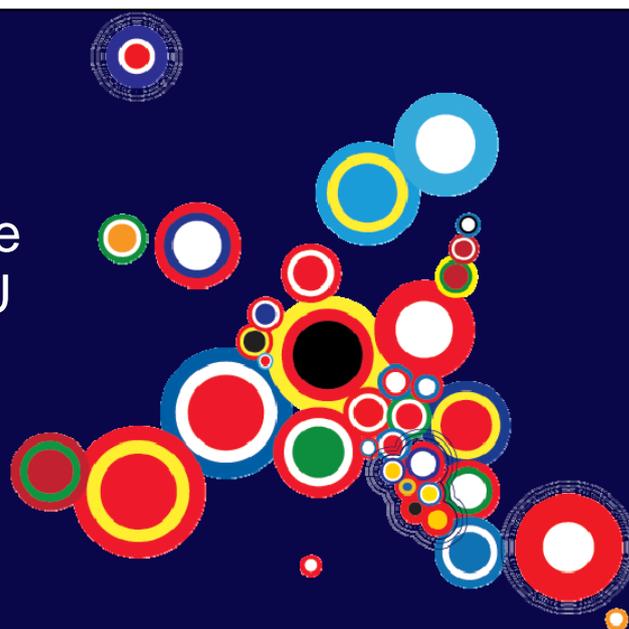




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

KOSOVO*

Support on Implementing the
3rd Energy Package and EU
acquis on Energy Efficiency
and Renewables



Action summary

The action aims at supporting the key stakeholders (relevant Government institutions Ministry of Economic Development (MED), including the Agency for Energy Efficiency (AEE), Ministry of Environment and Spatial Planning (MESP), Ministry of Trade and Industry (MTI), the Energy Regulatory Office ERO), as well as the Ministry of Local Government Administration (MLGA) and Kosovo municipalities) in the energy sector on upgrading the legal and regulatory framework in compliance with the 3rd energy package and with the EU *acquis* on energy efficiency and renewable energy as required by the Energy Community Treaty (ECT).

The action will support the planning process on improving energy efficiency including energy efficiency statistics, and on promoting the use of renewables. The bottom-up planning process on energy efficiency and renewables requires strengthening local level capacities on data collection and processing, on energy efficiency planning and implementation as well as on setting up monitoring mechanisms. Further support to the national planning process will be provided by improving the quality of data in different sectors.

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence.

Action Identification	
Action Programme Title	<i>2014 Annual Action Programme for Kosovo</i>
Action Title	Support on implementing the 3 rd Energy Package and EU acquis on Energy Efficiency and Renewables
Action Reference	<i>IPA 2014 /032355/ 3rd Energy Package</i>
Sector Information	
IPA II Sector(s)	Energy
DAC Sector	23010
Budget	
Total cost (VAT excluded) ¹	EUR 2.5 million
EU contribution	EUR 2.5 million
Management and Implementation	
Method of implementation	Direct management
<i>Direct management:</i> EU Delegation in Charge	<i>European Union Office in Kosovo</i>
Implementation responsibilities	<i>European Union Office in Kosovo</i>
Location	
Zone benefiting from the action	<i>Kosovo</i>
Specific implementation area(s)	<i>Kosovo</i>
Timeline	
Deadline for conclusion of the Financing Agreement	<i>31 December 2015</i>
Contracting deadline	<i>3 years following the date of conclusion of Financing Agreement</i>
End of operational implementation period	<i>6 years following the date of conclusion of Financing Agreement</i>

¹ The total action cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

1. RATIONALE

The energy sector in Kosovo is one of the key sectors for a sustainable economic development. Kosovo is a member of the Energy Community of SEE (ECSEE) and is making progress on implementing the obligations deriving from the Energy Community Treaty (ECT). Restructuring of the energy sector is ongoing. After the privatisation of electricity distribution and supply, the Government of Kosovo aims to focus on the electricity generation, starting with the implementation of environmental protection measures and construction of new capacities which will generate energy with a more advanced technology, while preserving the environment. Improved energy efficiency and maximal use of renewable energy sources have a vital importance in this process, to which Kosovo is committed.

To continue with this process Kosovo needs technical support to increase and strengthen the necessary capacities to address these challenges.

