

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 4 May 2022<sup>1</sup>

**KOSOVO**

**PRIZREN PUBLIC BUILDINGS ENERGY  
EFFICIENCY PROGRAMME**

*[Redacted in line with the EBRD's Access to Information Policy]*

*[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]*

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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## ABBREVIATIONS

DSCR	Debt Service Cover Ratio
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
EBRD	European Bank for Reconstruction and Development
EPBD	Energy Performance of Buildings Directive
EPC	Engineering, Procurement and Construction Contract
ESAP	Environmental and Social Action Plan
ESCO	Energy Service Company
EE	Energy Efficiency
EH&S	Environmental, Health and Safety
EIRR	Economic Internal Rate of Return
ESAP	Environmental and Social Action Plan
E&S	Environmental and Social
EUR	Euro
FDI	Foreign Direct Investment
GET	Green Economy Transition
GHC	Greenhouse Gas Emissions
GoK	Government of Kosovo
IFI	International Financial Institution
KEEF	Kosovo Energy Efficiency Fund
MEI	Municipal and Environmental Infrastructure
MDB	Multilateral Development Bank
MoEE	Ministry of Economy and Environment
MoF	Ministry of Finance
NPV	Net Present Value
NTS	Non-Technical Summary
OSR	Own Source Revenue
PIU	Project Implementation Unit
PP&R	Procurement Policies and Rules
PR	Performance Requirements
PSA	Project Support Agreement
REEP	Regional Energy Efficiency Programme for the Western Balkans
SEP	Stakeholder Engagement Plan
SPP	Stakeholder Participation Programme
SSF	Shareholder Special Fund
TC	Technical Cooperation
VAT	Value-Added Tax

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Kosovo for the benefit of the Municipality of Prizren, a municipality in Kosovo, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to Kosovo in the amount of up to EUR 5 million to co-finance energy efficiency (“EE”), structural and comfort measures in municipally-owned buildings, including kindergartens, schools, and primary healthcare centres in the Municipality of Prizren (the “Project”). The Project is expected to be co-financed with an investment grant in the amount of EUR 1 million from the EU Regional Energy Efficiency Programme (“**REEP**”) for the Western Balkans. The Project was previously Board approved on a non-sovereign basis but was not signed.

The Project will improve energy performance and environmental sustainability of the renovated buildings, improve damaged structures as well as their comfort level and quality, which is very important for buildings of this nature. Moreover, the Project will introduce new standards in the management of the municipally-owned buildings, including energy audits and preparation of energy performance certificates.

The expected transition impact of the Project is *Green Direct Track* as it introduces high quality, innovative EE technologies in buildings that will have a strong demonstration effect and support the “renovation wave” in buildings across the country and the region.

Post-signing TC support for this operation is expected to be provided from international donors for project implementation support.

I am satisfied that the operation is consistent with the Green Economy Transition (“GET”) Approach 2021-2025, the Bank’s Strategy for Kosovo and with the Agreement Establishing the Bank.

I recommend that the Board approve, on a no-objection basis, the proposed loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

