

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

Approved by the Board of Directors on 13 December 2023¹

KOSOVO

FERIZAJ WASTEWATER TREATMENT PLANT

[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]

¹ 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

AMMP	Asset Management and Maintenance Plan
CESMP	Construction Environmental and Social Management Plan
EBRD	European Bank for Reconstruction and Development
ECEPP	EBRD Client e-Procurement Portal
EIRR	Economic Internal Rate of Return
ENPV	Economic Net Present Value
ESAP	Environmental and Social Action Plan
E&S	Environmental and Social
ESDD	Environmental and Social Due Diligence
ESMP	Environmental and Social Management Plan
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
FOPIP	Financial and Operational Performance Improvement Programme
GDP	Gross Domestic Product
GET	Green Economy Transition
GHG	Greenhouse Gases
IFI	International Financial Institution
IMF	International Monetary Fund
KPI	Key Performance Indicator
LALRF	Land Acquisition and Livelihood Restoration Framework
LALRP	Land Acquisition and Livelihood Restoration Plan
MEI	Municipal and Environmental Infrastructure
MESPI	Ministry of Environment, Spatial Planning and Infrastructure
MoE	Ministry of Economy
MoF	Ministry of Finance
NRW	Non-Revenue Water
NTS	Non-Technical Summary
P.E.	Population equivalent
PIU	Project Implementation Unit
PP&R	Procurement Policies and Rules
PR	Performance Requirements
PSA	Project Support Agreement
PSC	Public Service Contract
RWC	Regional water and wastewater companies
RWCB	Regional Water Company “Bifurkacioni”
SEP	Stakeholder Engagement Plan
SSF	Shareholder Special Fund
TA	Technical Assistance
TC	Technical Cooperation
UN	United Nations
VAT	Value-Added Tax
WBIF	EU-Western Balkans Investment Framework
WEP	Women’s Empowerment Principles
WSRA	Water and Services Regulatory Authority
WWTP	Wastewater Treatment Plant

PRESIDENT’S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Kosovo (the “**Borrower**”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan in the amount of up to EUR 20 million for the benefit of Regional Water Company Bifurkacioni (“**RWCB**”, the “**Company**” or the “**Client**”), the state-owned water and wastewater management company operating in the south-eastern part of Kosovo.

The operation will enable RWCB to: (i) construct a new wastewater treatment plant (“**WWTP**”); and (ii) improve the sewerage system in Ferizaj and neighbouring communities, together (the “**Project**”). [REDACTED].

The expected transition impact of the Project is derived from the *Green* and *Well-Governed* qualities by financing GET eligible investments to tackle untreated wastewater discharges, a key environmental challenge for the Ferizaj region, and through the development of a new public service contract (“**PSC**”) in line with international best practice, implementation of a financial and operational performance improvement programme (“**FOPIP**”) and adoption of an asset management and maintenance plan (“**AMMP**”). The Project’s GET ratio is 100%. The Project is also gender additional, by supporting RWCB to introduce and implement an equal opportunities action plan following RWCB commitment to become the first water utility in Kosovo to sign the UN Women’s Empowerment Principles (“**WEPS**”).

TC support for project preparation including environmental and social due diligence was funded by the Swedish International Development Cooperation Agency (“**SIDA**”). TC support for advance procurement support and enhance corporate development programme is expected to be financed by an international donor or the EBRD Shareholder Special Fund (“**SSF**”).

I am satisfied that the operation is consistent with the Bank’s Strategy for Kosovo (, the Municipal and Environmental Infrastructure Strategy, the Green Economy Transition (GET) Approach 2021-2025, Bank’s Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

KOSOVO – Ferizaj Wastewater Treatment Plant - DTM 54538	
Transaction / Board Decision	Board approval ² is sought for a sovereign loan of up to EUR 20 million in favour of the Republic of Kosovo (the “Borrower”), for the benefit of Regional Water Company Bifurkacioni (“RWCB”, the “Company” or the “Client”), a state-owned water and wastewater management company operating in Ferizaj and the neighbouring communities in south-eastern Kosovo. The financing will be used for construction of a new wastewater treatment plant (“WWTP”) and sewerage network improvements in Ferizaj. [REDACTED].
Client	<u>Borrower</u> : the Republic of Kosovo, represented by the Ministry of Finance (“MoF”); <u>Beneficiary</u> : RWCB, fully owned by the state via the Ministry of Economy (“MoE”).
Main Elements of the Proposal	<ul style="list-style-type: none"> – <u>Transition impact</u>: <i>Primary Quality – Green</i> as the Project will support implementation of a critical municipal infrastructure, addressing the key environmental challenges of untreated wastewater discharge in the Ferizaj region via treating wastewater and hence reducing associated greenhouse gas (“GHG”) emissions. The Project’s GET share is 100%. <i>Secondary Quality – Well Governed</i> as the Project will support improvements in the financial, operational and governance structure of the Company through introduction of a PSC aligned to best standards and implementation of a FOPIP and AMMP. – <u>Additionality</u>: <i>Financing structure</i>: Proposed loan size and its tenor is not available in the market from commercial lenders. <i>Policy, sector institutional or regulatory change</i>: To support policy reforms in the sector EBRD will provide assistance in development of a PSC in line with best international practices. <i>Knowledge, innovation and capacity building</i>: To address the Client’s limited capacity for procurement of internationally funded projects, EBRD will provide support in improving the Client’s capacities in implementing projects in line with the EBRD Procurement Policies and Rules (“PP&R”). – <u>Sound banking</u> – The transaction is structured as a sovereign loan.
Key Risks	<ul style="list-style-type: none"> – <u>Implementation risk</u>: [REDACTED]. Presence of TC support, including advance procurement as well as PIU and supervision assistance, mitigates this risk. Furthermore, absence of grant funding might pose additional risks, but these are mitigated by the Borrower’s commitment to undertake this investment addressing a key environmental challenge. – <u>Political and macroeconomic risk</u>: [REDACTED]. The risk is mitigated by the stable economic growth shown after the pandemic, low public debt level and fiscal prudence. Structural reforms and potential candidacy for the EU accession are factors that mitigate the political and macro instability in the country.
Strategic Fit Summary	The Project is consistent with the Bank’s Strategy for Kosovo (as it supports development of sustainable and climate-resilient municipal infrastructure; the Municipal and Environmental Infrastructure Strategy and the Green Economy Transition (GET) Approach 2021-2025 as it provides access to key infrastructure that is crucial for protecting biodiversity and environment; and Bank’s Strategy for the Promotion of Gender Equality (

² Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Up to EUR 20 million sovereign loan to the Republic of Kosovo, for the benefit of RWCB (the “Loan”), which will be used for financing the construction of a new WWTP in Ferizaj and improvement of the sewerage network. [REDACTED]
Existing Exposure	As of September-end 2023, EBRD’s total sovereign exposure to Kosovo stood at EUR 136 million. [REDACTED]
Maturity / Repayment	15 years tenor. [REDACTED]
Potential AMI eligible financing	None.
Use of Proceeds - Description	<p>Proceeds of the Loan will be used for: (i) construction of a new WWTP [REDACTED] in the south catchment area of Ferizaj serving a population of approximately 90,000 people, (ii) improvement of the sewerage system and works in relation to the main collector to WWTP, (iii) equipment and supplies in relation to the maintenance of the sewerage system and (iv) procurement support and supervision TA (the “Project”). [REDACTED]</p> <p>The Project will be implemented by a project implementation unit (“PIU”) of the Company, which will be established and receive support from the PIU support consultants and supervision engineer for procurement preparation, tendering, construction implementation and supervision, monitoring as well as reporting.</p>
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	<ul style="list-style-type: none"> • Republic of Kosovo as the Borrower; • RWCB as the beneficiary and the project entity; • Municipality of Ferizaj as the key stakeholder in the Project providing water and wastewater services to the population and representing consumers’ interest in the regional water companies; • [REDACTED].
Conditions to disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan
Other material agreements	<ul style="list-style-type: none"> • Project Support Agreement between the Bank, the Company and the Municipality of Ferizaj; • [REDACTED]
Associated Donor Funded TC and Blended Concessional Finance	<p>A. Technical Cooperation (TC)</p> <p><u>Pre-signing:</u> TC1: <u>Feasibility study gap analysis and environmental and social due diligence</u>, confirmation of the technical specifications, costs and implementation arrangements as well as environmental and social assessment and its compliance with the Bank’s Environmental and Social Policy. This EUR 150,000 assignment was funded by SIDA. <i>Completed.</i></p> <p><u>Post-signing:</u> TC2: <u>Advance procurement support to RWCB</u> to support the Company with the procurement of PIU support and supervision consultants. Moreover, the consultant will provide training to the Company in respect to EBRD’s PP&R and standard procurement documents as well as international best practice on public</p>

	<p>procurement. The cost is estimated to be EUR 20,000 and is expected to be funded by an international donor or EBRD SSF.</p> <p>TC3: <u>Enhanced corporate development programme</u> to support the Company improve its operational and financial performance, corporate development, commercialisation, and management and maintenance of its assets through the implementation of a FOPIP, development of a PSC in line with international best practices, adoption of an AMPP and development of an equal opportunities action plan. The cost is estimated to be EUR 300,000 and is expected to be funded by an international donor or EBRD SSF.</p> <p>TC4: <u>PIU support and supervision consultant</u> in the amount of EUR 1.5 million that is expected to be financed [REDACTED].</p> <p>B. Co-investment grants / Concessional Finance (Non-TC) [REDACTED].</p>
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[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Kosovo's municipal infrastructure has historically suffered from a severe lack of investments in wastewater services. Until 2021, only one small WWTP was in operation and 65% of the population in the country was connected to the sewage network. To tackle the growing concern over the environmental pollution, the Kosovan Government has developed a national strategy for the improvement of the country's wastewater network and has signed an association agreement with the EU to prioritise country-wide investments in the wastewater sector. These initiatives have resulted in directing investments in expanding the wastewater network and developing new WWTPs across the country. Three WWTPs, in Prizren, Peja and Gjakova, have entered into operation during 2021/2022 with few others currently in the development phase covering major urban areas.

