UNDP | United Nations Development Programme |
| UNFCCC | United Nations Framework Convention on Climate Change |

Currency rates: 1 DKK = 0.13 EUR; 1 EUR = 7.50 DKK

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1. Introduction

This Programme Document (PD) outlines the background, rationale and justification, objectives and management arrangements for development cooperation agreed between the Ministry of Economy of the Republic of Kosovo and the Ministry of Foreign Affairs of Denmark concerning the support programme entitled “Kosovo-Denmark Partnership for Green and Just Energy Transition 2022-2027” (hereinafter referred to as “The Programme”).

Denmark and Kosovo have a long history of cooperation¹ and partnership in economic and social development, democratic development, and peacekeeping². Development cooperation has been within agriculture, vocational educational and skills development, and democratic governance. Thus far the cooperation has not comprised the energy sector or climate change. On 20 December 2021, a Joint Statement was signed between the Governments of Kosovo and Denmark on strengthening the cooperation between the two countries. The Statement reflected the specific commitment to join forces in accelerating the energy transition— and this was further detailed in a Letter of Intent (LoI) signed between the Minister of Economy of Kosovo and the Danish Minister for Development Cooperation concerning enhanced political and development cooperation. The LoI specified that the Parties will cooperate in the promotion of renewable energy (RE), energy efficiency (EE) and energy consumption planning projects, including reforms in the energy field outlined in the EU-Kosovo Association Agenda.

2. Context, strategic considerations, rationale, and justification

2.1 Key issues to be addressed and context

Kosovo relies for over 90% of its domestic production of electricity on two lignite coal-fired heavily polluting and outdated power plants, Kosova A and Kosova B. In December 2021, one of these plants experienced operational difficulties resulting in reduced electricity production. Combined with the needs for heating during a cold winter, this development, along with generally increasing energy consumption in Kosovo and more expensive energy imports, led to energy shortages in December 2021, showing the lack of flexibility in the system. The Kosovan Parliament on 24 December 2021 approved a state of emergency with load shedding (cutting electricity supply for up to two hours on an area-by-area basis) in response to these energy supply shortages, underscoring the severity of the energy crisis. The residential sector is the second largest energy consumer in Kosovo and there is an increased discussion in Kosovo's public discourse about the country's energy future following this crisis. Increasing demands for electricity combined with the rapidly increasing costs of energy on international markets in the first and second quarters of 2022 have further exacerbated the crisis. According to information given to the formulation mission by the Kosovo Energy Corporation (KEK), there is currently a gap of up to 500 MW between

¹ Including Humanitarian and Rehabilitation Assistance to Kosovo, 1999-2003 under the MFA's Kosovo Action Plan. Development cooperation in Kosovo was supported under the Danish Neighbourhood Programme (now known as DANEP) from 2008-2018 in three main clusters: i) agricultural development projects; ii) educational and skills development; iii) democratic governance. Following the reductions of the development budget in 2015 it was decided not to continue the neighbourhood support to Albania, Bosnia-Herzegovina, Kosovo, Belarus, and Moldova, and exclusively support Georgia and Ukraine under DANEP 2027-2021. However, through delegated cooperation with the World Bank, Denmark has until recently supported Kosovo in the Agriculture and Rural Development Program, which is closing in mid-2022. Denmark's support was through a project entitled “Danish Support for the Rural Development Grant Program”.

² The NATO Mission in Kosovo (KFOR) was launched in 1999, as a peace-support operation deriving its mandate from the UN Security Council Resolution 1244 and international agreements. KFOR is deployed to maintain a safe and secure environment, freedom of movement for all citizens in Kosovo and to facilitate the Euro-Atlantic integration of the Western Balkans. Denmark has been a part of KFOR from the very beginning. Currently there are 35 Danish soldiers in Kosovo under KFOR is guarding Camp Marechal De Lattre de Tassigny at Novo Selo.

installed capacity and peak demand. Moreover, KEK is obliged to sell electric power at only 29.5 EUR/MWh while the international market price for electricity that KEK has to purchase on the international market may be as high as up to 250 MWh, eight times the selling price. While major wind farms have recently entered service, the contribution of renewable energy (RE) in Kosovo's energy mix is low, with only 5% RE share in electricity consumption. Moreover, there is low energy efficiency (EE) in consumption, and energy intensity in Kosovo is up to 4 times the EU average. In this situation, energy efficiency – often referred to as “the first fuel” in the energy transition – is a high priority³. However, consumer prices for electricity are extremely low and do not offer strong incentives for EE. Therefore, it presented a major challenge when the Kosovo Court of Appeals in mid-May 2022 upheld a decision by the Basic Court in Pristina to block the increase of electricity tariffs earlier approved by the Energy Regulatory Office (ERO). Despite a 100% connection rate to the electricity distribution system and low tariffs, there is high energy poverty in Kosovo, as acknowledged by the Government. The Kosovan economy is characterised by a high degree of informality and small and medium sized enterprises (SMEs) account for 90% of all businesses in the country.

Kosovo is a landlocked mountainous country in the Western Balkans region with a population of about 1.8 million and a land area of about 11,000 km². Kosovo is bordered by Serbia to the north and east, North Macedonia to the south, Albania to the west, and Montenegro to the northwest. The country's history is complex and will not be summarised here. In February 2008, Kosovo declared independence from Serbia and subsequently adopted the Constitution of the Republic of Kosovo, which came into effect on 15 June 2008. Early parliamentary elections in February 2021 resulted in the formation of the current government that enjoys a clear parliamentary majority. The President of the Republic of Kosovo is Dr. Vjosa Osmani Sadriu. Albin Kurti is the present Prime Minister of Kosovo. Over 90% of the population of Kosovo are ethnic Albanians. The official languages of Kosovo are Albanian and Serbian. English is widely used, and many official websites and documents are in all three languages. Kosovo has a high degree of digitalisation, with 91% of the population connected to the internet. Kosovo's currency is the Euro (EUR). In 2021, economic growth was strong. Yet, Kosovo remains among the very poorest countries in Europe with GDP per capita at merely 24% of the EU27 average even when measured at purchasing power parity. That is well below the average for other Western Balkan countries (37%) and far below the average of Poland, Baltics and other EU11 (73%).

While over 100 UN-member countries have recognized Kosovo as an independent, sovereign state, Kosovo is not (yet) a member of the United Nations. Despite this situation, UNDP has been present in Kosovo since 1999, including in the energy sector. Another UN Agency engaged in Kosovo is UN-Habitat, with projects in green inclusive urban development. Kosovo is a member of major international organisations such as EBRD, the World Bank, and the Energy Community. Kosovo is also a potential candidate for EU membership. As noted by the EU 2021 Report⁴ on Kosovo “The EU-Kosovo Stabilisation and Association Agreement (SAA) has been in force since April 2016. A second phase of the European Reform Agenda (ERA) was launched in October 2020, to further guide the implementation of EU-related reforms under the SAA framework. The authorities continued to demonstrate publicly their commitment to Kosovo advancing on its European path.”

Kosovo is a signatory of the Energy Community Treaty since 2005. This Treaty and its mechanisms are used as a pre-accession tool for contracting parties, aiming to expand the benefits of the regional market

³ The International Energy Agency (IEA's) 7th Annual Global Conference on Energy Efficiency held in Sønderborg, Denmark in June 2022 has highlighted the crucial importance of EE, see for instance [“The value of urgent action on energy efficiency”](#).

⁴ https://ec.europa.eu/neighbourhood-enlargement/document/download/ec34a067-8477-4adc-a123-054b7d62abc4_da Commission Staff Working Document dated 19 October 2021 and covering the period June 2020-June 2021.

before joining the European Union. In this regard, Kosovo is obliged to harmonize its national legislation in compliance with the EU energy *acquis communautaire*⁵ adopted by the Ministerial Council of the Energy Community. As a contracting party of the Energy Community, Kosovo has transposed EU directives related to the third energy package including the Energy Efficiency Directives. In addition to this, the EU adopted the Green Deal as a new growth strategy through which it aims to become climate neutral by 2050. The Energy Community's most recent report for 2021⁶ reflects the degree of Kosovo's compliance with EU energy *acquis* and is thus an important driver of the green energy transition in the country.

Further context information is given in Annex 1.

2.2 Strategic considerations

The Ministry of Economy (ME) is responsible for Kosovo's energy sector⁷ and the green energy transition. Presentations by the Ministry to the international community (most recently on 10 May 2022 during EBRD's Annual Meeting) have articulated its vision for Kosovo's energy sector, including: i) decarbonisation of the energy sector; ii) ensuring security of supply; iii) maintaining affordability for end-customers; iv) ensure regional market integration. These presentations have highlighted the country's strategic priorities including: a) leapfrogging from lignite to RE, facilitated by in-country storage capacities; b) energy efficiency as a top priority, improving EE of existing buildings and public lighting and the development of a market for energy service companies (ESCOs); c) ambitious deployment of RE, including wind and solar photovoltaic (PV) and including launching pilot PV auction by end 2022, to be followed by other wind and PV auctions; d) introducing RE in the heating sector, including solar powered district heating (DH) and exploring biomass heating options. These priorities have informed Denmark's strategic choices for support and the formulation process.

The Kosovan Government's priorities have been further specified in the new national Energy Strategy 2022-2031 that has just been launched for public consultation (in Albanian on 7 June 2022 and English on 9 June). A related plan of action is still awaited. The Strategy is led by the vision of *"a CO₂ free energy sector by 2050, integrated in the pan-European market, ensuring energy security and affordability for citizens"*. The Strategy articulates 5 strategic objectives (including EE, and decarbonisation and RE promotion), each with a number of specific objectives and related main targets. Annex 14 to the present PD summarises key priorities in the draft Strategy, which is presently in a public consultation process until 27 June after which the final draft Strategy will be adopted in the Government and sent to the Assembly. It might then be adopted in the Parliament during July 2022.

The Energy Community has recommended Kosovo to introduce energy efficiency incentives in residential and private sectors; the Community's most recent report contains many other conclusions and recommendations, which are too detailed to be summarised here (see further information in Annex 1),

⁵ By adopting the Energy Community Treaty, the Contracting Parties make legally binding commitments to adopt core EU energy legislation, the so-called "*acquis communautaire*". The 'original' *acquis* has undergone several updates and there are new acts on statistics, oil and infrastructure. In November 2021, the first set of [Clean energy package](#) acts were incorporated into the Energy Community *acquis*. The adoption of Governance Regulation 2018/1999 on 30 November 2021 marked the next step. Adopted and adapted by [Decision 2021/14/MC-EnC](#), the Regulation sets common rules for planning, reporting and monitoring on energy and climate policies and targets. In particular, the Contracting Parties will be required to submit National Energy and Climate Plans (NECPs). As can be seen here <https://www.energy-community.org/regionalinitiatives/NECP.html> Kosovo's NECP progress reporting is pending.

⁶ https://www.energy-community.org/dam/jcr:db6d342-ea7d-4677-9a9b-e18f22a1cfad/IR2021_Kosovo.pdf

⁷ Further information on the key stakeholders in the energy sector can be found in Annex 1.

but the proposed Danish support takes careful account of the Energy Community's compliance report and also the recommendations of the EU Report 2021 for Kosovo.

EBRD is a green bank with a commitment to 50% of its investments supporting green economy by 2025. Details of EBRD's approach to assessment of GHG emissions can be found in Annex 15. EBRD's Kosovo Country Diagnostic report 2021 also contains detailed assessments and EBRD's Country Strategy for Kosovo 2022-2027 highlights key challenges in the energy transition, including reliance on coal and limited RE in the energy mix, low level of investments in RE, lack of regulations, and limited private sector participation; high energy usage and carbon intensity in residential and commercial buildings; and that end user electricity prices remain regulated and some cross-subsidies remain. These issues and EBRD's Strategy have informed Denmark's strategic choices for support.

Kosovo is mentioned under "Upper Middle-Income Countries" in the OECD DAC "List of ODA Recipients Effective for reporting on 2022 and 2023 flows" so the Danish support is fully DAC eligible.

Lessons learned from previous Danish support in Kosovo are highlighted in various evaluation reports⁸ and have informed the Programme design. Whilst these are not directly related to the energy sector, conclusions of more general validity include that: support was well aligned to and has also contributed to Kosovo's policy environment within sustainable and inclusive economic development, especially to skills development; some of the key transformational results were achieved by specifically building on the competitive advantage of the implementing partners; the programme in Kosovo had been stable, building on long-term projects often supporting them in their consecutive phases and working through strong delegated partners with a presence and networks in Kosovo; given the challenges of the complex, fast changing and relatively donor-crowded environment in Kosovo, Denmark had engaged in a solid set of projects that had the potential to bring results without a long lead time and without contributing to the proliferation of donor support initiatives; Danish support avoided overlaps with other donor initiatives and was harmonised with such initiatives; the modality of delegating to partners served to reduce transaction costs but also reduced Denmark's profile and political capital, although Danida, through active engagement, added value to the projects under delegated partnerships; delegated partnership, especially through international organisations that are not donors themselves, required vigilance to ensure application of sufficient high-level supervision and quality assurance.

2.3 Identification and formulation process

During September to December 2021, the Ministry of Foreign Affairs of Denmark (MFA) consulted with key Kosovan Government representatives and a number of bilateral and multilateral development partners in Kosovo. A high-level MFA mission visited Kosovo in October 2021 to discuss future cooperation and partnership and as mentioned in the foregoing, a Joint Statement was signed on 20 December 2021, confirming the mutual commitment to shared fundamental values and joint determination to further strengthen the rule of law, democracy, and human rights. The two countries agreed to conduct regular political consultations in areas of mutual interest and to strengthen cooperation on green transition and the promotion of rule of law, democracy and human rights. It was agreed that pending approval by its appropriating authorities, the Government of Denmark intends to support relevant programmes and projects in this regard within the frame of EUR 30 million over an initial five-year period with a long-term perspective and through relevant international partners. While the main area of focus for development cooperation was to be within green transition, up to EUR 2.5 million would

⁸ Evaluation of Humanitarian and Rehabilitation Assistance to Kosovo, 1999-2003, dated November 2004; Evaluation of the Danish Neighbourhood Programme with a Focus on the Economic Development Portfolio; November 2011; Evaluation of the Danish Neighbourhood Programme 2008-2015, November 2016.

be dedicated projects to promote rule of law, democracy, and human rights, leaving a frame of EUR 27.5 million for support to the green transition.

During February 2022 the MFA Department for European Neighbourhood (EUN) with external consultants undertook scoping and identification of options for support to Kosovo's green energy transition. Kosovo is side accredited to the Embassy of Denmark in Vienna, Austria. Since Denmark thus does not have a representation in Kosovo, it was expected that (at least a major part of) the support would be provided through delegated cooperation/co-financing with an international partner present in Kosovo and based on well-established and credible programmes/projects with a track record and/or the potential to deliver tangible and verifiable results and with effective means of reporting and communicating these results. A detailed stakeholder mapping of national institutions and development partners and their engagement in the green energy transition in Kosovo was undertaken (see Annex 1). In late February, based on a set of agreed guiding principles, an internal MFA options paper identified the key options for Danish support, and it was decided to engage in further discussions with the European Bank for Reconstruction and Development (EBRD), which has a long track record in Kosovo on EE and RE support and which had in February 2022 launched a new five-year Country Strategy for Kosovo; one of the three strategic pillars of this Strategy is "Support Green Economy Transition in Kosovo through a More Sustainable Energy Mix and Greater Resource Efficiency", providing a good match between Kosovan and Danish priorities. EBRD then made a specific proposal to EUN for a Danish bilateral trust fund in EBRD under a Bilateral Cooperation Agreement.

In parallel with this, the MFA had consultations with the Danish Energy Agency (DEA) concerning its potential interest and capacity to engage in Government-to-Government (GtG), peer-to-peer cooperation with relevant Kosovan energy authorities. After a positive interest from DEA⁹ an identification mission was undertaken to Kosovo during 21-24 March 2022, led by EUN and with participation by the MFA Department for Green Diplomacy and Climate (GDK), the Embassy of Denmark in Vienna, DEA, and external consultants. An internal MFA Identification Note for the Programme was prepared as documentation of the identifications phase. In early April, a presentation of the Kosovo-Denmark Partnership for Green and Just Energy Transition was prepared and posted on the MFA Danida transparency website for a public consultation process. On 29 April, the Danida Programme Committee met to discuss the proposed Programme and based on the positive comments¹⁰ from the Committee, a detailed formulation process began, including scheduling of a formulation mission to Pristina that was undertaken during 16-19 May led by EUN and with participation by the Embassy of Denmark in Vienna, the Danish Energy Agency, EBRD, and an external consultant. An early draft of the present Programme Document was sent to the Kosovan Ministry of Economy and Ministry of Finance for comment. The focus of discussions with these Ministries during the mission was on overall energy strategy, ownership and programme governance. The process action plan for the next steps toward approval and implementation of the Programme is given in Annex 8.

⁹ DEA currently cooperates in bilateral partnerships with 19 other countries through the DEA Global Cooperation Department: <https://ens.dk/en/our-responsibilities/global-cooperation>

¹⁰ The formal conclusions from the Programme Committee included a recommendation to widen the focus of support beyond energy efficiency, addressing Kosovo's dependency on coal and the need to address the energy sector challenges more broadly. The Committee also recommended to consult the MFA approach note on poverty and inequality and further address how support through EBRD would be targeted. Leverage should be indicated. It was also recommended to ensure that gender equality was reflected. An inception review should be undertaken. These and other comments from the Committee and from different MFA units have been addressed in this Programme Document.

2.4 Justification in relation to DAC criteria

Table 2.1 Justification in relation to OECD DAC Criteria

| Criteria | Justification |
|---------------------------------|---|
| Relevance | <ul style="list-style-type: none"> • The Programme is highly relevant to partner needs as it is directly aligned to and supportive of the priorities that have already been articulated in Kosovo's draft new National Energy Strategy 2022-2031 (see Annex 14), as well as in other national policies and strategies for the green energy transition, such as the Law on Energy Efficiency. • The Programme addresses the serious energy crisis in Kosovo that was mentioned in the foregoing, and which calls for urgent action. • The programme is relevant to the global sustainable development agenda, including SDG7, and SDG13 as well as the Paris Agreement on Climate Change (although Kosovo does not have an NDC). |
| Internal and external coherence | <ul style="list-style-type: none"> • The Programme addresses the Kosovan Government's priorities and through the choice of the Ministry of Economy as the key national partner with the umbrella mandate in the sector, it is supportive of activities carried out also by the other government institutions in the sector (internal coherence) as well as complementarity and coordination with other international cooperation projects and programmes to avoid duplication of effort (external coherence). Coordination with other government initiatives and support from international cooperation partners will be actively pursued, both under the leadership of the Kosovan government and through coordination mechanisms such as the Energy Community's coordination platform and will be monitored by the Programme's Steering Committee. |
| Effectiveness | <ul style="list-style-type: none"> • Building on EBRD's recent country diagnostic and updated country strategy, and through support to well-established EBRD support mechanisms, the Programme gives priority to targeted interventions that can lead to early results and leverage resources through private sector engagement and contributions to the green energy transition. • Through an inception phase the Danish Energy Agency will further identify and target its expected engagement in the Programme to areas where Danish experience can contribute most to transformational change in Kosovo's energy sector reform and the enabling environment for the green energy transition. |
| Efficiency | <ul style="list-style-type: none"> • Channelling support through well-established EBRD and DEA support mechanisms will contribute to efficiency in the use of Danish grant resources. • This may be facilitated by the proposed Danish funding of a green energy finance analyst position in EBRD's Pristina office and the proposed [still tbc] posting of a long-term advisor to national partner(s). • For each EUR 1 Denmark provides to support projects, EBRD will on average invest EUR 5. |
| Impact | <ul style="list-style-type: none"> • Considering the current energy intensity in Kosovo and its reliance on polluting fossil lignite coal, the potential for impact is high, both with regard to the energy transition (SDG7) and climate change mitigation impact (SDG 13), and there will be socio-economic co-benefits of the just transition including addressing energy poverty issues and health and environmental benefits particularly for the disadvantaged population groups. |
| Sustainability | <ul style="list-style-type: none"> • As part of the Theory of Change, impact drivers have been identified and will be used proactively in Programme implementation. • The inception phase and expected continued DEA engagement in the Programme will enhance capacity in public sector institutions in the energy sector and support strengthening the enabling framework, thus enhancing sustainability. • Support through EBRD will facilitate policy engagement to remove investment barriers to energy and resource efficiency investments and enhance awareness of more sustainable energy solutions in the private sector and awareness and capacity of local financial institutions in this regard. |

| | |
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| | <ul style="list-style-type: none"> • Given the Kosovan government's ambitions set out in its new national energy strategy, Kosovo might well emerge as an interesting case of how developing countries can “leapfrog” from coal to renewable energy, and the programme will support this transition. • The emphasis on a just transition and leaving no one behind will be informed by the EBRD Just Transition Initiative. |
|--|---|

2.5 Alignment with Danish development and climate strategies and cross-cutting priorities

Denmark's Strategy for Development Cooperation, “The World We Share” sets out Denmark's ambitions to assume international leadership within greenhouse gas emission reductions and green energy transition. This includes international cooperation promoting RE and EE solutions, particularly in growth economies with high emission levels. The proposed Programme is fully aligned with these priorities. Also, the Danish Government's long-term strategy for global climate action “A Green and Sustainable World”, emphasises Denmark's commitment reduce global greenhouse gas emissions by leading the way in the green transition. This strategy also emphasises that the Government will work for a socially just global green transition in which civil societies – particularly vulnerable groups and young people – are involved in shaping the green future. Moreover, the strategy promotes international cooperation including in sectors where the green transition is particularly challenging. This includes supporting the business community's own innovative partnerships and green goals internationally, including as a lever for green jobs. This emphasis on the role of the private sector is relevant to the Programme's delegated cooperation with EBRD and the importance of collaborating with the business community on green solutions that make a difference. Finally, it is noted that Denmark's Foreign and Security Policy¹¹ reflects Denmark's responsibility as a “green leader” to help drive development from black dependence on fossil fuels to a green future based on a broad interpretation of sustainability, including social aspects of the green transition. The Policy also reflects Denmark's declared “war on coal” and the emphasis on ensuring the global climate ambitions are translated into concrete actions – the Kosovo Programme is consistent with these policy goals.

Among the nine Energy Community contracting parties, Kosovo has the largest share of households living in energy poverty, up to 40 percent. The earlier mentioned EU Report 2021 expressed concern over an alarming rate of youth unemployment implying structural problems such as undeclared work and misalignment between education outcomes and labour market needs. Around 18% of Kosovo's population lives below the poverty line (EUR 45 per month as defined by the World Bank), with 5.1% percent of the population below the extreme poverty line. Children from poor households, socially vulnerable communities, and those with special needs lack equal access to vital health and education services due to financial barriers. However, these data should be observed in the context of Kosovo having the youngest population in Europe with a median age of 29.5 years (vs. the median age of the EU population of 43.1 years). The EBRD Diagnostic 2021 informed that the unemployment rate remains high, especially for youth. In 2020, 26 % of the labour force and 49 % of youth was unemployed. Young women were the most disadvantaged group, with 57 % being unemployed. Similarly, only 6 % of young women had a job in 2018, compared to 15 % of young males. This context makes it particularly important to ensure that the green energy transition is supported in a manner that is just and considers a poverty orientation and gender equality, in a “leaving no one behind” approach. EBRD published a new Gender Strategy in autumn 2021 and EBRD¹² has a Just Transition Initiative that seeks to provide support where

¹¹ <https://um.dk/udenrigspolitik/aktuelle-emner/udenrigs-og-sikkerhedspolitik-strategi-2022> (in Danish)

¹² EBRD has also specifically noted that it boosts inclusive economic development by focusing on expanding access to finance to SMEs and micro-enterprises and companies located in underserved regions. Under Reboot, SME the programme planned to be supported by Denmark, EBRD require that the partner financial institutions (PFIs) allocate a portion of financing under

there are risks of lose economic activity and jobs as a consequence of the green economy transition, for instance for those that are heavily reliant on coal and other carbon intensive assets. Annex 13 summarises reflections on the poverty focus in the Programme and how EBRD may contribute via the way grant resources are utilized.

Also, while access to energy is not a human right in itself, it is also important that the support is well aligned to the human rights principles of non-discrimination, participation & inclusion, transparency, and accountability, and these principles underpin the Programme design.

It is noted that the Kosovan Government's draft new Energy Strategy places strong emphasis on the role of reliable, affordable, and clean energy as essential to the social well-being of its citizens. The Strategy states that the Government is committed to ensuring social justice in the transformation of the energy sector: *"Citizens will be at the heart of the country's energy future by ensuring that they have access to affordable energy, are empowered to participate actively in the sector, including production and self-consumption, and ensuring that the most vulnerable groups in society benefit from schemes dedicated to supporting them (for instance for house insulation, installation of solar panels, purchase of efficient household appliances, efficient heating systems, etc.)"*. Protecting and empowering consumers is one of the Strategy's 5 Strategic Objectives, and the Strategy *"places citizens in focus by supporting affordability of energy bills for vulnerable consumers"*.

As mentioned in the description of the Danish-Kosovan Green Fund (Annex 10), all support through EBRD shall as relevant and applicable to each intervention, reflect Danish priority concerns regarding poverty orientation including addressing energy poverty issues and ensuring benefits for disadvantaged citizens and households as well as enterprises in different parts of Kosovo, "leaving no one behind (LNOB)". Gender equality¹³ will be explicitly addressed in all interventions and reporting. Climate impact expressed in tonnes of CO₂ emission reductions and/or kWh of energy saved and # beneficiaries benefitting from the intervention shall be identified and results in this regard reported. The *just* and equitable nature of the green energy transition is essential. Therefore, socio-economic aspects such as job creation – particularly for youth and women - related to the support shall be identified and reported.

Engagement by the Danish Energy Agency shall follow all relevant MFA guidelines including guidelines¹⁴ for strategic sector cooperation, thus requiring continued attention to the key cross-cutting concerns. A specific process for internalising and applying a stronger poverty orientation in DEA energy sector cooperation projects and programmes is underway in cooperation between the MFA and DEA.

Finally, on the topic of Covid-19, it is noted that the 2021 EU Report reflected that by end of September 2021, Kosovo had recorded around 159,000 Covid-19 cases and over 2,900 deaths related to the pandemic. Around 24.6% of the population was then fully vaccinated. Kosovo has in early 2022 eased its Covid restrictions, but the pandemic has had negative effects on the economy and employment.

the Programme to companies that are located outside the capital city. In addition, the EBRD Programmes are implemented through partners that have good governance and incorporate human-based values as part of their mission. Under GEFF, the other programme planned to be supported by Denmark, EBRD also has microfinance institutions as PFIs (they have been the most active from the beginning) who have played a crucial role in increasing the outreach of the Programme in rural areas and among lower-income families. Under both Reboot SME and GEFF Programmes, the maximum sub-loan size is limited so a greater number of households and SMEs are supported. Further information on GEFF and Reboot SME can be found in Annex 12.

¹³ At the end of Annex 10 EBRD's focus on gender and other cross-cutting issues is further explained.

¹⁴ Guiding principles for [strategic sector cooperation](#) explicitly state that such cooperation will contribute to delivering on the Paris Agreement and the SDGs by promoting a socially just green transition and contribute to sustainable growth and resilient development for people in partner countries.

2.6 Relation to other relevant partners and actors

During the scoping and identification phase a stakeholder analysis was made of national public institutions, private and civil society actors, and development partners. The Kosovan Ministry of Economy (ME) is a key national partner and, as mentioned above, the signatory to the joint Statement and LoI with Denmark. The ME proposes, drafts, and provides for the implementation of energy sector policy/strategic documents, - including the new NES and the related action plan - and compiles regular reports on their implementation; proposes, drafts and provides for the implementation of energy sector legislation; drafts long-term and annual energy balances, and monitoring thereof; and implements tasks deriving from the Energy Community Treaty. The ME's organisational structure includes the Department of Energy and its divisions, as well as the Kosovo Energy Efficiency Agency (KEEA). Another key sector institution is the Energy Regulatory Office (ERO), which is responsible for the establishment and enforcement of the regulatory framework for the energy sector (electricity, district heating and natural gas), and for ensuring non-discrimination, effective competition, and the efficient functioning of the energy market. KOSTT is the Kosovan transmission system operator (TSO) company. As a market operator it is responsible for the organization and administration of trades in electricity. In 2020, KOSTT signed a connection agreement with the European Network of Transmission System Operators for Electricity (ENTSO-E) allowing KOSTT to operate as an independent transmission block. The Kosovo Energy Efficiency Fund (KEEF) is an independent extra-budgetary agency established with the adoption of the Law on Energy Efficiency. KEEF has undertaken energy efficiency work in public buildings, but it still lacks the full ability to work in the residential and private sector. Local financial institutions (local banks and microfinance institutions) are important intermediaries for channelling incentives to residential households and small and medium enterprises (SMEs), including the EBRD programme components proposed for support by Denmark. EBRD Partner Financial Institutions (PFIs) are selected based on their appetite to strengthen green products and EBRD's screening process includes credit worthiness and integrity/anti-money laundering risk assessment. In addition, EBRD sets financial and operational covenants that promote financial discipline and prudent banking practices.

Several other multilateral development partners and bilateral donors are active in the energy sector in Kosovo, as further detailed in the stakeholder overview in Annex 1. The coordination of external support in the sector by the Kosovan Ministry of Economy and Ministry of Finance needs strengthening but is improving – and it is noted that the Energy Community supports an interactive platform for coordination¹⁵ of donor supported projects.