<b>KOSOVO - PRIZREN PUBLIC BUILDINGS ENERGY EFFICIENCY PROJECT - DTM 51898</b>	
<b>Transaction / Board Decision</b>	Board approval <sup>2</sup> on a no-objection basis is sought for a sovereign loan of up to EUR 5 million in favour of Kosovo (the “ <b>Borrower</b> ”), for the benefit of the Municipality of Prizren, a municipality in Kosovo. The loan will co-finance energy efficiency (“ <b>EE</b> ”), structural and comfort measures in municipally-owned buildings, including kindergartens, schools, and primary healthcare centres in the city (the “ <b>Project</b> ”). Approval is also sought for an investment grant co-financing in the amount of EUR 1 million, which will be sought from the EU Regional Energy Efficiency Programme (“ <b>REEP</b> ”) for the Western Balkans.
<b>Client</b>	The client and the beneficiary of the Project is the Municipality of Prizren, (the “ <b>Client</b> ”, the “ <b>Municipality</b> ”, the “ <b>City</b> ”, or “ <b>Prizren</b> ”). Prizren is the second largest municipality in Kosovo with a population of approximately 180 thousand. In 2020, Prizren had a budget of EUR 51 million.
<b>Main Elements of the Proposal</b>	<p><b>Transition impact</b></p> <ul style="list-style-type: none"> <li>• <b>Primary Quality – Green / GET Direct Track:</b> The Project will introduce high quality, innovative EE technologies in buildings, resulting in [REDACTED] avoided CO<sub>2</sub> emissions annually. The Project will have a strong demonstration effect and will support objectives of the EU “renovation wave” in buildings across the country and the region.</li> </ul> <p><b>Additionality</b></p> <p><b>Financing Structure:</b> Commercial long-term financing for public infrastructure investments is not yet available in Kosovo. Moreover, Kosovo has no access to international capital markets and is limited to borrowing from IFIs/MDBs.</p> <p><b>Risk Mitigation:</b> EBRD will mobilise technical assistance to mitigate implementation risk.</p> <p><b>Standard setting:</b> The Project includes energy audits and preparation of energy performance certificates (“<b>EPCs</b>”) for the renovated buildings. Procurement will be carried out in accordance with EBRD PP&amp;Rs. The Municipality will also ensure that the specific needs of women are taken on board in the design and development of the Project.</p> <p><b>Sound banking</b></p> <p>Kosovo has low public debt levels at 24.3 per cent of GDP as of end-2021, and has capacity to increase sovereign borrowing. The economy experienced a recession of 5.3 per cent in 2020, while it had a relatively fast recovery of 10.5 per cent in 2021, and a further 4.5 per cent growth is expected in 2022, mainly driven by the expected recovery in investment and in travel and tourism activities related to the country’s large diaspora.</p>
<b>Key Risks</b>	<p><b>Political stability:</b> Prolonged political instability in Kosovo ended after the early general elections in Q1 2021, with a landslide victory for the current government, securing a majority in the parliament. Municipal elections were held in November 2021 which resulted in a change of a local government. However, the Project also has the support of the new municipal administration due to its widely recognised public benefit.</p> <p><b>Macro-economic risk:</b> Kosovo’s economy has shown resilience and grew robustly over the last years. Following the pandemic crisis and consequent economic contraction, a relatively fast recovery is expected in 2021 and 2022.</p> <p><b>Implementation capacity:</b> The Project will be implemented by the Municipality which has limited experience working with IFI’s. To mitigate this risk, the Project will include a TC for project implementation support.</p>
<b>Strategic Fit Summary</b>	The Project is consistent with the Bank’s Strategy for Kosovo and the GET Approach 2021-2025 which identifies Cities and Environmental Infrastructure and Green Buildings as key themes to accelerate the decarbonisation. The operation is also in line with the Municipal and Environmental Infrastructure Sector Strategy 2019-2024, by aiming to lower GHG emissions driven by EE, including a strategic priority to scale up high GET-impact investments in EE sectors, including EE measures in public buildings.

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	Up to EUR 5 million sovereign loan to Kosovo, for the benefit of to the Municipality of Prizren, a municipality in Kosovo. The Project is expected to be co-financed with an investment grant in the amount of EUR 1 million, which will be sought from REEP. [REDACTED].
<b>Existing Exposure</b>	Total Bank's exposure to the sovereign as of end-March 2022 was EUR 207 million in 8 projects, with operating assets amounting to EUR 25 million. None to the Municipality of Prizren.
<b>Maturity / Repayment</b>	Tenor of 10 years [REDACTED].
<b>Potential AMI eligible financing</b>	None.
<b>Use of Proceeds</b>	The loan and grant proceeds, which will be blended, will be used to co-finance the implementation of EE, structural and comfort measures in up to 100 public buildings owned by the Municipality, such as kindergartens, schools and healthcare centres. The proposed EE measures include improvement and replacement of heating systems, thermal insulation of buildings and installation of energy efficient windows and doors. Structural and comfort measures are considered to extend lifetime of the building and enable proper usage.
<b>Investment Plan</b>	Reconstruction, rehabilitation or refurbishment of public buildings to improve their efficiency and structural condition.
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	<b>Borrower:</b> The Republic of Kosovo – Ministry of Finance <b>Beneficiary/Project Entity:</b> Municipality of Prizren
<b>Conditions to effectiveness</b>	<ul style="list-style-type: none"> <li>• The Loan Agreement is in full force and valid;</li> <li>• The Project Agreement with the Municipality has been executed; [REDACTED].</li> <li>• Legal opinions satisfactory to the Bank.</li> </ul>
<b>Conditions to subscription / disbursement</b>	<ul style="list-style-type: none"> <li>• The project implementation unit (“PIU”) of the Client has been duly created, and the implementation support Consultant has been mobilised;</li> <li>• Compliance with the ESAP.</li> </ul>
<b>Key Covenants</b>	<ul style="list-style-type: none"> <li>• [REDACTED]. Establish and maintain a PIU with adequate resources;</li> <li>• Procurement under the Project according to EBRD Procurement Policies and Rules (the “PP&amp;R”).</li> </ul>
<b>Security / Guarantees</b>	Sovereign loan
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Project Agreement between the Bank and the Municipality of Prizren;</li> <li>• Grant Agreement for the REEP funds, or the Grant Agreement for grant funds from another donor, as applicable.</li> </ul>
<b>Associated Donor Funded TC and co-investment grants/concessional finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><i>Pre-signing</i></p> <p>1. <b>TC1: Feasibility Study</b> of the Project. EUR 60,000 was financed by the “CREATE Fund” of Austria.</p> <p><b>TC2: Environmental and social due diligence</b> of the Project - EUR 30,000 was financed by the “CREATE Fund” of Austria.</p> <p><i>Post-signing</i></p> <p><b>TC3: Project Implementation Support</b> including engineering design, procurement, preparation and evaluation of tenders, contract award and administration, supervision of works, financial control, project management and reporting, estimated at EUR 300,000 proposed to be financed by an international donor or the Bank's Shareholder Special Fund (“SSF”).</p>