EBRD signed a Memorandum of Understanding with the Government of Kosovo in May 2018 to cooperate in strategic areas of municipal and environmental infrastructure. As a result, the Bank supported the government's efforts to improve key municipal wastewater infrastructure and provided financing for WWTPs in Gjilan and Mitrovica. Building on this effort, the Bank seeks to extend its engagement further by financing the expansion of the wastewater network and developing a new WWTP in Ferizaj, a major city in south-eastern Kosovo. Located 44 km away from Pristina, Ferizaj is a well-known trading centre (served by rail and road) with a population of around 106,000. Water and wastewater services are provided by RWCB, which covers the Municipality of Ferizaj and other smaller neighbouring municipalities.

Currently, there are no municipal wastewater treatment facilities in Ferizaj. At the end of 2021, 74% of the population in the Company's service area was connected to the sewage network and 81% was connected to the water supply network. In addition to having no WWTP, the area suffers from underinvestment in water and wastewater infrastructure and has severe deficiencies, with part of the sewerage network leaking or simply open, resulting in poor water quality and water losses of up to 57%. Given this, untreated effluent water and industrial waste is discharged to the streams and tributaries of Nerodime and Morava rivers, contaminating many surface water sources and rivers flowing into neighbouring countries and eventually to international waters of Aegean and Black Sea.

To address this critical missing municipal infrastructure that endangers the environment and biodiversity, the Government prioritized the proposed investment. Through its implementation, the Company will aim to extend water connections and sewerage network as well as develop a state of the art WWTP covering the south catchment area. The Project will contribute to increased quality of life and socio-economic development in Ferizaj. Specifically, the Project will help achieve: i) improvements of sanitation services for approximately 75% of population in the Company's service area; and ii) reduction in wastewater pollution loads flowing into the rivers [REDACTED].

The Project is in line with Kosovo's National Water Strategy (2023 – 2027) and Action Plan (2023-2025), which list as a strategic objective the protection of water resources to be achieved through rehabilitation and expansion of wastewater collections systems and construction of WWTPs to ensure compliance with the EU Urban Wastewater Treatment Directive.

The Project is fully consistent with the Bank's Country Strategy for Kosovo as it supports the development of more sustainable and climate-resilient municipal infrastructure. The Project is also consistent with the MEI Sector Strategy as it enables investments in water-infrastructure schemes that

protect biodiversity and ecosystems. Additionally, the Project fully supports the Bank's GET Approach 2021-2025, which promotes investments in the water and wastewater sector to achieve tangible environmental and social benefits and public health improvements, and mitigate the effects of climate change. The Project is also aligned with the Bank's Strategy for the Promotion of Gender Equality (2021-2025), as it will promote equal opportunities for women through career advancement in infrastructure, as well as with the United Nations SDG6 - Clean Water and Sanitation, SDG5 - Gender Equality, and SDG11 - Sustainable Cities and Communities.

1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the Project.

Primary Quality: Green

Obj. No.	Objective	Details
1.1	<i>The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.</i>	The improvement of wastewater infrastructure in Ferizaj and in its neighbouring communities and the construction of the first WWTP in Ferizaj, both in accordance with the relevant EU standards, will result in significant environmental benefits for local water resources. By improving wastewater collection and constructing a treatment facility, the Project will considerably reduce the volumes of raw wastewater and its associated pollutant loads that will be discharged into the Nerodime River. The Project will also lead to reduction of GHG emissions associated with methane emission from natural decay of wastewater in the environment as well as energy production through the use of anaerobic digesters for treatment sludge management. As such, the entire financing is GET eligible with GET ratio of 100%.

Secondary Quality: Well-Governed

Obj. No.	Objective	Details
2.1	<i>A well defined public service contract in line with international practice will be introduced (not a revision to an existing PSC) as one of the first three in the country.</i>	<p>The Project will help the Company to develop new PSCs in line with the international best practice with the Municipalities of Ferizaj and Kacanik (the municipalities served by RWCB), which is still not widespread in the water sector in Kosovo. The new PSCs will aim to clarify the responsibilities among the various stakeholders and ensure a sustainable and methodological approach to coverage of costs for the provided services.</p> <p>The Project will also help the Company in improving its financial, operational and corporate governance structure through implementation of an enhanced corporate development programme, whereby the objectives will include implementation of FOPIP and adoption of an AMMP.</p>

Delivery risks: [REDACTED]. In relation to the implementation risks, provisions of adequate support for procurement and implementation related activities (i.e. TAs for advance procurement and PIU support) will be the main mitigants. This will ensure that the Project is implemented in line with the EBRD's PP&R without any delays or cost overruns. [REDACTED].