3. Programme Objective

The objective of the development cooperation is that Kosovo is on a solid social just transition path towards climate neutral energy according to its National Energy Strategy, based on heightened energy efficiency, transformational use of renewable energy sources and integration in the pan-European market.

4. Theory of change and key assumptions

The draft theory of change is briefly formulated as responses to the 8 standard questions in the Danida guidelines:

¹⁵ A meeting was held in March 2022 with 9 leading donors and multilateral financial institutions to discuss the technical assistance and capacity building needs of the Contracting Parties and how they can best be matched with donor programmes, see: <https://www.energy-community.org/regionalinitiatives/infrastructure/donors.html>

1. What is the **political, economic, societal and institutional context**? Kosovo is Europe's youngest country, and its economy is dominated by an informal sector. A new Government, with majority in Parliament and political will to change.
2. What is **development problem or issue - and the desired transformation**? Kosovo has very large deposits of lignite coal that are easily accessible. Hence, the energy system relies heavily on electricity from two coal-fired power plants that are in a very poor state technically and result in heavy air pollution. The desired transformation is decarbonisation of the power sector by 2050 in line with the Sofia Declaration, ensuring the energy security of supply, and affordable electricity for the population. Specifically, the Kosovan Government's draft (June 2022) new Energy Strategy 2022-2031 is led by the following vision "*A CO₂ free energy sector by 2050, integrated in the pan-European market, ensuring energy security and affordability for citizens*".
3. **Which are the main changes that will need to take place for this transformation to happen**? Kosovo will need to act on three dimensions: a) enhance energy efficiency (the "first fuel" in the energy transition, b) expand renewable energy sources, and c) manage the energy system through a challenging transition for example to ensure both flexibility and stability in the context of variable electricity production from wind and solar power.
4. **Who – or which developments or factors - are the most important drivers of these changes**? The government/authorities may be the most important agents in this change process. With a new energy strategy and action plan nearing completion, Kosovo's government is setting a course on these changes. Delivering, however, will be challenging for the relatively young institutions with limited capacity in a small country like Kosovo. For energy efficiency, SMEs (that constitute 90% of Kosovo's private sector) and households will have to take a driving role, supported by banks and micro finance institutions. Peer-to-peer government-to-government support by the Danish Energy Agency to key Kosovan energy sector institutions can inspire transformational change based on experience from Denmark.
5. **How and with which modalities and instruments will we contribute to the changes**? The proposed support through a trust fund with EBRD will particularly address two of the above cited three fields: a) the first year's funding will be allocated to existing energy efficiency instruments in EBRD covering the residential sector (the GEFF) and SMEs; c) in subsequent years more transformative investments will be pursued, which could also support b). Support by the Danish Energy Agency can support in all three areas.
6. **Why do we think that the changes will happen**? Which are the main conditions for them to happen; which other processes will need to take place? Are they in place or taking place, or will they? Why do we think so? The energy crisis became apparent in December 2021, when one of Kosovo's two lignite fired power plants experienced operational difficulties resulting in reduced electricity production. Combined with the needs for heating during a cold winter, this development, along with generally increasing energy consumption in Kosovo and more expensive energy imports, led to energy shortages in December 2021. The Kosovan Parliament on 24 December 2021 approved a state of emergency with load shedding (cutting electricity supply for up to two hours on an area-by-area basis) in response to these energy supply shortages, underscoring the severity of the energy crisis. The Kosovan Government's new national Energy Strategy (draft, June 2022) indicates an ambitious approach, leapfrogging from coal to renewable energy.
7. **Which are the main assumptions that will need to hold true for the changes to happen**? With aspirations to join the European Union in due course, Kosovo will be required to undergo a green energy transition. As a contracting party to the Energy Community, Kosovo has made strong commitments to the green energy transition and its compliance is being closely monitored by the Community secretariat. It is therefore assumed that Kosovo's dedication to expanding green energy will remain even if the government might change in the future.
8. **Which are the main risk factors**? A main risk to delivering a green energy transition in Kosovo is the young and relatively weak institutions. The trust fund is therefore based with EBRD in order to leverage the private sector's capacity and interest. Within EE, the EBRD's GEFF and SME components work with local financial institutions to combine grants with lending to households and SMEs, and also build capacity with local banks and micro finance institutions to develop green initiatives, thus mitigating the risk concerning public sector capacity. Combined with this, technical assistance and capacity development support by DEA will mitigate the risk of weak institutions, but the absorptive capacity of TA is an issue that has implications for TA delivery modalities, and which will be monitored closely. If it proves hard to identify suitable large-scale transformative investments for later years, it is possible to extend and enlarge the EBRD programme components for residential and SME energy efficiency.

Box 4.1 Key assumptions and impact drivers

Key Assumptions:

From Inputs to Activity areas and Outputs:

- Cooperation partners committed to sustained engagement and willing to allocate staff time and inputs to engage effectively.
- Timely work planning to ensure inputs to activities are well planned and partner uptake can be maximised.
- Steering committee/management structure sufficiently flexible to allow for quick remedial action when deviations occur.
- This finance will enable EBRD to invest more of its own funds into Kosovo. Thus, a critical (cost free) input to this programme is the scale of in country and bank wide expertise which this funding will leverage.

Activities to Outputs to Outcomes and Objectives:

- Kosovan partners value strategic cooperation with Denmark for informed decision making to achieve green energy transition goals.
- Partners engage effectively throughout the cooperation and value peer-to-peer exchanges of good practice and paths to avoid.
- Programme partners willing and able to ensure additionality and synergies in a field with many actors.
- Flexibility and continued attention to assumptions and risks during implementation to ensure continued alignment to Kosovan priority needs in a highly dynamic context.

From Outcomes and Objectives to Impact and Goal:

- Continued Kosovan government and stakeholder support for the ambitions being defined in the NES and other policies and strategies underpinning the green energy transition.
- Ability of the partnership to engage strategically and effectively with champions of change in Kosovan political economy and sustain high-level support.
- Ability to strategically support transformational change aligned to partner policies and strategies.
- Ability to include disadvantaged beneficiary groups and ensure that a just and equitable transformation is supported.

Impact drivers:

- High-level sustained political commitment to a leapfrogging approach.
- Effective partner engagement at strategic level and durable partnership.
- Active use of trust fund eligibility criteria to focus on transformational interventions.
- Effective targeted communication to decision makers in both public and private sector
- Using the “power of the example” and impact stories in results communication.
- Sustained peer-to-peer exchanges and capacity development.

5. Summary of the results framework

The results framework at outcome level with indicators and targets is summarised in Table 5.1. below for the two Projects that constitute the Programme, i.e.:

1. Project 1: Danish-Kosovan Green Fund– bilateral trust fund with EBRD

2. Project 2: Government-to-Government sector cooperation with DEA

Project 1 is subdivided into components, since it is proposed to support two ongoing EBRD programmes, i) the Green Energy Finance Facility (GEFF) and ii) Sustainable Reboot SME, as well as iii) other components that will still be identified based on the eligibility criteria and due diligence processes agreed for use for resources in the Danish-Kosovan Green Fund. Annex 3 contains further details for the draft outline results frameworks for Project 1.

For Project 2, the DEA inception phase will develop the more detailed results framework in close dialogue with Kosovan partner institutions.

Table 5.1: Results framework for the Kosovo-Denmark Partnership for Green and Just Energy Transition

| | |
|---------------------|---|
| Programme | Kosovo-Denmark Partnership for Green and Just Energy Transition |
| Programme Objective | Kosovo is on a solid social just transition path towards climate neutral energy according to its National Energy Strategy, based on heightened energy efficiency, transformational use of renewable energy sources and integration in the pan-European market. |
| Impact Indicator | Reduced greenhouse gas emission reductions (SDG7 and SDG 13) and # of beneficiaries reached. |
| Baseline | Kosovo is dependent upon fossil fuels for 90% of its electricity generation and has an energy intensity of 4 times the EU average. Kosovo has indicated its ambitions for leapfrogging from dependency on coal to renewable energy, and energy efficiency is a top priority. The Government's draft new national Energy Strategy has been launched in June 2022 and is expected to be approved in 2022. A related action plan is expected. The Strategy contains detailed information on the current situation and the Government's vision and goals. |

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|-------------------|------|--|---|
| Project 1 Title: | | Danish-Kosovan Green Fund – bilateral trust fund with EBRD | |
| Outcome | | Kosovo's green energy transition supported through a more sustainable energy mix and greater resource efficiency. | |
| Outcome indicator | | Total CO ₂ reduced/avoided (ton/year) and energy saved (GJ/y) EBRD investments in projects where Denmark provides grant support. | |
| Baseline | Year | 2022 | EBRD's country diagnostic for Kosovo 2021. Currently no Danish funding. |
| Target | Year | 2027 | To be defined through work plans and indicative pipelines for grant support for technical assistance and projects under the Fund according to the agreed eligibility criteria, that include poverty orientation, gender equality and other cross-cutting concerns EBRD invests five times as much in green energy (including energy efficiency) projects that Denmark provides grant support to. |

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|-------------------|------|---|---|
| Project 2 Title: | | Government-to-Government sector cooperation with DEA | |
| Outcome | | Kosovo's capacity and enabling framework for the green energy transition sustainably strengthened. | |
| Outcome indicator | | Capacity of Kosovan partner institutions and the enabling environment strengthened for energy planning and modelling, larger shares of variable renewable energy sources and strong system integration, increased energy efficiency, and improved district heating. | |
| Baseline | Year | 2022 | No government-to-government peer-to-peer cooperation in the green energy transition – current situation described inter alia, in the Kosovan Government's draft Energy Strategy 2022-2031 and the Energy Community's Energy transition tracker 2021. |
| Target | Year | 2023 | The DEA inception phase has increased Kosovan awareness of Denmark's expertise and experience in the green energy transition and has defined areas of cooperation within government-to-government peer-to-peer twinning, capacity development, and support for strengthening the enabling environment of Kosovo's |

| | | | |
|--------|------|------|--|
| | | | green energy transition The TA delivery model, including rationale and job profile for an embedded long-term advisor, has been identified. The agreed Project 2 main phase has been integrated into the overall Programme based on the MFA Inception Review and Steering Committee approval. |
| Target | Year | 2027 | <i>To be comprehensively defined during the inception phase</i> |

6. Inputs/budget

The input to the Programme is DKK 204.75 million in grant funds sourced from the Danish Finance Act. The budget is prepared in Danish kroner (DKK) to ensure compliance with the Danish Finance Act.

Since Kosovo and EBRD use Euro (EUR) as the currency for budgeting and implementation, the EUR equivalents (rounded, one decimal) of the DKK figures are also listed but the DKK figures are authoritative. It is noted that the DKK is closely linked to EUR and there are very limited currency fluctuations. The exchange rate used here is 1 EUR=7.50 DKK (1 DKK= 0.13 EUR).

The budget allocation to Project 1: Danish-Kosovan Green Fund–bilateral trust fund with EBRD is DKK 187.50 million (EUR 25.0 million equivalent) divided into: a) development projects, DKK 185.50 million (EUR 24.7 million equivalent); and b) a green energy finance analyst¹⁶, DKK 2.00 million (EUR 0.3 million equivalent). This local hire position in the Pristina RO will be recruited by the EBRD, in accordance with the Bank's policies, as a donor-funded fixed term contract. The corresponding funds from Denmark will be managed by EBRD separately to the Danish bilateral trust fund with the EBRD.

The EBRD administrative fees are 4% over EUR 5 million and 5% under EUR 5 million for technical cooperation grants, and 2% for non-technical cooperation grants, which is low compared to other multilateral development institutions, see further information in Annex 5.

EBRD seeks to leverage Danish funds by providing financing to projects where Denmark is able to provide grant support. It is expected that the ratio of EBRD to Danish funding will be in the order of 5:1.

The budget allocation to Project 2: Government-to-Government sector cooperation with DEA is DKK 16.75 million (EUR 2.2 million equivalent) divided into: a) twinning, support for enabling environment and capacity development activities DKK 10.75 million (EUR 1.4 million equivalent) for the full Programme, pending a successful outcome of the DEA inception phase¹⁷; b) an embedded long-term advisor [still to be confirmed¹⁸], DKK 6.00 million (EUR 0.8 million equivalent). In case the outcome of the DEA inception phase indicates otherwise, the funding can be reallocated to Project 1 or to other initiatives under the Programme, depending on the recommendations of an MFA Inception Review.

The Inception Review and the mandatory Mid-term Review (both administered by the MFA) are budgeted at DKK 0.50 million (EUR 0.1 million equivalent).

¹⁶ See Annex 11 for a preliminary outline job profile.

¹⁷ An additional DKK 1.50 million for the DEA inception phase (EUR 0.2 million equivalent) is granted prior to approval of the overall support programme, the Kosovo-Denmark Partnership for Green and Just Transition.

¹⁸ The job profile for a long-term advisor will, depending on agreement reached on this input, be developed under the DEA inception phase.

7. Institutional and management arrangement

7.1 Organisational set-up

A Steering Committee comprised of Kosovo, Denmark, EBRD - and DEA¹⁹ -will set the strategic direction for the Programme and the Danish-Kosovan Green-Fund. In this way, the Kosovan Government can present needs and priorities for support according to the National Energy Strategy and other relevant policies and strategies and overall developments within the green and just energy transition.

The Steering Committee will meet every six months with a main annual meeting to be held in-person and the intervening meeting possibly held on a virtual platform.

Use of grants from the Fund larger than EUR 300,000 will require approval by the Danish MFA as a donor, following procedures to be set out in the Bilateral Cooperation Agreement between Denmark and EBRD. EBRD will have the delegated authority to approve projects below this threshold.

It is noted that article 13(iii) of the Agreement Establishing the Bank provides that the EBRD shall not finance any undertaking in the territory of a member country if that member objects to such financing.

Members of the Steering Committee are the Kosovan Ministry of Economy, the Danish MFA (represented by EUN) and the EBRD (represented by the head of the EBRD resident office in Kosovo).

The Danish Energy Agency will be represented in the Steering Committee with a focus on Project 2. The Kosovan Ministry of Finance and the Danish EBRD Board Director/Alternate Director for Denmark and Kosovo also participate in the Steering Committee meetings. Other stakeholders and climate and energy experts from EBRD HQ could be invited as relevant.

Day-to-day management of activities under delegated cooperation with EBRD and support under the Fund will be the responsibility of EBRD's country office in Kosovo, supported by EBRD technical staff and advisors. Donor engagement is led by Donor Co-Financing (DCF) at EBRD, with a lead fund manager identified. The Office of the Danish EBRD Board Director / Alternate Director for Denmark and Kosovo will be kept well informed about progress and any major issues related to this delegated cooperation. Throughout the inception phase and -depending on the focus and modalities for further engagement of the Danish Energy Agency in the Danish support Programme - close liaison must be maintained between DEA and EBRD.

Focal points should be identified in all partner institutions involved in the Danish support Programme with up-to-date names, titles, email and mobile phone details to facilitate liaison and coordination.

Working level officials will set up regular quarterly meetings; this will be further defined in the EBRD and DEA inception reports for discussion by the steering committee.

It is proposed to engage a Danish funded green energy finance analyst to EBRD²⁰ (see draft outline job profile in Annex 11). Moreover, it is planned (still to be confirmed during the DEA inception phase) that

¹⁹ DEA's role focused on Project 2.

²⁰ The EBRD fee policy – while very low compared to other development organisations – aims to cost-recover a proportion of the cost of managing the funds and delivering EBRD inputs to the programme. Given the need to support the operationalisation of Kosovo's new ambitious energy strategy (still itself in draft form) and realise a step change in green investments, the parties have agreed to support an additional local team member in the EBRD resident office in Pristina. This resource will both help the team to develop new transformational activities to be supported by the Danish-Kosovan green Fund and also ensure strong coordination with local authorities and counterparts during implementation. The EBRD team

an embedded long-term advisor funded by Denmark may be anchored in a relevant Kosovan energy authority under the government-to-government part of the overall support Programme. If so EBRD shall ensure close liaison and coordination with this advisor.

7.2 Inception phase, work planning, monitoring, reporting, and communicating results

Project 1, the Danish-Kosovan Green Fund– bilateral trust fund with EBRD:

Work planning: It has been specified in the description of the Fund (Annex 10) that EBRD shall prepare work plans and indicative pipelines for grant support for technical assistance and projects under the Fund (while respecting confidentiality that may be required for private sector projects parties).

Inception Phase: Upon the signing of the EBRD-Denmark Bilateral Cooperation Agreement, EBRD will, during October 2022-March 2023 – in parallel with kick starting the support through GEFF and Reboot SME - undertake an inception phase to further elaborate indicative pipelines and work plans; strengthen the identification of target beneficiaries; strengthen the reflection of poverty orientation, gender and other cross-cutting concerns in the results framework; further define baselines and targets including leverage targets; provide further guidance on the mode of implementation and the use of concessional finance under the Fund; strengthen the reflection of sustainability in development outcomes supported by the Danish-Kosovan Green Fund; and develop an outline of a strategy for the eventual exit of Danish/EBRD support under Project 1. Activities will include keeping abreast of developments in the Kosovan Government's policy and strategy framework, including the steps toward approval and implementation of the new national Energy Strategy and the related Action Plan, as well as support from other key development partners and donor coordination. Activities are expected to include further socio-economic assessments (that can be inspired by Danida guidelines and “how to notes”). As suggested by the MFA appraisal team, the EBRD inception phase will address the appraisal recommendation to seek to upgrade the approach to greening/addressing climate change and energy, in particular if the two upfront investments (GEFF and Reboot SMEs) will receive more funding. As suggested by the appraisal this can be done e.g. through cooperation with local experts in life cycle assessment and energy audits, some of whom are already involved in these programmes. Developments/results concerning the EBRD Just Transition Diagnostic will also be part of the EBRD's inception reporting. The key activities, findings, conclusions, and recommendations of the EBRD inception phase shall be documented in a brief inception report that will be an input to the MFA Inception Review tentatively scheduled for early March 2023. Throughout the inception phase, EBRD shall maintain close liaison with the Kosovan Ministry of Economy and other national partners and with DEA.

Progress reporting: EBRD progress reporting will be done annually following a “traffic light” approach meaning that *green* reflects that progress and results are on-track; *amber* means delays or issues that require attention by the relevant task manager to underlying causes and remedial action; while *red* means there are critical issues that require management attention and intervention. The report shall be shared two weeks prior to the main annual Steering Committee meeting where EBRD, Kosovo and Denmark will discuss progress and results. The reporting shall be analytical and qualitative with quantitative information in terms of progress and results. Analytical aspects can be covered in narrative form with lessons and case examples and with strong attention to the transformational nature of the support. In this regard, reference may be made to guidance from the Kosovan government, EBRD and MFA as well as guidance from other sources that could be relevant. A short six-monthly virtual update meeting of the Steering

has considered the value for money implications of this, and it was determined that given the change this will leverage – and the larger project impact – for a relatively small amount of money, that this is a highly effective investment. The Head of the EBRD office in Pristina has assessed that the skills required for this position are available in Kosovo.

Committee will also take place, so all parties are clear and well briefed of progress and can address any issues requiring remedial action.

Project 2, Government-to-Government sector cooperation with DEA:

Inception phase, work planning and reporting: This project will begin with an inception phase (June 2022-March 2023). DEA will, upon approval of the grant for the Inception Phase, submit to EUN a brief draft work plan with a budget breakdown for the full inception period. Progress reporting by DEA to EUN will be done quarterly and as needed. DEA will document key activities, findings, conclusions and recommendations of its inception phase in a brief inception report and a draft (and final, upon comments from the MFA) Project Document for DEA's main phase engagement as Project 2 that is expected to follow the inception phase. The Project Document will be formulated so as to be fully consistent with Danida guidelines²¹ and facilitate its inclusion within the overall Danish support Programme. Information already contained in the overall Programme Document may not need to be included in the Project Document but can be cross-referenced/updated as relevant. During the inception phase, DEA will work closely with the Ministry of Economy and other national partners including ERO, KOSTT, district heating agencies, and others who could be partners in activities under Project 2. Continuous close liaison with EBRD will also be important, including on progress in its planned Just Transition Diagnostic. DEA inception phase activities will include: following closely the steps toward approval and implementation of the Kosovan new national Energy Strategy and its related Action Plan; raising Kosovan partner awareness of the Danish expertise and experience in the green energy transition that would be particularly relevant for Kosovo - this is expected to include organising a study tour to Denmark for Kosovan partner representatives; identifying key partner needs and priorities that DEA/Denmark (including the Danish TSO Energinet) and other parts of the Danish resource base would have a comparative advantage in supporting under the cooperation; assessing the partner institutions' absorptive capacity for technical assistance and defining a capacity development strategy and TA delivery modalities accordingly; identifying the need, institutional anchoring, and draft job profile for an embedded long-term advisor if recommended – and if not recommended, suggesting potential alternative allocation of resources; keeping closely engaged in the process for internalising and applying a stronger poverty orientation in DEA energy sector cooperation projects and programmes that is underway in cooperation between the MFA and DEA.

Communicating results of the overall Danish support Programme: A preliminary outline of a plan for communicating results under the Programme is included in Annex 7. As the responsible MFA unit, EUN, will ensure that selected results indicators and targets are reflected on Danida Open Aid and that progress is reported annually on this site.

Monitoring and Evaluation of the Programme: An Inception Review is planned for early March 2023. This Inception Review will among other things: i) consult closely with the Kosovan Ministry of Economy and other Kosovan authorities and assess the status of approval and implementation of the Government of Kosovo's national Energy Strategy and related Action Plan and how the Danish support addresses Kosovan priority needs; ii) assess the Inception Reports prepared by EBRD and DEA, respectively, including strengthened results framework with baselines and targets, indicative pipelines and work plans and attention to poverty, gender and other cross-cutting concerns, further guidance on the mode of implementation and the use of concessional finance under the Danish-Kosovan Green Fund, and initial outline exit strategy; iii) assess DEA's draft documentation for its proposed engagement in the main phase of the Programme, if recommended - including assessment of the TA delivery model (with attention also to which support is to be provided by DEA staff on a peer-to-peer basis, by the Danish

²¹ <https://amg.um.dk/bilateral-cooperation>

TSO Energinet, and by other TA providers such as international and Kosovan consultants through DEA) and assess the rationale, anchoring and draft job profile for a long-term advisor (LTA) if recommended; iv) in the event that DEA engagement and/or an LTA is not recommended, make recommendations for the reallocation of funding; v) revisit any outstanding issues in the follow-up to the June 2022 appraisal recommendations; vi) assess the coordination and synergy of Danish support with support from other development partners; and vii) make specific recommendations to the MFA and the Steering Committee. Criteria/requirements for start-up of full-scale implementation under the Programme are: i) the recommendations of the MFA Inception Review; ii) the approval by the Steering Committee.

The mandatory Mid-term Review (MTR) is planned for 2024. Among the MTR's obligations will be to assess Programme progress and results as well as the effectiveness of communicating results; assess the development in the Kosovan Government's policy strategy and enabling framework and the continued relevance of Danish support; assess the coordination and synergy of Danish support with support from other development partners; assess the Programme's draft exit strategy and status of considerations concerning the longer-term perspective for the partnership; assess any needs for reallocation of funding; and make recommendations to the MFA and the Steering Committee.

Furthermore, the relevant Headquarters unit in the Ministry of Foreign Affairs of Denmark shall have the right to carry out any technical or financial supervision mission that is considered necessary to monitor the implementation of the Programme. After the termination of the Programme, the relevant Headquarters unit in the Ministry of Foreign Affairs of Denmark reserves the right to carry out evaluations in accordance with this article.

7.3 Learning and adaptation

Learning by Doing: As noted above, the Programme will start with an inception phase. Danish funding will enable a step change in the scale of EBRD green investments in Kosovo. For EBRD, the inception phase from October to March will allow time to initiate this change, include recruiting an additional team member at the Pristina resident office. An inception report will be prepared on progress made and lessons learned about the scale and ambition of the Danish-Kosovan-Fund, including consideration of the sustainability of the project and exit strategy. This adaptive management approach is central to learning and maximising the impact of the Danish support. Subject to the conclusions of this period, Denmark, EBRD and Kosovo may through the Steering Committee decide to adapt the results framework to reflect this learning.

DEA shall, as part of its Inception Phase, prepare a deliberate strategy for learning and adaptation during Programme implementation to be presented to the MFA for the Inception Review. DEA may take inspiration from learning and adaptation strategies under other recent Danish Energy Partnership Programmes. As noted earlier, progress reporting by EBRD and DEA under the Programme shall be issues-oriented and analytical.

8. Financial Management, planning and reporting

8.1 Disbursements, procurement, and financial management

The disbursement schedule overall is as mentioned on the PD cover page. Disbursements will be based on agreed work plans and budgets and satisfactory narrative and financial reporting and audit reports.

Procurement under project 1 will follow EBRD procurement rules and all financial management will follow EBRD procedures. When the MOPAN assessment of EBRD is available, any issue arising will be discussed with the MFA.

Procurement and financial management under Project 2 will follow DEA procedures and Danida guidelines for strategic sector cooperation, including applicable Danida Guidelines for Financial Management.

8.2 Work planning

As mentioned above, EBRD shall prepare work plans and indicative pipelines for grant support for technical assistance and projects under the Fund (while respecting confidentiality that may be required for private sector projects parties).

During the DEA inception phase the Danish Energy Agency shall prepare an output-based work plan and budget in DKK for the first year's work programme.

8.3 Accounting, auditing, and financial reports

No Danish grant funds are channelled directly through the Kosovan Government's procedures and systems.

EBRD's auditing and financial reporting to the MFA will follow the EBRD principles specified in Bilateral Cooperation Agreement between EBRD and Denmark.

DEA will report to the MFA according to the guidelines for strategic sector cooperation ([link](#)).

9. Risk Management

Key risk factors and mitigation measures include the following:

- Delays in the Kosovan Government's approval of enabling policies and legislation for the green energy transition. Mitigation measure: Partnership dialogue, including through EBRD and DEA. The launching in June 2022 of public consultation draft of the Energy Strategy 2022-2031 is a major step forward.
- Limited capacity of Kosovan public sector institutions. Mitigation measure: Initial focus on private sector, building on well-proven EBRD programmes. Gradual phase-in of peer-to-peer public sector cooperation and capacity development through DEA inception phase.
- Denmark is not represented in Kosovo. Mitigation measure: Delegated cooperation through EBRD.

A detailed risk management matrix subdivided into the requisite Danida categories of contextual risks, programmatic risks, and institutional risks, is given in Annex 4.

10. Closure

As part of the Programme Inception Phase, the two implementing partners, EBRD and DEA shall together prepare a draft exit strategy for their support and this Exit Strategy shall be reviewed by the Inception Review and the Mid-term Review.

The formal closure of the Programme will consist of three steps taken by the end of calendar year 2027:

- (i) Implementing partners' (EBRD and DEA) final report.
- (ii) The responsible unit (EUN's) final results report (FRR).
- (iii) Closure of accounts: final audit, return of unspent funds and accrued interest and administrative closure by reversing remaining provision.

11. Short summary of projects

The Danida guidelines call for short summaries of the two Projects constituting this Programme. In the interest of avoiding repetition, the following references are made:

For Project 1, Danish-Kosovan Green Fund– bilateral trust fund with EBRD, reference is made to the Description in Annex 10 and further information on the EBRD Green Economy Financing Programme and EBRD Sustainable Reboot SME Programme given in Annex 12.

Project 2: Government-to-Government sector cooperation with DEA, will be initiated by an inception phase funded by an MFA grant to DEA of DKK 1.5 million based on a separate “mini project document” (not included in this Programme Document). Key features of the DEA inception phase were described in Section 7.2 above. The proposed main phase of Project 2 will be described in a project document to be produced by DEA during its inception phase.

Annex 1: Context Analysis

A.1.1 Overall development challenges, opportunities, and risks.

Kosovo is a landlocked country in the Western Balkans region with a population of about 1.8 million and a land area of about 11,000 km². Kosovo is bordered by Serbia to the north and east, North Macedonia to the south, Albania to the west, and Montenegro to the northwest. The country's history is complex and will not be summarised here. In February 2008, Kosovo declared independence from Serbia and subsequently adopted the Constitution of the Republic of Kosovo, which came into effect on 15 June 2008. Early parliamentary elections in February 2021 resulted in the formation of the current government that enjoys a clear parliamentary majority. Albin Kurti is the present Prime Minister of Kosovo.

Over 90% of the population of Kosovo are ethnic Albanians. The official languages of Kosovo are Albanian and Serbian. English is widely used, and many official websites and documents are in all three languages. Kosovo's currency is the Euro (EUR).

While over 100 UN-member countries have recognized Kosovo as an independent, sovereign state, Kosovo is not a member of the United Nations. Kosovo is not a signatory to the UN Framework Convention on Climate Change and to the Paris Agreement on Climate Change and has therefore not submitted a Nationally Determined Contribution (NDC) to the Paris Agreement.

Kosovo is a member of major international organisations such as EBRD, the World Bank, and the Energy Community.

Kosovo is also a potential candidate for EU membership. As noted by the EU 2021 Report²² on Kosovo "The EU-Kosovo Stabilisation and Association Agreement (SAA) has been in force since April 2016. A second phase of the European Reform Agenda (ERA) was launched in October 2020, to further guide the implementation of EU-related reforms under the SAA framework. The authorities continued to demonstrate publicly their commitment to Kosovo advancing on its European path."

The EU Report noted that while most of the reporting period was marked by political instability in Kosovo, a new government took office following early parliamentary elections in February 2021, with an unprecedentedly strong parliamentary majority. The new government adopted its programme in May 2021, with focus on the management of the Covid-19 pandemic and on the economic recovery, and a strong focus on fighting corruption, economic crime, as well as economic and social reform measures. And while legislative activities were limited due to this political instability during most of the reporting period, including EU-related reform efforts, the adoption of a second phase of the European Reform Agenda (ERA 2) and its Action Plan, endorsed by the Assembly in October 2021, and a solid government focus, has now confirmed the positive trend of Kosovo's renewed commitment to EU-related reforms.