	<p><b>TC4: Advanced Procurement Support for selection of PIU consultant,</b> including preparation of Request for Proposals documentation, procurement support and contracting support, estimated at EUR 15,000 proposed to be financed by an international donor or SSF.</p> <p><b>B. Co-investment grants / Concessional Finance (Non-TC)</b> The Project will benefit from an investment grant in the amount of up to EUR 1 million from REEP.</p> <p><i>Cost sharing:</i> The Client will be responsible for paying all VAT and other indirect taxes that are applied to the donor-funded TC assignment where they are the contracting party as a parallel cost sharing contribution to the project (VAT is levied at 18 per cent in Kosovo). Lastly, the Client will also provide in-kind support in the form of office space, communication connections, etc., for the consultants to work, presumed to amount to 3 per cent of the total TC budget.</p>
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[REDACTED]

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

The Project involves financing of EE retrofitting, structural and other measures to improve energy efficiency in approximately 100 municipally-owned buildings, comprising kindergartens, schools and primary healthcare centres, in Prizren, Kosovo's second largest city. The Project will improve the energy performance and environmental sustainability of the renovated buildings, rehabilitate damaged structures and improve comfort levels, critical for buildings of this nature.

Kosovo is one of the most energy intensive countries in the region, exceeding the EU-28 by over 4.3 times (in nominal GDP). With a high dependency on coal-powered energy sources, Kosovo's carbon intensity is also significantly higher at 7.2 times EU-28 average. Municipal buildings in Prizren, characterised by low thermal insulation and high average energy consumption, are no exception. In comparison with efficient public buildings in Western European countries, public buildings in Prizren are consuming 1.5 – 4.5 times more energy and emitting 1.1 – 2.5 times higher GHG. The City's EE Action Plan estimated that the annual energy saving potential is around 58 per cent in buildings for education, 32 per cent in administration and 57 per cent in buildings for healthcare services.

The Municipality of Prizren, with the support of UNDP, developed a Cross-Sectoral Intervention Plan on Climate Change in line with Kosovo's Climate Change Strategy (2019-2028), and thereafter approached the EBRD with a request to finance EE investments in eligible municipal buildings.

The Project is in line with the Bank's GET Approach 2021-2025, as implementing new EE technologies in buildings will reduce demand for carbon-intensive electricity and fossil fuels, and thereby reduce GHG emissions in the City and countrywide. The Project will introduce new standards in the management of municipally-owned buildings in Prizren by carrying out energy audits and preparation of EPC which are still a novelty for existing buildings. The EE investments are aimed to improve energy performance of the renovated buildings by at least two EPC classes. Moreover, the Project will also support the Municipality of Prizren to develop an asset management conceptual framework and strengthen institutional capacity for sustainable and efficient building management.

The Project is also in line with the Municipal and Environmental Infrastructure Sector ("MEI") Strategy 2019-2024, which promotes climate resilience solutions and scaling up high GET-impact investments, including EE measures in public buildings. The Project will involve the private sector in designing and implementing EE measures based on energy audits, and EE certification of renovated buildings, in line with the MEI Strategy to facilitate project models that increase private sector participation.

Finally, the Project is consistent with the Bank's Strategy for Kosovo, which prioritises energy efficiency and application of the GET Approach. The Project builds on the

Bank's policy engagement in Kosovo to implement EU directives concerning EE and renewable energy, including transposing the Energy Performance of Building Directive ("EPBD"), which defines minimum energy performance requirements for new and renovated buildings, and drafting a long-term Building Renovation Strategy to comply with the EE Directive (Art. 4).

The COVID-19 pandemic did not have any direct effect on the Project, other than causing delays with its preparation and financial structuring. The financial impact of the COVID-19 crisis on the Municipality of Prizren was analysed by outside consultants as part of the TC for Municipal Budget COVID-19 Impact Analysis in Kosovo.

## 1.2 TRANSITION IMPACT

### Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The project contains one or more activity(ies) that can qualify as GET and the percentage of EBRD use of proceeds that qualifies as GET finance is equal to or exceeds the sectoral threshold in the GET TI assessment methodology.</i>	The Project will improve energy efficiency in approximately 100 existing municipally owned buildings. It is expected that building renovation will improve EPC class of selected buildings by two levels, realising [REDACTED] annual energy savings and [REDACTED] annual avoided CO2 emissions respectively. The Project qualifies for 100% GET.
1.2	<i>As a result of the project the client will introduce environmental a management practices or standards, which fulfils the following three conditions: a) It is internationally accredited; b) It is novel (first or second of its kind) in the relevant market; and c) It is replicable by other market participants.</i>	The Project will benefit from the EBRD's policy work on developing Building Renovation Strategy, in line with Kosovo's obligations under the Energy Efficiency Directive. The Project includes energy audits and preparation of EPCs for the existing buildings, which is a new practice in Kosovo.  Moreover, the Project will also support the Municipality of Prizren to develop an asset management conceptual framework and strengthen institutional capacity for sustainable and efficient building management.