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	n/a

Additionality sources	Description of additionality sources
Financing Structure: <ul style="list-style-type: none"> 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. EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions. 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. 	<p>The Bank is providing a sovereign loan with a tenor of 15 years [REDACTED].</p> <p>Furthermore, EBRD financing is relatively sizeable for the local market [REDACTED], not crowding out other sources.</p>
Policy, sector, institutional, or regulatory change: <ul style="list-style-type: none"> EBRD's involvement in a project is considered additional when it is designed to trigger a change in the policy, sector, institutional or regulatory framework, or enhance practices at the sector or country level (e.g., an introduction of cost-reflective pricing of energy, water etc.). 	<p>The Bank's engagement will help initiate improvements at the Company and industry through the TC support that will be mobilised. With the support of the consultants, PSC will be developed and implemented in accordance with the best international standards and the FOPIP is expected to improve the financial and operational performance of the Company.</p>
Standard-setting: helping projects and clients achieve higher standards: <ul style="list-style-type: none"> Gender SMART: Client seeks/makes use of EBRD expertise for the adoption of gender standards and/or equal opportunities action plans (e.g. improving women's access to safe transport and/or women-led businesses participation in the client supply chain). 	<p>Women are under-represented in the water sector in Kosovo. [REDACTED].</p> <p>The Project will support the Company, through the enhanced corporate development TC, to accelerate women's career advancement. This will be achieved through the introduction and implementation of an equal opportunities action plan that will include a systematic procedure to raise women's representation in managerial positions.</p> <p>In addition, the Company will demonstrate the importance of promoting women's representation in the sector by becoming the first water utility in Kosovo to be a signatory to the UN Women's Empowerment Principles ("WEPS"). These Principles signal commitment at the highest Company level to fostering business practices that promote gender equality. The Company will receive support from UN Women to implement relevant actions aligned with the WEPS.</p>
Knowledge, innovation, and capacity building: <ul style="list-style-type: none"> EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to strengthen the capacity of the client. 	<p>This will be the first time that the Company will implement such a large scale project funded by an international financial institution. As such, the Bank's engagement will strengthen the capacities of the Company in implementing such projects that will also be supported by the TCs that</p>

	the Bank will mobilise including advance procurement and PIU support.
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1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	<i>Medium / Medium</i>	<ul style="list-style-type: none"> Kosovo's economy has shown resilience and has grown robustly over the last decade. Output expanded at a rate of 3.9% year on year in the first quarter of 2023 with an expected growth rate of 3.5% and 4.0% respectively in 2023 and 2024. Kosovo's current account deficit has historically been large due to structural factors. Increase in food and energy imports widened the current account deficit further to 10.5% of GDP in 2022. IMF project the current account deficit to decline gradually over the medium-term, dropping to 5.3% by 2028. Kosovo's large trade deficit is primarily funded by diaspora related inflows, but also from borrowings from IFIs and donor investments in public infrastructure. The banking sector is well capitalised, liquid and profitable. NPLs also remain low at 2.0% as of July 2023.
Regulatory risk	<i>Low / High</i>	<ul style="list-style-type: none"> The Water and Services Regulatory Authority ("Regulator" or "WSRA") sets tariffs at cost recovery levels. [REDACTED].
Implementation risk	<i>Medium / High</i>	<ul style="list-style-type: none"> As this will be the first time that the Company will undertake such a large project funded by an international financial institution, provisions of adequate support for procurement and implementation related activities through advance procurement and PIU support TCs will be incorporated in the Project structure. This will ensure that the Project is implemented in accordance with the EBRD's PP&R with minimisation of delay and cost overrun risk. The Company will form a PIU, which will be supported in various stages by technical experts. The WWTP is envisaged to be built under a Design and Build contract by an internationally reputable contractor.
Cost over-run risk	<i>Medium / High</i>	<ul style="list-style-type: none"> The Project's cost estimates have been updated following the update of the feasibility study [REDACTED] conducted by international consultants. The total project cost includes also prudent level of contingencies. [REDACTED].
Political risk	<i>Medium / High</i>	<ul style="list-style-type: none"> [REDACTED]. The importance of the Project for the government and the overall public, the Bank's strong presence in Kosovo and the country's ultimate EU accession objective are key mitigants for the associated political risk.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators

TI indicator(s), primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Wastewater treated (m3/year)	Amount of wastewater treated annually in the Project area [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.2	New or updated GET technology or product leading to water savings introduced [REDACTED]	Construction of a new wastewater treatment plant in compliance with the EU requirements [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

TI indicator(s), secondary Quality: Well-Governed

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Public service contract or Public Service Obligation signed and implemented [REDACTED] [Donor TC]	Development and implementation of a new Public Service Contract with Municipalities of Ferizaj and Kacanik in line with the best international standards [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	Practices of the relevant stakeholder improved (others) [REDACTED] [Donor TC]	Implementation of FOIP to introduce measures for operational and financial improvements [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.3	Practices of the relevant stakeholder improved (operational) [REDACTED] [Donor TC]	Development and adoption of an asset management and maintenance [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Gender SMART	Practices of the relevant stakeholder improved (equal opportunity policies and practices)	As part of the enhanced corporate development programme TC, the Company to finalise an equal opportunities action plan, including a systematic procedure to raise women's representation in managerial positions [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Gender SMART	Practices of the relevant stakeholder improved (equal opportunity policies and practices)	RWCB to become the first water utility in Kosovo to be a Women's Empowerment Principles (“WEP”) signatory, and to receive UN Women’s support in committing to relevant actions [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
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3. KEY PARTIES

3.1 BORROWER

The Borrower is the Republic of Kosovo, represented by the Ministry of Finance, Labour and Transfers which will then on-grant the loan proceeds to the Company.

