



RESTRUCTURING PAPER  
ON A  
PROPOSED PROJECT RESTRUCTURING  
OF  
KOSOVO WATER SECURITY AND CANAL PROTECTION PROJECT  
APPROVED ON SEPTEMBER 30, 2016  
TO  
REPUBLIC OF KOSOVO  
February 22, 2022  
WATER GLOBAL PRACTICE  
EUROPE AND CENTRAL ASIA

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## ABBREVIATIONS AND ACRONYMS

Fostering and Levering Opportunities for Water Security	FLAWS
Iber-Lepenc Canal	ILC
Ministry of Finance, Labor and Transfers	MoFLT
Project Development Objective	PDO
Supervisory Control and Data Acquisition	SCADA
Water Security and Canal Protection	WSCP



**BASIC DATA**

**Product Information**

Project ID P133829	Financing Instrument Investment Project Financing
Original EA Category Partial Assessment (B)	Current EA Category Partial Assessment (B)
Approval Date 30-Sep-2016	Current Closing Date 30-Apr-2022

**Organizations**

Borrower Republic of Kosovo	Responsible Agency Hydro Economic Iber-Lepenc JSC, Ministry of Economy
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**Project Development Objective (PDO)**

Original PDO

The objective of the Project is to contribute to restoring the Iber Canal to its original capacity to improve water resource management for various canal water users in Central Kosovo.

**Summary Status of Financing (US\$, Millions)**

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-59020	30-Sep-2016	27-Jan-2017	26-Jun-2017	30-Apr-2022	24.50	5.38	19.65

**Policy Waiver(s)**

Does this restructuring trigger the need for any policy waiver(s)?

No



**The World Bank**

Kosovo Water Security and Canal Protection Project (P133829)

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## PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. This Restructuring Paper proposes to: (i) extend the project closing date by 18 months, (ii) cancel the construction of the Mihaliqi reservoir and the remaining allocated funds, (iii) revise the results framework to reflect changes in the scope of activities to ensure the achievement of PDO, (iv) revise the implementation schedule and disbursement estimates, and (v) adjust project components and costs.

### Project Status

2. The project is financed by an IDA credit of \$24.54 million which will benefit utilities, industries and farmers within the Iber-Lepenc (IL) canal basin. This is the first restructuring of the project, which responds to the formal request received from the Ministry of Finance, Labor and Transfers (MoFLT) on October 26, 2021 to extend the project closing date by 18 months and remove the construction of the Mihaliqi reservoir. A follow up request was sent on February 2, 2022 to cancel the remaining funds associated with Mihaliqi reservoir construction.
3. The project was approved by the Board on September 30, 2016. **The Project Development Objective** is to contribute to restoring the Iber Canal to its original capacity to improve water resource management for various canal water users in Central Kosovo. Central Kosovo, including the capital Pristina, depends almost entirely on the IL Canal to meet its water needs. The canal is a multipurpose water conveyance system, supplying water for energy production, mining, industrial, agricultural, and household uses. There are limited secondary sources of water for the canal users so that an interruption of service would have a significant impact on the overall economy of Kosovo. It is the single source of drinking water supply to the populations of central Kosovo.
4. The project is currently scheduled to close on April 30, 2022. As of February 18, 2022, 21.49% (US\$ 5.38 million) of the total credit amount of US\$ 24.54 million has been disbursed and commitment is at 57.7% (US\$ 14.2 million). While the installation of the Supervisory Control and Data Acquisition (SCADA) system and rehabilitation of the canal has picked up after several months of delay, the rehabilitation of the canal is progressing at a slower pace. The construction of Mihaliqi reservoir will not be completed before the project closing date and faced considerable financing gap.
5. Progress towards achievement of the PDO is rated as “Moderately Unsatisfactory”. This was downgraded in the latest Implementation Status and Results Report (ISR) since the PDO outcome indicator related to construction of the Mihailiq reservoir cannot be achieved as the works have been substantially delayed and the government requested its construction be cancelled from the project activities. Implementation Progress has been rated “Moderately Unsatisfactory” since April 2019 due to significant delays in procurement and implementation of key project activities.
6. With the cancellation of the construction of the Mihailiq reservoir and the adjustments to the project’s Result Framework, it is expected that the PDO remains achievable. The **first** part of the PDO “restoring the Iber Canal to its original capacity for various canal water users in Central Kosovo” will be achieved through physical works in rehabilitation of the canal under Component 1 (currently under implementation). The construction of the Mihaliqi reservoir would have contributed to improving the reliability of bulk water supply. However, it does not impact the PDO which focuses on the ‘restoration of the canal capacity’. Accordingly, the original PDO indicator and target for the canal-flow capacity has been retained. The restoration works made slow progress mainly due to the COVID 19 pandemic, and has picked up recently. The contractor has prepared a new activity plan which indicates that all works shall be completed before the new project closing date. This plan has been reviewed by the technical assistance consultant and the Bank, and has been adopted by the Recipient. The **second** part of the PDO , i.e. “... to improve



