

Presentation to the Programme Committee: 29 April 2022
Title: Kosovo-Denmark Partnership for Green and Just Energy Transition
<p>Key results*¹:</p> <ul style="list-style-type: none"> • A just and green transition in Kosovo's electricity supply sector supported through transformational green technology investments and government-to-government, peer-to-peer cooperation for lasting institutional competences within power system planning, integration of variable renewable energy (RE), and the enabling framework for energy efficiency (EE). • Reduced energy consumption and improved living environment in residential households through the installation of high-performing, energy-efficient technologies. • Small and medium enterprises (SMEs) supported by incentives and technical assistance to reduce their energy consumption and optimise green technology investments towards compliance with Priority EU Directives and other relevant international standards.
<p>Justification for support*:</p> <ul style="list-style-type: none"> • Energy intensity in Kosovo is up to 4 times the EU average and Kosovo relies on fossil fuels for over 90% of its electricity supply. The recent energy crisis has hit Kosovo hard and there is an urgent need to embark on more sustainable energy solutions that will also ensure electricity supply. • The Kosovan Government's National Energy Strategy, which is expected to be launched and approved in the near future, will place strong emphasis on EE and RE solutions – this is a highly opportune moment in time to support Kosovo in the green energy transition. • As part of the Joint Statement (see footnote), a Letter of Intent signed between the Kosovan Minister of Economy and the Danish Minister for Development Cooperation specified the areas of development cooperation, including priority themes within the green energy transition: Promoting of EE, RE, and energy consumption planning, including reforms in the energy field outlined in the EU-Kosovo Association agenda.
<p>Major risks and challenges and possible mitigating measures*:</p> <ul style="list-style-type: none"> • Potential delays in the Kosovan Government's approval of the national Energy Strategy and other enabling policies and legislation for the green energy transition. Mitigation measure: Continued dialogue and follow-up, including through EBRD which has a long presence and credibility in the energy sector in Kosovo. • Limited capacity of Kosovan public sector institutions. Mitigation measure: Initial focus on the private sector, building on well-proven EBRD programmes focused on energy efficiency in residential and SME sectors working through local financial institutions. 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.

¹ As per the Danida AMG template, the three points marked with an asterisk * should be presented in the form of bullet points (not more than 3 bullets under each point).

1. Context, strategic considerations, rationale, and justification

1.1 Introduction and background

Denmark and Kosovo have a long history of cooperation² and partnership in economic and social development, democratic development, and peacekeeping³. 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. Due to reductions in the development budget, there were no new development cooperation initiatives with Kosovo under the most recent phase of Danish Neighbourhood Programme (2017-2021). However, with renewed focus on Kosovo and the Western Balkan region, Denmark from September to December 2021, consulted with key Kosovan Government representatives and a number of bilateral and multilateral development partners in Kosovo. A high-level mission from the Ministry of Foreign Affairs of Denmark (MFA) visited Kosovo in October 2021 to discuss future cooperation and partnership and on 20 December 2021, a Joint Statement was signed between the Governments of Kosovo and Denmark on strengthening the cooperation between the two countries, 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 also 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 expected to be within green transition, up to EUR 2.5 million will be dedicated projects to promote rule of law, democracy, and human rights. The Statement also reflected the specific commitment to join forces in accelerating the energy transition and promoting energy efficiency and renewable energy – 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.

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. In late February, based on a set of agreed guiding principles, an options paper identified the key options for Danish support, and it was decided to engage in further discussions with the European Bank for Reconstruction

² 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".

³ 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.

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 Green Fund for Kosovo” established as a 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 DEA⁴ 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.

The present presentation to the Programme Committee draws on an identification note prepared by the consultants before the identification mission and discussions held during the mission with the key national authorities, private sector representatives, civil society organisations, and EBRD and other multilateral and bilateral development partners in Pristina. Immediately after the mission, EUN sent a short concept note to the Kosovan Ministry of Economy summarising the proposed Danish support for the green energy transition, based on the discussions held during the mission – the Ministry’s feedback was positive and the dialogue continues (most specifically as regards the allocation of the first year’s tranche to energy efficiency).

1.2 Context

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’s currency is the Euro (EUR). Kosovo is mentioned under “Upper Middle-Income Countries” in the OECD DAC “List of ODA Recipients Effective for reporting on 2022 and 2023 flows”.

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 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 Report⁵ 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 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.

⁴ DEA currently cooperates in bilateral partnerships with 19 other countries through the DEA Global Cooperation Department: <https://ens.dk/en/our-responsibilities/global-cooperation>

⁵ 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.