3.2 CLIENT/COMPANY



The Client and beneficiary of the Project is RWCB, a joint-stock company (“JSC”) 100% owned by the Government of the Republic of Kosovo.

The Company provides water supply and wastewater collection services to the south-eastern part of Kosovo, namely to the municipalities of Ferizaj, Kaçanik and Hani i Elezit. The combined population of Ferizaj, Kacanik and Hani i Elezit is estimated to be approximately 154,225 residents and the Company provides drinking water to around 81% of this population and wastewater services to 74%. The Company aims in the near future to extend services to the municipality of Shterpce.

RWCB is responsible for the maintenance of a water supply network, approximately 538 km in length, and a wastewater network, approximately 504 km in length. Metered consumption is relatively low at 78%, while water billed via metered supply has a coverage of 100%. It produces around 8 million m³/year of water, out of which only 3.5 million m³/year has been invoiced during year 2021. While there have been significant improvements in tackling non-revenue water (“NRW”), the percentage is still relatively high, [REDACTED] mainly caused by physical losses in the water network and illegal connections. In general, the network suffers from underinvestment, which has resulted in significant low levels of service including poor cost efficiency, coverage and reliability.

The Company is responsible for the treatment and distribution of drinking water as well as the collection and disposal of wastewater. Water is obtained from four water sources, all treated at the water treatment plant in Pleshine, which has a capacity of 200 l/s (or up to 230 l/s at low turbidity). The urban and rural areas surrounding Ferizaj have well-developed sewer networks due to investments made by the Municipality of Ferizaj between 2008 and 2023.

Currently there is no wastewater treatment plant in the Municipality of Ferizaj raising concerns on the growing risk of surface and groundwater contamination. Raw sewage and industrial pollutants currently compromise the quality of most surface water sources. Despite the city having a limited industrial presence, the majority of operational industries do not employ wastewater treatment measures, leading to the direct discharge of untreated effluent into the natural water resources.

The location of Municipality of Ferizaj is unusual as the Nerodime River is transboundary and flows from the west and bifurcates to two river basins: i) the Nerodime River continues to the South and flows to the Lepenc and Vardar Rivers and flows to the Aegean Sea; ii) the river splits to the north to the Sitnica River and the Danube River and the Black Sea. A separate catchment of small rivers in the East flows to the Morava River and eventually to the Danube River. Consequently, there are three catchments, which are critical as they lay the basis for the long-term sewerage strategy for the Municipality. The breakdown of population in each catchment is as following: North - 20%, East - 5% and South - 75%.

Consequently the South catchment, which is the area where the new WWTP will be located, is substantially the largest. [REDACTED].

4. MARKET CONTEXT

Water and wastewater infrastructure in Kosovo has received greater focus by the Government in recent years, following the country's ambition to comply with EU regulations as part of pre-accession efforts, although a big part of the country still lacks proper wastewater treatment infrastructure. The current structure is organized around river catchment areas, with seven licensed regional water and wastewater companies ("RWCs") regulated by the WSRA. These RWCs operate as wholly-owned JSC under the Government of Kosovo represented by the MoE.

The country has four operational WWTPs in the larger cities of Prizren, Peja, Gjakova, and Skenderaj and several others currently under development, including WWTPs for Gjilan and Mitrovica, with EU and EBRD financing, and for Pristina with EU grants and a sovereign bilateral loan from the French government. There are plans to also develop a WWTP for the Podujevë region, albeit in the very early stages of conceptualisation.

Institutional responsibilities are clearly defined as following: (i) the Government manages sector policy and legislation, (ii) the WSRA handles tariff setting and customer protection, and (iii) RWCs deliver services to customers. [REDACTED].

As per the Regulation on Determination of Tariffs for Water Services in Kosovo (2020), water supply tariffs consist of fixed and volumetric charges based on metered consumption, while wastewater service tariffs are volume-based. In cases where a customer has a wastewater connection but not a water supply connection, a flat rate based on estimated wastewater discharge is applied. Tariff reviews are set for a period of not less than three years.

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 MACROECONOMIC OUTLOOK FOR KOSOVO

Kosovo's economy grew robustly over the last years, averaging 4% annually. Output expanded at a rate of 3.9% year on year in the first quarter of 2023, as strong service exports offset a contraction in the exports of goods. Services were also driving growth on the production side, as diaspora inflows (counted as part of tourist arrivals) led to a double-digit expansion in the retail and tourism sectors. Investment growth remained muted, reflecting in part limited implementation of the public investment programme. Household consumption weakened, but growth remained positive as strong remittance inflows, credit growth and a hike in public sector wages in February 2023 bolstered disposable incomes. Inflation moderated to 2.4% in July 2023, mirroring the global inflationary slowdown.