The EU Report also notes that by end of September 2021, Kosovo had recorded around 159,000 Covid-19 cases and over 2,900 deaths related to the pandemic. Around 24.6% of the population was fully vaccinated. Kosovo still maintains strict Covid restrictions.

Kosovo made some progress in improving road infrastructure and increasing investment in renewables, but the EU report mentions the coal-based, outdated, and unreliable energy supply that remains a main concern. Kosovo made some progress as regards the digitalisation of the economy.

²² https://ec.europa.eu/neighbourhood-enlargement/document/download/ec34a067-8477-4adc-a123-054b7d62abc4_da
Commission Staff Working Document dated 19 October 2021 and covering the period June 2020-June 2021.

A.1.2 Political economy and stakeholder analysis

As regards the economic criteria, the EU Report noted that Kosovo has made limited progress and is at an early stage of developing a functioning market economy. The economy went into recession in 2020, but this trend was reversed in the first half of 2021. Long-standing structural problems, such as the lack of economic diversification and the dependence on financial flows from the diaspora made Kosovo very vulnerable to the Covid-19 pandemic-related lockdown and travel restrictions.

During its first months in office, the new government has initiated changes to the oversight or management of several publicly owned enterprises, agencies, and institutions.

Websites of public authorities generally give good information about policies, procedures and organisational set-up of public institutions, albeit not always up to date. Some links are given here via the Ministry of Economy (ME's) website:

- [Institutions of Republic of Kosova](#)
- [International Institutions](#)
- [Municipalities of Kosovo](#)
- [Business Associations](#)
- [International Organisation](#)
- [Regional Agreements](#)
- [Related Links](#)

According to the EU Report, private sector development remains constrained by a widespread informal economy, a slow and inefficient judiciary, a high prevalence of corruption and the overall weak rule of law. Structural changes are emerging only slowly as the economy remains highly reliant on small and very small firms which cannot compete internationally. The Report also notes that as regards local government, public services of the municipalities were highly disrupted by the COVID-19 pandemic. Significant disparities between municipalities in their performance and service delivery continue and financial constraints undermine municipalities' ability to carry out their local democratic mandates. Due to their limited budgetary powers, municipal assemblies do not play a strong oversight function over the municipal executive. Municipal administrations remain subject to undue political influence.

The consultants have developed a short summary stakeholder overview for ME as the primary national partner, and EBRD and DEA as implementing partners; this is shown in the standard Danida template in Annex 2.

A.1.3 Conflict and resilience.

Without going into details here, it is noted that the NATO Mission in Kosovo (KFOR) was launched in 1999, as a peace-support operation deriving its mandate from the UN Security Council Resolution 1244 and international agreements. KFOR is deployed to maintain a safe and secure environment, freedom of movement for all citizens in Kosovo and to facilitate the Euro-Atlantic integration of the Western Balkans. Denmark has been a part of KFOR from the very beginning. Currently there are 35 Danish soldiers in Kosovo under KFOR is guarding Camp Marechal De Lattre de Tassigny at Novo Selo.

The EU Report 2021 noted that Kosovo maintains overall good relations with Albania, Montenegro, and North Macedonia. Concerning the challenges in relations with Serbia, the EU report noted that the EU-facilitated dialogue on normalisation of relations between Kosovo and Serbia continued with meetings at leaders' and chief negotiators' level. Moreover, the report noted that the situation in the north of Kosovo remains challenging, in particular in terms of corruption, organised crime, and the conditions for freedom of expression.

The European Union Rule of Law Mission in Kosovo ([EULEX](#)) is the largest civilian mission ever launched under the Common Security and Defence Policy (CSDP). The central aim of the mission is to assist and support the Kosovo authorities in the rule of law area, specifically in the police, judiciary and customs areas.

A.1.4 Human rights, gender, youth, jobs.

The EU Report 2021 noted that the Functional Review of the Rule of Law Sector has led to a Rule of Law Strategy and Action Plan, which were adopted by the government in August 2021. The Strategy presents concrete actions aimed at increasing the integrity and performance of anti-corruption mechanisms in Kosovo, strengthening judiciary and prosecution, improving the access to justice for all, human rights and gender equality protection as well as reforming the Ministry of Justice in view of its ability to implement the EU acquis and European standards. While the adoption of the strategy and action plan was significantly delayed by the political situation during the reporting period, its implementation should now be supported by all actors. The new position of Deputy Prime Minister on Human Rights and Communities represents an opportunity to better coordinate and oversee fundamental rights policies and legislation. The EU Report calls for strengthening of the implementation of the Law on Gender Equality and ensure proper functioning of the system of protection, prevention and adjudication of all forms of gender-based violence. The above-cited EULEX also supports full compliance with international human rights standards and best European practices.

The EU Report expressed concern over an alarming rate of youth unemployment (49.1% for the age group 15-24), implying structural problems such as undeclared work and misalignment between education outcomes and labour market needs. The share of young people not in employment, education or training aged 15-24, increased somewhat to 33.6% in 2020. Active labour market policies, pre-qualification schemes and vocational training programmes remain inadequate to labour market needs. Kosovo endorsed the Western Balkans Declaration on ensuring sustainable labour market integration of young people in the summer of 2021 and committed to gradually establish and implement the Youth Guarantee scheme.

Around 18% of Kosovo's population lives below the poverty line (EUR 45 per month as defined by the World Bank), with 5.1% percent of the population below the extreme poverty line. Children from poor households, socially vulnerable communities and those with special needs lack equal access to vital health and education services due to financial barriers. Among the nine Energy Community contracting parties, Kosovo has the largest share of households living in energy poverty, up to 40 percent. A World Bank ESMAP working paper [“Poverty and Distributional Analysis of Electricity Poverty and Protection of Vulnerable Customers in Kosovo”](#) provides further information.

The EBRD Kosovo Diagnostic 2021 highlighted that the share of young people neither in employment nor in education and training in Kosovo is highest in the region, at 33 %r cent in 2020. However, these data should be observed in the context of Kosovo having the youngest population in Europe with a median age of 29.5 years (vs. the median age of the EU population of 43.1 years). The Diagnostic further informed that the unemployment rate remains high, especially for youth. In 2020, 26 % of the labour force and 49 % of youth was unemployed. Young women were the most disadvantaged group, with 57 % being unemployed. Similarly, only 6 % of young women had a job in 2018, compared to 15 % of young males.

Please also see Annex 13 on the poverty focus in the Programme and how EBRD can contribute via the way grant resources are utilized.

A.1.5 Energy, climate change, environment, and inclusive sustainable growth.

The EU 2021 Report makes the following observations and recommendations: Kosovo has made some progress, with the increase of investments in renewable energy, achieving 2020 goals under the Energy Community Treaty and developed interconnection with the region's energy networks. In line with the principles and priorities of the Green Agenda for the Western Balkans, the review of the energy Strategy and Action Plan should ensure their coherence with the integrated National Energy and Climate Plan and put in place policies and measures to reach those targets in the most cost-effective way.

In the second half of 2021, the Government of Kosovo had established a working group to draft a new Energy Strategy 2022 - 2030. This Strategy is expected to be approved during 2022. Indications are that the process will be based on data and the modelling exercise that the Government is doing will be based on the commitment to full decarbonisation by 2050. The Ministry of Economy on 10 March 2022 made a presentation to the development partner community on National Energy Strategy (NES)²³, based on modelling scenarios developed by external consultants from the Hungarian institute REKK. Key points communicated included the following: In spite of the turmoil in energy markets NES carries out a deep transformation of the Kosovo power system: Energy efficiency is a must, reducing import and price exposure; NES copes with the future challenges without building new lignite unit; NES considers carbon pricing which was not considered in previous NES; It dynamically increases RE shares, using auctions to ensure cost efficiency; Depending on the RE auction prices and the prevailing market prices, RE penetration rates could be flexibly adjusted; Due to the turbulence on the natural gas markets, the future of the gas in Kosovo needs to be further assessed in the coming years.

The Government has also established the National Energy and Climate Plan (NECP) drafting group since 2019. A draft of this document has already been prepared and the government has announced that the document is expected to be submitted to the Secretariat of the Energy Community after the approval of the new National Energy Strategy.

There is an increased discussion in Kosovo's public discourse about the country's energy future following the import price crisis that also affected Kosovo from November 2021 to February 2022. The crucial question that the NES will have to answer is whether there will be an energy transition from coal to renewable sources or whether gas investments will be considered as a transit fuel.

Kosovo remains heavily reliant on coal, which in addition to being a dominant greenhouse gases emission source, causes serious health and environmental hazards. Recommendations from the previous report of the European Commission were only partially addressed. For 2022, the European Commission recommended that Kosovo should in particular:

- continue the environmental upgrade of the Kosovo B thermal power plant and works for decommissioning of the Kosovo A thermal power plant.
- continue the roll out of the Energy Efficiency Fund, implement energy efficiency projects in municipalities and introduce energy efficiency incentives in residential and private sectors.

²³ Key issues from the presentation include: • 2021 and 2022 price volatility creates short term risks (economic, system and political risks) • Diversification of power generation must be ensured by dynamically increased RES capacities: o RES auction should start this year with a pilot o Promotion of small scale (household) PV installations (Prosumers) • Energy efficiency helps reducing demand and import growth: o Heating and building related efficiency support programs should start as soon as possible o Tariffication that incentivises energy saving should be further developed together with programmes helping the vulnerable consumers • Timely refurbishments of A and B units according to the schedule must be ensured – otherwise economic, technical SOS issues will arise • Create clear responsibility for import – who buys, what quantities on what timescale • Leave the door open to gas development, but do not engage yet in firm commitment on infrastructure development.

® update Kosovo's energy strategy with a main focus on renewables, energy efficiency and decarbonisation targets. Take measures to enable a cost-effective deployment of 98 renewable energy and introduce renewable energy auctions.

→ adopt a plan for the gradual adjustment of energy tariffs.

EU recommends that current trends should be revised to achieve ambitious goals of the Green Agenda for the Western Balkans. An assessment of alternative sustainable energy sources should be carried out, in line with the sustainable green transition in the EU. The adoption of an integrated National Energy and Climate Plan should present the 2030 renewable energy targets and establish policies and measures to reach them in the most cost-effective way. Concerning progress on the implementation of the Kosovo Energy Efficiency Fund (KEEF), EU recommends that Kosovo should prioritise energy efficiency investments in residential buildings and the private sector, increasing efforts to monitor and verify energy savings, including making the online platform for energy efficiency monitoring and verification operational. Kosovo should take into consideration the replenishment of the fund and enforce secondary legislation needed to implement the Law on energy efficiency. The fund should mobilise investments for energy in the residential and private sectors. A revolving mechanism needs to be designed for residential and private sectors to ensure long-term sustainability of the fund.

The following context/background sections draw mainly on the Energy Community's most recent reporting for 2021²⁴ and some information is also drawn from the EU Reports' statistical annex that is based on EUROSTAT information related to 2019.

Kosovo is a signatory of the Energy Community Treaty since 2005. This Treaty and its mechanisms are used as a pre-accession tool for contracting parties, aiming to expand the benefits of the regional market before joining the European Union. As noted in the foregoing, Kosovo is not yet a signatory party of the United Nations Framework Convention on Climate Change (UNFCCC) and has therefore not submitted an NDC to the Paris Agreement on Climate Change. However, by signing the Energy Community Treaty, Kosovo has undertaken responsibilities toward implementation of the Convention (and the Kyoto Protocol that operationalises the UNFCCC). In this regard, Kosovo is obliged to harmonize its national legislation in compliance with the EU energy *acquis communautaire*²⁵ adopted by the Ministerial Council of the Energy Community. As a contracting party of the Energy Community, Kosovo has transposed EU directives related to the third energy package including the Energy Efficiency Directives. In addition to this, the EU adopted the Green Deal as a new growth strategy through which it aims to become climate neutral by 2050. Involvement of the Western Balkans is considered as paramount for achieving this target. A Green Agenda for Western Balkans (WB) was endorsed by the WB leaders in the [Sofia Summit](#) in 2020.

²⁴ https://www.energy-community.org/dam/jcr:db6d342-ea7d-4677-9a9b-e18f22a1cfad/IR2021_Kosovo.pdf

²⁵ By adopting the Energy Community Treaty, the Contracting Parties make legally binding commitments to adopt core EU energy legislation, the so-called "*acquis communautaire*". The 'original' *acquis* has undergone several updates and there are new acts on statistics, oil and infrastructure. In November 2021, the first set of [Clean energy package](#) acts were incorporated into the Energy Community *acquis*. The adoption of Governance Regulation 2018/1999 on 30 November 2021 marked the next step. Adopted and adapted by [Decision 2021/14/MC-EnC](#), the Regulation sets common rules for planning, reporting and monitoring on energy and climate policies and targets. In particular, the Contracting Parties will be required to submit National Energy and Climate Plans (NECPs). As can be seen here <https://www.energy-community.org/regionalinitiatives/NECP.html> Kosovo's NECP progress reporting is pending.

Box A.1.1: Some key information on the energy/power sector in Kosovo:

Some key information on the energy/power sector in Kosovo:

- Kosovo depends almost exclusively on two ageing lignite plants KOSOVO A and B for its electricity.
- Kosovo is not connected to any natural gas system.
- Electricity generated from wind and solar are underrepresented in Kosovo's energy mix.
- The energy intensity of the Kosovo economy is almost four times higher than the European Union average.
- Final Energy Consumption (FEC) is 39% in the residential sector, 28% in transport, 20% in industry, 11% in services, and 2% others.
- The transmission system operator and the distribution system operator are unbundled.
- Connection Network Codes are implemented through the grid codes approved by the regulator.
- Kosovo made progress in terms of cross-border cooperation following the entry into force of the connection agreement with the European association for the cooperation of transmission system operators (TSOs) for electricity (ENTSO-E) in October 2020. As of 2021, the transmission system operator KOSTT started to allocate cross-border capacities through the Coordinated Auction Office in South-East Europe (SEE CAO).
- The dispute with the transmission system operator of neighbouring Serbia came to an end by the signing of the connection agreement of the transmission system operator with ENTSO-E.
- The bulk supply agreement between the state producer and supplier distorts competition. The establishment of a day-ahead market hinges on the establishment of the Albanian day-ahead market, which continues to be delayed. A competitive balancing market exists.
- The opening of the retail market has earlier been postponed for the fourth consecutive year, due to the lack of a decision-making quorum of the Kosovo regulator ERO's board and as a result of public pressure and pressure from the political spectrum, but this situation has been overcome in August 2021 by the appointment of a new Chairman and two new Board members. The regulator has proved its commitment to transpose the new acquis by including the electricity Network Codes in the national regulatory rules.
- The Kosovo Competition Authority opened an investigation into anti-competitive agreements and dominance by Electricity Distribution Services in Kosovo J.s.c (KEDS) and the Kosovo Company for Supply of Energy (KESCO) by creating barriers to entry on the market of electricity supply.
- The regulator has been active in promoting self-consumption of customers by issuing licenses for installation of solar panels.
- The State Aid Authority has started to investigate State support in the energy sector.
- Kosovo has reached 25,69% of renewable energy in 2019, slightly surpassing its 2020 target of 25%. However, only the sectorial target for heating and cooling was overreached, while contributions of renewable energy to electricity and transport are still very low.
- Since December 2020 the allocation of feed-in tariffs has been suspended.
- The system operator is obliged to give dispatching priority to generating installations using renewable energy sources grounded on transparent and non-discriminatory criteria.
- A one-stop shop supported by an inter-institutional coordination committee made up of all authorities involved in the development of renewable investments is not yet in place.
- As of 2020, total installed RE generating capacity was 150 MW (in 2020, 11 MW of small hydropower capacities were commissioned, resulting in a total of 74 MW of small hydropower, in

addition to 32 MW of large hydropower, 34 MW of wind (Kitka wind farm) and 10 MW of solar). The Bajgora wind farm 70 MW has now also entered service.

- The 2018 Law on Energy Efficiency set a final energy cap consumption target for 2020, an energy efficiency obligation with a 0,7% target and a 1% annual central government buildings renovation target. The final version of the National Energy Efficiency Action Plan (NEEAP) 2019 – 2021 was submitted to the Energy Community Secretariat in December 2020.
- Kosovo has adopted the necessary by-laws to implement the Law on the Energy Performance of Buildings. Activities to strengthen expertise and tools for certification of buildings are ongoing. A plan to boost nearly zero-energy buildings and a building renovation strategy have been drafted, but not adopted. A new law on energy performance in buildings has been included in the legislative agenda for 2022 and is expected to improve the infrastructure for licensing of energy auditors, labelling and digitalization of the sector.
- The Energy Efficiency Fund, with capitalisation of around EUR 20 million and secured financing until 2022, continued public calls for improvement of energy efficiency in municipalities. There are plans to extend financing for the residential sector in 2022. Rules on energy efficient public procurement, ESCOs and energy performance and supply contracts are in line with the acquis. The draft NEEAP includes measures for the development of an ESCO market.
- The Energy Community has recommended Kosovo to introduce energy efficiency incentives in residential and private sectors.
- Kosovo is behind schedule on energy efficient products – labelling.
- Kosovo has district heating systems in four municipalities, which predominately rely on coal (94%) and petroleum products (6%). Most heat consumption is billed without being metered. Gjakova municipality has constructed a biomass cogeneration plant to replace the existing petroleum heating plant. Kosovo has not assessed its potential for high-efficiency cogeneration and efficient district heating and cooling, as required by the Energy Efficiency Directive and the preparation of secondary legislation has not started yet.

Concerning environmental issues, the Energy Community has noted that new legislation on the limit values for emissions of air pollutants from stationary sources was adopted in the reporting period. With that, Kosovo's long-standing non-compliance with emissions legislation was addressed. The new draft Law on Environmental Impact Assessment (EIA) falls short of compliance with Directive 2014/52/EU.

Concerning climate change, as earlier noted, Kosovo is not a signatory party of the United Nations Framework Convention on Climate Change (UNFCCC) and thus there is currently no legal basis for drafting a Nationally Determined Contribution (NDC). Legislation defining national systems for policies, measures and projections for national greenhouse gas emissions monitoring and reporting systems is missing. In 2020, the Government adopted a concept paper on climate change, paving the way for the adoption of a law on climate change. Also, the Government is finalizing the working group for drafting the Decarbonization Strategy that is expected to set voluntary targets for Kosovo in the field of reducing emissions and combating climate change.

As earlier said, Kosovo has no gas market access, no institutional framework, and no strategy for gas. The potential exists for gas supply from North Macedonia or from Albania through pipelines as well as in the form of liquified natural gas (LNG), but this is an ongoing discussion.

A.1.6 Capacity of public sector, public financial management and corruption.

Interviews with KfW and GIZ have reflected that capacity in Kosovan partner authorities is often very limited (sometimes ministries with even as little as 5-10 substantive staff). The mission to Kosovo during

21-24 March has confirmed this impression, and information about staffing in the different public energy related institutions has been collected. For example, the Department for Energy has 13 staff. KEEF has 9 staff. ERO has 26 professional staff.

The EU 2021 Report recommended increase the capacity of all public procurement institutions and the cooperation between them to ensure consistent implementation of the public procurement regulatory framework.

The EBRD's Kosovo Diagnostic 2021 noted that the regulatory and administrative burden as well as wider governance weaknesses remain an obstacle to the business environment. Despite the improvements in the previous years, there is a further need to streamline processes for obtaining licenses and permits. Business inspections reform should be re-energised as the weaknesses in the framework and implementation continue to burden the private sector. Generally, weak institutional capacity constraints effective implementation of business regulations. The diagnostic found that key weaknesses common to the Western Balkans, such as weak rule of law, low capacity of public administration, complex inter-ethnic relations, and uneven culture of political dialogue and consensus building, have, in some areas, been multiplied in Kosovo. The Diagnostic notes that Kosovo is progressing with the decentralisation of government, including the strengthening of local administration. The main remaining challenges include a relatively weak professional expertise at the local level, budgetary constraints and overall absorption capacity.

EBRD's report also found that the private sector faces multiple challenges in the business environment. Governance challenges including widespread informality and corruption, an inefficient judiciary and weak rule of law and institutions are the key obstacles to doing business.

Kosovo ranks #87 of 180 countries in Transparency International's Corruption Perceptions 2021 index. The EU report 2021 noted that "overall, corruption is widespread and remains an issue of serious concern. Despite efforts made, there is a need for strong and continual political will to effectively address systemic corruption risks, as well as a robust criminal justice response to high-level corruption. Also, the report noted that the situation in the north of Kosovo remains challenging, in particular in terms of corruption and organised crime. It is noted that Kosovo jumped 17 places from the previous year in the index, reflecting the progress underway.

A.1.7 Matching with Danish strengths and interests, engaging Danish actors and seeking synergies.

Denmark has not previously been engaged in the energy sector in Kosovo, but there is a long history of earlier Danish engagement in Kosovo, which was a priority country in the Danish European Neighbourhood Programme (DANEP) until 2015, when reductions in the budget reduced country focus to only Ukraine and Georgia. The MFA Evaluation of the Danish Neighbourhood Programme with a Focus on the Economic Development Portfolio published in November 2011 covered the period 2008-12 and included a separate country case study on Kosovo. The MFA Evaluation of the Danish Neighbourhood Programme 2008-2015 that was published in November 2016 also covered projects in Kosovo. More recently, Denmark has also contributed through delegated cooperation with the World Bank in agriculture²⁶.

²⁶ Denmark supported Kosovo in the Agriculture and Rural Development Program (World Bank project ID P112526, budget of USD 35.03 million). The Programme has a closing date of 30 June 2022. Denmark supported this Programme through a project entitled "Danish Support for the Rural Development Grant Program (WBG project ID P112526)" with the development objective to improve the productivity of and access to markets by project beneficiaries in the horticulture and

The Danish Energy Agency (DEA) (and other Danish energy institutions such as the Danish Transmission System Operator Energinet) has strong competences in several areas that could be relevant to Kosovo, including long-term planning and model-based energy scenarios,, grid integration of high proportions of variable renewable energy, power system flexibility, energy efficiency, district heating, and wind energy. Denmark's experience is thus highly relevant to Kosovo. From depending entirely on fossil fuels, Denmark now has a world record security of electricity supply of 99.996 % with a 50 % share of renewables. Denmark has demonstrated that it is possible to decouple economic growth from GHG-emissions and energy consumption, resulting in green growth. Denmark's experience has also demonstrated the importance to GHG-emissions reductions of an integrated approach to energy management and planning, and the value of civil society engagement, academia, and private sector to push for renewable energy, energy efficiency, and climate change mitigation. Denmark has a strong interest in sharing this experience internationally and DEA's [Centre for Global Cooperation](#) is currently engaged in 19 countries around the world. The Danish Government has set the target to reduce greenhouse gas emissions by 70 % by 2030. This target forces DEA to collaborate across all emission sectors and with multiple stakeholders, including the private sector, think tanks, NGOs, and research, investment. and pension funds. DEA and inspiration within EU member states and in its (currently 19) country partnerships. The cooperation, which aims at facilitating investments in RE and EE and building a competitive environment through clear planning and investments procedures, bears the potential to attract Danish private sector, among other potential private investors.

DEA has participated in the identification mission to Kosovo during 21-24 March. And while themes for potential GtG-cooperation within energy between authorities in Denmark and Kosovo have to be investigated and discussed in further detail – particularly when the draft energy strategy of Kosovo has been launched- preliminary ideas for cooperation could include long term energy planning and scenario modelling, individual and district heating systems, energy efficiency, RE auction design, power system flexibility, integration of variable renewable energy sources into the power grid, and renewable energy technologies. The collaboration would aim at high priority challenges in the sphere of energy in Kosovo and on capacity building as well as lasting institutional competences. The preferred DEA delivery model for technical assistance includes a long-term energy advisor embedded in e.g. an energy authority, and this idea has also been raised with Kosovan authorities.

The resource base in the Danish private sector on the green energy transition is very strong. Information about Denmark's expertise and experience can for instance be seen in the State of Green: <https://stateofgreen.com/en/sectors/clean-energy-sources-sector/>

livestock subsectors of Kosovo and strengthen the institutional capacity of the Ministry of Agriculture, Forestry and Rural Development. The grant amount was USD 9.2 million. The project is now closed.

Table A1.1: Summary overview of key national authorities and stakeholders and international development partners

Note: This list is not exhaustive but illustrative of major stakeholders and development partners and includes selected civil society organisations.

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|--------------------------------|-------------------------------|--|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Ministry of Economy | National government | The Ministry of Economy is the key national partner for Danish cooperation and the signatory to the Agreement with Denmark that includes "Promotion of renewable energy, energy efficiency and energy consumption planning projects, including reforms in the energy field outlined in the EU-Kosovo Association Agenda". The Ministry of Economy proposes, drafts and provides for the implementation of energy sector policy/strategic documents, and compiles regular reports on their implementation; proposes, drafts and provides for the implementation of energy sector legislation; drafts long-term and annual energy balances, and monitoring thereof; and implements tasks deriving from the Energy Community Treaty. The Ministry 's organisational structure includes the Department of Energy and its divisions, as well as the Kosovo Energy Efficiency Agency (AKEE). Both the Ministry of Economy and Ministry of Finance keep track of development partner support in the energy sector. Relevant websites: https://me.rks-gov.net/en/energy-5 and https://me.rks-gov.net/en/organizational-structure . | X | X | X | X | X | X | | | X |
| Energy Inspectorate | National government | The Energy Inspectorate under Ministry of Economy conducts administrative oversight of the implementation of Law on Energy, Law in Electricity, Law on the Energy Regulator, Law on Pressurized Equipment, Law on District Heating, Law on Natural Gas, Law on Energy Efficiency and all other subsidiary legislation implementing these laws. Website: https://me.rks-gov.net/en/energy-inspectorate | X | X | X | | | X | | | |
| Energy Regulatory Office (ERO) | Independent Central regulator | ERO is responsible for the establishment and enforcement of the regulatory framework for the energy sector (electricity, district heating and natural gas) in Kosovo, and for ensuring non-discrimination, effective competition, and the efficient functioning of the energy market - in accordance with the obligations arising from the Energy Community Treaty. | X | X | X | | | X | | | |

²⁷ EE= energy efficiency; RE=renewable energy; DH=district heating; TA=technical assistance and capacity development