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. 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 notes that the situation in the north of Kosovo remains challenging, in particular in terms of corruption and organised crime. The EU Report stressed that while Kosovo made some progress in digitalisation of the economy, improving road infrastructure, and increasing investment in renewables, the coal-based, outdated, and unreliable energy supply remains a main concern. The Kosovan economy is characterised by a very high degree of informality. Moreover, small and medium sized enterprises (SMEs) account for 90% of all businesses in the country.

1.3 Rationale and justification

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. 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.

In the second half of 2021, the Government of Kosovo established a working group to draft a new National Energy Strategy (NES) 2022 - 2030. This Strategy is expected to be approved during 2022. The process is underpinned by scenario modelling undertaken by external consultants from Hungary and is based on a commitment to full decarbonisation by 2050. The Ministry of Economy on 10 March 2022 made a presentation to the development partner community on the NES, and it is understood that in the face of the turmoil in energy markets NES is intended to undertake a deep transformation of the Kosovo power system; that energy efficiency is a must, reducing import and price exposure; that NES will not include building new lignite-fired generation units; that NES considers carbon pricing which was not considered in previous NES; that NES will dynamically increase RE shares, using auctions to ensure cost efficiency; that depending on the RE auction prices and the prevailing market prices, RE penetration rates could be flexibly adjusted; and that 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.

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. In this regard, Kosovo is obliged to harmonize its national legislation in compliance with the EU energy *acquis communautaire*⁶ adopted by the Ministerial Council of the Energy

⁶ 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

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 2021⁷ 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. The Energy Community has recommended Kosovo to introduce energy efficiency incentives in residential and private sectors; the report contains many other conclusions and recommendations, which are too detailed to be summarised here, 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. It is further noted that EBRD's Kosovo Country Diagnostic report 2021 contains detailed assessments and that 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. It is concluded that there is ample documentation of needs, challenges and opportunities in green energy transition but that the Government's NES is anxiously awaited.

Lessons learned from previous Danish support in Kosovo are highlighted in various evaluation reports⁸. Whilst there 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.

EBRD's GEF and SME Reboot Programmes⁹ that are proposed for Danish support, have been designed based on the historical performance of similarly structured EBRD Programmes, which combine targeted financing, financial incentives, and technical assistance. SME Reboot for instance has evolved to now having a clear focus on sustainable and green investments. EBRD's experience also shows that moderate incentives are a key driver for borrowers (both households and SMEs). Pricing of sub-loans should be set based on market level and at par with other consumer lending and SME lending products to ensure fast uptake in the market. This requirement is part of the agreement between EBRD and its partner financial institutions. Under GEF, collaboration with vendors ensures efficient implementation.

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.

⁷ https://www.energy-community.org/dam/jcr:dbe6d342-ea7d-4677-9a9b-e18f22a1cfad/IR2021_Kosovo.pdf

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.

⁹ Green Economy Financing Facility (GEFF) <https://ebrdgeff.com/kosovo/> and Kosovo SME competitiveness programme (SME Reboot is a new Programme that will be launched in the first half of 2022 and a continuation of SME Competitiveness Programme but with a clear focus on green investments): <https://web-sme-csp.com/kosovo/en/>

The approach to involve various stakeholders has also been found to be critical to raise awareness for green technology investments at the market level. EBRD sees its methodology and approach to intermediated financing of green technologies as unique and has developed tools that help to trigger sustainable change in the market including The Green Technology Selector¹⁰ that is used for both GEF and SME Reboot.

1.4 Choice of implementing partners and cooperation modalities

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 is a key national partner and, as mentioned above, the signatory to the joint Statement and LoI with Denmark. The Ministry proposes, drafts, and provides for the implementation of energy sector policy/strategic documents, - including the new NES - 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. Another key 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. 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 programmes 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.

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 an office in Pristina. Based on funding through a bilateral Danish trust fund with EBRD, the support modalities for this part of the Danish grant would include technical assistance (TA), and incentives for residential EE and EE and green technology investments in SMEs provided via local financial institutions in conjunction with credit based on long dated ("patient") capital from EBRD¹¹. Other forms of investment support would be possible as the programme developed. 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

¹⁰ [Green Technology Selector \(techselector.com\)](https://techselector.com)

GEFF technology selector developed for Kosovo: http://technology-xk.ebrdgeff.com/xkx_eng/

¹¹ The lending (5-6 times larger than the grants) comes from other EBRD resources.

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.

While the delegated cooperation with EBRD is expected to comprise the main part of the funding, other partners could be involved for specific projects.

The Danish Energy Agency (DEA) has a well-established Global Cooperation programme presently comprising 19 bilateral energy partnerships. The identification mission to Kosovo found that the type of peer-to-peer support that DEA can offer, resonated well with Kosovan authorities, including the Ministry of Economy, ERO, and KOSTT. DEA also has framework agreements with the Danish TSO Energinet and other institutions and consultants in Denmark who could provide short-term TA. The delivery mechanism for TA would ideally include an embedded long-term advisor anchored in a Kosovan energy authority and this was raised during the identification mission and will be further explored. DEA engagement will be based on Agreement with the MFA according to guidelines for strategic sector cooperation.