PROBLEM AND STAKEHOLDER ANALYSIS

Kosovo, as a signatory party to the Energy Community Treaty (ECT), has assumed the obligation to transpose the third energy package and *acquis* on energy efficiency and renewable energy. The targets are already set for Kosovo, pursuant to 20/20/20 standards of the European Union as follows: 9% increase of energy efficiency in the final consumption by 2018 and 25% obligatory (29.47% indicative target) for the share of renewable energy sources in the final energy consumption by 2020. The challenge is in the implementation of plans and programs to create the preconditions for achieving these targets.

The primary legislation of Kosovo for the energy sector is being amended in view of ECT requirements. The process of transposing has already started and will have to be completed by the end of 2014. However, the Kosovo Government and the Energy Regulatory Office (ERO) will have to implement the secondary legislation during 2015. This is a challenge as it will require the establishment of necessary legal, strategic and programmatic mechanisms for the purpose of implementing the new legislation. Therefore, the assistance requested in this area will help strengthen the capacities of the central institutions primarily the Ministry of Economic Development (MED) and ERO, but also the Ministry of Trade and Industry (MTI), Ministry of Local Government Administration (MLGA) and municipalities.

The action will build on previous EU funded assistance which supported the Agency for Energy Efficiency (AEE) in preparing and monitoring the implementation of the energy efficiency midterm plan and provided training and guidance to 14 municipalities on preparing their first energy efficiency plans. Improving the bottom-up planning process is critical to successful achievement of the national targets on increasing the energy efficiency and the share of renewable energy in the energy mix. The poor data quality on energy efficiency hampers the planning process. Establishing monitoring and verification mechanisms and innovative financial mechanisms to support the implementation of the national and municipal plans are a high priority.

There are a number of projects carried out within the EU funded programme Western Balkans Investment Framework (WBIF) jointly with IFIs (mainly KfW and World Bank) on assessing the potential for energy efficiency measures in local and central level buildings. KfW is preparing a loan scheme for five municipalities to implement energy efficiency measures in public buildings; whereas the World Bank has earmarked a €32million loan for energy efficiency measures in central public buildings. These projects will contribute to the achievement of the national energy efficiency targets, however, a clear financing framework and implementing mechanisms have to be established to ensure midterm and long-term energy efficiency targets.

RELEVANCE WITH THE IPA II INDICATIVE STRATEGY PAPER (OR MULTI-COUNTRY STRATEGY PAPER) AND OTHER KEY REFERENCES

The energy sector is key for IPA II assistance because of its economic potential and because of the sizeable amount of EU *acquis* in the sector. Energy benefits from a comprehensive sector strategy that should allow the introduction of a sector approach in the near future. The Indicative Strategy Paper for

Kosovo (CSP) states that IPA II will support Kosovo in ensuring a reliable and sustainable energy supply to citizens and enterprises, in increasing its energy efficiency and the use of renewable energy sources, and in aligning its legislation with EU energy standards. This action is targeted toward directly contributing to the achievement of these objectives by enabling Kosovo to assume its obligations under the third energy package and the Energy Community treaty.

With the aim of building a sustainable energy sector, Kosovo has listed as key priorities the development of policies that provide the preconditions for sustainable energy supply, diversification of energy resources and which represent a solid basis for the implementation of programs to increase the efficient use of energy and protect the environment.

The policies mentioned above are either included or in the process of being included in strategic and programming documents and in the legislation that is currently being developed. As such they form the basis for a sustainable energy sector and for Kosovo's participation in the regional energy market. Furthermore, the priorities outlined in the CSP derive from the process of cooperation with the Energy Community Secretariat, energy sector reform in Kosovo in line with EU best practices, the EU energy *acquis* and targets of the EU 2020 climate and energy package.

The assistance to be provided through IPA is complementary to other donor community activities which are offered directly through the Energy Community Secretariat or through regional mechanisms such as WBIF.