Fiscal policy is expected to remain moderate in the medium-term. Following the end of IMF programme in August 2017, the Government has stuck to a prudent fiscal path during previous years, staying within the fiscal deficit ceiling of 2.0% (rule excludes IFI financed projects). Due to strong recovery in fiscal revenues, the fiscal deficit was only 0.2% of GDP in 2021 and 2022, and IMF projects that it will remain under 2% of GDP through the medium-term.

In April 2023, Kosovo reached an agreement with IMF on economic policies to be supported by a 24-month stand-by arrangement of around EUR 100 million, and an arrangement under the resilience and sustainability facility of about EUR 78 million. These agreements include elements on fiscal governance, financial stability as well as structural challenges and are meant to mitigate downside risks and support Kosovo's efforts to strengthen capacity to preserve macroeconomic stability, close policy gaps, and deliver greener growth.

Kosovo has relatively low public debt levels and has moderate capacity to increase sovereign borrowing. While sovereign debt levels increased during and after the pandemic, the public debt as percentage of GDP has decreased to a healthy level of 19.9% in 2022. [REDACTED].

Kosovo's widening current account deficit to 10.5% of GDP in 2022 reflected the increase in food and energy imports. The large trade deficit in goods is mainly 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.

Continued compliance with the fiscal rule remains the key anchor to preserve fiscal sustainability in the medium term. Extending the maturity of debt and diversifying the sources of financing remain key policy priorities to contain financing risks.

5.2 PROJECT'S ECONOMIC INTERNAL RATE OF RETURN

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). Environmental and social ("E&S") due diligence ("ESDD") was conducted by an independent consultant, including a company audit and assessment of E&S project risks and impacts in line with EBRD's E&S Policy and Performance Requirements ("PRs"). The ESDD findings showed that the Company has a set of E&S procedures in place for mitigation of the E&S risks during the Project's implementation and operation, which have been developed as part of the external certification for the ISO 9001, ISO 14001, ISO 17025 and ISO 18001 management systems. The ESDD has identified a few areas for improvement to structure the Project to align with the Bank's 2019 PRs and good international practice, which have been included in agreed ESAP.

National permitting procedures will need to be adhered to and a set of permits obtained. Project-specific contractor management procedures for the construction period will be part of the Construction Environmental and Social Management Plan ("CESMP") to be developed by the PIU and implemented by construction constructor under the monitoring of PIU and external third-party supervision. In line with ESAP, the contractor will also need to develop a Management of Change Procedure for design finalisation, to adequately manage any design changes required during construction or other changes during construction. Operational impacts will be managed by the PIU within Environmental and Social Management System.

RWCB fully complies with the Kosovo Labour Law, and the Company's HR provisions and procedures are in line with local requirements and comply with PR 2. The contractors have not been selected yet and the contractors will need to implement an internal grievance mechanism for workers to fully comply with PR2. An external labour audit is also included in ESAP for the peak of construction to monitor compliance with PR2.

The Project will provide substantial environmental and health benefits by preventing pollution from discharges of untreated wastewater into the local river. Specific recommendations for water treatment will be implemented in the detailed design, including treatment of the wastewater to EU standards, reuse of sludge and energy efficiency of the plant. As a result of wastewater treatment process, expected reduction of CO₂ emissions are 12,099 tons CO₂e/year. Choosing anaerobic digestion of sludge with electricity production for WWTP needs (2,442 kWh/day and over 50% of the power requirements) will contribute to reduction in GHG emissions. The pollution prevention and control, including control of odour, as well as management of health and safety risks will be ensured through ESAP measures to develop and implement CESMP, with accompanying sub-plans.

A Land Acquisition and Livelihood Restoration Framework ("LALRF") has been prepared as part of the ESDD in line with PR5, including measures for closing gaps with PR5, engagement of vulnerable and different ethnic groups. The Project and its associated facilities (500 m overhead line, access road and extension of main collector sewage) are not expected to involve physical displacement. It is expected that 33 land plots will be expropriated. ESAP stipulates preparation of a Land Acquisition and Livelihood Restoration Plan ("LALRP") based on the framework, which will be developed once the exact nature and scope of land acquisition become known, to ensure full compliance with PR5. Delivery of the plan will be monitored by regular reporting of PIU and a final external completion audit.

The Project is not located in a sensitive area in terms of Natura 2000 sites or locally protected areas. The screening for critical habitats was undertaken as part of the ESDD, which identified one habitat type (E3.4 Moist or wet eutrophic and mesotrophic grassland) needing targeted compensation measures in line with the ESAP and ESMP, as it met the criteria for priority biodiversity feature designation. No

impacts on the known cultural heritage are expected and chance finds will be managed through a Chance Find Procedure, as stipulated by ESAP.

The Company has capacity to implement the Stakeholder Engagement Plan ("SEP") prepared for the Project and will develop a grievance mechanism to address complaints for external stakeholders, in line with the ESAP. Both SEP and Non-Technical Summary will be publicly disclosed in English and local languages.

The Bank will monitor the implementation of the Project through review of annual monitoring reports and site visits, as required.