**Delivery Risks to the achievement of transition impact:** The main risk is associated with the limited implementation capacities of the Municipality. This risk will be mitigated by providing project implementation support consultants to assist the Client in carrying out the Project, including engineering design, procurement, preparation and evaluation of tenders, contract award, financial control, monitoring and verification of energy performance requirements, including energy audit and EE certificates for all the renovated buildings, project management and reporting.

### 1.3 ADDITIONALITY

#### Financial additionality

Sources	Description of additionality sources
<p><b>Financing Structure:</b></p> <ul style="list-style-type: none"> <li>– EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project.</li> <li>– Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</li> </ul>	<ul style="list-style-type: none"> <li>– The loan tenor of 10 years [REDACTED] is above the market average, which is an appropriate structure for the Project.</li> <li>– Commercial long-term financing for public infrastructure investments is not yet available in Kosovo. Moreover, Kosovo does not have access to international capital markets for funding. The domestic commercial market has limited capacity to absorb higher government debt, especially during the current pandemic crisis. Kosovo's borrowing potential is limited to IFIs/MDBs</li> </ul>

#### Non-Financial additionality

Sources	Description of additionality sources
<p><b>Risk mitigation:</b></p> <ul style="list-style-type: none"> <li>– EBRD provides comfort to clients and investors, financial or strategic, by mitigating non-financial risks, such as country, regulatory, project, economic cycle, or political risks.</li> <li>– EBRD helps the client to mitigate carbon transition risks and take climate action, such as to move along a low carbon transition pathway.</li> </ul>	<ul style="list-style-type: none"> <li>– The Project is expected to receive wide support due to its widely recognised benefits, but also due to the comfort provided by the EBRD's support during project preparation and implementation, as well as application of EBRD's environmental and social standards.</li> <li>– The Project will support the Municipality in its decarbonisation effort by improving energy efficiency in public buildings and improving Municipality's asset management capacity.</li> </ul>
<p><b>Standard-setting - helping projects and clients achieve higher standards:</b></p> <ul style="list-style-type: none"> <li>– Client seeks/makes use of EBRD expertise over <b>energy and resource efficiency and climate resilience</b> financing via provision of energy and climate audits, minimum performance standards of technologies, climate-related strategies and policies, monitoring, reporting and verification (MRV) systems etc.</li> <li>– Client seeks/makes use of EBRD expertise on <b>best international procurement standards</b>.</li> </ul>	<ul style="list-style-type: none"> <li>– The Project will introduce deep building renovation, introducing advanced technologies and material which have a low market penetration.</li> <li>– The Project will promote high energy efficiency standards by introducing comprehensive energy audits and preparation of EPCs for existing buildings. This will set a new standards for public building renovation projects.</li> <li>– Procurement under the Project will be carried out in accordance with EBRD Procurement Policies and Rules. Moreover, the Project includes a project implementation support TC which will include procurement, preparation of tenders and contract award and administration.</li> </ul>

<p>– <b>GenderSMART:</b> Client seeks/makes use of EBRD expertise for the adoption of <b>gender standards and/or equal opportunities action plans</b> (e.g. improving women’s access to safe transport and/or women-led businesses participation in the client supply chain).</p>	<p>– The Municipality has undertaken to initiate a public consultation process to ensure that the perspective and specific needs of women are taken on board in the design and development of the Project, also covenanted in the Project Agreement. These refer primarily to issues related to accessibility and safety concerns.</p>
<p><b>Knowledge, innovation, and capacity building:</b></p> <p>– EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project’s objectives, including support to <b>strengthen the capacity of the client.</b></p>	<p>– The Municipality has consistently underspent its capital budget due to its weak implementation capacities. The Project includes project implementation support by international consultants which is aimed at strengthening the Client’s capacities.</p>