SECTOR APPROACH ASSESSMENT

In terms of IPA 2014 Programme and following the logic of the CSP, this action is presented within the energy sector. A number of sector-specific documents in the energy sector have already been elaborated. Kosovo has already elaborated the second National Energy Efficiency Midterm Plan for the period 2013-2015 and the National Plan for Renewable Energy Sources 2011-2020 which contain measures planned for achieving targets set within the documents. Implementation is expected to strengthen the capacities required for the coordination, monitoring, assessment and reporting. The MED, ERO and AEE are responsible for drafting conducive policies and for coordinating the implementation process. A good long-term planning in the level of development strategies and plans are necessary for reforms in the energy sector. The environment protection measures are key to ensure sustainable development.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Under IPA I the EU funded assistance has supported the main responsible institutions in the energy sector namely MED and ERO on setting up the legal and regulatory framework in compliance with the 2nd energy package as required by the Energy Community Treaty. The focus was on developing the electricity market model and market rules in compliance with European single electricity market principles. However under the umbrella of the Energy Community Treaty the obligation of the contracting parties including Kosovo expanded in the field of energy statistics, energy efficiency and renewable energy which brought new challenges for the Kosovo institutions.

Under the previous EU funded assistance (IPA 2009) the process of energy efficiency planning was initiated at the local (municipal) level and 14 out of 38 municipalities in Kosovo now have plans. The existing law on energy efficiency requires each municipality to adopt an energy efficiency plan. The municipalities lack technical capacity to collect and maintain energy efficiency data, further they lack capacity for planning and for monitoring the implementation. Therefore the bottom-up planning for energy efficiency will require substantial assistance to local capacity building.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
<p>Sustainable development of the energy sector in line with the national strategy and ECT obligations.</p>	<p>By 2017 the energy intensity has decreased by 20% (from currently 465.8kgoe to 369.9kgoe) and Energy dependency has reduced by 3%.</p> <p>By 2017 the share of renewable energy in electricity has increased by 8%; the share of renewable energy in heating and cooling has increased by 0.34% and the share of renewable energy in transport has increased by 3%;</p> <p>Reduction of Greenhouse Gas (GHG):</p> <ul style="list-style-type: none"> • CO2 reduction by approx. 1 million ton by 2018; • By approx. 30% by 2018 	<p>Annual Commission Reports for Kosovo. European Progress Reports for Kosovo.</p> <p>Energy Community annual implementation reports.</p> <p>Kosovo's implementation report of the national plan for energy efficiency and for renewable energy.</p>	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Support in the implementation of the third energy package including the acquis on EE and RES.</p>	<p>The primary and secondary legislation is completed and adopted.</p> <p>The national targets for energy efficiency and for renewables are met.</p>	<p>Energy Community annual implementation reports.</p> <p>Kosovo's official gazette.</p>	<p>the approval process of legislation is not delayed due to political environment;</p> <p>the Government ensures the commitment of relevant Ministries in the implementation;</p> <p>The energy efficiency and renewable energy are given priority in the national energy</p>

			strategy. The Government ensures budget support for implementation of the national energy efficiency plan (NEEAP).
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Result :</p> <p>Result 1: The legal and regulatory framework (including electricity, energy efficiency, renewables, cogeneration) is aligned with the EU <i>acquis</i> as required by the Energy Community Treaty;</p> <p>Result 2: Increased capacity of central institutions on EE and RES planning and implementation;</p> <p>Result 3: Improved energy efficiency planning at local government level;</p> <p>Result 4: Improved financing modalities and developed Energy Service Company (ESCO) market;</p>	<p>Secondary legislation on energy efficiency is approved by the Government.</p> <p>Municipalities conduct surveys to improve the quality of energy efficiency data;</p> <p>Monitoring system established and functional;</p> <p>At least 25 municipal officers are trained on energy management.</p> <p>At least one ESCO established or in process of establishment;</p>	<p>NEEAP implementation reports;</p> <p>KREAP implementation reports;</p> <p>Municipal EE implementation reports;</p> <p>ERO's annual reports;</p> <p>Annual reports of ECS Consultant's progress reports.</p> <p>Reports from KEEA on investments in EE in different sectors: residential, industry, services, etc.</p>	<p>The government ensures the independence of ERO on the measures to promote energy efficiency and the renewable energy;</p> <p>Municipalities ensure the human and financial resources needed for the implementation of the municipal energy efficiency plans;</p> <p>There is political commitments in Municipalities to support the implementation of surveys for energy data collection;</p> <p>The Government and the Kosovo Statistics Agency support municipalities on energy efficiency statistics;</p>
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS
<p>Activity 1:</p> <p>1.1. Support the government and ERO on drafting the secondary legislation and regulatory rules deriving from the primary legislation aligned with the EU <i>acquis</i> as required by the Energy Community</p>	<p>At least one Service Contract:</p> <p>Upgrade of the legal and regulatory</p>	<p>€2.5 million</p>	<p>AEE has increased the number of staff in order to be able to absorb the assistance.</p>