1.5 Target group considerations

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, “leaving no one behind”. EBRD had published a new Gender Strategy in autumn 2021 and EBRD¹² has a Just Transition Initiative that seeks to provide support where there are risks of lose economic activity and jobs as a consequence of the green economy transition, for instance

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 SME Reboot, the programme planned to be supported by Denmark, EBRD require that the partner financial institutions (PFIs) allocate a portion of financing under 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 SME Reboot and GEFF Programmes, the maximum sub-loan size is limited so a greater number of households and SMEs are supported.

for those that are heavily reliant on coal and other carbon intensive assets. 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 will underpin the detailed programme design. Finally, 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.

1.6 Climate change considerations

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. However, the Government has 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 Energy Strategy in 2022. The proposed Danish support has a strong focus on climate change mitigation through its emphasis on EE and RE, thus supporting the Rio Marker on climate change mitigation¹³.

EBRD has pledged that by the end of 2022 it will align all its activities with the goals of the Paris Agreement and prioritise more than half of its overall investments for green economy transition by 2025, thus continuously innovating the financial products offered. EBRD also works on systemic change in the sector through ensuring every financial intermediary the EBRD works with implements institutional practices which can deliver on the mitigation and adaptation aims of the Paris Climate Agreement. In practice, this means that climate change consideration is becoming a feature of all EBRD transactions.

2. Programme objective and outline content

The programme title is proposed as “Kosovo-Denmark Partnership for Green and Just Energy Transition”. It is a strategic objective to pave the way for the kind of truly transformational projects and investments that will be needed to ultimately achieve full climate neutrality of the Kosovan energy system.

Given the urgency of responding to high energy prices, it is proposed to allocate the first year’s tranche (EUR 5 million) to energy efficiency.

EBRD supports two key programmes supporting i) energy efficiency investments in the residential sector and ii) SMEs. Danish funding through delegated cooperation with EBRD may be divided 50/50 between these two programmes that are already established with local banks and technical specialists and can be scaled up quickly to support more energy efficiency investments starting already in 2022. In the residential Green Energy Finance Facility (GEFF), households can obtain a grant covering typically 15-20% of the costs of insulation, heat pumps, solar panels on the roof etc. if complying with high quality standards based on independent validation. The remaining part of the cost is covered by lending from local banks and micro finance institutions based on long-maturity lending from EBRD. In the SME Reboot Programme, companies can obtain similar grants and loans. At least 70% of the programme is for energy and green investments, but the programme also covers occupational health and safety and innovations to underpin growth and employment contributing to decent jobs. Danish support to both programmes will leverage EBRD investment 5 times larger than the Danish grants, raise general awareness and build demand for high performance and energy efficiency technologies through demonstration effect and build capacity within financial institutions on climate corporate governance and Paris Alignment.

¹³ To a smaller degree, it can be argued that the support is more indirectly related to climate change adaptation by supporting efforts to ensure a greener and more secure and reliable energy supply and thus contribute to vulnerability reduction. In this regard it is noted that Kosovo experiences very hot summers and very cold winters.

The first year's allocation to technical assistance and capacity development through the Danish Energy Agency could be the equivalent of EUR 2.5 million. The topic areas for this government-to-government peer-to-peer cooperation have not been identified in detail but could include collaboration within issues of interest for Kosovo such as long-term energy planning and scenario modelling, individual and district heating systems, EE, RE auction design, power system flexibility, integration of variable RE sources into the power grid and RE technologies. This collaboration would aim at high priority challenges and opportunities in the sphere of green energy in Kosovo and on capacity development and lasting institutional competences¹⁴ in Kosovan partner institutions. This could include study visits in Denmark and learning opportunities on-the-job for Kosovan staff. In addition, the dialog will continue about the posting of a long-term energy advisor embedded in e.g. an energy authority in Kosovo. The basis for a GtG-cooperation within energy between authorities in Denmark and Kosovo has to be investigated and discussed in further detail, particularly when the draft energy strategy of Kosovo has been launched, and specific priority themes can be discussed.