#### 1.4 SOUND BANKING - KEY RISKS

Risks of Borrower	Probability / Effect	Comments
Sovereign Credit Risk	Low/High	<ul style="list-style-type: none"> <li>• Kosovo is not risk rated by any of the main credit rating agencies.</li> <li>• Kosovo has low public debt levels by regional standards and has capacity to increase sovereign borrowing. The level of sovereign debt was 24.3 per cent of GDP as of end-2021, jumping from 17.5 per cent at end-2019 due to COVID-19 related crisis response measures. IMF (Jan-2022) projects sovereign debt to remain within sustainable levels, reaching 29.0 per cent of GDP by end-2026. Domestic debt made up about 2/3 of total debt. External debt is largely with multilaterals (EBRD, IDA, EIB, EU, and the IMF), and is denominated either in EUR or SDRs.</li> <li>• In addition to the above sovereign debt, the IMF also flags implicit contingent liabilities with respect to debt held by POEs (around 2-3 per cent of GDP) and from the privatisation process (about 1.5 per cent of GDP). Moreover, the foreign debt contracted under former Yugoslavia (estimated at 2.4 per cent of GDP at end-2019, but declining as Serbia continues to service it) is not included.</li> <li>• Fiscal policy historically was generally prudent, with a deficit of under 2 per cent of GDP. Due to the implementation of pandemic related support measures and recession-induced loss of tax revenues, fiscal deficit reached 7.9 per cent of GDP in 2020. However, due to a strong recovery in fiscal revenues the fiscal deficit was reduced to 0.4 per cent of GDP in 2021, and IMF projects the fiscal deficit to remain below 2 per cent of GDP through the medium-term.</li> </ul>
Macro-economic risk	<i>Medium/ Medium</i>	<ul style="list-style-type: none"> <li>• Kosovo’s economy has shown resilience and grew robustly over the last years. However, due to the pandemic crisis the economy contracted by 5.3 per cent in 2020, but had a</li> </ul>

		<p>relatively fast recovery of 10.5 per cent in 2021 and a further 4.5 per cent growth is expected in 2022.</p> <ul style="list-style-type: none"> <li>• Kosovo’s current account deficit has historically been large due to structural factors. The pandemic crisis increased the current account deficit from 5.7 % of GDP in 2019 to 7.0 per cent in 2020 due to the implementation of mitigation and recovery measures and a significant decrease in diaspora related flows. IFM projects the current account deficit to decline gradually over the medium-term, dropping to 6.5 per cent in 2022, 5.9 per cent in 2023 and below 5.8 per cent by 2024. Kosovo’s large trade deficit is primarily funded by diaspora related inflows, but also from borrowings from IFIs and donor investments in public infrastructure.</li> <li>• The Banking sector is well capitalised (CAR: 2020 16.5%; Feb-2022 14.8%), liquid (liquid assets/total assets: 2020 39.8%; Feb-2022 34.1%) and profitable (ROAA: 2020 1.6%; Feb-2022 2.5%). NPLs also remain low at 2.7% at end-2020 and 2.2% at end-Feb 2022.</li> </ul>
Political risk	Medium/ High	<ul style="list-style-type: none"> <li>• Prolonged political instability in Kosovo ended after the early general elections in Q1 2021, with a landslide victory for the current government securing comfortable simple majority position in the parliament.</li> <li>• New municipal elections were held in November 2021, which resulted in a change in the local administration. The new mayor, Shaqir Totaj was elected for the first with a term of four years. Nonetheless, the proposed Project is expected to receive political support from all political parties due to its widely recognised public benefit.</li> <li>• Municipal elections were held November 2021 which resulted in a change of a local government. However, the Project also has the support of the new municipal administration due to its widely recognised public benefit.</li> </ul>
Implementation risk	<i>Medium</i> / <i>Medium</i>	<ul style="list-style-type: none"> <li>• [REDACTED]. The Project will be implemented by a dedicated PIU established within the Municipality. The PIU will be further supported by the Kosovo Energy Efficiency Fund of Kosovo (“KEEF”) through participation in the PIU and other forms of support.</li> <li>• TC will be provided to support the PIU in implementing the Project, including for engineering design, procurement, preparation and evaluation of tenders, contract award and administration, supervision of works, financial control, project management and reporting.</li> <li>• The TCs will also help the Client to speed up the implementation process by allowing faster mobilisation of the required consultants.</li> <li>• The Feasibility Study provides the basis for defining the procurement packages, assessing associated contractual risks and accordingly for structuring the TC for project implementation support.</li> </ul>
FX and interest rate risk	<i>Low / Low</i>	<ul style="list-style-type: none"> <li>• The loan will be in EUR, which is the legal tender in Kosovo. The Borrower will be exposed to the base risk. However, low sovereign debt levels, two third of which domestic and fixed, provides some comfort.</li> </ul>

## 2. MEASURING / MONITORING SUCCESS

### Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date	Donor
1.1	CO <sub>2</sub> e emissions reduced (tonnes/year)	Reduction of CO <sub>2</sub> emissions by implementing EE measures in comparison to established baseline by energy audits.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Annual energy savings (GWh/yr)	Reduction of energy consumption by implementing EE measures in comparison to established baseline by energy audits.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.3	Improved energy management standards (including building /goods certifications)	Energy Audits and preparation of EPCs for municipally-owned buildings. The EPCs for each building after the implementation will be at least 2 classes above the current level.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

### Additional Indicators:

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Advisory & Policy Indicators	Practices of the relevant stakeholder improved (others)	The Client commits to initiate a public consultation process, ensuring the perspective and specific needs of women are taken on board in the design and development of the construction project, by involving representatives of associations/organizations of women and female beneficiaries in the planning phase. These refer primarily to issues related to accessibility and safety concerns. In addition, the Client commits to	[REDACTED]	[REDACTED]	[REDACTED]

		ensure that the findings of this consultation process are integrated in the design and to monitor they are implemented in the construction phase.			
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### 3. KEY PARTIES

#### 3.1 BORROWER

The Borrower is the Republic of Kosovo, represented by the Ministry of Finance, and the beneficiary and the project entity is Municipality of Prizren. Kosovo is not risk rated by any of the main credit rating agencies and has had no access to international capital markets.