Treaty;

Activity 2:

2.1 Support MED and KEEA on preparing implementation reports for EE and RES including development of an interagency database for the purpose of monitoring the implementation of the National Plan on RES;

2.2. Support the MTI on drafting a plan for deployment of biofuels and on implementing it;

2.3. Support MED on improving the long-term energy planning process as well as monitoring and reporting;

2.4. Support MED for identification, monitoring and implementation of standards and regulation related to the EE and RES

2.5. support on defining financial mechanisms for investments on EE;

2.6. Further build the institutional capacity for monitoring, evaluation and reporting in energy efficiency and renewable energy

2.7 Assist AEE on assessing the potential for EE in transport and industry sectors;

2.8 Assist AEE on setting up the bottom-up planning methodology and support the process of improving the energy efficiency data quality;

Activity 3:

3.1 Support all municipalities in the energy planning process and in defining financial plan/means for the implementation of the plans;

3.2 Training for the energy managers at municipalities on energy efficiency;

3.3 CO₂ emissions data gathering, processing and long-term sustainable energy planning based on the requirement of the National Emission Reduction Plan

3.4 Investigate possibilities and advice municipalities in joining the 'Covenant of Mayors' initiative and developing the Sustainable Energy Action Plan (SEAP)

Activity 4:

4.1. Study the potential of private sector participation and related job creation in the implementation of the energy efficiency national and municipal plans;

4.2 Support on the drafting and implementation of the legal/regulatory framework including establishing of ESCO market ;

4.3. Support on dialogue between central/local institutions with the private sector in the EE and RES;

framework (transposing the 3rd package).

Strengthening capacities for energy efficiency and renewable energy.

Municipalities have assigned sufficient resources required for the implementation of the project.

The central and local governments are committed to enhance their policies on energy efficiency and renewables.

ADDITIONAL DESCRIPTION

The implementation of this Action will require a strong involvement of different institutions therefore a close coordination has to be ensured at early stages of the implementation to ensure the achievement of results.

The main challenge in the implementation is meeting the deadline for adoption of new legislation that would transpose the 3rd energy package and the acquis on energy efficiency and renewable energy as set by the Energy Community. In addition, the lack of data and the poor quality of data hinders the capability of the Governmental institutions on accurate reporting to the Energy Community Secretariat.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

Direct responsible authorities in the process are:

- Ministry of Economic Development (MED) is responsible for preparing the national energy strategy and national policies for energy efficiency and renewables.
- Agency for Energy Efficiency (AEE) under the Ministry of Economic Development is responsible for implementation of the national plan on energy efficiency as well as for reporting on the implementation of the national targets.
- Energy Regulatory Office (ERO) is an independent body reporting to the Kosovo Assembly and is responsible to monitor the energy market development; to encourage energy efficiency at the market players; to ensure protection of customers including vulnerable costumers.
- Ministry of Local Government Administration (MLGA) and Association of Kosovo municipalities are responsible for improving the energy data quality and for ensuring energy efficiency planning at local levels as well as promoting renewable energy projects in their respective municipalities.
- Ministry of Trade and Industry (MTI) is responsible for ensuring the implementation of the legislation on biofuels in accordance with the Energy Community requirements;
- Ministry of Environment and Spatial Planning (MESP) is responsible for implementing the energy performance in buildings directive.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The Action will be implemented through technical assistance in two service contracts: one service contract will provide support on transposing the 3rd energy package with focus on energy efficiency and renewable energy, whereas the other service contract will support on planning and implementation of energy efficiency and renewable energy. The implementation duration of the action is 30 months.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