water resources management for various canal water users in central Kosovo” will be achieved through equipment installation and civil works planned under Component 2 which protects canal against various pollution sources and improves the operational efficiency of the Gozivoda-Iber system. Implementation progress of this component is almost completed hence the achievement of this part of the PDO will also not be impacted by the cancellation of the Mihaliqi construction. The original PDO indicator associated with the construction of the Mihaliqi reservoir will be removed. The intermediate result indicator “Improved canal water quality with regard to turbidity (NTU percentage reduction)” will replace the original PDO indicator to measure the improvement of water resources management.

7. Below is a more detailed description of project activities and their current status:
8. **Component 1:** Infrastructure Rehabilitation and Modernization (Categories: Civil Works; Euro 10.5 million), which involves re-establishing the transit capacity of the Iber Canal, enabling the closure of the canal for maintenance (through developing a buffer reservoir at Mihaliqi), strengthening the canal's structural safety against extreme events, and enhancing the Gazivoda dam safety. The specific activities involved are:
  - Carrying out small works for Gazivoda dam safety, and canal repair and increased stability for protection against renewed physical damage from landslides and unstable soils, and
  - Technical assistance was planned for conducting feasibility studies for construction of the new balancing reservoir in Mihaliqi and developing the final design and preparing tender dossier for procurement of the construction of Mihaliqi reservoir. Works contract was planned for constructing a new balancing and emergency reservoir along the canal in the Mihaliqi area (in Vushtrri municipality) for short-term water storage to bridge peak water demand and to enable continuation of water supply to the users during the temporary outages for canal repair, or during extreme events that disrupt the canal flow. Monitoring the construction works during implementation was also going to be part of the same technical assistance
9. The contract for the Main Canal Rehabilitation Works was signed on May 22, 2020 and works cannot be completed by the current closing date of the project due to substantial implementation delays. The implementation delays are mainly due to the restrictions induced by the COVID-19 pandemic and slow commencement of works by the Contractor. The physical works on canal rehabilitation have started on September 9, 2020. The physical works on canal rehabilitation have started on September 9, 2020 and works are progressing at a slower pace than anticipated. The current physical progress of works completion rate is at 17%. The Contractor has submitted a new work schedule that shows physical work progress plans for the coming months. This revised schedule was reviewed and accepted by the Recipient. According to the revised schedule, all planned works shall be completed by October 2023.
10. There were significant delays in the contracting of the new balancing and emergency reservoir along the canal at Mihaliqi. It is now confirmed that the construction of this reservoir cannot be completed within the current official closing date nor the extended project closing date. In addition, according to the completed design work, there is significant financing gap to undertake the construction work. The government of RoK communicated to the Bank that there is no financial resources to close identified financing gap and they no longer consider Mihaliqi reservoir construction a priority. Thus, the government of RoK decided to cancel the construction of Mihaliqi reservoir and the associated funding allocation.
11. **Component 2:** Water Resources Protection and Management (Categories: Civil Works and Equipment; Euro 9.8 million): Implement water resources protection and management measures to increase the Gazivoda-Iber system



operational efficiency and to protect canal ambient water quality, including:

- Carrying out works (such as selective fencing and covering of certain canal sections) to protect the canal against renewed pollution, accidental pollution and other threats and man-made disruptions. These activities are well underway.
- Installing equipment for better management of gates and regulation of water flows, as well as for water monitoring (for the main Iber Canal and for its secondary delivery system), including provisions for remote monitoring and controlling of related structures. This is achieved by establishing SCADA system.

12. Activities related to the establishment of the SCADA system were generally progressing well despite the works interruption from mid-March to July, 2020 due to COVID-19 pandemic. Works have resumed in August, 2020 and currently over 99% of the contract has been implemented and over 95% of the contract value has been disbursed. The contractor is expected to finalize all works and complete handover by end of April 2022.