#### 3.2 MUNICIPALITY OF PRIZREN

Prizren is the second largest municipality in Kosovo, with a population of around 180 thousand, accounting for 10 per cent of the country's total population. Prizren is the second largest commercial centre and the regional centre of southwest Kosovo, located near the border with Albania. The economy of Prizren municipality is mainly based on agriculture, trade, constructing and food processing, all private enterprises.

The local government is autonomous of the central government. The City is governed by the municipal Assembly and a City mayor, who is elected directly. The current mayor is Shaqir Totaj, elected for the first time following the November 2021 municipal elections with a term of four years.

Prizren's EE Action Plan presents the energy consumption analysis of the public buildings, residential buildings, public lighting and transportation sector, the efficiency potential and lists the projects to be implemented towards EE development. There are over 150 buildings owned and managed by the City. Currently, grid-supplied electricity bills for public heating and public lighting, and bills for motor vehicle fuels, amounts to around 3 per cent of the City's budget. Other materials such as oil, pellets, coal, and wood are also used for energy. A brief summary of the Prizren's financials is shown in table below.

**Table 1. Prizren's Financial Highlights**

[REDACTED]

### 4. MARKET CONTEXT

Kosovo's demand for energy is expected to increase in the coming years in line with its projected economic development. Kosovo has a very low consumption of energy per capita, at ca. 32 per cent of the EU-28 average. While being an indicator of lower level of economic development, this implies that energy consumption will continue to increase in line with the economic growth and convergence of living standards.

Kosovo is a contracting party to the Energy Community Treaty, therefore it has to implement relevant EU directives concerning EE and renewable energy. Accordingly, it has a National EE Action Plan which provides the framework for a strategic approach to EE improvement, specifically setting energy savings targets (9 per cent by end-2018) and proposing concrete measures and actions.

Last year, the Government of Kosovo with the support of the World Bank (“WB”) established an energy efficiency fund, which was capitalised initially from the government, and will also be supported by an EU IPA grant and a loan from the WB. Eligible investments will include rehabilitation of public buildings which cannot be financed through commercial funding. The Bank will collaborate with the KEEF, initially by supporting their capacity building through their participation in the PIU, sharing experiences, as well as potential financing after a few years of proven record. The KEEF is still in a preparatory phase and has not implemented any EE projects yet.

The Project will stimulate the EE goods and services market in Kosovo, establishing better access to public and donor funds. On the supply side, which includes provision of EE goods and services, such as installation of efficient heating and cooling systems, thermal insulation of walls / roof / floors, double-glazed windows, the successful implementation of the Project will enable the private sector to be involved in energy saving projects.

[REDACTED]. The legal framework for EE is developed, but the secondary legislation required for the development of an ESCO market remains yet to be developed.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 PROJECT FINANCIAL AND ECONOMIC ANALYSIS**

[REDACTED]

### **5.2 MACROECONOMIC OUTLOOK**

Kosovo grew robustly over the last years, averaging 4 per cent. However, due to the pandemic crisis, the economy contracted by 5.3 per cent in 2020. Albeit large uncertainties driven by the pandemic, the economy had a relatively fast rebound of 10.5 per cent GDP growth in 2021, while a further 4.5 per cent is expected in 2022, with domestic demand being the main growth driver.

[REDACTED]. Kosovo has relatively low public debt levels and has capacity to increase sovereign borrowing. Sovereign debt was only 17.6 per cent of GDP at end-2019, however, as a result of the pandemic, government debt grew to 24.3 per cent of GDP in 2020 and is expected to reach 25.3 per cent by end of 2022. The short-term fiscal financing needs arising from the impact of COVID-19 were mainly secured through drawdowns from existing government bank balances, official financing from World Bank and other IFI resources, EU grants, and larger domestic issuance of government bonds. Beyond 2021, the increase in debt reflects the assumption of a moderate increase in absorption capacity of IFI financing for new capital investments. [REDACTED].

