

1. Project Data:		Date Posted : 04/16/2009	
PROJ ID : P088865		Appraisal	Actual
<b>Project Name :</b> Energy Sector Technical Assistance 3 Project	<b>Project Costs (US\$M):</b>	2.50	2.47
<b>Country:</b> Kosovo	<b>Loan/Credit (US\$M):</b>	2.50	2.45
<b>Sector Board :</b> EMT	<b>Cofinancing (US\$M):</b>		
<b>Sector(s):</b> Power (50%) Central government administration (42%) Mining and other extractive (8%)			
<b>Theme(s):</b> Regional integration (33% - P) Participation and civic engagement (17% - S) Small and medium enterprise support (17% - S) Infrastructure services for private sector development (17% - S) Corporate governance (16% - S)			
<b>L/C Number:</b> CH153			
	<b>Board Approval Date :</b>		03/25/2005
<b>Partners involved :</b>	<b>Closing Date :</b>	06/30/2008	06/30/2008
<b>Evaluator :</b>	<b>Panel Reviewer :</b>	<b>Group Manager :</b>	<b>Group:</b>
Ramachandra Jammi	Robert Mark Lacey	Monika Huppi	IEGSG

## 2. Project Objectives and Components:

### a. Objectives:

(i) Support Kosovo's integration with the regional energy market through assistance with implementation of its immediate obligations under the Athens Memorandum (*a commitment by some nations of Europe, including those of the European Union, to undertake greater cooperation in energy related matters*), namely the establishment of an independent Transmission and System Operator (TSO), development of a Grid Code, development of transmission and retail tariffs including subsidy mechanism, and institutional strengthening to participate in the market, *and* (ii) Develop a policy framework, guidelines, and institutional capacity for the utilization of Kosovo's mineral resources. The objectives are stated identically in the Credit Agreement and in the Project Appraisal Document (PAD)

### b. Were the project objectives/key associated outcome targets revised during implementation?

No

### c. Components (or Key Conditions in the case of DPLs, as appropriate):

**Component 1:** Energy Sector (Cost at Appraisal: US\$1.4M; At Completion: US\$1.5M)

**Subcomponent 1: Transmission and System Operator (TSO):** This included the development of a Grid Code for the transmission system, drafting of a transmission policy framework clearly defining the role of the TSO within the Kosovo electricity industry and the regional Energy Community of South Eastern Europe (ECSEE) market, and development of the TSO organizational design and structure. Contract 1 was managed by the Kosovo Transmission System Market Operator (KOSTT) for assistance in the establishment of KOSTT.

**Subcomponent 2: Tariff Framework:** Development of electricity transmission and retail tariffs including a lifeline tariff consistent with European Union (EU) Directives, and improved targeting of subsidy for the poor. Contract 2 was managed by the Energy Regulatory Office (ERO) for the development of new unbundled transmission and retail tariffs.

**Component 2: Mining Sector** (Cost at Appraisal: US\$0.95M; At Completion: US\$0.94M)

**Subcomponent 1: Mining Sector Strategy:** Development of a Mining Sector Strategy and building capacity within Provisional Institutions of Self-Government (PISG) to implement the plan for both large and small mines. Managed by Ministry of energy and Mining (MEM), Contract 3 related to development of a mining sector policy and building capacity within PISG to implement the plan for both large and small mines.

**Subcomponent 2: Mining Sector Community Participation and Development Plan:** Development of a policy framework and detailed guidelines for communication, participation, and preparation of development plans for communities that may be affected by future mining projects. Managed by MEM, Contract 4 related to development of a policy framework and detailed guidelines for communication, participation, and preparation of development plans for communities that may be affected by future mining projects.

**Subcomponent 3: Mining Sector SME Capacity Development:** Technical assistance to small scale mining operations (SME) to improve their financial, operational, and environmental performance. Managed by Independent commission for Mines and Minerals (ICMM), Contract 5 related to technical assistance to small scale mining operations (SME) to improve their financial, operational, and environmental performance.

#### **d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:**

Project cost (including audit fees etc.) was marginally lower at US\$2.47M compared to US\$2.50M planned at appraisal. The Borrower contributed US\$0.02M, though none was planned at appraisal. In October 2007, an amount of SDR 65,000 (approx. US\$95,000) from Category 3, 'Unallocated' was reallocated to Category 1 'Consultants Services Including Audit Services' to cover the additional cost for extending Contract 1 "Establishment of a TSO in Kosovo". Disbursement was slow initially, mainly due to a lack of familiarity with Bank procedures on the part of the newly created MEM, and though the pace picked up towards the end of the project, SDR 93,373 (approx. US\$135,000) was cancelled as of October 31, 2008.