13. On the **fiduciary** aspect, the performance rating for procurement activities has been revised down to moderately satisfactory due to the reported significant delays in procurement activity. The latest Interim Financial Reports prepared and submitted were acceptable and were received on time. There are no overdue audit reports. The project has adequate funds flow arrangements. No issues are reported by the auditor on the project financial statements. On the safeguard side the situation remains acceptable. The team has organized community consultations and awareness raising in four different municipalities ahead of publication of the tender for canal works, in order to keep the community well informed. No physical displacement is anticipated under this project.

**Table 1. Summary of Key Remaining Activities and Their Expected Completion Dates**

Key activities	Current Status	Current Completion Date	Expected Completion Date
Main Canal Rehabilitation Works	Contract signed, currently 17% of works completed and 12% of works certified and paid	October 31, 2023	
Establishment of the SCADA system	98% of contract implemented	April 30, 2022	
Preparation and construction of Mihaliqi Reservoir	Technical documentation completed; ESIA and RAP completed. Tendering completed and bids are under evaluation.	The government requested cancelation of the construction of the reservoir as well as the remaining allocated funding.	

14. **Rationale for Extension** . The proposed closing date extension by eighteen months and revision of scope of works will enhance the prospects of achieving the PDO. The rehabilitation works for main canal (contract signed on June 2, 2020) is significantly delayed (i.e., while more than 50% of the contract time has elapsed, the work completion rate is at only 17%) and cannot be completed by current project closing date due to a host of reasons including: (i) the effect of Covid19 pandemic, which forced the contractor to withdraw machinery and staff from site, (ii) unfavorable weather conditions such as long raining periods in fall and an early winter, and (iii) failure of the contractor to expeditiously commence works by bringing the required heavy equipment and completing earth



works. Thus, the government has asked for 18-months extension of project's closing date. With a new work schedule, closer supervision from the Recipient and the supervising consultant, the team believes that the contract can be completed within this time extension. The new work schedule, which was reviewed by the Supervision Engineer and accepted by the Recipient specifies completion of all the work in aqueducts and retaining walls within six months and completion of canal works within 14 months. The revised schedule allows for potential two to three months delay in construction work due to winter season, which is permitted by local legislation.

15. **Rationale for cancellation of the construction of Mihaliqi reservoir.** As stated earlier, the contracting of the preparation for Mihaliqi reservoir technical documentation faced substantial delays which pushed the completion of reservoir construction beyond current project closing date. In addition, the completed tendering documentation indicated that additional financial resources are needed beyond the original cost estimation at appraisal. The government communicated to the Bank that they no longer consider the construction of the reservoir a priority and can not find additional resources to close the financing gap. Thus, on February 2, 2022, the Ministry of Finance submitted a request to drop the the construction of Mihaliqi from Component 1 and cancel the associated funds for construction.

## I. DESCRIPTION OF PROPOSED CHANGES

16. The following changes are proposed to circumvent the problem of financing gap and the shortage of time to effectively complete the project:
17. **Components and Cost.** Component 1(b) will be revised to: (i) remove the activity related to the construction of the Mihaliqi reservoir; and (ii) include only the technical assistance for the preparation of the technical documentation of the Mihaliqi reservoir. The withdrawal table will be revised accordingly. The remaining undisbursed balance of EUR 6,637,573.44 shall be cancelled from the total initial allocation of EUR 7 million as part of the funding has been spent on the preparation of reservoir technical documentation.
18. **Results Framework.** Revision of the Results Framework to reflect the adjustments made to the scope of activities under Mihaliqi reservoir component of the project. The PDO level indicator related to Mihaliqi reservoir construction, "*Maximum continuous duration in days for closing the canal after constructing new water storage for preventative maintenance or for repair amid having an extreme event*" is dropped. The Intermediate Results Indicator associated with Mihaliqi reservoir "*Improved canal water quality with regard to turbidity*" replaces the dropped original PDO indicator and is adjusted to reflect the updated scope of activities. Namely, the target for this indicator will be adjusted to 50% instead of 100% because without the reservoir the Recipient is not able to close the canal and release water from reservoir in times of high turbidity. The 50% improvement is expected to be achieved through the canal rehabilitation work.
19. **Disbursement estimates** are revised to allow for alignment with the adjusted scope of activities. There is no reallocation between categories.
20. **Extension of project closing date.** The project closing date will be extended by 18 months from April 30, 2022 to October 31, 2023, to allow for completion of ongoing project activities that remain to be financed by the project.