6.2 INTEGRITY

In conjunction with OCCO, an updated integrity review was performed on the Company, MoF, the Company's key managers and other relevant parties. [REDACTED].

All actions required applicable by 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.

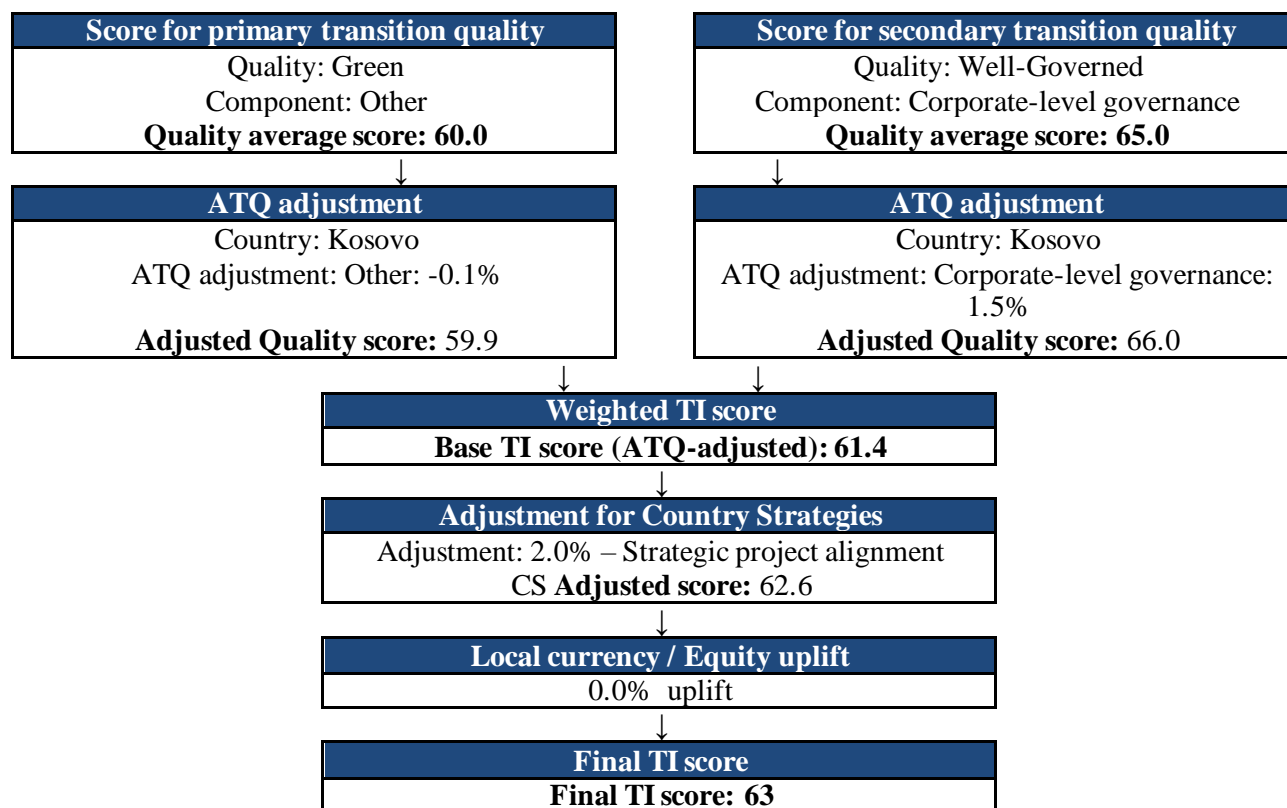
6.3 AFFORDABILITY ANALYSIS

An affordability analysis for the Project depicts that the wastewater services are expected to remain affordable for both average and low-income households throughout the Project's lifetime [REDACTED].

ANNEXES TO OPERATION REPORT

ANNEX 1	Transition Impact Scoring Chart
ANNEX 2	Project Description
ANNEX 3	Green Assessment
ANNEX 4	Project Implementation

ANNEX 1 - TRANSITION IMPACT SCORING CHART



ANNEX 2 – PROJECT DESCRIPTION

Project area

Ferizaj Municipality is located approximately 44 km to the south of Pristina, the capital city of Kosovo. The location of the municipality is unusual in that the Nerodime River is transboundary and flows from the west and bifurcates to two river basins: i) the Nerodime River continues to the South and flows to the Lepenc and Vardar Rivers and flows to the Aegean Sea; ii) the river splits to the north to the Sitnica River and the Danube River and the Black Sea. A separate catchment of small rivers in the East flows to the Morava River and eventually to the Danube River. Consequently, there are three catchments, playing a critical role as they lay the basis for the long-term sewerage strategy for the municipality. Out of the three, South catchment is substantially the largest.

Existing situation

Kosovo is currently suffering from a net migration. Similarly, the population in Ferizaj Municipality is dropping based on government statistics. The current population is approx. 106,000, and the population growth is negative 0.5% per annum. [REDACTED].

The water and wastewater infrastructure in the city of Ferizaj is operated and managed by the public entity RWCB. Since 2014, the utility has also expanded its operations to provide water and wastewater services in the neighbouring municipalities of Kaçanik and Hani i Elezit. [REDACTED].