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|--|--|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Ministry of Environment, Spatial Planning and Infrastructure | National government | This Ministry's mandates include giving policy direction and promoting an enabling environment for the development of sound and quality-built infrastructure. Website: https://mmphi.rks-gov.net/en/ | | | | | X | X | | | X |
| Ministry of Finance, Labour and Transfers | National government | This Ministry has overall responsibility for developing the Government's fiscal and economic policy framework; collection and distribution of public revenues and playing an important role in the socio-economic development of the country. The Ministry also generally tracks and coordinates donor projects across sectors. Website: https://mf.rks-gov.net/page.aspx?id=2,1 | | | | | X | X | | | X |
| Ministry of Regional Development (MRD) | National government | The Ministry's responsibilities include drafting of public policies and legal acts, adoption of bylaws and setting mandatory standards in the field of regional development and their implementation. Website: https://mzhr.rks-gov.net/page.aspx?id=2,1 | | | | | X | | | | X |
| Kosovo Energy Efficiency Fund (KEEF) | Independent national level agency | KEEF (also referred to as FKEE in Albanian) is an independent extra-budgetary agency established with the adoption of the Law on Energy Efficiency. Concerning the relationship of KEEF to AKEE, it is noted that there are some overlaps between the two in terms of managing investments in the energy efficiency sector. Nevertheless, KEEF has the authority under the Law on Energy Efficiency to design and implement financial instruments in the energy efficiency sector. The role of the KEEF is yet to be strengthened with the full implementation of the Law on Energy Efficiency that gives authority to the KEEF to also become a self-sustained fund. | X | | | | | | | | X |
| "Green MPs" | Non-formal political level committee within Parliament | The group of green MPs aims to involve the Assembly of Kosovo in a more active role to ensure the shaping and implementation of public policies and legislation, which takes into account the perspective of environmental impact. | | | | | X | | X | | |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|--|--|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Council for sustainable development | Central level body within the Parliament | The functions of the Sustainable Development Council of the Assembly of Kosovo include monitoring and assisting in achieving the Sustainable Development Goals (SDG) including SDG 7 on energy. Council members oversee the implementation of the National Development Strategy (NDS), and other Strategies that have integrated the SGDs. | X | X | X | | | | X | | |
| Commission on Human Rights, Gender Equality, Missing Persons, Victims of War Sexual Violence and Petitions | Independent Central level | This Commission examines all issues related to human rights, monitoring and implementation of the principle of gender equality in legislation and petitions submitted by citizens. | | | | | | X | | | |
| Water Services Regulatory Authority | Central regulator | While not directly involved in energy, this authority is relevant for resource efficiency and protection of water sources in general. One of the main problems with Kosovan water infrastructure is the very high (close to 50%) technical losses of potable water in the grid. The Authority has also some competences when it comes to the security of supply and the protection of water sources. | | | | | | X | | | |
| State Aid Commission | National government | This commission is responsible for the provision of state aid, which is considered any actual, potential expense, or reduction of state revenue, given in any form by the grantor or which can be attributed to the state, which directly or indirectly distorts or threatens to distort competition by favoring certain beneficiaries of state aid or products of certain goods and services, and which is contrary to the international obligations of the Republic of Kosovo. In November 2020, the State Aid Commission rendered its first-ever decision concerning State aid in the energy sector. | | | | | | X | | | |
| Kostt (TSO) | Public sector TSO | KOSTT is a transmission system operator (TSO) company. As a market operator it is responsible for the organization and administration of trades in electricity. KOSTT is a member of the Energy Community. In 2020, KOSTT signed a connection agreement with the European Network of Transmission System Operators for Electricity (ENTSO-E). | X | X | | X | | | | X | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|--|--|--|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Kosovo Energy Corporation (KEK) | Public energy generation utility | KEK owns and manages the lignite fired Kosova A & B power plants. It produces around 93-95% of total electricity generation in Kosovo. | | | | | | | | | X |
| Kosovo Competition Authority (KCA) | Public Central regulator | KCA creates conditions for markets to offer more benefits to consumers, businesses and society as a whole, while protecting competition in the market and promoting a culture of competition in Kosovo. In 2020, ERO and KCA signed a memorandum of understanding through which they have expressed a common interest in cooperation and coordination of activities in the area of energy market in Kosovo. | | | | | | | X | | |
| Kosovo Energy Distribution Company (KEDS) | Private electricity distribution company | Invests in and manages the electricity distribution grid. Also responsible for maintaining assets at distribution level, i.e. substations, consumer meters, etc. KEDS also owns the main supplier KESCO: | | | | | | | | | X |
| Kosovo Electricity Supply Company (KESCO) | Private supplier of electricity | KESCO offers supply services to over 450,000 consumers in Kosovo. KESCO has the bulks supply agreement (BSO) with KEK that obliges KEK to sell electricity @ a fixed price of EUR 29/Mwh. This has been seen as an obstacle to the other 8 suppliers that are licenced but cannot enter the competition. The BSO is also seen as an obstacle in the process of market liberalization including the utilization of a power exchange between Kosovo and Albania (ALPEX) that is planned to be functionalized by June 2022. | | | | | | | | | X |
| Private financial institutions in Kosovo engaged in EE, RE in SMEs and residential sector. | Private sector | EBRD works through a number of private banks such as ProCredit Bank Kosovo (PBCK), Bank for Business (BPB), Raiffeisen Bank (RBKO). | X | X | X | | | | | | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|--|------|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| INDEP | NGO | The Institute for Development Policy (INDEP) is a think tank and an advocacy centre that provides independent research-based policy solutions. INDEP undertakes policy analysis, organises events, and publishes reports on energy efficiency and other green energy topics, see website: https://indep.info/en/?s=energy | X | | | | X | | X | | |
| Balkan Green Foundation (BGF) | NGO | BGF is a regional organization that promotes inclusive and equitable progress in the Western Balkans within the sustainable development domain. Website: https://www.balkangreenfoundation.org/en-us/about/#about-us | X | | | | X | | X | | |
| TOKA | NGO | The Youth Development Foundation TOKAs mission is to empower Kosovar youth by supporting their skill development; it offers innovative education programs for young people. | | | | | | | X | X | |
| Kosovo Women's Network (KWN) and EcoKosWomen (EKW) | NGO | KWN/EKW seek to protect the environment including through energy saving, recycling, using eco-friendly printing, and using public transport and vehicle-sharing when possible. The NGOs also support members and partners in advocacy efforts to improve environmental conditions in Kosovo. Website: https://womensnetwork.org/ | | | | | | | X | | |
| Kosovar Civil Society Foundation (KSCF) | NGO | KSCF empowers civil society through civil society grants, capacity building, and advocating for the protection of space for active citizenship. KSCF has a particular focus on contributing to the integration process in the European Union. Website: https://www.kcsfoundation.org/en/home-2/ | | | | | | | | X | X |
| Innovation Foundation Kosovo | NGO | Promotes innovation as a priority in public and private life in Kosovo, at the local and national level, with a focus to support, stimulate, encourage, promote, educate, develop innovations in Kosovo in all areas of social and economic fields, to develop and upgrade human resources and skilled leadership that will act as the basis for further development of the human and economic development of Kosovo, to advance the competitiveness of Kosovo. | | | | | | | | X | |
| Balkans Policy Research Group | NGO | A think-tank working on Institutional & Democratic Consolidation, Regional Cooperation & Good Neighbourly Relations, Reforms & EU Integration in the Western Balkans. | | | | | X | | | | |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|---|-----------------------------------|--|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Kosova Democratic Institute / Transparency International Kosova | NGO | Supports the development of participatory democracy & the fight against corruption by promoting transparency, accountability and integrity at all levels and sectors of society. | | | | | | | X | | |
| European Bank for Reconstruction and Development (EBRD) | Multi-lateral development partner | EBRD is a key international financial institution designed to foster transition towards open market-oriented economies and to promote private and entrepreneurial development. EBRD makes financial investments, provides business services, and engages in high-level policy dialogue. EBRD is proposed to be the key Danish partner through delegated cooperation and has in February 2022 launched its new Country Strategy until 2027, with strong focus on the green energy transition. EBRD provides project financing, usually together with commercial partners, mainly to the private sector, for example to banks, industry, and businesses, both new ventures and existing companies. It also works with publicly owned companies to support privatisation, the restructuring of state-owned firms and improved municipal services. The EBRD's EE model has been operating in Kosovo since 2011 under the Kosovo Sustainable Energy Project (KOSEP). EBRD supports EE investments in Kosovo through an EUR 2 mio loan to Kreditimi Rural i Kosoves (KRK) and EUR 2.5 mio to Kosovo's ProCredit Bank also for EE. EBRD supports renewable energy i.a. through support for two wind farms (Kitka, EUR 18 mio loan and Bajgora, EUR 58 mio loan). Website: https://www.ebrd.com/news/2022/ebrd-launches-new-country-strategy-for-kosovo.html | X | X | | | X | | | X | X |
| World Bank Group (WBG) | Multi-lateral development partner | In 2009 Kosovo became a full member of the WBG. The current framework for cooperation is the Country Partnership Framework for the Republic of Kosovo for the Period FY17–FY21 dated April 25, 2017 ref: https://documents1.worldbank.org/curated/en/297951496160148830/pdf/112337-Corrigendum-PUBLIC-Kosovo-CPF-with-Corrigendum-May-8-clean-w-scd-box-edits-May-24-2017-08032017.pdf . The WBG was instrumental in assisting the establishment of KEEF. An important ongoing WBG project is the “Energy Efficiency and Renewable Energy Project for Kosovo”. | X | X | X | | X | | X | X | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|---|-----------------------------------|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| European Union (EU) Office in Kosovo and the European Commission (EC) | Multi-lateral development partner | The EU has played a leading role in the international effort to build a new future for Kosovo since 1999. The EU is active in Kosovo through its Special Representative (EUSR), and the European Security and Defence Policy (ESDP) mission in the rule of law area (EULEX). The EU is also present through member countries' Embassies and Liaison offices. The EU Office in Kosovo plays a pivotal role in implementing the EU agenda in the territory, especially the promotion of European norms. The Office ensures permanent political and technical dialogue between Kosovo and the EU institutions. Website: https://eeas.europa.eu/delegations/kosovo_en . The EU's political and financial commitment to Kosovo is two-fold: i) assistance to meet Kosovo's institution-building needs and socio-economic development; ii) a substantial contribution to the international presence in Kosovo. Financial support is provided under the EU Instrument for Pre-Accession Assistance (IPA) - currently in the 3rd phase (IPA III), for which the framework and the separate annual programmes were approved by the Kosovan Government in February 2022. IPA 2022 comprises support for the instrument of approximation with the EU, support for the environment and green energy, energy efficiency, circular economy and waste management, wastewater and inclusive socio-economic development. These funds will be combined with some co-financing from Kosovo. | X | X | | | X | | | X | X |
| Western Balkans Investment Framework (WBIF) | Multi-lateral development partner | WBIF is a joint initiative of the EU, financial organisations, bilateral donors and beneficiaries, aimed at enhancing harmonisation and cooperation in investments for the socio-economic development of the region and contributing to the European perspective of the Western Balkans. Due to its collaborative nature in line with the 'Team Europe' approach, the WBIF is the main vehicle for implementation of the EU's Economic and Investment Plan for the Western Balkans. Since 2009, the WBIF has supported 30 projects with an estimated value of EUR 1.8 billion in Kosovo. These projects range over different sectors, including EE RE and DH. Danish engagement through WBIF has been considered, but WBIF has not been responsive to request for discussion. Particularly important to note is project PRJ-KOS-ENE-013 Energy Efficiency Measures in the Residential and Private Sector, approved by WBIF in December 2021, which will provide TA through a Feasibility | X | X | X | | X | X | | X | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|------------------------------------|-----------------------------------|--|------------------|----|----|----------|--------|------------|----------|----|-----------|
| | | Study that will enable KEEF to develop a new financial model for implementing energy efficiency measures in the residential and SMEs sectors in Kosovo. This project is thus directly related to the focus of what EBRD is proposing for potential Danish support and close coordination will be required. Website showing WBIF energy projects in Kosovo: https://www.wbif.eu/wbif-projects | | | | | | | | | |
| European Investment Bank (EIB) | Multi-lateral development partner | EIB's first operation in Kosovo was signed in 2002 ²⁷ and in 2013 EIB signed a Framework Agreement with Kosovo to finance priority projects, particularly in energy infrastructure, environment, transport, and telecommunications - the portfolio of EIB however does not reflect current support for the energy transition - but EIB involvement facilitates the co-financing of projects with other donors and supports the implementation of the WBIF and the Western Balkans Enterprise Development and Innovation Facility (WBEDIF). Most notably, it is understood that EIB will serve as the lead financial institution for the above-cited WBIF project “Energy Efficiency Measures in the Residential and Private Sector” (project PRJ-KOS-ENE-013). EIB website: https://www.eib.org/en/projects/regions/enlargement/the-western-balkans/kosovo/index.htm | X | | | | | | | | X |
| Energy Community (EnC) Secretariat | Multi-lateral development partner | The Energy Community is an international organisation that brings together the European Union and its neighbours to create an integrated pan-European energy market. EnC's key objective is to extend the EU internal energy market rules and principles to its neighbours on the basis of a legally binding framework. EnC has its Secretariat in Vienna, Austria (no office in Kososovo).. Kosovo became a member in 2006 and as a Contracting Party to the Energy Community Treaty, Kosovo has the obligation to implement the energy acquis in force. signatory to the EnC Treaty in 2006 and has the status of a “contracting party” meaning that Kosovo has the obligation to implement the energy acquis in force. Parallel to the adoption of secondary legislation, the implementation of the acquis gives rise to diverse reporting obligations. The EnC's 2021 report on Kosovo contains key information on Kosovo's green energy transition and can be found here: https://www.energy-community.org/implementation/Kosovo.html EnC also supports an interactive platform for coordination of donor projects and an EnC meeting was held in March 2022 with 9 leading donors and multilateral | | | | | | X | | X | |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|----------------------|----------------------------------|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| | | financial institutions to discuss the technical assistance and capacity building needs of the Contracting Parties and how they can best be matched with donor programmes, see: https://www.energy-community.org/regionalinitiatives/infrastructure/donors.html | | | | | | | | | |
| UNDP | Multilateral development partner | UNDP established its first office in Kosovo on 1 August 1999. Previous support on energy and climate change includes the project “Support for Sustainable Prizren – Initiating Urban Nationally Appropriate Mitigation Actions (NAMAs)” in the Prizren municipality. UNDP has also supported studies on the energy sector such as the damage that the Kosovo Energy Corporation (KEK) causes to the environment through the release of greenhouse gases from coal combustion. Current UNDP support includes Strengthening Local Climate Action Project” (November 2021 – October 2024), building on the results of the above-cited project “Urban NAMAs” in Prizren and extending it to sustainable rural development and the Municipality of Suharekë/Suva Reka. The project supports Kosovo municipalities in their transition towards zero emission development pathways. Website story on solar PV: https://undpkosovo.exposure.co/towards-clean-energy-one-step-at-a-time | X | X | | | | | | X | X |
| KfW Development Bank | Bilateral Donor | Since the end of the war in 1999, KfW has been helping Kosovo develop an efficient and sustainable energy supply, support sustainable urban development and promote small enterprises. A main pillar of KfW support in Kosovo is energy and municipal infrastructure including district heating. The feasibility study for the Solar4Kosovo project is ongoing – comprising combined photovoltaic (PV) solar electricity generation and solar powered district heating (DH) in Pristina – this project is among the biggest of its kind in Europe. Possible cooperation with Denmark in this regard has been discussed with KfW. Website: https://www.kfw-entwicklungsbank.de/International-financing/KfW-Development-Bank/Local-presence/Europe/Kosovo/ | X | X | X | | | | | X | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|---|-----------------|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) | Bilateral donor | GIZ has been working in Kosovo on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ) since 1999. GIZ has a long history of engagement in EE improvements in public buildings in Kosovo and is now in the process of considering how to engage with the private sector through KEEF. This would be in both the residential and commercial sectors - and legal, regulatory, and other barriers are being identified to be able to operate with private sector. Potential cooperation with Denmark has been discussed. Website: https://www.giz.de/en/worldwide/98668.html | X | | | | | | | X | |
| Sida Sweden | Bilateral donor | The Strategy for Sweden's reform cooperation with the Western Balkans and Turkey for 2021– 2027 includes support for a broader green transition through measures in the areas of renewable energy, emissions reductions, conservation of biodiversity and transitioning to a circular resource-efficient economy, and can include support to sustainable agriculture, more sustainable public services in the areas of water, sanitation, energy efficiency, and waste and chemicals management. Website: https://www.sida.se/en/sidas-international-work/kosovo | X | | | | | | | X | X |
| USAID | Bilateral Donor | USAID's Energy Sustainability Activity improves Kosovo's energy security by strengthening the capacity of local institutions to develop open and regionally integrated electricity markets, build resilient and sustainable power networks, and boost investment in renewable energy infrastructure. USAID's Kosovo Energy Security of Supply activity provides technical assistance across the energy sector to design and implement energy security projects in Kosovo. USAID's activity strengthens the Government of Kosovo's (GOK) efforts to modernize the country's existing electricity sector and provide for a more reliable, cleaner, and affordable supply of energy. The activity builds the GOK's capacity to develop and promote new energy projects and negotiate and implement future energy-sector transactions. Website: https://www.usaid.gov/kosovo/news-information/fact-sheets/kosovo-energy-security-supply-kess | | X | | | | X | | X | X |

| Stakeholder | Type | Key mandates/roles/ website links | EE ²⁷ | RE | DH | Planning | Policy | Regulation | Advocacy | TA | Investmen |
|---|-----------------|---|------------------|----|----|----------|--------|------------|----------|----|-----------|
| Millenium Challenge Corporation (MCC), USA | Bilateral donor | MCC's Kosovo Threshold Program addresses two key constraints to Kosovo's economic growth: an unreliable supply of electricity; and real and perceived weakness in rule of law, government accountability and transparency. MCC's investments are designed to strengthen the power sector by fostering a market-driven approach to lowering energy costs for households and businesses, encouraging energy efficiency, and developing new sources of electricity generation. Website: https://www.mcc.gov/where-we-work/country/kosovo A new Compact worth USD 236 million has been negotiated in May 2002 and is expected to be signed in mid-2022. Implementation will be 2024-2029 and the focus will be on Battery Energy Storage in Kosovo. | X | | | X | | | | X | X |
| France | Bilateral donor | The French Embassy in Kosovo assists the energy sector through network-related investments and the advancement of renewable sources and energy efficiency. Among other things, the French Embassy organizes conferences on green energy and its future. Cooperation in development projects in the field of energy and water supply are also offered by Embassy of France in Kosovo for Kosovo citizens. Information about plans for future energy cooperation: https://www.rtklive.com/en/news-single.php?ID=20034 | X | X | | | | | | X | |
| The Japan International Cooperation Agency (JICA) | Bilateral donor | JICA supports improvements in air quality through support for air filters limiting pollution from the coal fired power plant KOSOVA B. | X | | | | | | | X | X |

Annex 2: Assessment of Partners

Reference is made to the stakeholder analysis in Annex 1.

Key partner features are summarised below for the main national partner, the Ministry of Economy and the two implementing partners, EBRD and DEA.

Table A2.1.: Key features of the Ministry of Economy of the Republic of Kosovo, EBRD, and DEA

| Name of Partner | Core business <i>What is the main business, interest and goal of the partner?</i> | Importance <i>How important is the programme for the partner's activity-level (Low, medium high)?</i> | Influence <i>How much influence does the partner have over the programme (low, medium, high)?</i> | Contribution <i>What will be the partner's main contribution?</i> | Capacity <i>What are the main issues emerging from the assessment of the partner's capacity?</i> | Exit strategy <i>What is the strategy for exiting the partnership?</i> |
|-------------------------------|--|---|---|--|---|--|
| Ministry of Economy of Kosovo | The Ministry of Economy proposes, drafts and provides for the implementation of energy sector policy/strategic documents, and compiles regular reports on their implementation; proposes, drafts and provides for the implementation of energy sector legislation; drafts long-term and annual energy balances, and monitoring thereof; and implements tasks deriving from the Energy Community Treaty. The Ministry's organisational structure includes the Department of Energy and its divisions, as well as the Kosovo Energy Efficiency Agency (AKEE). Both the Ministry of Economy and Ministry of Finance keep track of development partner support in the energy sector. | High | High, as member of the Steering Committee | Policy and strategy framework, decision making in the SC | Limited staff capacity | Capacity development support and an explicit exit strategy. |
| EBRD | EBRD is a key international financial institution designed to foster transition towards open market-oriented economies and to promote private and entrepreneurial development. EBRD makes financial investments, provides business services, and engages in high-level policy dialogue. EBRD is proposed to be the key Danish partner | High in Kosovo | High, as administrator of the Danish-Kosovan Green Fund and member of the Steering Committee | Administration of Danish-Kosovan Green Fund and leveraging of EBRD financial resources | Strong capacity but private sector focus – some further technical capacity may be relevant in the resident office still to be discussed | Closure of the Danish-Kosovan Green Fund |

| | | | | | | |
|----------------------------|--|--------|---|--|---|--|
| | through delegated cooperation and has in February 2022 launched its new Country Strategy until 2027, with strong focus on the green energy transition. EBRD provides project financing, usually together with commercial partners, mainly to the private sector, for example to banks, industry, and businesses, both new ventures and existing companies. | | | | | |
| Danish Energy Agency (DEA) | | Medium | High, as implementing partner of Project 2 and member of the Steering Committee as regards Project 2 activities | Technical inputs in peer-to-peer collaboration with Kosovan partner institutions and administration of Project 2 | Strong technical capabilities, but also competing demands on capacity due to 19 other energy partnership programmes | TA exit strategy [to be defined when engagement is defined in the inception phase] |

Supplementary information on EBRD:

Denmark is a founding member of the EBRD and an important contributor to the Bank's work, holding 1.2% of the Bank's shares/votes. Since 1992, Denmark has committed more than EUR 33 million of donor funding to support EBRD operations. The EBRD Board Director for Denmark covers a combined constituency that also includes Kosovo, which is a very helpful coincidence. As noted in the foregoing, EBRD was selected as proposed implementing partner after a thorough stakeholder analysis. Operating in Kosovo since 2012, EBRD has supported a portfolio of 84 projects and a cumulative investment of EUR 583 million in Kosovo. EBRD's strategic priorities in the country are to promote the green economy, support the competitive development of the private sector and foster regional integration. Headquartered in London, UK, EBRD has a resident office in Pristina. It is noted that while an assessment of EBRD by the Multilateral Organisation Performance Assessment Network (MOPAN) is underway later in 2022, a "Pillar Assessment" of EBRD was undertaken by the European Commission to provide reasonable assurance to the European Commission on whether the EBRD fulfils the requirements set out in Article 154(4) of the Financial Regulation applicable to the General Budget of the Union. The pillar assessment concerning internal control, external audit, accounting, procurement, grants and procurement was completed in 2016. Due to the adoption of the new Financial Regulation in 2018, EBRD was subject to a complementary pillar assessment regarding four new pillars: pillars 6 (Financial instruments), 7 (Exclusion from access to funding), 8 (Publication of information on recipients), 9 (Protection of personal data). This complementary pillar assessment was concluded in 2021 resulting in a positive assessment for the first three pillars. As regards data protection, the auditors proposed a roadmap for the implementation of their recommendations. It is further noted that the UK also has undertaken assessment of EBRD procedures and that EBRD is an approved supplier for the UK Foreign, Commonwealth & Development Office FCDO.

Annex 3: Theory of Change and Results Framework

The Theory of Change narrative was given in the PD main text Chapter 5

The results framework summary at outcome level was also given in Chapter 5 of the main text for Project 1: Danish-Kosovan Green Fund– bilateral trust fund with EBRD and Project 2: Government-to-Government sector cooperation with DEA and is not repeated here.

For Project 1, Tables A3.1 and A3.2 below contain a results framework for the two components GEFF III and Sustainable Reboot SME, based upon an allocation in the first year of EUR 2.5 million to each component and implementation over 5 years. EBRD has informed that annual targets are not defined in these programmes. Further information on GEFF III and Sustainable Reboot SME is found in Annex 12.

EUR 1 million of the initial EUR 2.5 million Danish grants proposed for the GEFF programme on energy efficiency (EE) and renewable energy (RE), should be prioritized for micro-finance institutions, which may better reach underserved below-average income²⁸ segments, based on demand as well as capacity to reach end-beneficiaries.

The best use of the larger part of the Danish grant can be determined when the newly launched draft national Energy Strategy has been approved and the related Action Plan has been finalized and approved. It might be relevant to use grants to make a novel solution for renewable energy production economically viable. For example, EBRD and KFW are now preparing a Solar District Heating project in Pristina involving storage of heat from summer to winter which benefits from a grant from Germany of EUR 25 million.²⁹ In the unlikely event that no good project would emerge for Danish grant support, it is possible to continue the investments in energy efficiency. Table A3.3 below is a preliminary draft outline of results framework for component/interventions that may be supported under the Danish-Kosovan Green Fund – the concrete interventions and targets will be identified and defined during Programme implementation based on the eligibility criteria for support under the Danish Kosovan EBRD Green Fund, see Annex 10. The EBRD inception phase will also contribute to the further strengthening of the results framework.

For Project 2, the DEA Inception Phase will define the detailed results framework.

Table A3.1: Draft Results Framework for support via GEFF III component

| Component | Green Economy Financing Programme³⁰ III (GEFF III) |
|------------------|---|
| Objective | The green transition in Kosovo supported by green technology investments in the residential sector as well as the public sector. |
| Impact Indicator | 100% of the Facility will be used for Green Economy Transition (GET) eligible investments. For each €1 Denmark provides, EBRD will invest, on average €5. |

²⁸ 1) inclusive transition impact is part of EBRD's approach of assessing project impact from its origination to signing to monitoring. Inclusive transition impact cover significant gender initiatives, human capital development, financial inclusion and sustainable infrastructure that enhance opportunities for underserved populations such as people with disabilities, refugees, rural communities, women and youth. 2) EBRD has introduced a new corporate target for mainstreaming gender across its operations with the support of a new gender smart assessment tool (see also at the end of Annex 10). Investment undergo this gender assessment prior to board approval and will be rated according to impact. As such, projects can achieve 'gender awareness', 'gender additionality' or 'gender transition impact', the latter being the most impactful form of engagement.

²⁹ EBRD's Project Summary Document for the Pristina Solar District Heating project was released for public consultation on 10 May 2022, <https://www.ebrd.com/work-with-us/projects/psd/52751.html>

³⁰ Note: In this Programme Document, Danish support through the trust fund agreement with EBRD for the GEFF III Programme in Kosovo will be considered a component under the under Kosovo-Denmark Partnership for Green and Just Energy Transition.

| | | | |
|-------------------|--|------|--|
| Component Title | Western Balkans Green Economy Financing Programme III (“WBGEFF III”) | | |
| Outcome | <p>The green transition in Kosovo supported through the following Windows, with the majority of the Danish grant and the related EBRD lending directed to the Refurbishment Sub-window.</p> <p>Residential Sector Window</p> <ul style="list-style-type: none"> i) Green technology investments in existing privately-owned residential dwellings or buildings and at the level of the entire multi-apartment building on the course of refurbishment (Refurbishment Sub-window). ii) Green technology investments in individual dwelling part of new houses/multi-residential buildings (New Dwelling Sub-window). iii) The facility will also support the construction companies/developers investing in the construction of new High energy Performance Residential Buildings which meet EBRD’s GET criteria (New Construction Sub-window). <p>Public Sector Window will be available for PFIs (commercial banks only). The PFIs have an option to use a part of the proceeds of GEFF loan for on-lending to eligible EE and RE projects implemented by the public sector, mainly municipalities.</p> | | |
| Outcome indicator | Number of sub-loans financed by Partner Financial Institutions (PFIs) | | |
| Target | Year | 2027 | <ul style="list-style-type: none"> • EUR 12.5 million on-lending • Expected primary annual energy savings $\geq 6,227$ MWh/year • Expected annual carbon reductions: $\geq 1,987$ t CO₂ avoided p.a. |
| Output | EBRD financing on-lending amount to reach EUR 12.5 million | | |
| Output indicator | EUR 12.5 million | | |
| Target | Year | 2027 | EUR 12.5 million |
| Output | Expected primary annual energy savings | | |
| Output indicator | Expected primary annual energy savings | | |
| Target | Year | 2027 | 6,227 MWh/year |
| Output | Expected annual carbon reductions | | |
| Output indicator | Expected annual carbon reductions | | |
| Target | Year | 2027 | 1,987 t CO ₂ avoided /year ³¹ |

Table A.3.2: Draft Results Framework for the Sustainable Reboot SME component

| | |
|------------------|---|
| Component | Sustainable Reboot SME³² |
| Objective | Transition to a green economy supported by facilitating increased SME competitiveness and prioritising investments that result in compliance with the EU Directives and other relevant international standards, through: (i) support to SMEs with investments in green technologies that will drive Kosovo’s transition to an environmentally sustainable, lower-carbon and climate-resilient green economy and (ii) raised awareness among Kosovo SMEs about the benefits and necessity to prioritise higher efficiency and better performing technologies over business-as-usual and less efficient/cheaper technologies. |
| Impact Indicator | At least 70% of the support is expected to be used for Green Economy Transition (GET) eligible investments. The remaining 30% (or less) will be comprised of vital |

³¹ In the compendium, the indicator is listed as ‘**CO₂e emissions reduced (tonnes/year)**’, however there are some references to CO₂ avoided in the longer indicator definition: ‘All other indirect emission reductions caused by the project, but occur from the sources not owned or controlled by the company. For example, emissions avoided from the production or extraction of raw material or feedstock, avoided use of road infrastructure, avoided use of sold products and services etc. Direct GHG emissions reductions/avoidance from sources that are owned or controlled by the client of the project financed. Greenhouse gas emissions reduced expressed as tonnes of carbon dioxide equivalent (tCO₂e) of global warming potentials is used, using the 100 years’ time horizon GET handbook. Indirect GHG emissions reductions/avoidance from the generation of purchased electricity, heating, cooling and steam consumed by the client of the project financed but not produced by the client.’

³² Note: In this Programme Document, Danish support through the trust fund agreement with EBRD for the Sustainable Reboot SME Programme in Kosovo will be considered a component under the under Kosovo-Denmark Partnership for Green and Just Energy Transition.

| | | | |
|-------------------|------|--|--|
| | | investments that will enable SMEs in Kosovo to become more competitive via automation, increased product\production quality and safety, while progressing towards compliance with relevant international standards. Through set eligibility criteria and a pre-approved eligibility approach, the Sustainable Reboot SME will also contribute to faster market penetration of high-performance green technologies that go beyond the country's current standards. Support will only be eligible if it meets or exceeds the minimum performance criteria. EBRD's methodology and approach to intermediated financing of green technologies is unique and responds to key challenges that are faced by SMEs. | |
| Component Title | | Sustainable Reboot SME | |
| Outcome | | Green transition and increased competitiveness of SMEs in Kosovo, by (i) supporting SMEs in accessing finance towards green investments and investments towards compliance with EU and international standards; (ii) addressing the large investment burden by offering a co-investment grant in the form of incentive payment; and (iii) assisting SMEs to access advice and know-how for introducing and implementing EU and other relevant international standards. This will contribute to building a green economy in Kosovo by facilitating the expansion of climate change mitigation investments and sharing the positive demonstration effect through on-lending to SMEs. | |
| Outcome indicator | | Number of SMEs financed by Partner Financial Institutions (PFIs) | |
| Target | Year | 2027 | <ul style="list-style-type: none"> 40 SMEs financed by PFIs Total volume of EUR 13 million of SME financing by PFIs Investment opportunities will be screened and evaluated by the Project Consultant who will be responsible for recording and tracking of GET physical impact and providing reports to EBRD on a quarterly basis. The Verification Consultant will conduct the verification of completed Sub-Projects, including on-site assessments to determine that Sub-Projects have been implemented substantially in line with the investment plan and the Programme eligibility criteria, which will be elaborated in the form of a Verification Report to be submitted to EBRD. |
| Output | | PFIs receiving financing from EBRD for on-lending to SMEs | |
| Output indicator | | Number of PFIs | |
| Target | Year | 2027 | 2 |
| Output | | Energy savings and CO ₂ emissions reduction | |
| Output indicator | | Energy saved from capital investments across portfolio of Sub-loans. CO ₂ emissions reduced/avoided from capital investments across portfolio of Sub-loans. | |
| Target | Year | 2027 | <ul style="list-style-type: none"> 44,680 GJ/year energy saved from capital investments across portfolio of Sub-loans supported from proposed donor contribution 4,639 tonnes/year CO₂ emissions reduced/avoided from capital investments across portfolio of Sub-loans supported from proposed donor contribution |
| Output | | Number of SMEs reached through advocacy/outreach activity | |
| Output indicator | | Number of SMEs, entrepreneurs and managers reached through marketing and awareness raising activities | |
| Target | Year | 2027 | 65 SMEs entrepreneurs and managers, including at least 30 women, reached through marketing and awareness raising activities. |
| Output | | Adoption of EU and other international standards by SMEs | |
| Output indicator | | Increased compliance with EU Directives and other international standards applied under Sustainable Reboot SME. | |
| Target | Year | 2027 | Independently confirmed compliance with at least one EU Directive / international standards per Sub-borrower applied to the investment financed |

| | | | |
|--|--|--|--|
| | | | through Sustainable Reboot SME, inter alia, product quality, health and safety measures, energy efficiency and environmental preservation. |
|--|--|--|--|

Table A.3.3: Indicative outline Results Framework for other components/interventions to be supported under the Danish-Kosovan Green Fund.

| | | | |
|-----------------------------------|--------------------|--|--|
| Component | | Other EBRD support³³ eligible under the Danish-Kosovan Green Fund | |
| Objective | | Kosovo's green energy transition supported through a more sustainable energy mix and greater resource efficiency. | |
| Impact Indicator | | MW of RE installed, GJ/y energy saved, and CO ₂ emissions reduced/avoided. | |
| Component Title | | Other EBRD support eligible under the Danish-Kosovan Green Fund | |
| Outcome | | Novel forms of energy production, storage and transmission that enable Kosovo's transition to a net-zero emissions energy system, and also aiming to benefit disadvantaged population groups. Enhanced incentives for smart grid investment and investments in electricity network infrastructure intended to absorb variable RE. Investment barriers in energy efficiency (EE) and related resource efficiency investments reduced. | |
| Outcome indicators (illustrative) | | RE capacity installed in MW and grid connected, energy intensity reduced. | |
| Target | Year ³⁴ | 2027 | To be defined ³⁵ in work plans and indicative pipelines for grant support for technical assistance and projects under the Fund. |
| Outputs | | To be defined in work plans and indicative pipelines for grant support for technical assistance and projects under the Fund. | |
| Output indicators | | To be defined. in work plans and indicative pipelines for grant support for technical assistance and projects under the Fund. | |

³³ Other than GEF III and Sustainable Reboot SME

³⁴ Annual targets will be defined in the annual work programme.