## II. SUMMARY OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Loan Closing Date(s)	✓	
Cancellations Proposed	✓	
Reallocation between Disbursement Categories	✓	
Disbursement Estimates	✓	
Implementation Schedule	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
PBCs		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓
Financial Management		✓
Procurement		✓
Other Change(s)		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

## IV. DETAILED CHANGE(S)



**COMPONENTS**

Current Component Name	Current Cost (US\$M)	Action	Proposed Component Name	Proposed Cost (US\$M)
Component 1: Infrastructure Rehabilitation and Modernization	11.71	No Change	Component 1: Infrastructure Rehabilitation and Modernization	11.71
Component 2: Water Resources Protection and Management	10.93	Revised	Component 2: Water Resources Protection and Management	3.27
Component 3: Project Management, Coordination, Monitoring and Evaluation	1.90	No Change	Component 3: Project Management, Coordination, Monitoring and Evaluation	1.90
<b>TOTAL</b>	<b>24.54</b>			<b>16.88</b>

**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-59020	Effective	30-Apr-2022		31-Oct-2023	29-Feb-2024

**CANCELLATIONS**

Ln/Cr/Tf	Status	Currency	Current Amount	Cancellation Amount	Value Date of Cancellation	New Amount	Reason for Cancellation
IDA-59020-001	Disbursing&Repaying	EUR	22,000,000.00	6,637,573.44	22-Dec-2021	15,362,426.56	BORROWER'S REQUEST FOR COUNTRY REASONS

**REALLOCATION BETWEEN DISBURSEMENT CATEGORIES**

Current Allocation	Actuals + Committed	Proposed Allocation	Financing % (Type Total)	
			Current	Proposed



IDA-59020-001 | Currency: EUR

iLap Category Sequence No: 1	Current Expenditure Category: G, W, non-CS, CS, IOC Part 1(b)			
7,000,000.00	362,426.56	362,426.56	100.00	100.00
iLap Category Sequence No: 2	Current Expenditure Category: G,W,non-CS,CS all oth.parts, IOC,TR			
15,000,000.00	4,163,569.52	15,000,000.00	100.00	100.00
<b>Total</b>	<b>22,000,000.00</b>	<b>4,525,996.08</b>	<b>15,362,426.56</b>	

**DISBURSEMENT ESTIMATES**

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2017	0.00	0.00
2018	611,850.00	611,850.00
2019	3,453,700.02	226,480.00
2020	5,798,000.01	1,968,687.13
2021	6,690,000.00	1,920,782.87
2022	7,976,450.05	6,500,000.00
2023	0.00	5,000,000.00



Results framework

COUNTRY: Kosovo

Kosovo Water Security and Canal Protection Project

Project Development Objectives(s)

The objective of the Project is to contribute to restoring the Iber Canal to its original capacity to improve water resource management for various canal water users in Central Kosovo.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<b>PDO</b>							
Increased canal-flow capacity, averaged over the bottleneck points along the canal. (m3/s increment) (Number)		0.00	0.00	0.00	0.00	1.00	1.50
Maximum continuous duration in days for closing the canal after constructing new water storage for preventative maintenance or for repair amid having an extreme event (number of days) (Days)		0.00	0.00	0.00	0.00	8.00	8.00
<b>Action: This indicator has been Marked for Deletion</b>							
Improved canal water quality with regard to turbidity (NTU percentage reduction) (Percentage)		0.00					50.00



Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<i>Action: This indicator is New</i>							

**Intermediate Results Indicators by Components**

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
<b>Component 1: Infrastructure Rehabilitation and Modernization</b>							
Length of the canal sections with improved lining (Kilometers)		0.00	0.00	4.00	9.00	9.00	9.00
Number of government staff trained efficiently on using SCADA (Number)		0.00	0.00	0.00	0.00	0.00	6.00
<b>Component 2: Water Resources Protection and Management</b>							
The Gazivoda dam safety plans prepared and adopted (Yes/No)		No	No	Yes	Yes	Yes	Yes
Improved canal water quality with regard to turbidity (NTU percentage reduction) (Percentage)		0.00	0.00	0.00	0.00	50.00	100.00
<i>Action: This indicator has been Marked for Deletion</i>							
<b>Component 3: Project Management, Coordination, Monitoring and Evaluation</b>							



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Kosovo Water Security and Canal Protection Project (P133829)

Indicator Name	PBC	Baseline	Intermediate Targets				End Target
			1	2	3	4	
Direct project beneficiaries (Number)		0.00	0.00	100,000.00	200,000.00	400,000.00	500,000.00
Female beneficiaries (Percentage)		0.00	50.00	50.00	50.00	50.00	50.00
Grievances responded and/or resolved within stipulated service standards for response (Percentage)		0.00	50.00	100.00	100.00	100.00	100.00



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