3. Theory of change and key assumptions

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

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. 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 coal that is easily accessible. Hence, the energy system relies heavily on electricity from two coal-fired power plants that are in a very poor state technically. The government is sensitive to the need to rapidly reduce greenhouse gas emissions, but it will be a huge challenge. The aim is to decarbonise the power sector by 2050.
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, b) expand renewable energy sources, and c) manage the energy system through a challenging transition for example to ensure stability in the context of variable electricity production from wind and solar.
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 an energy strategy 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.
5. **How and with which modalities and instruments will we contribute to the changes**? The proposed trust fund/programme with EBRD will address two of the 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.
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?
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 the 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**? The main risk to delivering a green energy transition in Kosovo is the young and relatively weak institutions. The proposed trust fund/programme is therefore based with EBRD in order to leverage the private sector's capacity and interest. Within EE, the EBRD's programmes 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

¹⁴ The identification mission to Kosovo found that no other development partner offers such peer-to-peer cooperation and TA is mostly provided in short missions and by remote interaction, with limited focus on capacity development in key energy authorities.

public sector capacity. 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 programmes for residential and SME energy efficiency ensuring good use of the Danish grants.

4. Draft results at outcome level

The expected major outcomes (results) of the Programme may include the following:

- Increased energy and resource efficiency in the residential and SME sector, measured as energy saved and t/year CO₂ reduced/avoided.
- Green technology investments in existing privately-owned residential dwellings or buildings and at the level of entire multi-apartment buildings, mainly in the course of refurbishment
- Construction companies/developers investing in the construction of new high energy performance residential buildings.
- Increased energy efficiency in public buildings such as schools and kindergartens.
- The green economy in Kosovo supported through improved access by eligible SMEs (as per EU's definition for SME)¹⁵ to finance towards green investments and investments towards compliance with EU and international standards thus facilitating the expansion of climate change mitigation investments and sharing the positive demonstration effects.
- Increased renewable energy capacity and a more diversified energy mix, measured in terms of total renewable electricity installed and contributions to improved legal and regulatory framework for EE and RE, e.g. including competitive auctioning of RE.
- Other outcomes to be defined for GtG peer-to-peer cooperation including capacity development outcomes in Kosovan partner institutions.

5. Inputs/budget

The tentative budget allocation is DKK 205 million or EUR 27.5 million equivalent. This funding is expected to be committed in two tranches, with DKK 75 million in Q3 2022 and DKK 130 million in Q4 2023. Disbursements could be DKK 60 million in 2022, DKK 75 million in 2023, and DKK 70 million in 2024. Given the urgency of responding to high energy prices, it is proposed to allocate an initial part of the first year's tranche of EUR 5 million 50/50 to the two existing EBRD programmes supporting energy efficiency investments in the residential sector and SMEs, respectively. Given the extremely dynamic context in Kosovo and internationally, there will need to be flexibility and it is therefore proposed to keep a reserve of unallocated funds and to have an inception period of 6-9 months to define rolling annual work plans. An Inception review at the end of this inception phase and the mandatory mid-term review of the programme could both address budget allocations to programme priorities and also assess the issue of Government inputs (which have not been agreed at this point).

6. Institutional and management arrangement

It has been proposed to the Kosovan Ministry of Economy and EBRD that a Steering Committee (SC) with participation of the Kosovan Government¹⁶, the Danish Government and EBRD will be established. In this way the Kosovan Government can present needs and priorities according to the National Energy Strategy and overall developments within the green and just energy transition. Members

¹⁵ http://ec.europa.eu/growth/smes/business-friendly-environment/sme-definition_en

¹⁶ This could include the Kosovan Ministry of Economy and the Ministry of Finance, still to be clarified. Other partners such as the Kosovan Regulator ERO and/or the Kosovan Transmission System Operator (KOSTT) could be invited as member of the SC depending on the degree of their involvement. The MFA will be represented by EUN. The Danish Energy Agency may also be represented in the SC depending on its engagement in the Programme.

of the SC will decide through consensus with the option of no objection. It is proposed that the SC will meet every 6 months in-person or on a virtual platform.

Day-to-day management of activities under delegated cooperation with EBRD will be EBRD's responsibility and work plans and progress reports against key performance indicators (KPIs) should be submitted to the SC. For activities implemented by DEA, it will have similar responsibilities for work planning and progress reporting.

7. Risk Management

As mentioned in the cover page above, key risks and mitigation measures include the following:¹⁷

- Potential delays in the Kosovan Government's approval of the national Energy Strategy and other enabling policies and legislation for the green energy transition. Mitigation measure: Continued dialogue and follow-up, including through EBRD which has a long presence and credibility in the energy sector in Kosovo.
- Limited capacity of Kosovan public sector institutions. Mitigation measure: Initial focus on the private sector, building on well-proven EBRD programmes focus on energy efficiency in residential and SME sectors working through local financial institutions. 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.

¹⁷ An early version of the standard Danida template for risk management with 3 risk categories (contextual risks, programmatic risks, and institutional risks) has been included in the Identification Note and will be updated in the full draft Programme Document.