³⁵ The Pristina Solar District Heating project including seasonal storage can serve as an example of what could realistically be achieved. It is based on German donor grants of EUR 25 million which are leveraged with lending of EUR 40 million (EUR 22.5 million from EBRD and EUR 17.5 million from KfW). With some uncertainty, the project is estimated to achieve annual CO₂-savings of 40,000 tonnes. This corresponds to donor grants of EUR 625 per tonne of annual CO₂-savings which continue for the lifetime of the facility. If the net-present-value of lifetime CO₂-savings are equivalent to 15 times the annual volume, then CO₂-savings are achieved at a donor grant cost of EUR 42 per tCO₂. This compares well with the price within the EU Emission Trading Scheme which since late 2021 has fluctuated around EUR 80 per tCO₂.

Annex 4: Risk Management

| Contextual risks ³⁶ : | | | | | |
|---|------------|-------------|--|---------------|---|
| Risk Factor | Likelihood | Impact | Risk response | Residual risk | Background to assessment |
| High dependence on fossil energy and delays in Kosovo's policy, strategy and enabling framework for the green energy transition could affect results of support. This includes the risk of further delays in reform of electricity pricing, which could undermine efforts toward increased energy efficiency. | Likely | Significant | A focus on energy efficiency as the “first fuel” of the energy transition is in any event much needed. Close attention to the Energy Community's monitoring of Kosovo's green energy transition, based on clear and verifiable indicators. | Medium | Kosovo's progress in developing renewable energy was hampered for many years by plans for a new 500 MW lignite power plant –Kosova e Re– the project was finally abandoned in 2020, but the country is still heavily dependent on the two lignite power plants Kosova A and B. Kosovo is in many ways “at a crossroads now”, which can be an opportune moment in time for Danish support to come in. However, Kosovo's new National Energy Strategy (NES) has been delayed and has just been launched in June 2022 as a draft of rpublic consultations. And while the development, adoption and implementation of Kosovo's National Energy and Climate Plan (NECP) to 2050 is also key, the NECP adoption “is on hold”; the NECP draft insufficiently defines the main policy directions in energy, pending approval of the NES. The decision by the Court of Appeals to uphold the decision of a lower court to block the increase of consumer electricity tariffs also shows the difficulties in regulating the sector, |

³⁶ This category covers the range of potential adverse outcomes that may arise in a particular context, including the risk of harm beyond the immediate context or the country's borders and may include governance failure (e.g. the failure of effective public financial management or law enforcement); competition for resources; natural hazards; and pre-existing socio-political tensions. (Danida Guideline to Risk Matrix 2018).

| | | | | | |
|--|----------|-------------|--|------------|---|
| | | | | | providing further incentives for energy efficiency. |
| Political instability could affect progress in reforms for the green transition and approximation and harmonization of Kosovo's national legislation with the EU acquis. | Likely | Significant | Following early parliamentary elections in February 2021, a new government took office, with an unprecedentedly strong parliamentary majority. The EU report finds that adoption of a second phase of the European Reform Agenda (ERA 2) and its Action Plan, endorsed by the Assembly in October 2021, and a solid government focus, confirmed the positive trend of Kosovo's renewed commitment to EU-related reforms. | Medium | According to the 2021 EU report on Kosovo, legislative activities including EU-related reform efforts were limited due to political instability. Kosovo has had 4 different governments in 4 years. |
| Vested interests and corruption could influence the green energy transition | Likely | Major | Kosovo has stepped-up plus several scores since the similar 2020 index. The EU report 2021 notes that the Special Prosecution Office was strengthened as the Corruption and Financial Crime Department became operational and it achieved an overall increase in staffing levels. If funds are channelled through EBRD, then EBRD's due diligence and safeguards will apply. If DEA is involved, funds will not be transferred through Kosovan systems and procedures. | Low-medium | Kosovo ranks #87 of 180 countries in Transparency International's Corruption Perceptions 2021 index. The EU report 2021 notes that "overall, corruption is widespread and remains an issue of serious concern. Despite efforts made, there is a need for strong and continual political will to effectively address systemic corruption risks, as well as a robust criminal justice response to high-level corruption. Also, the report notes that the situation in the north of Kosovo remains challenging, particularly in terms of corruption and organised crime. |
| The effects of the Covid-19 pandemic could influence national priorities for the green transition. | Unlikely | Minor | Kosovo has a relatively high vaccination rate meaning that is relatively well positioned to cope with Covid-19. Kosovo has had strict restrictions, which were lifted in spring 2022. | Minor | Kosovo could face a fourth wave of the Covid-19 pandemic in late 2022 early 2023. |
| A history of conflict might be perceived as a risk factor, at least in some parts of the country. | Unlikely | Significant | NATO intervention led to a peace accord ending the conflict in June 1999. | Minor | Kosovo split from Serbia in 2008 after a bloody war in 1998-99 and nearly a decade of international administration. The 2021 EU Report notes that "Kosovo maintained overall good relations with Albania, Montenegro and North Macedonia. There has been no |

| | | | | | change in Kosovo's formal relations with Bosnia and Herzegovina, which does not recognise Kosovo's independence and the two maintain a strict visa regime. Further substantial efforts on the implementation of all past agreements and contribute to reaching a comprehensive legally binding normalisation agreement with Serbia. Such an agreement is urgent and crucial so that Kosovo and Serbia can advance on their respective European paths.” |
|---|-------------------|---------------|---|----------------------|--|
| Programmatic Risks³⁷: | | | | | |
| Risk Factor | Likelihood | Impact | Risk response | Residual risk | Background to assessment |
| Interventions might be insufficiently targeted to disadvantaged population groups and to transformational change underpinning the <i>just</i> transition. | Not unlikely | Significant | <p>Eligibility criteria for support the Danish-Kosovan Green Fund/bilateral trust fund with EBRD (see Annex 10) clearly emphasise the need for support to benefit disadvantaged population groups, also outside Kosovo’s largest urban areas. Also, the importance is emphasised in the trust fund concept note of reporting to the SC with strong attention to the <i>transformational nature</i> of the support. See also Annex 13 on the poverty orientation in the Programme.</p> <p>The Programme should keep well informed about the Kosovan Government’s strategies for addressing</p> | Minor | <p>EBRD support programmes to private sector SMEs and residential EE also benefit higher level income groups.</p> <p>According to a World Bank study in late 2019, electricity accounts for almost 90 percent of the total energy expenditures of households in Kosovo, and over 97 percent of the energy expenditures of poor households. In accordance with Law No. 05/L-085 on Electricity of 2016, the Government of Kosovo should develop a detailed Program for establishing the status of customers in need, the scope of their</p> |

³⁷ This category covers include two kinds of risk: (1) the potential for a programme to fail to achieve its objectives; and (2) the potential for the programme to cause harm in the external environment. With regard to (1), the risk factors for programme failure include many of the contextual risks outlined above, as well as institutional and political factors. But there are many other reasons for potential programme failure, including inadequate understanding of the context or flawed assessment of what needs to be done; management and operational failures; and failures of planning and co-ordination. Risk is also associated with new or innovative programme approaches (although there may also be risk in failing to innovate). (Danida Guideline to Risk Matrix 2018). The categorisation of likelihood, impacts, and residual risk is also consistent with Danida guidelines.

| | | | | | |
|--|--------|-------------|--|--------|--|
| | | | energy poverty issues ³⁸ including requirements of the Treaty of the Energy Community as defined by the Third Energy Package. | | rights, and protection measures to help them meet demands for electricity. |
| Delays in developing concrete, implementable support interventions. | Likely | Major | Partnering with EBRD, who has in February 2022 launched a new country strategy for Kosovo and has ongoing cooperation in the sector that will enable early commitments and disbursements. A separate DEA inception phase during the latter part of 2022 will define proposed DEA main phase engagement. | Medium | The identification phase has found that there are urgent needs for support to Kosovo's green energy transition, but also an issue in the speed with which support can be programmed and delivered. |
| Young and relatively weak Kosovan energy sector public institutions, with very limited staff capacity, changes in senior staff, and limited uptake capacity could affect progress and results. | Likely | Significant | Working through EBRD and focusing early Danish support on well-established programmes with mainly private sector partners is intended to enable early results. Capacity development support for the enabling framework and public sector institutions, including though peer-to-peer cooperation with DEA, is planned to be phased-in when possible, depending on the recommendations of a thorough DEA inception phase. | Medium | Public authorities in the energy sector have very limited staff resources and needs and interests in capacity development support. |
| Denmark is not represented in Kosovo which limits possibilities to closely monitor progress and address delays and underlying causes. | Likely | Significant | The Embassy of Denmark in Vienna has a counsellor for Kosovo who is expected to visit the country regularly. Posting of a long-term advisor as part of the delivery model can, if agreed, increase the ability to engage with partners in-country. The EBRD Board Director for Denmark and Kosovo is the same person – this is helpful at a strategic level. It has been agreed with EBRD to propose the hiring of a Kosovan green energy finance analyst to be placed at the EBRD resident office in Pristina, which will also facilitate liaison and coordination. | Minor | Denmark does not have a presence in Kosovo, which is side accredited to the Embassy of Denmark in Vienna. |

³⁸ The World Bank ESMAP Working Paper “Poverty and Distributional Analysis of Electricity Poverty and Protection of Vulnerable Customers in Kosovo” (1 November 2019) <https://openknowledge.worldbank.org/handle/10986/35265> informs the Kosovan Government in establishing the status of customers in need, the scope of their rights, and protection measures to help them meet demands for electricity – and an approach to identifying the electricity poor who are vulnerable and outline short- and medium-term measures for their protection. The Danish support programme should keep well informed about these initiatives.

| Institutional risks³⁹: | | | | | |
|---|-------------------|---------------|---|----------------------|---|
| Risk Factor | Likelihood | Impact | Risk response | Residual risk | Background to assessment |
| The programme could risk duplicating activities and/or fail to recognise interfaces and synergies with other initiatives in a crowded and dynamic field of development partners. | Unlikely | Major | The scoping and identification process has identified other relevant bilateral donor and multilateral development partner support, as reflected in the stakeholder overview in Annex 2. The Energy Community has taken recent steps to improve donor coordination and there is an online platform for information and coordination. | Minor | Several other multilateral development partners and bilateral donors are active in the energy sector in Kosovo. The coordination of external support in the sector by the Kosovan Ministry of Economy and Ministry of Finance needs strengthening. |
| Working through delegated cooperation could limit focus on Danish priorities and red lines e.g. for cross-cutting issues, and Denmark does not have experience with bilateral trust funds agreements with EBRD. | Unlikely | Low | EBRD procedures and safeguards have very recently undergone detailed scrutiny by the EU through its “Pillar Assessment” of EBRD. The UK also has undertaken assessment of EBRD procedures and EBRD is an approved supplier for the UK Foreign, Commonwealth & Development Office FCDO. The concept note for the Danish-Kosovan Green Fund (see Annex 10) has addressed key Danish priority concerns, as articulated in eligibility criteria for support. | Minor | The support will be mainly through delegated cooperation/co-financing. While Denmark is a founding member of the EBRD and participates in a number of EBRD multi-donor funds, including the Eastern Europe Energy Efficiency and Environment Partnership (E5P) Fund, Denmark does not have experience working through a bilateral cooperation agreement with EBRD. The MOPAN 21 st cycle includes assessment of EBRD, but the assessment is not yet available. |
| If the programme fails to deliver on its outputs and outcomes, it would reflect negatively on the MFA, EBRD, DEA, and the Kosovan partner institutions. | Unlikely | Major | Working through EBRD, which has a long track record, presence in-country, and well-established due diligence and monitoring procedures. The Steering Committee will have a clear mandate to monitor progress and EBRD and DEA progress reporting to the SC must be issues-oriented, facilitating early remedial action in case of delays and failure to reach planned work programme targets. | Minor | This programme is strategic and high-profiled, and it is a new cooperation for Denmark in Kosovo. Any failure to deliver the expected results is a potential institutional risk. |

³⁹ This category includes “internal” risk from the perspective of the donor or its implementing partners. It includes the range of ways in which an organisation and its staff or stakeholders may be adversely affected by interventions, e.g. damage to a donor’s reputation if it fails to achieve its objectives, or from financial/fiduciary failure (Danida Guideline to Risk Matrix, 2018).

Annex 5: Budget Details

Table A5.1: Summary budget at programme level.

All numbers are in million, EUN equivalents rounded (one decimal).

| Project 1: Danish-Kosovan Green Fund– bilateral trust fund with EBRD Partner: European Bank for Reconstruction and Development (EBRD) under delegated cooperation | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total DKK | Total EUR equiv. |
|---|---------------|---------------|---------------|---------------|---------------|------------------|-------------------------|
| Project contribution to GEFF: | 18.75 | | | | | 18.75 | 2.5 |
| Project contribution to Sustainable Reboot SME: | 18.75 | | | | | 18.75 | 2.5 |
| Project contribution to other EBRD support: | | 70.00 | 70.00 | 4.00 | 4.00 | 148.00 | 19.7 |
| Seconded TA, EBRD office Pristina (energy specialist) | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 2.00 | 0.3 |
| Total, EBRD trust fund – Project 1 | 37.90 | 70.40 | 70.40 | 4.40 | 4.40 | 187.50 | 25.0 |
| Project 2: Government-to-Government sector cooperation with DEA Partner: Danish Energy Agency (DEA) | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total DKK | Total EUR equiv. |
| Long term advisor | | 1.50 | 1.50 | 1.50 | 1.50 | 6.00 | 0.8 |
| Twinning, capacity development, support for enabling environment | 1.00 | 2.50 | 2.50 | 2.50 | 2.25 | 10.75 | 1.4 |
| Total, DEA – Project 2 | 1.00 | 4.00 | 4.00 | 4.00 | 3.75 | 16.75 | 2.2 |
| Programme Kosovo-Denmark Partnership for Green and Just Energy Transition | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | Total DKK | Total EUR equiv. |
| Project contributions: | 38.90 | 74.40 | 74.40 | 8.40 | 8.15 | 204.25 | 27.2 |
| Inception and Mid-term Reviews: | 0.25 | | 0.25 | | | 0.50 | 0.1 |
| Grand total | 39.15 | 74.40 | 74.65 | 8.40 | 8.15 | 204.75 | 27.3 |

Budget notes:

- 1) All funding is earmarked grant funding.
- 2) As required by MFA/Danida guidelines, the budget is in DKK as the authoritative figure. Indicative equivalent EUR amounts are given in round numbers using the current exchange rate of 1 EUR=7.50 DKK. Any currency risks are to be borne by EBRD.
- 3) In addition to the budget shown above, the DEA Inception Phase is funded by a grant from the MFA to DEA of DKK 1.50 million or EUR 0.2 million in mid-2022 before the approval of the overall support programme, the Kosovo-Denmark Partnership for Green and Just Energy Transition.
- 4) During the DEA inception phase the Danish Energy Agency shall prepare a detailed output-based work programme and budget in DKK for the first year's work programme.
- 5) Year 1 refers to Q42022-Q4 2023 etc so that year 5 is Q4 2026-Q4 2027.
- 6) As mentioned on the cover page of the Programme Document, commitment of Danish grant funding is expected to be DKK 75.00 million in 2022 and DKK 129.75 million in 2023.

- 7) Disbursements are expected to be DKK 39.15 million in 2022, DKK 74.40 million in 2023, DKK 74.65 million in 2023, DKK 8.40 million in 2025, DKK 8.15 million in 2026, and zero in 2027, reflecting the front loading of disbursements.
- 8) The EBRD administrative fees will be specified in the Bilateral Cooperation Agreement between EBRD and the MFA for the Danish-Kosovan Green Fund. According to EBRD's Provisions concerning Fees for Donor Funds, the administrative fees are 4% over EUR 5 million and 5% under EUR 5 million for technical cooperation grants, and 2% for non-technical cooperation grants. This is low compared to other multilateral development institutions. Bank charges and audit fees will be paid from fee income.
- 9) As explained on EBRD's website, donor funding at the EBRD takes the shape of technical cooperation (TC) and non-TC grants. TC grants focus on specific tasks in support of a particular project or programme such as project preparation and implementation, training, sector support, building a client's know-how and technical skills, policy dialogue and providing other forms of assistance. There are four main types of non-TC grants: i) Investment grants that provide an alternative source of funding for projects where there may be constraints on the use of loan financing (e.g. in heavily-indebted countries facing borrowing limits); ii) Performance fees and incentives that encourage financial institutions to extend EBRD loans to sub-borrowers likely to achieve priority objectives set by the Bank and donors; iii) Risk-sharing facilities used to support transactions funded through initiatives such as the EBRD Trade Facilitation Programme as well as lending to micro, small and medium enterprises (MSMEs) and energy efficiency credit lines; iv) Concessional loans used by the Bank to co-finance projects where donors provide part of the overall financing package in the form of subsidised lending.

Annex 6: List of Supplementary Materials

| Document title | Source | Internet Links where relevant |
|--|---|-------------------------------|
| Energy Strategy of the Republic of Kosovo 2022-2031, draft, English version, June 2022 | Ministry of Economy, Kosovo | Internet link |
| Summary of conclusions from Programme Committee meeting on 29 April 2022 | ELK | N/A |
| Presentation to the Programme Committee 29 April 2022, Kosovo-Denmark Partnership for Green and Just Energy Transition | EUN/formulation consultant | Internet link |
| EBRD Kosovo Diagnostic 2021 | EBRD, 2022 | N/A |
| EBRD country strategy for Kosovo 2022-2027 | EBRD, February 2022 | Internet link |
| Clean Energy for all Europeans package | Energy Community, 30 November 2021 | Internet link |
| Kosovo Annual Implementation Report, 2021 | Energy Community, 1 November 2021 | Internet link |
| EC Kosovo 2021 Report | European Commission, 19 October 2021 | Internet link |
| Energy transition tracker (Kosovo and other countries) | Energy Community, June 2021 | Internet link |
| RISE indicators for Kosovo | World Bank ESMAP | Internet link |
| Energy Strategy of the Republic of Kosovo 2017 - 2026 | Ministry of Economy, Kosovo, 2017 | Internet link |
| Program of the Government of The Republic of Kosovo 2021 - 2025 | Government of Kosovo, May 2021 | Internet link |
| Kosovo key energy statistics | International Energy Agency IEA | Internet link |
| Actors and Policy Mapping for Effective Implementation of Kosovo's National Energy and Climate Plan (NECP) | INDEP Policy study, November 2020 | Internet link |
| Denmark's strategy for development cooperation "The World We Share" | Ministry of Foreign Affairs of Denmark, August 2021 | Internet link |
| Danish Government's Global Climate Action Strategy "A Green and Sustainable World". | Ministry of Foreign Affairs of Denmark | Internet link |

Annex 7: Plan for Communication of Results

| What? (the message) | When? (the timing) | How? (the mechanism) | Audience(s) | Responsible |
|--|--|--|---|--|
| <p>News that Danish energy support programme to Kosovo has been approved.</p> <p>Results and impact stories, replicable examples of good practice.</p> <p>Denmark's partnership with Kosovo and its intended contributions to the objectives of the Kosovan government's policies and strategies for the green energy transition, including the new National Energy Strategy (NES) 2022-2031 and its related action plan, as well as integrated National Energy and Climate Plan (NECP) when adopted.</p> <p>Danish contributions to Kosovo's targets related to SDG 7 and SDG 13 and to Kosovo's obligations as a Contracting Party to the Energy Community, e.g. in achieving new annual energy savings targets.</p> <p>The value and effect of the Danish international engagement in Kosovo as part of the Danish Government's Global Climate Action Strategy "A Green and Sustainable World".</p> | <p>When the programme is approved by all parties.</p> <p>During implementation as soon as available.</p> | <p>Press release and news item on the Ministry of Foreign Affairs (MFA) website and the Embassy of Denmark in Vienna website.</p> <p>EUN's Newsletter. MFA public diplomacy Denmark.</p> <p>Social media.</p> <p>Other MFA newsletters, World's Best News campaign.</p> <p>State of Green.</p> <p>Dedicated results stories on the results and potential impact of the programme via the above mechanisms and other media outreach, social media and articles etc.</p> | <p>Political decision makers and practitioners in Kosovo and Denmark</p> <p>Danish private enterprises interested in Kosovo.</p> <p>The general public in Kosovo and Denmark</p> <p>International development partners.</p> <p>Other projects and programmes in green energy transition supported by Denmark.</p> | <p>MFA/EUN and the Embassy of Denmark in Vienna</p> |
| <p>Key messages as above plus results and learnings of a more technical nature depending to the chosen focus areas.</p> | <p>Upon successful conclusion of DEA inception phase, when decision made on DEA</p> | <p>DEA Centre for Global Cooperation</p> | <p>Other projects and programmes in green energy transition</p> | <p>Danish Energy Agency and the Danish Ministry of</p> |

| What? (the message) | When? (the timing) | How? (the mechanism) | Audience(s) | Responsible |
|--|--|--|--|--|
| | engagement in main phase and agreement signed DEA/ EUN/ MFA on cooperation in Kosovo and throughout programme implementation | website/dedicated country site for Kosovo | supported by DEA/MCEU | Climate, Energy, and Utilities (MCEU) |
| Key messages as above plus results and learnings | When agreement signed EBRD/ EUN/ MFA on cooperation in Kosovo and throughout programme implementation | EBRD websites and newsletters and impact stories. Inputs to the Energy Community donor coordination platform. | Kosovan partners of EBRD, EBRD partners in other Western Balkan countries, other EBRD constituencies, other development partners in Kosovo and the region. | EBRD resident office in Kosovo and EBRD HQ including EBRD Board Director for Denmark/ Kosovo |
| News that the Danish energy support programme to Kosovo has been approved. Results and impact stories, replicable examples of good practice and impacts to the overall achievement of national energy planning and SDG targets. | When approved the MFA and all parties. During implementation as soon as available | Websites, newsletters, seminars (online-offline). In Albanian, Serbian and English languages. | Decision makers in Kosovo, policy makers and staff of partner institutions and Kosovan academia, civil society, and private sector enterprises. The Kosovan general public. | Ministry of Economy of Kosovo and other Kosovan partner and beneficiary institutions. |

Annex 8: Process Action Plan for Approval and Implementation

| Activity | Timing/deadline | Responsible |
|--|--|---|
| Approval of grant for the Danish Energy Agency DEA's) inception phase | June | EUN |
| DEA inception phase | June 2022-March 2023 | DEA |
| Follow up to appraisal recommendations and finalisation of Programme Document | 13 June | EUN, MFA |
| Presentation to the Council for Development Policy | 30 June | EUN, MFA |
| Approval by the Danish Minister for Development Cooperation | July | MFA Minister |
| Approval by the Finance Committee of the Danish Parliament | Late August | Finance Committee |
| Agreement on development cooperation ratified by Kosovo | October | President of Kosovo |
| Signing of Bilateral Cooperation Agreement/Trust Fund Agreement with EBRD | October | EBRD/MFA |
| First disbursement to EBRD | October | MFA |
| EBRD inception phase | October 2022-March 2023 | EBRD |
| Kick-start of implementation with focus on EE in residential and SME sectors through GEFF and SME Reboot programmes | October | EBRD |
| First meeting of the Steering Committee | October | Kosovan Ministry of Economy (ME), MFA, EBRD, DEA |
| Regular consultations between Kosovo and Denmark in areas of mutual interest. The regular consultations will take at the level of directors with representatives from relevant authorities | Ongoing | MFA, ME, and other authorities |
| Recruitment of green energy finance analyst as local hire position in the Pristina RO | As soon as possible, late 2022 | EBRD |
| Submission of inception report | Late February 2023 | EBRD and DEA |
| Inception Review | Early March 2023 | MFA |
| 2nd meeting of the Steering Committee | Late March 2023 | , MFA, EBRD |
| Recruitment and posting of long-term advisor, if agreed | 2023 based on outcome of DEA inception phase | MFA/DEA |
| Agreement on DEA's further engagement in the Programme, based on DEA inception report, inception review and 2 nd Steering Committee meeting | April 2023 | MFA, DEA, ME and other Kosovan cooperation partners |
| Analytical and qualitative progress reporting with quantitative information in terms of progress and results - following a green/amber/red "traffic light" approach. | Annually, min. 2 weeks before the main annual Steering Committee meeting | EBRD (and DEA pending outcome of DEA inception phase) |
| Steering Committee meetings (annual main meeting and six-monthly interim meeting) | Every 6 months | ME, MFA, EBRD, DEA |
| MFA due diligence assessment of EBRD's appraisal/full MFA appraisal according to Danida guidelines for any projects above EUR 300,000 to be funded under the Danish-Kosovan Green Fund with EBRD | Ongoing, when required | MFA ELK/GDK with EUN with EBRD and in liaison with Kosovan partners |

| | | |
|--|-------------|---|
| Mandatory Mid-Term Review (MTR) that will consider a draft exit strategy for ongoing support and perspectives for the longer-term partnership within green energy transition | Q2 2024 | ELK with EUN |
| End of programme implementation | End of 2027 | EBRD, DEA with ME and other national partners |

Annex 9: Signed table of appraisal recommendations and follow-up actions taken

SUMMARY OF RECOMMENDATIONS

| | |
|--|---|
| Title of Programme/Project | Kosovo-Denmark Partnership for Green and Just Energy Transition |
| File number/F2 reference | 2021-20061 |
| Appraisal report date | 5/6 2022 |
| Council for Development Policy meeting date | 30/6 2022 |
| Summary of possible recommendations not followed (to be filled in by the responsible unit) | |
| N/A – all recommendations followed. | |
| Overall conclusion of the appraisal The overall conclusion of the appraisal is that the proposed programme/project is recommended for approval with adjustments taking the recommendations of this report into consideration. | |
| Recommendations by the appraisal team | Follow up by the responsible unit |
| <i>Programme Documentation</i> | |
| 1) It is recommended that the programme document elaborate the inception phase activities and time frame, and the inception review (final or complete appraisal), incl. aspects to cover/verify, and criteria/requirements for start-up of full-scale implementation etc. | In the Programme Document (PD) Section 7.2 a summary description of activities and outputs of the inception phase has been added for EBRD and DEA, respectively. The Inception Review has also been elaborated along with criteria for start-up of full-scale operation. |
| <i>Policy and strategy frameworks</i> | |
| 2) It is recommended to integrate poverty reduction, gender etc. in the result frame, both for the EBRD and DEA projects, e.g. number of beneficiaries by gender and socio-economic group, and /or by conducting socio-economic analysis in line with the Danida how to notes. | Poverty, gender and other cross cutting concern are part of the eligibility criteria for support under the Danish-Kosovan Greed Fund with EBRD and will also be considered in the EBRD and DEA inception phase activities to address/further strengthen these concerns in the results framework for Projects 1 and 2. This is in full accordance with the National Energy Strategy which highlights “social justice in energy policy” and the importance of “the most vulnerable groups in society benefit from schemes and projects”. |

| | |
|--|---|
| <p>3) It is recommended to - in a dialogue with EBRD - seek to upgrade the approach to greening/addressing climate change and energy, in particular if the two upfront investments (GEFF and Reboot SMEs) will receive more funding. This can be done e.g. through cooperation with local experts mastering life cycle assessment and energy audits. It is recommended to clarify and describe the EBRD terminology and methodology for calculating the quantitative emission avoidance and reductions results used in this programme, and ensure the programme is aligned with international best practice.</p> | <p>EBRD terminology and methodology for assessing greenhouse gas emissions has been included in the PD as Annex 15.</p> <p>It has been mentioned in the PD that the EBRD inception phase will address the appraisal recommendation to seek to upgrade the approach to greening/addressing climate change and energy, in particular if the two upfront investments (GEFF and Reboot SMEs) will receive more funding. As suggested by the appraisal this can be done e.g. through cooperation with local experts in life cycle assessment and energy audits, some of whom are already involved in these programmes.</p> |
| <p><i>Theory of change, objectives, results framework, project design</i></p> | |
| <p>4) It is recommended to adjust the overall objective to reflect the end-situation of the programme</p> | <p>The overall objective has been adjusted to reflect the end-of programme situation and has been aligned to the vision and strategic objectives of the newly launched Government of Kosovo draft national Energy Strategy.</p> |
| <p>5) It is recommended to, at the very latest in the inception phase, adjust the result frame (and shape the future result frame of project 2) with numerical targets and baselines, and include a target on leveraging for project 1, and a target on enabling environment (besides capacity building) for project 2.</p> | <p>It has been mentioned in the PD Section 7.2 and Annex 3 that further details on the results framework shall be developed in the EBRD inception phase. EBRD has already set a target for leverage of 5:1 but this will also be further addressed in the EBRD inception phase. For Project 2, the DEA inception phase will develop the results framework in accordance with Danida guidelines, and it has been mentioned in the PD (Annex 3) that a target on support for the enabling environment shall be specified.</p> |
| <p><i>Choice of partners and modalities</i></p> | |
| <p>6) It is recommended to further develop the fund (project 1) with more details on the design e.g. “real” criteria and targets for finance, guidance on the use of the concessional finance, guidance on the mode of implementation etc. These design details can be assessed during the inception review.</p> | <p>The PD Annex 10 contains a description of the Danish-Kosovan Green Fund, including eligibility criteria. It has been mentioned in the PD Section 7.2 that further guidance on the mode of implementation and the use of concessional finance shall be given in the EBRD inception report and assessed by the MFA inception review.</p> |
| <p><i>Programme Management, Reporting, and Monitoring</i></p> | |

| | |
|---|--|
| 7) It is recommended to specify the role of the steering committee with regard to project 2, or establish another committee for project 2. It is recommended to establish a programme management group, which will meet at least once a quarter, consisting of all the programme stakeholders at a lower level. | It has been specified in the PD Section 7.1. that DEA will be a member of the Steering Committee, with focus on Project 2. It has also been mentioned that focal points should be identified in all partner institutions involved in the Danish support Programme with up-to-date names, titles, email and mobile phone details to facilitate liaison and coordination and that working level officials will set up regular quarterly meetings; this will be further defined in the EBRD and DEA inception reports for discussion by the steering committee. |
| 8) It is recommended to reconsider and/or provide solid justification for the proposed position of a Green Energy Finance Analyst and verify availability of the expertise in Kosovo, and rework the ToR to reflect the title. | Justification for the Green Energy Finance Analyst has been strengthened (PD Annex 11) and the head of the EBRD resident office in Kosovo has assessed that the required expertise is available in Kosovo. |
| <i>Sustainability</i> | |
| 9) It is recommended that the inception review includes attention to sustainability in the two projects, and that exit strategies are developed, in case the programme will not continue or change design by the end of the current programme period. | It has been specified in the PD Section 7.2. that the EBRD and DEA inception reports and the MFA inception review will include attention to sustainability and exit strategies. |

I hereby confirm that the appraisal team has identified the above-mentioned issues and provided the corresponding recommendations as stated above to be addressed properly in the follow-up to the appraisal.