**Table 2. Public debt sustainability framework**

	2019	2020	2021	2022	2023	2024	2025	2026
Public Debt (% of GDP)	17.7	24.3	24.3	25.3	26.1	26.9	27.8	29.0
<i>Key underlying assumptions for the baseline</i>								
Real GDP growth (%)	4.8	(5.3)	7.5	3.8	3.8	3.6	3.5	3.5
Inflation (GDP deflator rate, in %)	1.0	1.4	2.9	3.5	2.6	2.2	1.9	1.7
Primary Balance (% of GDP)	(2.7)	(7.6)	-	(2.1)	(2.0)	(1.9)	(1.9)	(2.0)

Source: IMF, January 2022

Kosovo's large current account deficit in 2020 reflected both the COVID-19 impact and structural factors. The current account deficit increased from 5.7 per cent of GDP in 2019 to 7.0 per cent in 2020, given the implementation of mitigation and recovery measures and a significant decrease in diaspora-related flows. This reflected a current account structure that is mainly shaped by flows originating in the Kosovar diaspora: A large trade deficit in goods is financed by diaspora-related inflows in tourism, remittances, FDI in real estate, and other unaccounted diaspora-related flows reflected in relatively large errors and omissions. Other investments in Kosovo usually include government investments partly through borrowings from IFIs as well as treasury borrowings from domestic banks and donor investments in public infrastructure. [REDACTED].

### 5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

## 6. OTHER KEY CONSIDERATIONS

### 6.1 ENVIRONMENT

Categorised B (2019 ESP). The Project will have significant benefits as result of the implementation of high quality EE measures, including an improvement to building insulation and replacement of old heating sources, resulting in higher energy efficiency and reduced emissions in public buildings in the Municipality of Prizren. Environmental and social due diligence ("ESDD") consisted of an audit carried out by an independent consultant and included site visit to 11 selected buildings. The findings of the ESDD were that the Municipality has some limited elements of environmental and social management in place and is generally in compliance with national legislation. The ESAP has been prepared and agreed with the Municipality.

The EE measures will generate [REDACTED] annual energy savings and [REDACTED] annual avoided CO<sub>2</sub> emissions [REDACTED]. Technical due diligence and ESDD findings showed that for some buildings, the water supplied does not meet drinking water standards, the sites are not connected to the sewage system and some schools are not equipped with proper toilets. Essential structural and comfort measures have therefore been added to the project scope; they include improvement of damaged structures, sewage/drainage systems, waterproofing, asbestos removal, sanitary rooms, etc. The Municipality does not have an environmental and social ("E&S) Policy, nor operate an environmental, health, safety and social ("EHSS") management system. The ESAP requires the Municipality to assign responsibility for EHSS management at the PIU and to appoint a certified EHSS manager full time within the Municipality. A construction phase environmental, health, safety and social management plan

("CESMP") will be developed and implemented by the contractor, and approved by the Municipality prior to start of construction. The ESAP requires the Municipality to ensure the following is included in every Project building: (i) building users have access to drinking water; (ii) building users have access to toilets located within the building and equipped with flushing water and, (iii) domestic wastewater is collected and treated before discharge to natural environment.

All the contracts are in line with Kosovo's Law on Labour. The Municipality staff is covered by a collective labour general agreement and a high percentage of employees are members of a trade union. There is currently no planned major programme of retrenchment across the Municipality. Most of the buildings are heated by central modern pellet boilers or firewood boilers of modern technology (or electricity); for the project-related buildings heated by non-certified individual firewood stoves, the ESAP requires replacement by a less air polluting heating system. Occupational health and safety ("OHS") issues at the majority of the sites visited during ESDD need improved management; operational corrective actions have been captured in the environmental and social action plan ("ESAP"). The ESAP also requires to conduct an intrusive asbestos survey and, where asbestos has been identified, to implement necessary measures to reduce the risks of exposure to asbestos fibres. Asbestos surveys will be conducted together with the energy audits in each project building, and the implementation of an asbestos management plan has been covenanted. The thermal insulation of walls and roofs will be suitably fire-rated by the Supplier, as prescribed in national standards. The ESAP requires that the design engineer submit a fire safety report to the Municipality. All the buildings are owned and managed by the Municipality, however in some cases the land parcels are contested by private owners. The ESAP requires the Municipality to obtain the missing land titles. None of the Project's building is on the list of buildings which are under protection of UNESCO or national law (as confirmed by a provision in the Loan Agreement). The Municipality maintains its own official webpage. An online grievance mechanism is already in place. A stakeholder engagement plan ("SEP") has been developed during the ESDD and the Municipality will notify in advance the building users about the planned reconstruction activities including alternative access to disrupted services (e.g. patients to be sent to other health care locations temporarily).

The Bank will monitor the project through annual environmental and social reports provided by the Client, and site visits if necessary.

## **6.2 INTEGRITY**

In conjunction with OCCO, updated integrity due diligence was undertaken on the Borrower and Beneficiary, including the Minister of Finance, previous and current Mayor, as well as previous and current directors [REDACTED] and do not pose an unacceptable reputational or integrity concern to the Bank.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

### **6.3 OTHER ISSUES - CONCESSIONAL FINANCE**

An investment grant co-financing of up to EUR 1.0 million will be sought from REEP to co-finance the Project to stimulate and improve the economic feasibility of the EE investments under the Project. The rationale for the use of co-investment grant is the presence of significant environmental externalities related to high CO<sub>2</sub> emissions generated from the Municipality's public buildings due to their energy consumption significantly higher than acceptable levels. The capex grant is also justified on the merits of introducing and promoting innovative EE technologies and measures in public buildings, which will have a strong demonstration of the viability effect across the country and the region.