RWCB provides water supply services to the customers in the municipalities of Ferizaj, Kaçanik and Hani i Elezit and aims to extend the services in the municipality of Shtërpce. The main water supply to Ferizaj – to the city and to the six surrounding villages – comes from water abstracted from four sources and treated at the Pleshinë DWTP located in the hills above and to the west of Ferizaj.

Currently, there are no municipal wastewater treatment facilities in Ferizaj city. Nerodime River is transboundary (with North Macedonia and Greece) and is a source of drinking water downstream.

The Project

To address untreated wastewater discharges and in line with the EU Urban Waste Water Treatment Directive and Kosovo Administrative Instruction (MESPI) No. 2/2022, Ferizaj South WWTP will be constructed to meet the discharge standards for sensitive receiving water bodies. The plant will be designed to serve approximately 90,000 people at the largest catchment and three additional villages located in Kaçanik [REDACTED].

The Project is expected to transmit the wastewater generated by approximately 75% of the population in Ferizaj Municipality [REDACTED]. This will have a significant improvement on the water quality of the transboundary Nerodime River as well as contributing to the EU's Water Framework Directive. [REDACTED]

ANNEX 3 – GREEN ASSESSMENT

Introduction

- The Project involves the construction of a wastewater treatment plant and improvement of the network in line with the EU standards.
- The Project is assessed as **aligned with the goals of the Paris Agreement** based on the ‘direct finance’ methodology.
- The Project qualifies for **100 per cent GET** climate mitigation and environment finance.

Paris alignment assessment

Alignment with the mitigation goals of Paris Agreement: general screening

- The project/economic activity is **included** in the 'aligned list' and there are no accompanying conditions.
- Regarding project/economic activities, there are **no** activities included in the 'non-aligned list'.

Conclusion: *The Project is assessed as aligned with the mitigation goals of Paris Agreement (**BB1 aligned**).*

Alignment with the adaptation goals of Paris Agreement

- Internal screening of the Project has identified **extreme heat events, increased water stress, drought and flooding** as potentially material physical climate risk(s) for the Project location.
- A climate risk assessment was undertaken as part of the technical due diligence. As a response, the Project incorporates adaptation responses to ensure assets are resilient to identified material risks:
 - [REDACTED].
- The Project is unlikely to undermine climate resilience of the system in which it operates.

Conclusion: *The project is assessed as aligned with the adaptation goals of Paris Agreement (**BB2 aligned**).*

GET attribution

- The Project is attributed both climate mitigation and environment GET finance.
- The main GET impact expected out of the investment are:
 - Climate change mitigation: The Project will lead to significant Scope 1 emission reductions due to wastewater treatment. The baseline in this analysis is a without project scenario where the wastewater is stored in septic tanks. [REDACTED].
 - Sustainable use and protection of water and marine resources: The Project will lead to significant environmental benefits by increasing the treated amount of wastewater and complying with the relevant EU regulations.

[REDACTED] Conclusion: *The Project is **100% GET**.*

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public, sovereign*

[REDACTED]. The PIU is not yet established, but support in establishment and training of the PIU is included as a first task in the PIU Support Consultant's assignment.

[REDACTED]. An experienced PIU and supervision consultant will guide the Company and the PIU through tender preparation, procurement process and contract administration to mitigate this risk.

Contracts risk assessment - Medium

The Contracts included in the Project are detailed in the Procurement Plan [REDACTED].

Overall, the nature of the works contracts are not very complex, but management of a Design and Build contract based on FIDIC Yellow Book could prove somewhat challenging [REDACTED]. Apart from standard contract management practices, this will require complex interface management to ensure that the Contractor's detailed design can be approved timely and then used for finalisation and implementation of a land acquisition and resettlement process, while correctly managing the contractor's suspension of works until the work site becomes available (due to land acquisition).

The support of an experienced consultant who will prepare the conceptual and detailed designs as well as technical specifications for Goods will ensure that employer's requirements and tender documents are suitable for open tendering. In addition, the Consultant will be required to act as "the Engineer" under the FIDIC contracts, thus ensuring rigorous contract management to minimise delays and resulting claims.

Project implementation arrangements:

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

The PIU will be supported by an experienced PIU Support Consultant who will be responsible for hands-on support in all planning, project management and procurement processes.

[REDACTED]. [A] Bank-led individual consultant will be provided in the inception phase of the Project to provide basic training to the PIU in EBRD PP&R, and to provide hands-on support in selection of a PIU Consultant.

Once the Consultant comes on-board, they will take over the project implementation support, starting with support in establishment of PIU operating procedures and capacity building, and in parallel working on preparation of conceptual and detailed designs for subsequent capex tendering.

Procurement arrangements:

All Goods, Works and Services (including Consultancy Services) included in the Project will be procured following open tendering and competitive selection procedures in line with EBRD PP&R 2022, using the Bank's latest standard procurement document templates.

All contracts will be subject to prior review.

All procurement will be conducted through ECEPP.

No deviation or derogation from PP&R is envisaged or requested. [REDACTED].