Signed in.....Copenhagen..... on the5/6 2022.....

Merete Villum Pedersen

Appraisal Team leader/ELK representative

I hereby confirm that the responsible unit has undertaken the follow-up activities as stated above. In cases where appraisal recommendations have not been accepted, reasons for this are given either in the table or in the notes enclosed.

Signed in...Copenhagenon the.....

Lars Bo Møller

Head of Unit, EUN

Annex 10: Description of the Danish-Kosovan Green Fund

Background:

Kosovo and Denmark have agreed to cooperate in the promotion of Green and Just Energy Transition, including renewable energy (RE), energy efficiency (EE) and energy consumption planning projects, as well as reforms in the energy field outlined in the EU-Kosovo Association Agenda.

Kosovo has set ambitious targets for the green energy transition. According to the Kosovan Government's recent presentation to the development partner community of intentions with the new National Energy Strategy (that is planned to be approved in 2022), the Government plans to undertake a deep transformation of the Kosovo power system, including giving high priority to EE and dynamically increasing the shares of RE in the energy mix.

Denmark's Strategy for Development Cooperation, "The World We Share" sets out Denmark's ambitions to assume international leadership within greenhouse gas emission reductions and green energy transition. This includes international cooperation promoting RE and EE solutions, particularly in growth economies with high emission levels.

Since Denmark does not have a representation in Kosovo (the country is side accredited to the Embassy of Denmark in Vienna, Austria), a major part of the support will be provided through delegated cooperation/co-financing with an international partner present in Kosovo and with a track record in the sector. After an analysis of different options, it was decided to engage with the European Bank for Reconstruction and Development (EBRD), which has a long track record in Kosovo on EE and RE support and which has in February 2022 launched a new five-year Country Strategy for Kosovo; one of the three strategic pillars of this Strategy is "Support Green Economy Transition in Kosovo through a More Sustainable Energy Mix and Greater Resource Efficiency".

It is planned to establish a bilateral fund of EUR 25 million in EBRD for support to Kosovo's green energy transition. The fund is hereinafter referred to as the Danish-Kosovan Green Fund, or "The Fund". The funding is grant funds from ODA⁴⁰ eligible sources in the Danish Finance Act, administered by the Ministry of Foreign Affairs of Denmark (MFA). Within the MFA, the Department for European Neighbourhood (EUN) is responsible for the proposed support to Kosovo.

The Fund shall be supported by regular meetings between the Kosovan Government, the Danish Government, and EBRD (the "Steering Committee"). Use of the funds will be in line with the EBRD strategy in Kosovo, the government of Kosovo's plans and discussions with both Denmark and the Kosovan Government.

It is noted that interventions supported through the Fund are planned to be complemented by engaging the Danish Energy Agency (DEA) in government-to-government, peer-to-peer cooperation with Kosovan energy authorities and agencies. This support by DEA will be an integral part of the Danish support programme "Kosovo-Denmark Partnership for Green and Just Energy Transition", accounting for EUR 2.5 million, and will be further defined through an inception phase during which the specific focus areas and support modalities will be agreed and the coherence of Danish support through the Fund and through engagement of DEA will be specified.

⁴⁰ Official Development Assistance according to criteria from the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD)

Starting and termination dates:

The Fund will become operational upon signing by the MFA and EBRD of a Bilateral Cooperation Agreement. This is expected in the 3rd quarter of 2022. The termination date is 31 December 2027.

Eligibility criteria for support under the Fund:

The following types of support are eligible under the Fund (this list may be amended subject to consensus in the Steering Committee):

- i. Capital grants and first loss risk cover for investments in novel forms of energy production, storage and transmission as well as district heating rehabilitation and expansion that enable Kosovo's transition to a net-zero emissions energy system, and which will also benefit disadvantaged population groups.
- ii. Technical assistance (TA) for policy engagement to support enhancement of the legal and regulatory framework for Kosovo's green energy transition together with capacity building for relevant stakeholders.
- iii. TA for policy engagement to promote incentives for smart grid investment and investments in electricity network infrastructure intended to absorb variable renewable energy (RE). This may include support for energy storage solutions.
- iv. TA for policy engagements to remove investment barriers in energy efficiency (EE) and related resource efficiency investments.
- v. Advisory services and incentives financing and risk sharing (first loss risk cover only) for energy and resource efficiency of residential and public buildings as well as small and medium enterprises (SMEs), including through the EBRD GEFF and SME Reboot programmes.
- vi. TA and other support for Just Transition.

It is anticipated that the majority of fund resources will be allocated to capital grants, while a smaller part will be allocated to technical assistance (TA).

Limitations:

- a. The grant funds shall not be used in relation to investment in energy solutions that are commercially viable without grant subsidies.
- b. Support may be provided through EBRD programmes that have a multi-country/regional focus, but funding may only be used for activities focused on Kosovo.

Cross-cutting concerns and general principles:

- a) All interventions to be supported under the Fund shall explicitly be aligned to the Government of Kosovo's new National Energy Strategy (when approved) and other relevant policies and strategies of the Government of Kosovo.
- b) EBRD will ensure that all planned interventions under the Fund shall follow EBRD standards and due diligence requirements as well as EBRD Procurement Policies and Rules. MFA appraisal may also be required, following procedures to be set out in the Bilateral Cooperation Agreement.
- c) All support shall, as relevant and applicable to each intervention, reflect Danish priority concerns regarding poverty orientation including addressing energy poverty issues and ensuring benefits for disadvantaged citizens and households as well as enterprises in different parts of Kosovo, "leaving no one behind". EBRD has a shared alignment to the Sustainable Development Goals. Given this, SDGs will be well referenced in annual reporting.

- d) Gender equality will be addressed in interventions and in line with EBRD's newly published strategy in this regard.
- e) Climate impact indicators such as tonnes of CO₂ emission reductions and/or kWh of energy saved and number of beneficiaries benefitting from the intervention shall be identified and results in this regard be reported.
- f) The just and equitable nature of the green energy transition is essential. Therefore, activities under the Fund should be informed by the anticipated EBRD Just Transition Diagnostic for Kosovo, and socio-economic aspects such as jobs – particularly for youth and women – related to the support shall be identified and reported where possible.
- g) Where relevant, the expected leverage of support provided under the Fund – in terms of additional resources/investments by EBRD – shall be identified/quantified.
- h) EBRD, in close liaison with the relevant authorities of the Kosovan Government and other development partners, shall ensure additionality and synergies with national institutional structures and programmes as well as support from other development partners.

Work planning and reporting:

EBRD shall prepare work plans and indicative pipelines for grant support for technical assistance and projects under the Fund (while respecting confidentiality that may be required for private sector projects parties).

Progress reporting will be done annually. The progress reports shall follow a “traffic light” approach meaning that *green* reflects that progress and results are on-track; *amber* means delays or issues that require attention by the relevant task manager to underlying causes and remedial action; while *red* means there are critical issues that require management attention and intervention. The report shall be shared two weeks prior to the main annual Steering Committee meeting where EBRD, Kosovo and Denmark will discuss progress and results. The reporting shall be analytical and qualitative with quantitative information in terms of progress and results. Analytical aspects can be covered in narrative form with lessons and case examples and with strong attention to the transformational nature of the support. In this regard, reference may be made to guidance from the Kosovan government, EBRD and MFA as well as guidance from other sources that could be relevant.

A short six-monthly virtual update meeting will also take place, so all parties are clear and well briefed of progress and can address any issues requiring remedial action.

Auditing and financial reporting to the MFA will follow the EBRD principles specified in Bilateral Cooperation Agreement between EBRD and Denmark.

Governance and management set-up:

A Steering Committee comprised of Kosovo, Denmark, and EBRD will set the strategic direction for the Fund. In this way, the Kosovan Government can present needs and priorities for support according to the National Energy Strategy and other relevant policies and strategies and overall developments within the green and just energy transition.

The Steering will meet every six months with a main annual meeting to be held in-person and the intervening meeting possibly held on a virtual platform.

Use of grants larger than EUR 300,000 will require approval by the Danish MFA as a donor, following procedures to be set out in the Bilateral Cooperation Agreement between Denmark and EBRD. EBRD will have the delegated authority to approve projects below this threshold.

It is noted that article 13(iii) of the Agreement Establishing the Bank provides that the EBRD shall not finance any undertaking in the territory of a member country if that member objects to such financing.

Members of the Steering Committee are the Kosovan Ministry of Economy, the Danish MFA (represented by EUN) and the EBRD (represented by the head of the EBRD resident office in Kosovo).

The Danish Energy Agency, the Kosovan Ministry of Finance, and the Danish EBRD Board Director/Alternate Director for Denmark and Kosovo also participate in the Steering Committee meetings. Other stakeholders and climate and energy experts from EBRD HQ could be invited as relevant.

Day-to-day management of activities under delegated cooperation with EBRD and support under the Fund will be the responsibility of EBRD's country office in Kosovo, supported by EBRD technical staff and advisors. Donor engagement is led by Donor Co-Financing at EBRD, with a lead fund manager identified. The Office of the Danish EBRD Board Director / Alternate Director for Denmark and Kosovo should be kept well informed about progress and any major issues related to this delegated cooperation. Depending on the focus and modalities for engagement of the Danish Energy Agency in the Danish support Programme, close liaison should be maintained.

Focal points should be identified in all partner institutions involved in the Danish support Programme with up-to-date names, titles, email and mobile phone details to facilitate liaison and coordination.

It is being considered to engage a Danish funded energy specialist to EBRD– if so, the funding for this specialist will be deducted from the total Fund amount and allocated separately to EBRD. A decision on this placement may be made in shorter time, likely during year one of EBRD implementation and not affect the signed agreement between EBRD and Denmark. Moreover, it is being considered (still to be confirmed) that an embedded long-term advisor funded by Denmark may be anchored in a relevant Kosovan energy authority under the government-to-government part of the overall support Programme. If so EBRD shall ensure close liaison and coordination with this advisor.

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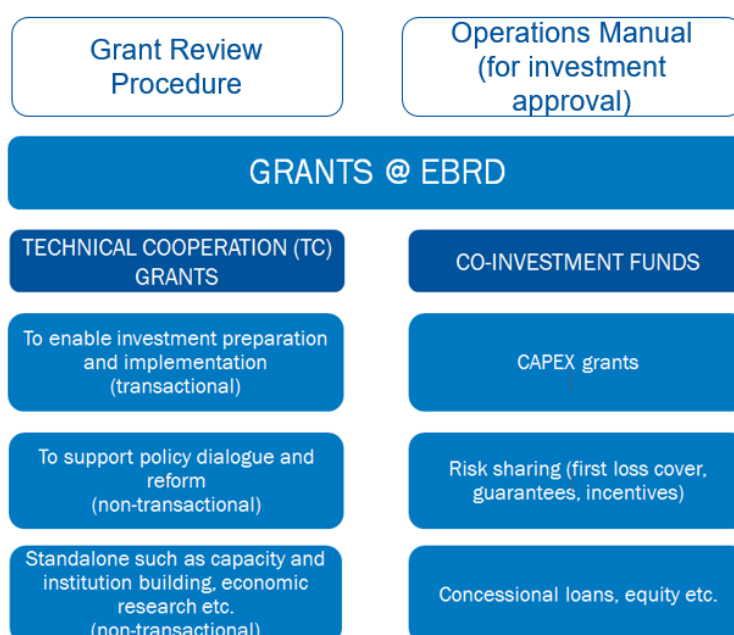
It is noted that a Bilateral Cooperation Agreement between EBRD and Denmark will be signed upon Danish approval of the support Programme as described in the present Programme Document.

Brief description of EBRD’s internal approval procedure for use of grant funds

The following short description has been provided by EBRD and is quoted here, as a supplement to the above description of the Fund.

(Quote)

The approval of design and use of grant funds falls under two procedures depending on whether the funds are for technical assistance (TA⁴¹) or for co-investment funds (also non-TC). The graphic below shows under which procedure each falls under in terms of approvals. In short, TA is approved via the Grant Review Procedure and co-investment funds under the investment approval process as per the Bank’s Operations Manual.



Programme design is led by experts in technical and banking teams. Their design is initially approved by their line management chain and will be checked by the head of office. Once this initial approval process is done, the programme – TC grant or co-investment fund, will go through the Bank wide clearance processes.

EBRD’s Grant Review Procedure for Approval of Donor-Funded TA

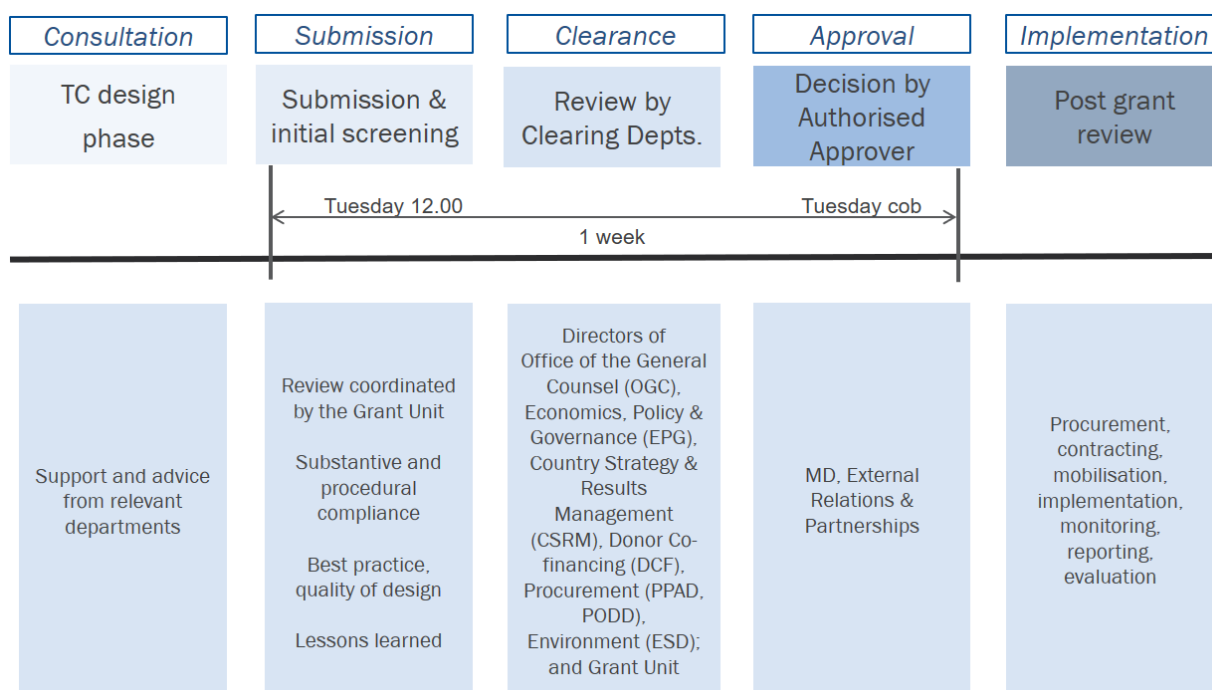
All TA projects financed by donor funds or the Bank’s net income allocations still require internal approval prior to mobilisation and contracting. EBRD’s new “Procedure for the Review and Approval of the Use of Donor Funds” (Procedure) and respective guidelines now govern the approval and review process for all TA.

Any TA is subject to clearance of directors of the Office of the General Counsel (OGC), Country Strategy & Results Management (CSRM), Economics, Policy & Governance (EPG), Donor Co-financing, Procurement Policy Advisory Department (PPAD) or Procurement Operational Delivery Department

⁴¹ The terms Technical Assistance (TA) and Technical Cooperation (TC) are used interchangeably in EBRD.

(PODD), and other departments as relevant (e.g. Environmental and Social Department). The Managing Director, External Relations & Partnerships is the final reviewer and approver.

The Grant Unit coordinates the review and ensures compliance with substantive or procedural matters as per applicable procedure or guidelines, best practice, incorporation of lessons learned and quality of design and coordinates the weekly grant review process flow as follows:



Prior to submission to the grant review, the following pre-approvals are required:

- For **transactional TCs (those directly supporting Bank investments with or without accompanying donor-funded co-investment funds)**: Team's must seek their Team Director's approval and concept clearance of the related Bank investment as per the Bank's investment approval process and in any case seek grant-approval for any TC prior to seeking final approval of the related investment. In exceptional cases, teams may submit TCs to grant review with approval of their Managing Directors for (1) early stage TCs which are critical for preparing the concept for an investment (such as a pre-feasibility study) and (2) for any TC to be added after the Board has approved the related investment.
- For **non-transactional TCs (those not directly supporting Bank investments)**: Teams must seek the approval of their Team Director's and the head of the relevant EBRD Resident Office's approval. Where such non-transactional TC impacts banking transactions (e.g. policy reform laying the foundation for future investments or equivalent) teams should consult the relevant banking department including, as appropriate, the relevant Country and Sector Managing Director.

Review of Donor Co-Investment Funds:

Proposals for the use of donor co-investment funds – once agreed by banking teams and regional offices, shall be submitted for consideration as part of an investment per the usual Bank investment approval process as covered by the Operational Manual, with the final decision either being taken by management under delegated authority from the Board or by the Board. In addition to the approval and

implementation of Banking investments, the approval process encompasses elements related to the mandate, technical cooperation initiatives, non-TC grant funding and policy objectives of the Bank to the extent these are directly linked to investment projects.

As part of the above process, the Director of DCF shall review all documentation for each transactional activity that includes a proposal for donor co-investment funds and through the Grant Unit shall provide comments to the relevant management body (e.g. Operations Committee (OpsCom), Small Business Investment Committee (SBIC)) in accordance with the Bank's usual Banking investment approval process. The proposal is reviewed to ensure that:

1. It complies with the Bank's donor funding strategies and the Bank's donor funds and grant-related policies.
2. Donor funding is available or likely to be available on reasonable terms.
3. The proposal complies with the donor's eligibility requirements if a donor is identified.

Cross Cutting Issues:

Paris Alignment: EBRD is a green bank with c. 50% of its investments working positively to protect the environment. The Bank is also more broadly committed to being fully aligned with the Paris Agreement. Given this, an assessment of Paris Alignment is part of the submission for an investment (and associated donor finance) approval.

Gender and Equality: Inclusion is at the heart of the Bank's mandate and is one of the core themes of the Strategic and Capital Framework (the Bank's medium-term plan). In line with the Bank's ambition in this area, two revised strategies have been written on this topic, this includes practical plans to ensure equality is at the heart of our programming. Given this the following process is now being implemented to ensure that this is the case:

The SPGE 2021-2025 further scales up and strengthens the EBRD's gender-responsive investment culture across sectors and countries of operations, with an overall ambition of 40% of annual EBRD operations integrating gender equality measures by the end of 2025. It does so by putting forward implementation flagships including the Gender SMART tag.

Gender SMART is a targeted process to enable the systematic integration of gender into investments. It is an additional tool that complements (and is complemented by) findings from standard client due diligence as carried out under the EBRD's ESP. It is designed to support banking teams to: (1) Introduce gender considerations earlier in the project design stages, which improves the sustainability of the investment as well as expected impact; (2) Create a standardised and systematic approach to addressing gender in projects, decoupling this from staff's personal inclinations or knowledge; and (3) Reflect appropriate incentives attached to gender mainstreaming into investments, thanks to the inclusion of the Gender SMART tag in the Bank's Corporate Scorecard. The EBRD Gender SMART tag differentiates four levels, with the top two levels qualifying for Gender SMART and the Bank's Corporate Scorecard target:

- **GENDER TRANSITION IMPACT** | *Gender objectives and subsequent activities to be integrated as part of TI – Gender one of the two main objectives of the project.*
- **GENDER ADDITIONAL** | *Gender objectives and subsequent activities to be integrated as part of non-financial additionality – Gender a deliberate goal but not primary objective.*
- **GENDER AWARE** | *Project has been assessed and is conscious of relevant gender angles but does not include any activities that explicit focus on gender equality.*
- **NOT ASSESSED** | *Tracks projects that currently do not undergo the Gender SMART diagnostic (category expected to decrease over time as Gender is integrated into additional products of the Bank)*

Annex 11: Outline job profile for green energy finance analyst position with EBRD RO in Pristina

Outline job profile for Green Energy Finance Analyst - local hire position in the EBRD Pristina Resident Office

General:

The job is funded by Denmark under the overall programme entitled Kosovo-Denmark Partnership for Green and Just Energy Transition (2022-2027), which includes delegated cooperation with EBRD and a Danish bilateral trust fund with EBRD called the Danish-Kosovan Green Fund. The Analyst's main responsibility is to work within the EBRD's Kosovo office on green energy finance with particular focus on supporting the development of transformational projects to be supported under the Fund and ensuring strong coordination with national partners to operationalise the country's new Energy Strategy. The office is able to scale up its investments in this area – with a particular focus on accelerating renewables and reducing energy consumption - due to a contribution from the Danish government. The Analyst will supplement the existing EBRD Kosovo banking team and work in partnership with the EBRD donor coordination team to support the planning of activities eligible for support under the Danish-Kosovan Green Fund and the disbursement of Danish funds in line with the Kosovan government's own energy strategy. The Analyst will take responsibility to help ensure that projects are prepared and implemented in line with the Bank's mandate and donor requirements and ensure that technical cooperation and capital grants are monitored and managed properly and that results are communicated effectively. The Analyst will contribute to the ongoing analytical, and potential project management, work on Just Transition and inclusion aspects of the green energy transition in Kosovo.

Specific responsibilities:

- Develop a strong mutual understanding of the government of Kosovo's energy strategy and EBRD's support to this under the Fund. This will require close liaison with the Ministry of Economy and other Kosovan energy sector institutions.
- Play a key role in coordinating just transition/inclusion aspects of EBRD/Danish support for Kosovo's green energy transition (including helping to assess how different strategies and EE and RE solutions affect inclusion) and follow-up on the EBRD supported just transition diagnostic and subsequent actions.
- Working with the EBRD donor co-financing (DCF) Fund manager, develop a strong understanding of the agreement between EBRD and Denmark and support and facilitate the planning, implementation and results reporting on activities eligible for support under the Danish trust fund (Danish-Kosovan Green Fund). In these activities, the Analyst will place strong emphasis on screening proposed activities for adequate focus on just transition and poverty orientation and ensure that such aspects are adequately addressed in results reporting.
- Work with the Kosovo banking teams on technical assistance and investment grant design to support EBRD investments eligible for Danish support. Working with DCF to secure approval for these through the grant approval process and where appropriate supporting sign off from the Danish government.
- Assist with the effective implementation and monitoring of the grant funded components of projects including communication with clients and monitoring of grant usage ensuring that activities are implemented in full compliance with EBRD and donor requirements.
- Coordinate as required with EBRD technical and policy teams to facilitate engagement with stakeholders on green transition, including on cross-cutting issues such as gender and inclusion.

- Set up regular steering meetings with Denmark and the Kosovo government, including assisting with the preparation of workplans and indicative pipelines of grant needs to support planning. Additionally support the EBRD Head of Office to prepare for coordination meetings with the donor coordination groups and the government.
- Working with colleagues in Kosovo and DCF play a central role in preparing relevant reports to meet Denmark's reporting requirements and operational objectives, annual fund reporting and accounting.
- With colleagues, ensure that communication of results and donor visibility are delivered to an exceptional standard.
- Liaise with the Danish Energy Agency (DEA) to ensure coordination and synergy with activities supported by DEA under the Kosovo-Denmark Partnership for Green and Just Energy Transition.

Annex 12: EBRD Green Economy Financing Programme and EBRD Sustainable Reboot SME Programme

Please note that while GEFF and Sustainable Reboot SME are established regional programmes, they are referred to as components under Project 1, Danish Kosovan Green Fund with EBRD within the Kosovo-Denmark Partnership for Green and Just Energy Transition (this in order to avoid confusion over the use of the term “programme”).

GREEN ENERGY FINANCING FACILITY III (“GEFF III”) PROGRAMME

Strategic/Market Context

The carbon intensity of the Western Balkans region remains at around three times higher than the average for the EU and the 2nd highest in EBRD’s operating regions (next to Central Asia). This is largely the result of the significant share of carbon intensive fuels i.e. coal in the energy supply, aged and inefficient energy infrastructure – especially buildings. The residential sector, together with the industry sector, are the largest contributors of carbon intensity in the WB⁴².

The residential buildings stock is old (mostly dating from the 1960-1980s) and requires refurbishment, given the long period of under-investment and poor maintenance of buildings. The level of penetration of EE technologies in the region does not exceed 10%⁴³ which confirms the significant energy saving potential in this sector.

The challenge of high energy intensity is expected to be exacerbated by the gradual increase in electricity prices as the energy market becomes gradually liberalised in the Western Balkans region. At present the electricity prices charged to typical households are low (being cross-subsidised by industry), which provides little impetus for the residential sector to increase energy efficiency (whereby average paybacks of energy efficiency measures are long and not highly attractive).

Beyond low energy prices and affordability issues, there are many other market barriers which prevent households from engaging in green investments, including low awareness about green solutions; organizational and regulatory issues hampering collective action by residents to implement building-level resource efficiency measures; low availability of debt financing for energy efficiency investments, etc.

On the regulatory side, while all Western Balkans countries have to implement EU directives and reach targets concerning renewable energy and energy efficiency as per the National Energy Efficiency Action Plans, the reform process has been slow and countries still need to make progress on putting into place effective regulatory frameworks enabling and supporting resource efficiency, particularly in the residential sector.

This background justifies the ongoing Western Balkans Green Economy Financing Facility that has been established to contribute to addressing the aforementioned barriers and scaling-up green financing and action in the residential sector. EBRD remains the only International Financial Institution in the Western Balkans which has supported regional green transition in a holistic manner by combining intermediary financing, GEFF TC, incentives to end-borrowers and tailored policy dialogue to the Energy Community “Contracting Parties” in the Western Balkans.

⁴² The residential/industrial sectors account for 32%/34% share of regional energy intensity respectively.

⁴³ Based on EBRD 2015 Market Study.

Programme Objective

GEFF has been structured to promote residential green investment loans uninterrupted by motivating the financial sector, end-borrowers (typically, ordinary citizens) and various intermediaries (producers, vendors and service providers such as construction companies, installers and ESCOs) when all those actors have been/ will be facing unprecedented economic uncertainties.