## ANNEXES TO OPERATION REPORT

ANNEX 1	PROJECT IMPLEMENTATION AND PROCUREMENT PLAN
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## ANNEX 1 - PROJECT IMPLEMENTATION AND PROCUREMENT PLAN

### PROJECT IMPLEMENTATION

#### **Procurement classification – *Public sovereign***

[REDACTED]. **The Client's Capacity assessment related risk:** High

[REDACTED]. The day-to-day procurement activity, which is relatively small, is handled on a needs basis by the City. The City is subject to Kosovo Public Procurement Law.

The main challenge remains the City's capacity to administer the procurement processes in accordance with the EBRD Procurement Policies and Rules and in the English language which represents a moderate risk to efficient procurement and implementation of the expected works and services. An experienced PIU and supervision consultant will guide the City and the PIU through tender preparation, procurement process and contract administration to mitigate this risk.

#### **The Contract's Risk assessment:** Low

The contract proposed to be co-financed from the Bank's loan and EU REEP Grant is detailed in the attached Procurement Plan. The support of an experienced consultant who will conduct the energy audits and detailed designs will ensure that technical specifications, employer's requirements and tender documents are suitable for open tendering and in accordance to the Bank's PP&R, moreover that any procurement and contractual issues that may arise will be addressed in a professional and timely manner.

The nature of the works contract is generally considered of low complexity and has a relatively medium to low degree of implementation risk. This risk is mitigated by appointing an independent consultant to conduct the required energy audits of the selected buildings and prepare the technical specifications and employer's requirements for the expected works, in addition, the consultant will support the client through the entire procurement, supervision, control and monitoring of the project along the entire project cycle. The risk will be mitigated by the appointment of an implementation consultant that will support the Client along the entire project cycle.

#### **Project implementation arrangements:**

The City will delegate the implementation responsibility to the PIU, who will have the overall responsibility for the implementation of the Project.

In terms of implementation risks, the higher risk resides on the potential number of buildings to be rehabilitated which management in parallel may challenge the limited capacity of the PIU and City. To mitigate this risk, the PIU capacity will be strengthened by a donor-funded experienced consultant(s) along the entire project. The advance procurement consultant will assist the PIU during the selection process of the PIU

Implementation consultant. It will ensure a faster mobilization of the PIU implementation consultant, hence, faster implementation of the overall project.

The implementation consultant(s) will also assist the City in all aspects of procurement and implementation of the Project in accordance with the Bank's policies and support PIU in meeting requirements of various Financing Documents. When necessary, the consultant(s) will train the City and PIU staff in addressing the project procurement and implementation matters, ultimately, this consultant will assist the client with the preparation and completion of the required Energy Efficiency certificates.

### **Procurement arrangements:**

There is envisaged one works contract for the reconstruction, rehabilitation or refurbishment of public buildings in the city of Pristina to improve their energy efficiency. The contract will be co-financed by the proceeds of the Bank's Loan and EU REEP grant. The envisaged works contract will be procured following open tendering procedures in accordance with the requirements of the Bank's PP&R for public sector operations and will be subject to prior review by the Bank. It is envisaged that the tender documents for the procurement of works will be based on the latest version of the Bank's standard tender documents for procurement of works.

The Project also envisages two technical cooperation contracts. An advance procurement consultant that will support the client during the Preparation of Request for Proposals and selection and contracting of PIU implementation consultant. The second technical cooperation contract is a PIU implementation consultant who will support the PIU by carrying out energy audits and detailed designs that Municipality will use to obtain the required construction permits for each building and definition of employer's requirements for further preparation of the tender documents. In addition, the implementation consultant will also act as PIU consultant and supervision consultant along the entire project cycle. Lastly, the consultancy services will also cover the preparation and completion of the energy efficiency certificates for each of the involved buildings.

Both consultancy contracts will be procured following the provisions of the Bank's PP&R Section 5 (Procurement of Consultant Services).

The Procurement Plan below provides the procurement strategy and details of planned investment and consultancy assignments.

### **Additional information:**

The Contracts will be tendered via the EBRD Client e-Procurement Portal ("ECEPP"). Due diligence has also investigated, based on market research, the potential benefits of applying national procurement procedures or Simplified Open Tendering procedure. However, limited previous experience in contracts of similar nature have been identified in Kosovo within the last 5 years. Furthermore, the use of national procedures could involve higher implementation risks due to current divergences of the Kosovo National Procurement Law with best procurement practice and in special with procurement complaint review process. Further investigation will be conducted in relation to the use of the Simplified Open Tendering Procedures. [REDACTED].