INDICATOR MEASUREMENT

Indicator	Description	Baseline (2014)	Last available (2014)	Milestone 2017	Target 2020	Source of information
Reduction of Greenhouse Gas (GHG) <ul style="list-style-type: none"> • CO2 reduction by approx. 1 million ton by 2018; • Other pollutants reduction by approx. 30% by 2018 	Meeting Energy Community Treaty requirements related to environmental acquis (Large Combustion Plants Directive and Industrial Emission Directive).	CO2 7,1 million ton/year Other pollutants (SOx, NOx, Dust) 38000 ton/year	CO2 7,1 million ton/year Other pollutants (SOx, NOx, Dust) 38000 ton/year	6,1 million ton/year 27,000 ton/year	Approx. 7,6 million ton/year Approx. 22,000 ton/year (including new power plant)	2 nd National Energy Efficiency Action Plan. Energy Community implementation report for Kosovo. Note: The CO2 emissions forecast for 2020 is higher than in 2017 because of the new coal fired power plant expected to be operational by 2020 upon decommissioning of Kosovo A units, whereas other pollutants from the new power plant will be significantly lower due to compliance with Industrial Emissions Directive.
3% increase of energy efficiency	Achievement of the national energy efficiency targets	n/a	2014	Total energy consumption 1409 toe	Not defined yet	Energy Community report. National reports deriving from the monitoring, evaluation and verification mechanism.
At least one ESCO established	Development of the market for energy services by establishing at least one energy services company	n/a	none	At least one ESCO	Not defined	Energy Community report.
At least 25 municipal officers are trained on energy	Training on energy management will be provided for all	n/a	So far 14 officers are	At least 38 officers	Not defined	Municipal energy efficiency plans are prepared.

management	municipalities that will be involved in the preparation of municipal energy efficiency plans.		trained			The AEE report son implementation of the national energy efficiency plan.
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5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The project will enhance the efficient use of energy at local level which includes environmental impact and an assessment of greenhouse gas emissions as a result of energy activities. Energy efficiency planning at local level entails a thorough assessment of environmental impact of each energy efficiency measure to be implemented in the buildings stock, transport, services sector etc. In addition the project will support the implementation of the national target of min 25% the share of renewable energy in the final energy consumption which will add to the energy mix in Kosovo and thus reduce the need for future coal based power generation.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

The civil society organisations in Kosovo are very actively promoting the efficient use of energy as well the renewable energy potential as an alternative in energy generation. The CSOs will be closely involved during the process of designing policies and action plans for energy efficiency and RES and will also be involved in the consultation process for all project outputs.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

The project will contribute to enhancement of policies to improve the living comfort for people by improving the energy efficiency at households, schools, public institutions etc. the implementation of the 3rd energy package will enable better regulation for consumer protection with due consideration to gender mainstreaming.

MINORITIES AND VULNERABLE GROUPS

The project will contribute to better energy supply and improved living comfort conditions for all population including minority areas and vulnerable groups. The project will support on design of policies and financial mechanisms that take into account the affordability of different social categories including the consumers reliant on social assistance and minority areas.

6. SUSTAINABILITY

The project aims at strengthening the institutional capacities at central and local levels on energy efficiency and RES planning and implementation. The project activities will be implemented by the project team of experts in close cooperation with the beneficiary staff to maximise the transfer of know-how to the beneficiary institutions. Other stakeholders such as other donors and financing institutions will also be involved in order to ensure complementarity and synergy between different players in the energy efficiency and RES sector.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action.

The implementation of the communication activities shall be the responsibility of the beneficiary, and shall be funded from the amounts allocated to the Action.

The European Union Office in Kosovo has developed clear visibility guidelines and ensures that all projects which are implemented in Kosovo are fully in line with these guidelines. Project visibility is also clearly stipulated in all contractual documents whereby the contractors/implementers are obliged to adhere to all EU visibility requirements.

A detailed visibility plan will be designed and agreed upon with the European Union at the beginning of the Action. All the deliverables of the action will be communicated to the public highlighting the financial support during progress of actions, project development, and communication of results and best practices developed.

The Action will have its webpage and its technical deliverables will be disseminated through promotional materials (leaflets, brochures) to all stakeholders including CSOs. The beneficiary institutions will provide updates on project developments through their websites to all citizens

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the guidelines developed by the EU Office in Kosovo, as well as the provisions outlined in the Communication and Visibility Manual for EU External actions.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives and the accession process. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary and the contractors to keep the EU Office fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.