The GEFF III is an EBRD Programme supported by the EU across the Western Balkans, targeting particularly the residential and municipal sectors to tackle the decarbonisation of buildings across the region – which is the second source of CO₂ emissions.

GEFF III is structured to build on the momentum created to date and keep catalysing green technology investment uninterrupted and creating relevant job market, and the most importantly, by responding to the above-mentioned persistent obstacles and the economic/geopolitical challenges. GEFF III is expended to construction companies and public sector to accelerate green transition regionally and more comprehensively by stimulating wider stakeholders to boost both demand and supply of green investments and create cross-sectorial synergy and demonstration effects.

Programme Overview

GEFF III will support investments in (i) high-performance energy efficiency technologies, materials and solutions undertaken in or in relation to privately owned residential dwellings or buildings, (ii) construction of GET-eligible High energy Performance Residential Buildings (HPRBs) and (iii) eligible Energy Efficiency (EE) and/or Renewable Energy (RE) projects in the Public Sector (“Sub-projects”). Sub-projects will be selected according to technical and financial eligibility criteria which are set forth in the Policy Statement that is an integrated part of the Loan Agreement signed with each PFI. 100% of the use of proceeds will be related GET investments.

The GEFF III will provide up to EUR 170 million, 100% GET-eligible financing, to qualifying PFIs in the six Western Balkans countries (Albania, Bosnia and Herzegovina, Kosovo, Montenegro, North Macedonia and Serbia) for on-lending for the residential sector (individual residents, housing collectives and housing management companies, service providers, producers and vendors of green technologies and materials and construction companies) and public sector for green investments.

PFIs may be banks, non-bank microfinance institutions and other credit institutions operating in the Western Balkans countries. The GEFF model helps to build internal capacity at the level of local PFIs to facilitate 100% GET eligible sub-loans for investment in eligible green residential technologies via the Technology Selector⁴⁴ and verification process under the associated Technical Assistance component of this Programme.

As already introduced under GEFF II, it is mandatory for **each repeat PFI to define its Green Mainstreaming Initiative (GMI)**, which contains at least one target from product implementation (such as introduction of new green financing product) and institutional approach (such as adoption of a green financing strategy, including organisational targets and implementation progress), and to achieve the GMI targets during the project implementation period at the best effort basis.

In addition, under GEFF III, a mandatory **Climate Risk Assessment training** will be newly introduced in the GMI support. Cooperation will be also sought with committed PFIs on establishing Corporate

⁴⁴ Technology Selector is a web-based list of eligible equipment and materials which can be expected to achieve a minimum energy saving of 20% when compared to market norms. Technology Selector has been tailored by each country in English and local language and publicly available from the EBRD's GEFF website (<https://ebrdgeff.com/>).

Climate Governance (CCG) structure to integrate climate risk management into PFIs' lending strategies and practice. **Capacity building technical assistance for construction companies** is available to assist them from planning/designing phase to construct HPRBs. In addition, **Gender Additional support** components is integrated in the technical assistance package to create gender-responsive green finance practice.

Eligible Measures/Investments

All eligible measures include equipment, appliances and/or materials which can be expected to achieve a minimum energy saving of 20% when compared to market norms, which are listed in the Technology Selector.

Example of eligible measures for investment incentives include:

- Energy efficient windows and glazing of permanently occupied areas; Additional glazing of balconies and loggias or windows/glazing of common areas in multi-storey apartment buildings (staircases, basements, technical rooms, etc.)
- Thermal insulation of building envelope (outdoor walls), roof, floor and partition walls.
- High performance biomass stoves / boilers with or without associated controls, space heating and domestic hot water storage systems
- High efficiency lighting, low-heat generating lighting
- Solar water heaters with or without associated controls, space heating and domestic hot water (DHW) storage systems
- Energy efficient gas boilers with or without associated controls, space heating and DHW storage systems
- Heat pumps (electricity or gas-driven)
- Building-integrated photovoltaic systems
- Balanced mechanical ventilation with heat recovery
- Hot water storage tanks
- Other measures contained in the Technology Selector

The Programme is composed of the following:

1. **EBRD Financing** through PFIs for **green investments** in **Residential Sector** and **Public Sector**.

Residential Sector: The Programme is structured to promote residential green investment loans by motivating the financial sector, end-borrowers (typically, ordinary citizens) and various intermediaries (producers, vendors and service providers such as construction companies, installers and ESCOs) to contribute to the greening of residential buildings. This can take the form of:

- Green refurbishment investments in existing privately-owned residential dwellings or buildings and at the level of the entire multi-apartment building (e.g. new windows, wall insulation, better insulated roofs)
- Green technology investments in new individual dwelling meeting higher green standards (e.g. windows, insulation, water efficiency)
- Support to construction companies/developers investing in the construction of new high-energy performance residential buildings.

Public Sector: The Programme will also serve the public sector, mainly municipalities, when they borrow for energy efficiency or renewable energy projects⁴⁵.

2. Investment incentives for households, construction companies/developers of residential buildings and public entities to bridge costs and accelerate green transition.

Level of incentive payments range from 5% to 35%, depending on the sub-borrowers and the nature of the investments.

Individual sub-borrowers: (single family houses and individual apartments in blocks of flats including new residential buildings) may receive 15-20% of the lower of (i) the disbursed amount of the sub-loan, and (ii) the eligible investment cost of the sub-project.

Building-level sub-projects (Housing Associations and groups of Individuals) may receive 25- 35% of the lower of (i) the disbursed amount of the sub-loan, and (ii) the eligible investment cost of the sub-project. Housing Associations and Service Providers will be required to pass-on incentives to the ultimate beneficiaries (households). Building-level sub-projects will be applied to Refurbishment Window only.

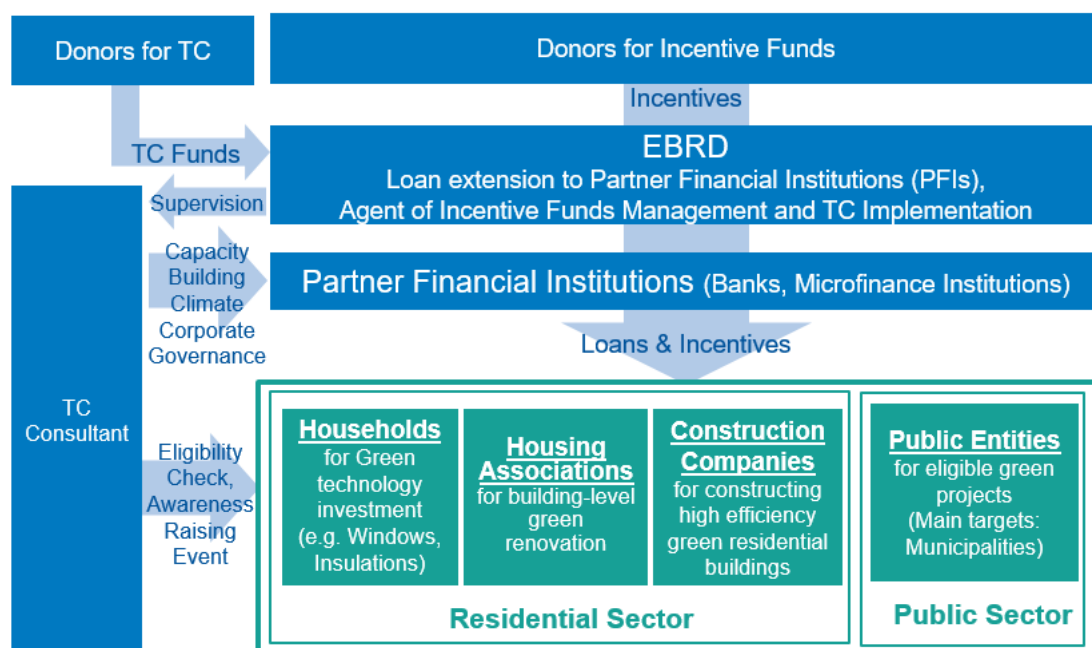
No incentives will be provided for the purchase of domestic appliances (refrigerators, air conditioners etc.), as well as sub-loans to vendors, producers and service providers. Also, no incentives will be provided to eligible sub-projects that can benefit from national incentive systems (such as in the case that small-scale renewables can benefit from support such as feed-in tariffs premiums).

3. Technical Cooperation

Technical cooperation will support PFIs and sub-borrowers in the identification, product development, training, marketing, implementation of sub-projects and verification of their completion and raise awareness of green residential technology investment at the market level. Selected PFIs with sufficient appetite and capacity may also be referred to the EBRD's Corporate Climate Governance Facility to help them incorporate and mainstream climate change considerations into their corporate governance procedures, risk management and lending practices, supporting them into aligning their operations to the Paris Agreement.

The chart below summarises the Programme's "components".

⁴⁵ State-owned companies will not be eligible sub-borrowers.



Western Balkans GEFF I and GEFF II implementation status

Since the first signing with two subsidiary banks in Bosnia and Herzegovina in June 2017, 24 PFIs have joined WB GEFF I and II covering all Western Balkans countries. The total signing amount reached EUR 122m which has been on-lent to 12,327 sub-borrowers through the total sub-loan portfolio of EUR 60.9m by 1Q2022. Over 90% of sub-loans were invested in windows, insulation of walls, heat pumps and biomass boilers. The project has contributed to annual energy saving of 46,197 Mwh and annual carbon emission reduction of 16,326 t CO₂ so far. PFIs have gained more commitment to implement this niche green investment retail loans evidenced by the fact that WBGEFF II, which saw the first signing in May 2021, is expected to be fully signed in 2022 despite the vulnerable and uncertain macroeconomic situation due to the outbreak of COVID19.

Implementation status in Kosovo

A total of EUR 23 million financing has been signed with six PFIs, out of which three are Microfinance institutions (the largest ones in the country). These funds were blended with EUR 4.7 million of donor funds for incentive payments for end-borrowers. As of end-March 2022, EUR 9.4 million has already reached 1,150 households who were supported under this Programme and as a result of their investments 10.838 MWh annual energy savings and 3,743 t of annual CO₂ emission reduction has been achieved so far.

SUSTAINABLE REBOOT SME PROGRAMME

Strategic/Market Context

The Sustainable Reboot SME Programme (**‘Programme’** or **‘SME Reboot’**) targets micro, small and medium-sized enterprises (**‘SMEs’**) which are compliant with the EU’s SME definition⁴⁶ and is implemented in all the Western Balkans countries including, Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro and Serbia.

While SMEs play a significant role in the economic prosperity, their potential remains untapped, as they grapple with numerous challenges that hamper their growth and productivity. SMEs are still underrepresented in international trade and their competitiveness continues to be hindered by limitations in the level and quality of technical standards. And, despite a fairly developed and liquid commercial banking system, in the Western Balkans the SME sector remains underserved by the local financial institutions, and the financial sector is characterised by strong market gaps and deficiencies in the debt and equity markets.

In particular, the Kosovar private sector economy is dominated by SMEs, which constitute 99.8% of all registered enterprises and make up 74.5% of total employment, according to the SME Policy Index: Western Balkans and Turkey 2016. Despite constituting the overwhelming majority of enterprises, SMEs only generate around 43% of value added by businesses compared to a regional average of over 60%. SME contribution to exports is also particularly low at 5-6% of all exports. The main sources of capital for SMEs are loans from commercial banks. However, smaller companies especially appear to struggle with accessing loans, which is reflected in the low share of businesses financing investments via banks – around 30% according to the 2014 EBRD World Bank Enterprise Performance and Business Environment Survey.

Moreover, although there are some country-by-country variations, the COVID-related impact on economic output in the region, with an average estimated contraction of 3.4%, is the worst downturn on record⁴⁷. As a result, the crisis has brought to a standby, and in some cases even reversed, decades of progress in boosting income and reducing poverty in the region. Private sector employment levels dropped by an average of 6%, with North Macedonia and Albania hit the hardest, while Serbia recorded the highest share of businesses that permanently closed their doors. Therefore, considerable efforts are still required to raise awareness of SMEs in the region, hard-hit by the COVID-19 crisis, about the benefits and necessity to prioritise higher efficiency and better performing technologies over business-as-usual and less efficient/cheaper technologies. Improving energy efficiency is also an effective response to the private sector concerns in relation to sustainable energy supply and affordability.

Leveraging the region’s close linkages to EU markets and to the rest of the world is vital to enabling SMEs to reach new markets and to bringing foreign investors to the region. However, many businesses are faced with increasing competition from the European market, both at national, regional and international level, and are limited in their access to the European market by failure and inability to comply with relevant standards. The future competitiveness of local SMEs will depend on enhancing efficient use of resources (including environmental resources and human capital) and improving quality of output.

⁴⁶ [SME definition \(europa.eu\)](https://ec.europa.eu/economy_finance/sme_definition_en)

⁴⁷ Source: Western Balkans Regular Economic Report, Spring 2021 [Western Balkans Regular Economic Report Spring 2022 \(worldbank.org\)](https://www.worldbank.org/en/publications/wb-reports/wb-reports-wb-reports)

Programme Objective

As a response to these challenges, the SME Reboot Programme takes a holistic approach to SME development by enabling SMEs to access blended instruments tailored to their needs and the stage of their growth. The availability of EBRD credit lines and associated grant funding enable SMEs in the region to make investments to upgrade production capacities, enhance processes and improve product quality, whilst also satisfying EBRD's Green Economy Transition ('GET') criteria⁴⁸. The objective is to facilitate access to finance by SMEs for investment into green technologies and other equipment and processes that increase their competitiveness.

Through the provision of targeted financing, investment incentives and technical assistance, the Programme aims to improve SMEs' access to finance in order to: (i) go beyond their ordinary operations by supporting SMEs to sustainably reboot their activities particularly in light of the current COVID crisis through investments in high performance standards, technologies and services through intermediated financial instruments to support transition to a green economy ("GET technologies"), by targeting a GET eligible share of at least 70%, and ii) raise awareness and knowledge of SMEs about the benefits of introduction of internationally recognised quality standards and prompt them to invest resources to on-board them.

Programme Overview

The Programme was launched in 2022 with financial contribution from multi donors. It has large ambitions: EUR 200 million in the whole Western Balkans and the Danish contribution, managed separately, would allow for the Programme to be deployed at scale in Kosovo.

The Programme catalyses EBRD's experience in financing SMEs and providing advice for small businesses and is seen as a sustainable expansion of the current SME Competitiveness Support Programme ('SME CSP'), which was implemented in the six Western Balkans countries and supported with donor funds from EU, including local IPA funds in Kosovo, Serbia and North Macedonia and regional funds under the Western Balkans Investment Framework. The SME Reboot Programme has been developed as a response to demand that cannot be met from the ongoing SME CSP and to leverage the success of it.

Stepping up from the successful track-record and know-how of the SME CSP, the SME Reboot will target an ambitious GET-eligible share of at least 70%. The Western Balkans region is still characterised by high dependence on coal and fossil fuels especially for electricity generation and as a result worsening air pollution issue. The carbon intensity indicator, in nominal GDP terms, of the region is significantly higher than the EU-28 average: the three most carbon intensive countries, Kosovo, Bosnia and Herzegovina and Serbia, are on average 7 times higher than EU-28 average. Across the region, the contribution of the industrial sector and the transport sector ranges from 15% to 25% and 23% to 41%; SMEs' activities may indirectly contribute to both. The policies and long-term strategic documents of Western Balkans countries address both economy and energy sectors with utmost priority, aiming for increased energy efficiency and contribution of renewables. However, considerable efforts are still required to raise awareness of SMEs in the region, hard-hit by the current crisis, about the benefits and necessity to prioritise higher efficiency and better performing technologies over business-as-usual and less efficient/cheaper technologies. Improving energy efficiency is also an effective response to the private sector concerns in relation to sustainable energy supply and affordability.

⁴⁸ See: <https://www.ebrd.com/what-we-do/get.html>

The partner financial institutions ('**PFI**s') participating in the Programme will be selected in accordance with the EBRD's commercial, financial, reputational, technical and other relevant criteria. Loans to PFIs will be provided with terms and conditions consistent with the EBRD's standard policies and procedures. This Programme will be typically implemented through commercial banks and leasing companies.

The ultimate beneficiaries of the Programme are eligible private SMEs in the Western Balkans countries as per the standard EU definition of SMEs.

Eligible investments for financing under the Programme include all investments made by local SMEs in industrial premises, equipment, software, improvement of the enterprise management systems and general upgrading aimed at improving compliance with one or more of the EU Directives and other international standards in the field of environmental protection, workers' safety and product quality and safety. **At least 70% of these investments will meet EBRD's Green Economy Transition approach and hence be counted as green.**

The following investments are excluded and not eligible for financing under the Programme:

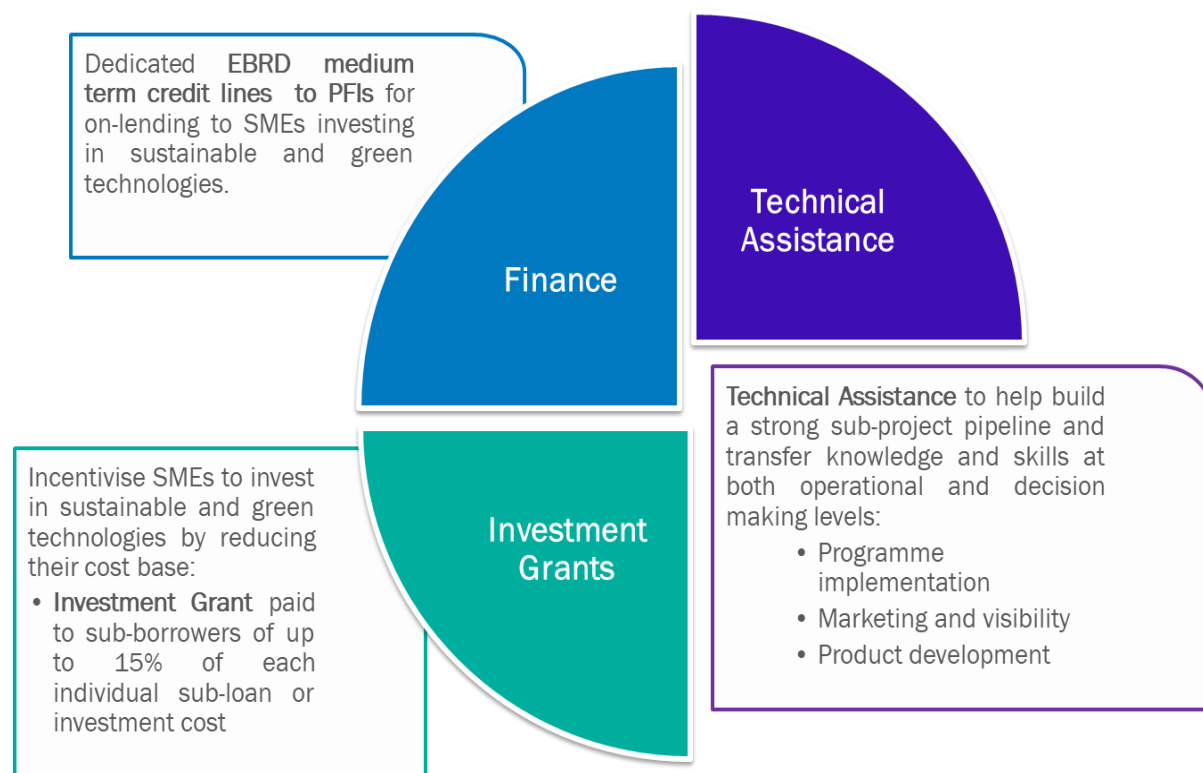
- Working capital, except to the extent that such working capital requirement is an integral part of the investment cost of the eligible Sub-project (for example additional working capital finance arising from shut-down of operations to facilitate the implementation of an upgrade investment);
- Refinancing (or other displacement) of any existing loan or credit operation to the relevant SME;
- Real estate companies;
- Financing of land purchase;
- Speculation in shares, bonds and any other type of financial instruments, derivatives or securities.

The Programme is structured through three linked “components”:

1. **Financing for SMEs' investments in green technologies.** EBRD financing will be provided to PFIs for them to on-lend to SMEs to finance their green or sustainability and competitiveness-linked investment. Eligible local PFIs will be provided with medium- to longer-term financing to reflect the characteristics of green economy financing, i.e. higher upfront cost of high-performance technologies resulting in longer payback periods.
2. **Investment grants for SME sub-borrowers.** Investment grants, in the form of incentive payments, will be integrated into the financing offered to SME by the PFI to accelerate and promote the prioritisation of green and sustainability investments by SMEs. Such incentive payments raise awareness of these green technologies and solutions and their benefits (e.g. operational cost savings through energy, material and water efficiency; material and water recycling and reuse; adaptation to or mitigation of the effects of climate change; trade and other advantages to upgrading standards). Incentive payments are paid to the SME ('cash back') by the PFI once the investment has taken place and following verification of the investment and proper use of proceeds by the verification consultant as described below. The portion of co-investment grant vs. EBRD financing provided is set at 15% per Sub-operation and applied consistently to all PFIs participating in the Programme.
3. **Technical cooperation** is included to assist with the implementation, marketing and monitoring of the Programme and a separate verification of the technical implementation of the investments by the SMEs before the incentive payment is released. Carried out by Consultants hired by the EBRD, the key focus of the technical cooperation is to address specific entrenched behaviours and gaps in local capacity and serves to i) support PFIs in developing a pipeline and portfolio of eligible sub-projects and build PFIs' institutional capacity to originate green investment opportunities independently; ii) raise awareness of the cost-effectiveness and multiple benefits of

investing in green technologies; iii) enhance the understanding and capacity of SMEs to select the right green or competitiveness-supportive technologies and solutions, identify reliable suppliers and installers available in the local market, and access relevant technical or financial services; and iv) provide monitoring and verification of sub-projects.

The chart below summarises the Programme's components.



Implementation status under SME CSP – Overall Regional Programme

A snapshot of achieved results as of YE 2021 under the SME CSP in the entire Western Balkans region:

- **A total of EUR 217 million of EBRD financing** in the form of dedicated credit lines provided to 21 PFIs in Albania (1), Bosnia and Herzegovina (6), Kosovo (3), North Macedonia (5), and Serbia (6)
- **1,096 sub-loans** totalling EUR 159 million issued by PFIs to 672 SMEs eligible to receive incentive payments
- **66% share of green investment** out of all financed sub-projects under the SME CSP

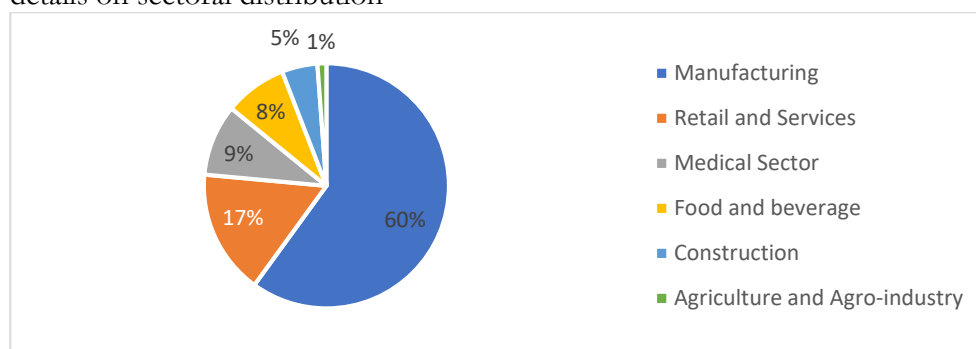
Implementation status under SME CSP – KOSOVO

Below are details of achieved results as of EY 2021 under the SME CSP in Kosovo only.

- **A total of EUR 35 million of EBRD financing** provided to three PFIs as follows

| Country | Partner Financial Institution | Signed Loan Amount (M EUR) | Grant amount committed for Investment Incentives (M EUR) |
|---|-------------------------------|----------------------------|--|
| Kosovo | Banka per Biznes | 5 | 0.75 |
| | ProCredit Bank | 20 | 3.00 |
| | Raiffeisen Bank Kosovo | 5 | 0.75 |
| | Banka per Biznes (II) | 5 | 0.75 |
| Total signings in Kosovo under the Programme as at end-2021 | | 35 | 5.25 |

- **85 sub-loans** totalling EUR 23.2 million issued by PFIs to 75 SMEs eligible to receive incentive payments
- **81% of sub-projects** financed under SME CSP in Kosovo are **located outside of the capital city**
- Majority of sub-projects are clustered around the **Manufacturing sector (60%)**, with below details on sectoral distribution



- **68% of sub-projects** have been confirmed to meet the EBRD's GET eligibility criteria, i.e. satisfying the criterion that, post investment, the Energy Saving Ratio would be at least 20% above the baseline (i.e., prior to investment) or that the Greenhouse Gases ("GHG") emission would be reduced by a minimum of 20% compared to the baseline/existing situation.

Annex 13: Poverty focus in the Denmark-Kosovo energy partnership – and how EBRD can contribute via the way grant resources are utilized

Kosovo is Europe's youngest country and still fragile – not least in the energy domain. Coal is easy to mine just outside the capital Pristina where two run-down power plants from the Soviet era provide over 90% of the country's electricity generation based on this cheap but dirty fossil fuel.

The Government is now setting high ambitions for renewable energy but is acutely aware of the social unrest that can result if energy prices rise for the relatively poor population. These risks are pronounced also due to the still tense relations between Serbia and Kosovo, meaning that it is impossible to charge for electricity use in some northern parts of the country dominated by ethnic Serbs.

Delivering a Just Green Energy Transition is therefore crucial for an environmental as well as a poverty perspective. People with little income are hit relatively harder if prices rise, but from a multi-dimensional poverty perspective, it is also clear that vulnerable groups are more affected if political instability prevents policy progress in general (Kosovo has had a new Government four times in the past four years). The intense air pollution notably in Pristina from burning coal for electricity and heating is also disproportionately harming children and persons with poor health.

Conversely, with Europe's youngest population – and donor support aiming to support the country's own decisions and policies – Kosovo might well emerge as an interesting case of how developing countries can “leapfrog” from coal to renewable energy without introducing the intermediate step of gas.

The proposed Kosovo-Denmark Partnership for Green and Just Energy Transition has been prepared while still waiting for the Kosovan Government's new National Energy Strategy⁴⁹. At the time of writing, it is known that Kosovo will aim to increase its capacity of solar and wind power by 2031 to more than the current capacity of coal power. Based on the experience of other donors and EBRD's track record in Kosovo, it is likely that Danish grants could support truly transformational investments in novel forms of renewable energy production, storage or distribution that would otherwise not happen. Exactly how will be determined in dialogue with the Kosovan Ministry of Economy in the Programme Steering Committee– and guided by the eligibility criteria agreed with Kosovo that include a multi-dimensional focus on poverty in line with Denmark's strategy *The World We Share*.

The poverty focus in Denmark's development strategy *The World We Share*

In June 2021, Denmark launched a new strategy for its development cooperation: “The World We Share” (<https://um.dk/en/danida/strategies-and-priorities>). The strategy's vision is a more secure and sustainable world free from poverty.

Since then, work has been undertaken to develop effective approaches for delivering the strategy. Poverty and inequality are to be considered from a multi-dimensional perspective, covering:

- ***Access to resources*** forming the basis for a reasonable living standard and fulfilment of needs. This includes education, training and other tools for obtaining an income, as well as access to clean water and energy.
- ***Possibilities and choice*** as discrimination may limit the ability for people to make use of their resources to improve their livelihood.

⁴⁹ Which was launched in English draft only on 9 June 2022 as the present Programme Document was being finalised. The public consultation process in Kosovo on the draft NES runs until 27 June after which the final draft will be adopted in the Government and will be sent to the Assembly. It might be adopted in the parliament during July, but it may take longer

- ***Voice and influence*** as societal structures may be shaped by and benefit certain groups over others.
- ***Personal safety***

To obtain Danish grant funding, any programme/project must have objectives that address one or more dimensions of poverty. Starting from a human-rights based approach, the first focus should be on addressing discrimination and promoting participation, transparency, and good governance. To leave no-one behind, priority should be given to improving conditions for those who are furthest behind. Following a do-no-harm principle, all programmes/projects should also be screened for adverse effects on the poor and vulnerable.

EBRD's approach to inclusion and how poverty might be given focus in the use of Danish grants

EBRD's core concepts have inclusion as one of six transition qualities. It is underpinned by new strategies adopted last year about gender and inequality (<https://www.ebrd.com/strategy-promotion-gender-equality.pdf>; <https://www.ebrd.com/equality-of-opportunity-strategy.pdf>).

More specifically for Kosovo, EBRD has proposed to Kosovo's government that a Just Transition Diagnostic would be prepared, based on the Just Transition Initiative that EBRD launched already in 2020 (<https://www.ebrd.com/just-transition>). It would explore the dynamics of how the green energy transition can be shaped in a way that is socially just. For example, workers in jobs related to fossil fuels may need training for other jobs to avoid that the shift to green energy causes unemployment.

From this starting point, the EBRD is obliged to consider how a multi-dimensional poverty focus could be applied in the way Danish grants are used.

- EUR 1 million of the EUR 2.5 million Danish grants proposed for the GEF programme on energy efficiency (EE), should be prioritized for micro-finance institutions that may better reach below-average income segments than do local banks. Kosovan micro-finance institutions were supported by Danish development cooperation a couple of decades ago due to their ability to promote financial inclusion.
- Large green energy investment projects would address access to affordable clean energy directly as one of the dimensions of poverty. For example, it should be explored if district heating could be expanded with a focus on below-average income neighbourhoods. Moreover, the EBRD should consider including gender or inclusion elements in such projects when Danish grants are involved.
- The EBRD Just Transition Diagnostic assignment is expected to map challenges and opportunities for affected regions and identify potential alternative employment opportunities for people, dependent on coal supply chains, solidifying the political sustainability for Kosovo to shift away from coal. Linked to such projects, Danish grants might finance training or similar initiatives, and/or projects that include Just Transition considerations.

