

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: AB6334

Project Name	Kosovo Power Project
Region	EUROPE AND CENTRAL ASIA
Sector	Power (100%)
Project ID	P118287
Borrower(s)	Project company TBD via competitive tender
Implementing Agency	
	Ministry of Economic Development (MED) Pristina Kosovo Tel: (381-38) 2002-1301 Fax: (381-38) 2002-1302 Kosovo
Environment Category	[X] A [] B [] C [] FI [] TBD (to be determined)
Date PID Prepared	July 27, 2011
Estimated Date of Appraisal Authorization	September 1, 2012
Estimated Date of Board Approval	November 17, 2012

The Government of Kosovo has requested that the World Bank provide support in the form of a partial risk guarantee from IDA for a proposed independent power project that would use domestic lignite coal. To review compliance of the proposed project with the criteria for supporting coal-fired power generation projects in the World Bank's Strategic Framework for Development and Climate Change (SFDCC), the Bank has appointed an External Expert Panel. The Bank's decision whether or not to proceed with any financial support to the Kosovo Power Project is dependent on the outcome of the SFDCC External Expert Panel review.

1. Key development issues and rationale for Bank involvement

Kosovo, one of the youngest and poorest countries in Europe, still faces economic hardships arising from its post-conflict legacy. With an unemployment rate of 45% nationwide and 70% among Kosovars aged 15-25, and the highest child and infant mortality rates in South East Europe, it is urgently seeking accelerated infrastructure development. The poor quality of the electricity supply is a major constraint to Kosovo's business development prospects.¹ The social and political costs of high unemployment among a young population, caused in part by an unreliable and inadequate power supply and fiscally burdensome power sector, could be very high for Kosovo and the region.

¹ See *BEEPS At-A-Glance 2008, Kosovo*, The World Bank Group, January 2010.

The Government recognizes the urgent need for a functioning electricity system and is implementing the [*Energy Strategy of Kosovo*](#) (2009-2018) (issued by the Government in September 2009) that shifts its approach to energy generation, distribution, and management. The Strategy aims to: (a) reduce the sector's carbon dioxide emissions per megawatt-hour produced, (b) significantly reduce local air pollution, (c) manage end-user demand and create an enabling environment for energy efficiency by instilling payment discipline, and (d) facilitate private sector investment in generation as well as in other sectors of the economy.

The objective of any prospective World Bank financial support to the proposed Kosovo Power Project would be to reduce the environmental impact of electricity generation and strengthen security of supply in Kosovo in an economically efficient, environmentally sustainable, and a carbon-neutral manner.

The decommissioning of the Kosovo A Power Station is planned before the end of 2017 in compliance with the Energy Community Treaty to which Kosovo is a signatory. This will cause a considerable supply shortfall and new generation would be required to address the potential shortage of supply as well as meet rising demand. The Government has conducted a number of studies to address existing and future shortages of the baseload capacity. From all available energy resources in Kosovo (including imports from the SEE region), Kosovo's lignite is currently the least-cost option even after accounting for externalities. Hydro resources with limited energy generation are ranked second with an estimated potential of about 365 MW, of which most would be peaking capacity from the potential Zhur site and seasonal capacity from a combination of small hydro facilities. The Government has already explored options for solar energy as a source for water heating for which there have been several demonstration projects. To date, the full wind potential has not been studied; however, there are initial indications of some limited potential. A wind atlas and more detailed assessment are needed and would be commissioned. Kosovo has no indigenous natural gas or natural gas pipeline, although gas-fired units could be considered in the future if and when reliable gas sources are available. Liquid fuels could be brought in by truck for power generation, but the cost of such generation would not be competitive. The Bank is undertaking a review of the least-cost supply options assessment and this report will be made available for the SFDCC External Panel of Experts.

The proposed Kosovo Power Project is envisaged to replace the Kosovo A Power Station with a rehabilitated existing power plant (Kosovo B) and a new power plant as well as the development of a mine to meet the fuel needs. As noted above, the determination of any World Bank financial support for the proposed Kosovo Power Project is linked to the forthcoming SFDCC External Expert Panel review.

The latest [*Kosovo Interim Strategy Note*](#) for FY10-FY11 (December 28, 2009; Report No. 49872-XK) recognized the importance of infrastructure sector development, in particular energy, as one of the main pillars for improving the business climate and developing new sources of growth. The World Bank has been active in Kosovo's energy sector through the Lignite Power Technical Assistance Project (P097635), which is helping the Government strengthen policy, legal, and regulatory frameworks to attract private investment in the energy sector.

2. Contact Point

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