### **3. Relevance of Objectives & Design:**

**Objectives:** This project (Energy Sector Technical Assistance 3 or ESTAP III) followed the implementation of ESTAP I (FY01-FY03) and ESTAP II (FY03-FY05) each of which had outcomes rated satisfactory by IEG. ESTAP I helped develop long term plans for the reconstruction, rehabilitation and restructuring of the power, lignite, district heating, petroleum and natural gas sectors. ESTAP II helped develop capacity for a commercially sustainable exchange of power with the regional system, and optimizing the utilization of the existing generation capacity through economic dispatch; and developing a framework for attracting private sector investment in the energy sector.

The project's objectives built upon those of the previous projects, and were timely and appropriate to the needs of the country's energy and mining sectors. They were also appropriate in a fast-changing political and institutional setting (At appraisal, the Ministry of Energy and Mining (MEM), the Energy Regulatory Office (ERO) and the Independent Commission for Mines and Minerals (ICMM) were all relatively new institutions and were undergoing early professional development of staff and programs). The project's objectives are also consistent with the IDA's Interim Strategy Note (ISN) for Kosovo for the Period FY08, which is founded on the two pillars of the previous ISN: (i) developing new sources and a higher quality of economic growth; and (ii) ensuring macroeconomic stability through sound fiscal policy and public finance management. The ISN further states that "The energy and mining sectors are key to future growth in Kosovo". Overall, relevance of objectives is rated *high*.

**Design:** Project design focused on critical institutional and regulatory gaps in Kosovo's energy sector that remained after ESTAP I and II. The project design was consistent with Kosovo's development priorities, in that key regulatory functions and agencies needed to improve their capacity. The Bank assessed the project's risks and benefits, and facilitated the development of a Project Steering Committee to address the concern that many new agencies had not previously worked together. Extensive participation of key stakeholders and other donors was encouraged.

Relevance of project design is rated *high*.

### **4. Achievement of Objectives (Efficacy):**

**Objective 1:** Supporting Kosovo's integration with the regional energy market through assistance for implementation of its immediate obligations under the Athens Memorandum. *Highly Achieved*.

KOSTT was established as an independent TSO in December, 2005. The Grid Code and Metering Code was prepared by KOSTT and approved by the ERO in January 2007, effectively establishing the technical requirements

for the connection to and use of Kosovo's transmission system in a non-discriminatory manner by all market participants, and laying the basis for integrating and harmonizing its operation with the South East Europe (SEE) regional electricity market.

ERO issued new unbundled transmission and retail tariffs for Kosovo in April 2007. The new retail tariffs include a three-block lifeline tariff for household consumers to support an affordable amount of basic electricity needs including space heating, and at the same time discouraging excessive electricity consumption. In addition to the block lifeline tariff, the government social programs include a direct subsidy, through (Korporata Enerjetike e Kosoves (KEK), to vulnerable groups (a total of more than 30,000 electricity consumers) for portions of their electricity consumption.

**Objective 2:** Developing a policy framework and institutional capacity for the utilization of Kosovo's mining resources. *Substantially Achieved.*

The draft sector strategy has been finalized and adopted for broader public consultation. It has been put to use in managing mineral resources of Kosovo by informing: (a) the Lignite Power Technical Assistance Project (LPTAP)/ Strategic Environmental & Social Assessment and (b) ongoing dialogue regarding commercialization of the Trepca mines. The sector strategy is being used as the basis for the formulation of the new Mining Law which is currently under Parliamentary review; once formally adopted, it will be published, made publicly available, and used as the basis for managing Kosovo's mining resources.

The Mining Sector Community Participation and Development Plan was prepared and helped in moving the government towards a consultative process in (i) preparing the LPTAP Strategic Environmental and Social Assessment (SESA) and (ii) preparing the Mining Sector Strategy.

The Independent Commission for Mines and Minerals (ICMM) reported that 85% of Small and Medium Enterprises (SMEs) in the Municipalities of Orahovac and Kline were in compliance for licensed construction materials, which demonstrates a general improvement of the construction minerals sector in this area. ICMM also reports that the training and capacity building program implemented by the project for selected quarry operators in the western part of Kosovo led to a revised approach that ICMM is implementing Kosovo-wide.

#### 5. Efficiency (not applicable to DPLs):

The Bank does not require a formal cost/benefit analysis for technical assistance projects, and none was carried out for this project. Given that the project completed its planned activities broadly within the projected cost and time-frame, efficiency is rated *substantial*.