More generally, a number of EBRD programmes have already been designed with poverty/inclusion in mind. For example, work on residential energy efficiency helps households to shift from burning coal to more efficient sources of energy. The resulting reduction in air pollution in urban areas is particularly beneficial for children and vulnerable persons in poor health. Working with not just micro-finance institutions but also local banks more broadly is critical for developing a formal environment of energy refurbishment companies, noting that promoting formality (paying taxes) is essential for Kosovo's systemic ability to afford better social policies. The SME Reboot programme helps Kosovan SMEs be competitive and thereby create jobs.

More about potential EBRD Just Transition Diagnostic (Phase II)

The purpose of the EBRD Just Transition Diagnostic is to provide to the Kosovan Government relevant analysis and recommendations on how a green economy transition in Kosovo can be accelerated while also managing the social and economic effects of the transition, focusing on the regions, industries, communities and workers who will face the greatest challenges. Engagement with relevant stakeholders, including national and regional authorities, will be a crucial element of the work.

Based on thorough analysis, the output will be a set of clear actions to support a just transition, including recommendations for: enhanced institutional and governance structures; required policy reforms to support a just transition; and targeted investments. This will be linked to existing EBRD activities and those that would be carried out by others in the fields of:

- Employment potential and proposed areas of new skills development activities to be developed in line with the market needs and future areas of development at local and regional level.
- Investments – including in energy efficiency, public and sustainable transport infrastructure (including transportation networks), digital connectivity, creating new jobs in the green economy, improving energy infrastructure, and district heating.
- Policy reforms.
- Technical assistance activities related to implementation of priority investment and policy areas.

The Just Transition Diagnostic will be anchored in a Project Working Group (PWG) made up of representatives of project partners will include representatives EBRD, the Government of Kosovo and other development partners as required.

Annex 14: Executive Summary of the draft Energy Strategy 2022-2031

This annex is copied verbatim from the “draft Energy Strategy of the Republic of Kosovo 2022-2031” launched on 7 June 2022 in Albanian and 9 June in English on the Kosovan Government’s platform for public consultations: <https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=41426> . The Energy Strategy defines the main directions and actions for the development of the energy sector over the next 10 years and reflects the need for rapid and convincing developments in the energy sector, as envisaged in Kosovo's vision and in line with EU goals. The deadline for comments is 27 June 2022. According to the formulation team’s information from government sources, the final draft that will take the consultation comments into consideration, will be adopted in the Government and will be sent to the Assembly. The Strategy might be adopted in the Parliament during July 2022.

(quote:)

Executive Summary

Providing reliable, affordable, and clean energy is essential to Kosovo's economic development and the social well-being of its citizens. The Government of the Republic of Kosovo is committed to applying a new planning approach to address the current challenges and to lay the foundation for the future of the country's energy sector which will increasingly provide security of electricity supply, clean energy, energy efficiency, and active citizen participation and support for vulnerable groups.

Kosovo's power system will be integrated into the regional and pan-European market, while its independence will be progressively ensured through renewable energy sources (RES). Market integration with the Republic of Albania is a high priority and especially important for our country. The most important first step in this direction will be the full operation of the Albanian Power Exchange (ALPEX), which is expected in early 2023. The Government of the Republic of Kosovo is also committed to increase joint system planning energy with the Republic of Albania. (Co)-investment in natural gas power plants in order to meet the basic demand and / or system flexibility in Albania, but also in Northern Macedonia and Greece will be considered for the purpose of implementation of this strategy within the timelines.

Finally, and equally important, the Government of the Republic of Kosovo is committed to making this transformation of the energy sector by ensuring social justice. Citizens will be at the heart of the country's energy future by ensuring that they have access to affordable energy, are empowered to participate actively in the sector, including production and self-consumption, and ensuring that the most vulnerable groups in society benefit from schemes dedicated to supporting them (for instance for house insulation, installation of solar panels, purchase of efficient household appliances, efficient heating systems, etc.)

Due to lack of proper planning and insufficient investment over the last decades, today the energy sector in Kosovo faces major challenges, including:

- Dependence on old lignite-based electricity generation capacities, which provide inadequate reliability and flexibility, and are a major source of greenhouse gas (GHG) emissions and local pollution. Currently, the share of renewable energy sources (RES) in the electricity sector is only 6.3%, with RES in the energy sector dominated by biomass-based sources used in heating.
- High energy consumption (and therefore, energy-related expenditure) relative to both the GDP and the population, due a range of factors, including: high network losses and use of inefficient buildings and outdated technologies in both residential and commercial sectors (including for space and water heating).

- High reliance on individual household heating systems based on electricity or on inefficient coal- or wood-burning equipment gives rise to both significant increases in the need for electricity imports and high GHG emissions and air pollution during the cold months.
- High market concentration at both the wholesale and retail levels.

The weakness of high reliance of the system on imports during the heating season has particularly been stressed since the post-pandemic energy crisis of 2021, amplified with the effects of the war in Ukraine from 2022, which have given rise to extremely high gas and electricity market prices and volatility, and resulted in Kosovo having to pay very high prices for the electricity imports it needs. This energy crisis proved that Kosovo's energy system needs to undergo a profound transformation to become more resilient, independent and flexible.

The Energy Strategy 2022-2031 is led by the following **vision**:

A CO₂-free energy sector by 2050, integrated in the pan-European market, ensuring energy security and affordability for citizens

With the clarity of this long-term vision and considering the current situation and challenges, five strategic objectives along with their respective specific objectives make up the core of our Energy Strategy.

Strategic objective 1: Improving system resilience

Security of supply will be ensured by guaranteeing the unified functioning of the electricity system. This requires adequately sized capacities for supply and reserves, reliability, flexibility, and efficiency of generation units, network elements and integrated markets.

This strategic objective is addressed by the following **four specific objectives**:

1. Enhancing system flexibility
2. Modernization of networks and reduction of network losses
3. Rehabilitation of existing electricity production capacities and investments in new capacities, and
4. Ensuring cybersecurity of the energy sector.

The **main targets** for this strategic objective are to:

- Improve quality of supply indicators: System Average Interruption Duration Index (SAIDI) by 35% and System Average Interruption Frequency Index (SAIFI) by 30% by 2031,
- launch market-based reserve services and reach at least 170 MW of flexible regulation capacity by 2031,
- decrease the transmission and distribution losses to the current EU technical loss ratios by 2031 (9%),
- refurbish two Kosovo B power plant units and at least one Kosovo A power plant unit by 2024.⁵⁰

Strategic objective 2: Decarbonization and promoting renewable energy

The path of reducing CO₂ emissions of the sector will be accompanied by the development of large RES capacities. The reduction of lignite-based electricity generation contributes to reducing pollution and

⁵⁰ The decision on the refurbishment of a second Kosovo A unit will be made in 2024, at the latest. The refurbished Kosovo A unit(s) will contribute to system adequacy by operating in strategic reserve mode from 2028, i.e. in the crucial higher demand heating season, or during extraordinary occasions such as the recent energy crisis. The units of Kosovo A which are not currently in use (A1 and A2) will be decommissioned, whereas the remaining not refurbished unit(s) will be phased out after the refurbishments of the other lignite units have been completed.

GHG emissions, but its effects on security of supply and generation adequacy are offset by relying increasingly on domestic clean sources of energy. Moreover, considering that renewable technologies have reached market parity with traditional energy sources, their utilization will lead to lower energy costs over the long term.

This strategic objective is addressed by **3 specific objectives**:

1. Gradual implementation of carbon pricing,
2. Promoting renewable energy in the electricity generation mix
3. Promoting the use of renewable energy in heating.

The **main targets** for this objective are to:

- Complete all preparations for implementing a carbon pricing system by 2025, enabling the introduction of a carbon price which will gradually increase until Kosovo's integration in the pan-European market and the EU's Emissions Trading System (ETS),
- Reduce GHG emissions in the power sector by at least 32% by 2031,
- Cover at least 35% of electricity consumption by RES by 2031,
- Develop new wind and solar photovoltaic (PV) RES electricity capacities, to reach total installed RES capacity of 1400 MW (including 100 MW of prosumer capacity) by 2031, with the option of raising the target, if that is feasible.

Strategic objective 3: Increasing energy efficiency

A more energy-efficient development pathway will be followed, leading to a less energy-intensive economy. This has multiple benefits, including the contribution to reduction of energy supply needs (and thus costly investments and the GHG emissions and pollution they entail), decrease in import dependency, and reduction of the financial burden on citizens and businesses.

This objective is addressed by **2 specific objectives**:

1. Improving the energy efficiency of buildings
2. Promotion of efficient cogeneration and efficient district heating systems.

The **main targets** for this objective are to:

- Limit the final energy consumption in Kosovo to the level of 1877 ktoe in 2031,
- Achieve cumulative energy savings of 283 ktoe in buildings including public, private, and commercial by 2031,
- Construct 150 Near Zero Energy Buildings by 2031.

Strategic objective 4: Strengthening regional cooperation and market functioning

Kosovo is committed to the implementation of all obligations of the Energy Community Treaty for the creation of a free, integrated and competitive electricity market. This contributes to the security of supply through wider regional market integration, while also supporting the goals of affordability and competitiveness by optimizing the wholesale and reserve markets and making them more efficient. Market integration with Albania is particularly important, starting with the full functioning of ALPEX both on the intraday and day-ahead electricity markets.

The functioning of the market and the overall energy sector will also be supported by investing in the skills of Kosovar men and women in line with the requirements of a dynamically evolving sector and ensuring that they have access to jobs in the sector.

This strategic objective is addressed by **3 specific objectives**:

1. Strengthening regional cooperation.
2. Removing the barriers to effective market-functioning.
3. Training in energy-related fields and women's inclusion.

The **main targets** for this strategic objective are to:

- Achieve market integration with Albania in 2023
- Join the pan-European market area in 2030
- Gradually phase out the Bulk Supply Agreement, starting from 2025 at the latest
- Increase the number of graduates in energy-related fields and ensure that at least 25% of employees in the sector are women, by 2031.

Strategic objective 5: Protecting and empowering consumers

The Energy Strategy places citizens in its focus by supporting affordability of energy bills for vulnerable consumers, and to invest in energy efficiency (of buildings and household equipment) and heating solutions, empowering them to actively participate in the liberalized energy market, and reducing their exposure to environmental pollution.

This strategic objective is addressed by **3 specific objectives**:

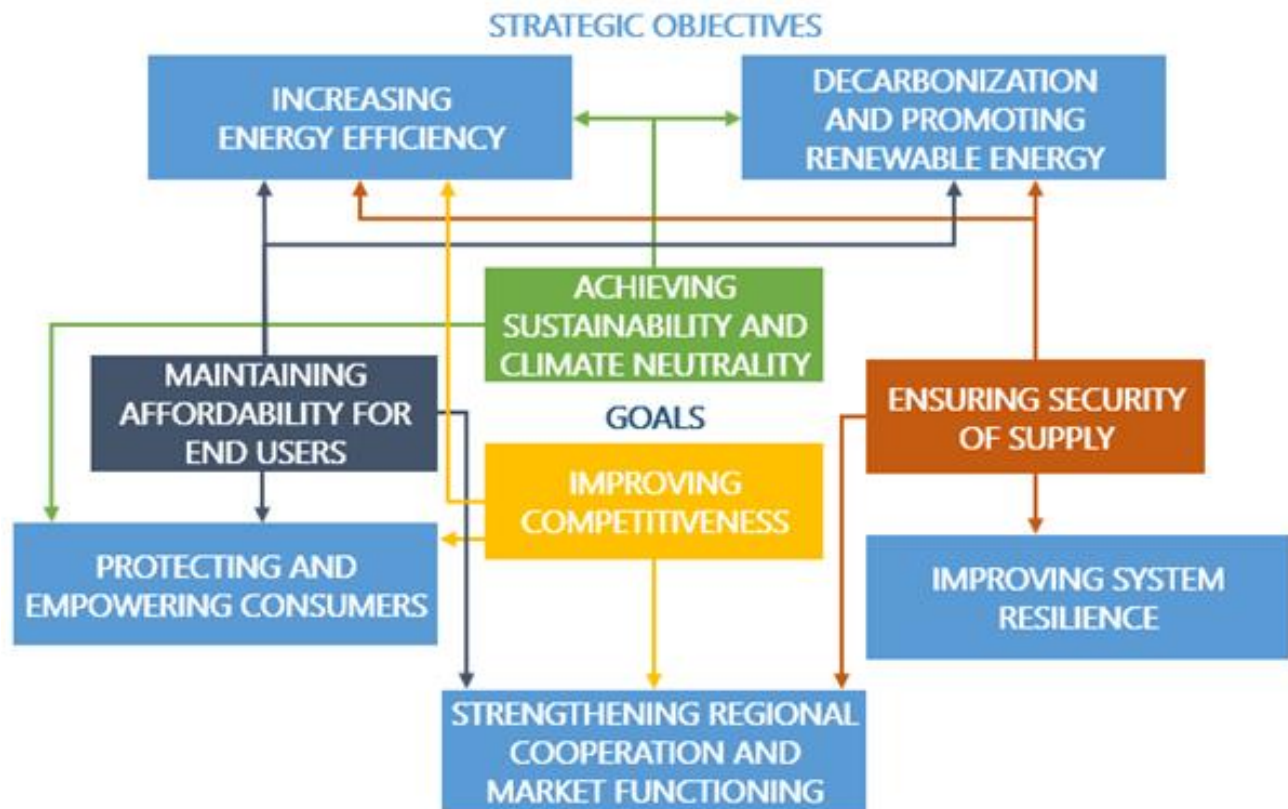
1. Protecting vulnerable consumers
2. Empowering all consumers
3. Preserving human health and environment.

The **main targets** for this strategic objective are to:

- Revise the current price-support scheme for new vulnerable consumers program by 2024, and further advance it to a means-tested scheme linked to the reformed social assistance scheme,
- Introduce at least 2 new energy-related schemes for vulnerable consumers (e.g. energy efficiency, heating solutions, solar panels, etc.) by 2024, and 4 by 2031,
- Introduce more than 2 programs supporting community projects in efficiency and self-consumption by 2024, and more than 5 by 2031,
- Implement at least 9 energy-related awareness and information campaigns annually,
- Develop a fully functioning Price Comparison Tool by 2024 to ensure diversity and comparability of services offered to consumers.

(unquote)

The main goals of the Strategy are illustrated in the figure below:



It is further noted that the implementation, monitoring and reporting responsibilities are to be defined in an Action Plan that will state the short term (end of 2024) and long-term targets and the measures which enables the clear monitoring of the actions. The Ministry of Economy is responsible for the implementation, monitoring and reporting activities related to the Energy Strategy. The Minister, through the Department of Energy, will coordinate these activities with close collaboration with the other relevant ministries and government institutions through establishing the Implementation Committee of the Energy Strategy. These also include the institutions that participated in the working group elaborating the Energy Strategy and consisting of a list of 22 members that include ERO, KOSTT, KEEF, KEK, KEDS, and a representative of district heating companies. According to the Law on Energy a review of the Strategy will be carried out every three years, in order to review the target achievements and make the necessary adjustments.

Annex 15: EBRD approach to assessment of GHG emissions

The following information has been provided by EBRD:

The EBRD is committed to estimating the future GHG impact of the projects that it finances on an ex-ante basis where these are likely to result in significant increases or reductions in emissions. Consistent with the Bank's transition mandate, the principal objectives are:

- to provide a fit-for-purpose estimate of the change in GHG impact that each year's newly signed projects will have, once fully implemented
- to demonstrate the broader climate change mitigation benefits that an increasing number of EBRD projects are designed to achieve.

Where possible, the assessment is undertaken during the project appraisal process.

The EBRD utilises a publicly available protocol for the assessment of greenhouse gas emissions. This protocol is fully aligned with the MDB common principles for GHG accounting ([IFI TWG - List of methodologies | UNFCCC](#)) and covers how to collect data, select the project boundary and baseline scenario. Project impacts are calculated on the basis of use of energy, water and materials at the point of project intervention and investment. Boundary and baseline selection are the key factors that define appropriate energy savings amount compared to the project scenario. We do compare baseline scenario with project scenario and calculate the savings. Activity data (e.g energy consumption) for baseline and project scenario is converted into GHG equivalent by using IFI agreed Emission Factors.

The EBRD "Implementing the EBRD Green Economy Transition - Technical Guide for Consultants: Reporting on projects performance against the Green Economy Transition Approach" (May 2018) provides further guidance and its Annex 6 (EBRD Protocol for Assessment of Greenhouse Gas Emissions) is currently applicable and has been included below.

ANNEX 6: EBRD PROTOCOL FOR ASSESSMENT OF GREENHOUSE GAS EMISSIONS

BACKGROUND

The EBRD first published an assessment of the impact of its investments on greenhouse gas emissions in 2003. The purpose was to see climate change impacts in the wider context of the transition impacts of EBRD projects. The assessment also aimed to answer the simple question: "What impact is the Bank having, through its investments, on the build-up of greenhouse gases in the atmosphere?"

The EBRD GHG Assessment Methodology developed for this purpose provided a framework for the integration of GHG assessments into project due diligence, and for the annual reporting of the forecast impact of the new direct investment projects added to the portfolio.

The Bank's focus on climate change mitigation, through promoting investments in energy efficiency, renewable energy, and emission reduction projects, has grown substantially via the Sustainable Energy Initiative (SEI), and later through the Sustainable Resource Initiative (SRI). SEI was launched in 2006 with the aim of scaling up sustainable energy investments, improving the business environment for sustainable investments, and removing key barriers to market development. In 2015, the EBRD's Board approved the Green Economy Transition (GET) approach, which supersedes the SEI and aims to increase EBRD investments in the green economy to 40 per cent of Annual Bank Investment (ABI) by 2020.

Over the same period, in response to policy-makers' calls for greater harmonisation, the multinational development banks (MDBs) have agreed common principles for GHG accounting and are continuing to work towards more harmonised, sector-specific approaches. These developments required an update of the EBRD's approach to GHG assessment and reporting. This revision continues to serve its original objectives, but now also encompasses the GHG benefit assessment of GET projects, which has a wider scope. The harmonisation process has led to the [IFI Framework for a Harmonised Approach to GHG Accounting](#) and the sector approaches for [Renewable Energy](#), [Energy Efficiency](#), and [Transport](#). Additional sector approaches will be agreed upon between the IFIs.

OBJECTIVES AND BASIC PRINCIPLES

The EBRD is committed to estimating the future GHG impact of the projects that it finances on an ex-ante basis where these are likely to result in significant increases or reductions in emissions. Consistent with the Bank's transition mandate, the principal objectives are:

- to provide a fit-for-purpose estimate of the change in GHG impact that each year's newly signed projects will have, once fully implemented
- to demonstrate the broader climate change mitigation benefits that an increasing number of EBRD projects are designed to achieve.

Where possible, the assessment is undertaken during project appraisal.

In developing a GHG assessment methodology aimed at meeting these objectives, a wide range of choices in approach is available. Several basic principles, identified below, exist to narrow such choices, and have been applied in shaping the EBRD approach:

Transparency and clarity of definition: In any project, some choices may remain subjective. A project may be assessed in different ways for different purposes. It is thus essential that choices and assumptions are clearly stated to preserve the usefulness of the assessment. Most important in this context is a clear understanding of what a project comprises, in terms of geographical and operational boundaries.

Conservatism: To minimise the risk of understatement of emissions, or overstatement of savings, a conservative approach to assumptions should be made wherever significant uncertainty exists.

Fitness for purpose: Where a GHG assessment is required to form the basis of financial transactions – for example, carbon trading – greater resources will generally be required in order to apply the more complex approaches demanded. Where the assessment is carried out for information purposes only, simpler, less resource-intensive approaches may be acceptable.

Project specificity versus general applicability: It may be necessary to strike a balance between the desire to achieve as much project-specific accuracy as possible, and the benefit of comparability that the use of common, consistent approaches provides across many projects of a given type.

METHODOLOGY

Selection of projects and thresholds

All direct investment projects are screened at the Concept Review stage of project appraisal and categorised according to the type of assessment needed.

Some direct investment projects involving corporate loans are excluded from assessment when a lack of information to identify precisely how funds are used makes GHG assessment impossible.

Most projects funded via Financial Intermediaries (FI) are excluded from assessment on the grounds that they involve transfer of control to a third party. GHG assessment is undertaken, however, for certain FI framework projects in which substantial funds are ring-fenced for investment by the FI in relatively large numbers of small energy efficiency and renewable energy sub-projects. Although individually small, the combined impact of many subprojects may be highly significant. The aggregate savings of a number of such FI funds which have been established have made a major contribution to total GHG savings in recent years.

From November 2014, the Bank's Environmental and Social Policy (ESP) mandated clients to procure and report the data necessary for the GHG assessment of projects whose emissions are expected to exceed 25 kt CO₂e per year.

Projects that are expected to result in a change in emissions, either positive or negative, of more than 25 kt CO₂e per year are subject to an ex-ante GHG assessment in line with this protocol. Projects that are expected to reduce GHG emission by less than 25 kt CO₂e per year may also be subject to a GHG assessment.

Project boundaries

The project boundary separates the entities (facilities and operations) whose emissions are included in the assessment, from those that are not. The project boundary is generally defined as the geographical boundary of the facility but may need to include associated facilities and activities where these exist solely to serve the project. Where, for example, a project involves a change from in-house production to external sourcing of a feedstock, it may be necessary to draw project boundaries to include external operations, thus ensuring no fundamental difference in the scope of service provision between the baseline and the post-investment scenario.

Where a project is a direct replacement for some, or all, of another, separate, existing facility (such as one owned by the same entity) this latter facility may be brought within the project boundary, provided the closure is certain to take place as a direct consequence of the project's implementation.

The project boundary for those in Renewable Energy (RE) power generation is always regarded as encompassing the electricity grid in which they serve. By nature of their role, they are assumed to displace the emissions associated with other electricity generation on the grid. Specific grid studies may be undertaken to derive appropriate carbon factors.

If high-quality project or regional grid emission studies are available, these should be applied. As a fallback, it is possible to use national grid-average factors, as long as this will not lead to an underestimation of the project impact or an overestimation of the GHG reductions.

In some cases, a project may have impacts on GHG emission upstream or downstream in supply chain or in the market that it serves. These would typically be considered as Scope 3³³ and excluded from EBRD's project boundary. However, if these impacts have significant mitigation benefits that underpin the rationale for EBRD's investment in the project, the Bank may choose to extend the boundary of the assessment to include these benefits. These benefits may be included in reporting for the GET approach, or as a separate line in the Sustainability Report, but are excluded from the reporting of overall GHG impact of the portfolio, which includes only Scope 1 and 2.

Different aspects of projects can have impacts over different areas. The boundaries used to assess, for example, a project's transition impact or social impact may therefore differ from those used for the GHG assessment.

The with- and without-project principle to determine baseline and project scenario

In keeping with the Bank's transition mandate, the EBRD methodology has focused primarily on estimating the change in GHG emissions (Δ GHG) that is to be brought about by investments. We may define this logically as the difference between the emissions following the implementation of the project investment ('project emissions') and the emissions that would have occurred in its absence. This 'without-project' scenario is referred to as the 'baseline' or 'reference scenario'.

Annex 6

EBRD PROTOCOL FOR ASSESSMENT OF GREENHOUSE GAS EMISSIONS

While the project emissions are relatively predictable (and amenable to routine monitoring during the project lifetime), the emissions that would have occurred in the absence of the investment – the baseline or reference scenario – will remain hypothetical and therefore should be based on conservative assumptions.

Dynamic baseline

Depending on the extent of information available and the extent to which future developments can be predicted, a time-dependent, or dynamic, baseline, or reference scenario, may be constructed. An example of an instance where sufficient information might be available to develop a robust dynamic baseline is a power generation project that is part of a national power generation capacity modernisation plan, backed by adequate technical assessments. Dynamic baseline approaches may be relatively complex and resource-intensive to develop, yet are necessary, in particular, when they are to underpin carbon trading transactions.

For the relatively small, but increasing, number of EBRD projects seeking to benefit from carbon mechanisms (those qualifying under the UNFCCC's JI or CDM), project and baseline emission assessments are based on methodologies approved by the UNFCCC or other internationally recognised bodies for this purpose.

Fixed baseline

Where the development of a dynamic baseline is not justified, a fixed (not time-dependent) baseline may be adopted. The simplest approach, and the one preferred for most EBRD projects, is the use of the pre-investment emissions within the project boundary as the baseline. In the case of greenfield projects, this is taken as zero, unless there are existing facilities included within the project boundary.

Alternatives to using pre-investment emissions as the fixed baseline are benchmark technologies or benchmark levels of operational performance. It is important to note that the forecast of a project's GHG impact depends critically on the choice of baseline. Thus, clarity of definition and consistency in the choice of baseline type are fundamental for the sake of comparability.

Project scenario

The with-project emissions are taken as those expected to occur in a representative (usually the first) year, following full implementation of the project.

Capacity expansion and increased output

Whenever the production output of a project is forecast to change as a result of the investment, the GHG emissions or savings associated with that change must be accounted for. In such cases, if efficiency improvements have been introduced, the resulting efficiency savings are only applicable to the pre-investment output level, and must not be applied to the expansion increment, unless it is certain that the same increase in output would have occurred in the absence of the project – in other words, unless the expanded output is entirely independent of the project implementation.

Scope of emissions assessed

Included in the assessment of project emission:

- direct operational GHGs, as recognised by the IPCC (see for example IPCC Fourth Assessment Report, 2007),³⁴ occurring within the project boundary, together with
- the estimated GHG emissions associated with the generation of grid electricity used by the project³⁵
- where a project is designed specifically to generate downstream system and end-user benefits – for example, one involved in the manufacture of carbon-saving or energy-saving materials or technologies and covered by the scope of the joint-MDB Report on Climate Finance – these benefits are reported as a separate line item as they fall outside the scope of emissions routinely assessed.

Construction phase emissions are normally not included in the assessment as they are typically not considered to be significant compared with operational emissions. Construction related emissions will be included in the assessment where they are likely to be significant (> 5 per cent) relative to the anticipated emission increases or savings associated with the operation of the project.

Leakage

Leakage is the phenomenon through which efforts to reduce emissions in one place simply shift emissions to another location, or sector, where they remain uncontrolled or uncounted. This happens, for example, when additional public transport capacity frees up capacity on roads which is then filled by the previously suppressed demand. It is important to recognise and take account of any significant leakage that may arise in a project.

Guidance on calculation methods

The accuracy required for the calculations of the greenhouse gases arising from the processes involved in the baseline and project operations will depend on the significance and size of the project. The selected methods should be fit for purpose, recognising the information and manpower resources available. Comprehensive recognised methodologies, such as those described in the GHG Protocol, the UNFCCC Clean Development Mechanism methodology, Verified Carbon Standard, Gold Standard, and the EU Emissions Trading Scheme, ISO 14064 (Part 1 and 2), or other international standards, can be used where feasible. Where the scope of the project, or the scale of its emissions, do not justify in-depth assessments of this type, conservative simplifications of these approaches will be adequate. Calculation methods must nevertheless be transparent and based on reasonable assumptions.

Sources of data

GHG data may be obtained from a number of sources depending on the project's size, sector, and the nature of the EBRD's investment. Project-specific sources of data may include:

- environmental impact assessments
- environmental audits
- energy audits
- feasibility studies
- investment plans.

Data may be compared against industry databases, or benchmarks that are published by appropriate authorities and regulators.

GHG performance metrics

Absolute project annual GHG emissions (gross GHG emissions) and the change in emissions brought about by a project (net GHG emissions) are generally calculated and reported in aggregate, although in some cases where a project involves only a part of a larger complex facility the concept of gross emissions is not readily quantifiable or necessarily relevant. In the latter case, only the net emissions of the proposed project are calculated.

GHG emissions are calculated for the whole project, not pro rata for the Bank's financial involvement. EBRD investments invariably improve efficiency of production even where increased emissions arising from increased production offset the savings made, leading to an increase in overall emissions. To demonstrate efficiency benefits, GHG emissions per unit of product output may be calculated for the project and baseline cases, in addition to the gross and net GHG emissions.

The EBRD will report the aggregated GHG assessment results for each year in its Sustainability Report. This report will typically include details of the number of projects assessed with GHG data presented for greenfield and GET projects.

Annual reporting by projects

In line with the EBRD's Environmental and Social Policy, projects with annual emissions of 25 kt CO₂e per year are required to report such emissions annually to the Bank. The scope of this report will typically be limited to the boundaries of the EBRD-financed project and will align with the scope of the GHG assessment carried out during project appraisal. Annual reporting of GHG emissions should form part of the project's normal environmental and social reporting to EBRD.

ALIGNMENT OF THE EBRD APPROACHES TO GHG ACCOUNTING WITH THE AGREED IFI FRAMEWORK FOR A HARMONISED APPROACH TO GHG ACCOUNTING

The IFI Framework for a Harmonised Approach to GHG Accounting (November 2012) has been approved by the following IFIs: Agence Française de Développement (AfD), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the UK Green Investment Bank, the Inter-American Development Bank (IDB), the International Finance Corporation (IFC), KfW Development Bank, the Nordic Environment Finance Corporation (NEFCO), and the World Bank (WB). In December 2015, these IFIs agreed sector approaches for the Renewable Energy, Energy Efficiency, and Transport sectors.

A number of common principles have, thereby, been agreed, but, for justifiable reasons, important differences in detail remain to be resolved. As a result, a variety of alternative methodological options are included in the framework text.