**a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :**

	Rate Available?	Point Value	Coverage/Scope*
Appraisal		%	%
ICR estimate		%	%

\* Refers to percent of total project cost for which ERR/FRR was calculated.

#### 6. Outcome:

Based on *high* relevance, *substantial* efficacy and *substantial* efficiency, the project outcome is rated *satisfactory*.

**a. Outcome Rating :** Satisfactory

#### 7. Rationale for Risk to Development Outcome Rating:

At appraisal, risks that were identified included: inadequate capacity of the newly created institutions, i.e., MEM, the ERO, and KOSTT, to manage the project and absorb the full benefits of technical assistance; difficulty in coordination among the agencies that had to cooperate in efficient delivery of outputs by the consultants; inability to select competent consultants. The project dealt with these risks through intensive supervision; preparing clear terms of reference for the consultants; and creating a Project Steering Committee with representatives from each agency to coordinate activities. On the whole, none of the anticipated risks materialized to any significant extent.

Going forward, the ICR identifies a potential risk for a reversal of the current policies and decisions - particularly on mining strategy - by a new administration that may emerge from national elections that are expected to take place in 2009 or 2010. This risk is considered to be low because this project's outputs are being leveraged by the regulatory agencies and the government through the LPTAP that is now underway, with the important objective of attracting large scale investment into the mining and power sectors.

**a. Risk to Development Outcome Rating** : Negligible to Low

**8. Assessment of Bank Performance:**

Relevance of project objectives and design is rated *high* (see section 3) resulting in satisfactory quality at entry .

The ICR reports that there was a high turnover of Task Team Leaders (TTLs), but continuity was maintained in supervision through deploying the same energy specialist and mining specialist until all contracts were completed.

**a. Ensuring Quality -at-Entry:**Satisfactory

**b. Quality of Supervision** :Satisfactory

**c. Overall Bank Performance** :Satisfactory

**9. Assessment of Borrower Performance:**

The Government maintained its commitment to the project objectives during preparation and implementation, even under a complex political environment . It was responsive and proactive in following up on the recommendations of the studies produced as part of project activities . After MEM was created, coordination between agencies of UNMIK and PISG that were involved in project implementation improved significantly .

The implementing agency and related institutions (MEM, KOSTT, ERO, ICMM) gained capacity and confidence during the project. By being well organized and coordinating through the Project Steering Committee , the agencies were effective in dealing with procurement, disbursement, preparing progress reports, and in maintaining proper records for the project .

**a. Government Performance** :Satisfactory

**b. Implementing Agency Performance** :Satisfactory

**c. Overall Borrower Performance** :Satisfactory

**10. M&E Design, Implementation, & Utilization:**

Design, Utilization and Implementation: M&E design consisted of a set of output/intermediate outcome indicators that were appropriate for the scale and technical assistance nature of the project . The ICR reports that data was collected by MEM and other beneficiary agencies and was used for decision -making on project activities .

**a. M&E Quality Rating** : Substantial

**11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):**

**Safeguards:** The project was placed in Category C for Safeguards and did not trigger any safeguards policies, and no safeguards issues arose during implementation . In a larger context, a Mining Sector Community Participation and Development Plan was prepared and helped in moving the government towards a consultative process in preparing the LPTAP Strategic Environmental and Social Assessment (SESA).

**Fiduciary:** On-site supervision found the arrangements for financial management to be satisfactory and that adequate control procedures were in place . Procurement - mainly for consultant services - was carried out in accordance with the World Bank's guidelines. The sole audit that was carried out during the project did not include any major issues or recommendations.

<b>12. Ratings:</b>	<b>ICR</b>	<b>IEG Review</b>	<b>Reason for Disagreement /Comments</b>
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Risk to Development Outcome:</b>	Negligible to Low	Negligible to Low	

<b>Bank Performance :</b>	Satisfactory	Satisfactory	
<b>Borrower Performance :</b>	Satisfactory	Satisfactory	
<b>Quality of ICR :</b>		Satisfactory	

**NOTES:**

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate .

**13. Lessons:**

- When sectoral development is being attempted in an evolving political and institutional context,
- a. it is advantageous to maintain continuity and broad-based engagement of key consultants so that even with changes in the overall context, the developmental momentum is not lost;
  - b. flexibility should be provided so that project activities can be re-scheduled or revised to adjust to changing priorities.

**14. Assessment Recommended?**     Yes     No

**15. Comments on Quality of ICR:**

The ICR is written in a clear manner, providing relevant facts and evidence for its ratings . The lessons could have been sharper, and built on the experience of the two previous projects in the series .

**a. Quality of ICR Rating :** Satisfactory