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# LABOR TRANSITION IN THE COAL SECTOR

SOUTHEAST EUROPE

## APPENDIX F: KOSOVO

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# ABBREVIATIONS

CIDA	Canadian International Development Agency
CPD	Coal Production Division
CREP	Country Reviews of Employment Policy
CSW	Centers for Social Work
DIFD	Department for International Development
DLE	Department of Labor and Employment
EAR	European Agency for Reconstruction
EBRD	European Bank for Reconstruction and Development
EC	European Community
ECSEE	Energy Community of South East Europe
ESBI	Electricity Supply Board International
ESTAP	Energy Sector Technical Assistance Project
EU	European Union
ICMM	Independent Commission of Mines and Minerals
ICR	Implementation Completion and Results Report
IEP	Inspectorate of Environmental Protection
IMF	International Monetary Fund
ISO	International Standardization Organization
KEK	Korporata ENERJETIKE e Kosovës (Energy Company of Kosovo)
KEM	Kosovo Economic Memorandum
KEPA	Kosovo Environmental Protection Agency
KFOR	Kosovo Force
KPST	Kosovo Pension Savings Trust
KTA	Kosovo Trust Agency
MEM	Ministry of Energy and Mines
MESP	Ministry for Environmental and Spatial Planning
MLSW	Ministry of Labor and Social Welfare
NGO	Non Governmental Organizations
PAD	Project Appraisal Document
PID	Project Information Document
PISG	Provisional Institution of Self Government (in Kosovo)
POE	Publicly Owned Enterprises
SCADA	Supervisory and Data Acquisition
SEE	South East Europe
SME	Small and Medium-sized Enterprises
SOE	Socially Owned Enterprise
TPP	Thermal Power Plant
TSO	Transition and Systems Operator
UCTE	Union for Cooperation and Transmission of Electricity
UN	United Nations
UNDP	United Nations Development Program
UNMIK	United Nations Mission in Kosovo
USAID	United States Agency for International Development

Technical Terms:

Gj	Giga Joules
GWh	Giga Watt Hour
MMST	Million Short Ton
MW	Mega Watts
Mt	Million tons

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective October 2006)

Current Unit = Euro

Euro €1 = USD \$ 1.26

USD \$ 1 = Euro € .793

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## Appendix F

# KOSOVO

This report presents specific information on the labor sector in Kosovo. It is part of a regional assessment of the labor force associated with coal mines and coal-fired power plants in Southeast Europe.<sup>1</sup>

Labor Opportunities	Labor Challenges
<ul style="list-style-type: none"><li>• Potential for development of mining, energy, and agriculture sectors</li><li>• Development of Sibovc field to exploit coal reserves</li></ul>	<ul style="list-style-type: none"><li>• Nascent institutions and management, leadership, and commercial market skills</li><li>• Growing knowledge and skills gap between aging workforce and young, unskilled population</li><li>• Mine and utility over-staffing and low productivity</li><li>• Coal mining employment reduced by 2,578 employees since 1995</li><li>• Lack of active labor market policies</li></ul>

## I. OVERVIEW AND BACKGROUND<sup>2</sup>

### Political Framework: Interim Administration

Since 1999, the principal group of nations that monitors and supervises international policy in Kosovo is the Contact Group, which coordinates Kosovo policy with the United Nations Interim Administrative Mission in Kosovo (UNMIK).<sup>3</sup> Also involved in Kosovo policy development are the European Union, four of the five Permanent Members of the United Nations (UN) Security Council (United States, United Kingdom, France and Russia), the major contributing nations to the UNMIK's peace-keeping force ("Kosovo Force" or KFOR), and assistance donors to Kosovo. Despite efforts to strengthen the governmental structure through the use of the Provisional Institution of Self Government (PISG), the UNMIK remains the dominant political institution.

Almost 36% of Kosovo's approximately 2 million residents (90% Albanian; 5% Serbian; 5% Croats, Roma, and Turks) live below the poverty line. Half are below 24 years of age and about 47% are unemployed – a significantly higher unemployment rate than anywhere else in the Balkans.

Kosovo's key energy resource is its extensive lignite deposits, which comprise the world's fifth-largest proven reserves. Lignite production accounts for 97% of the country's total electricity generation, with the remaining 3% based on hydroelectric power generation.<sup>4</sup> The country's hydroelectric potential is

<sup>1</sup> The *Labor Transition in the Coal Sector: Southeast Europe* report in its entirety, including all appendices, will be available online through the USAID Development Experience Clearinghouse at <http://dec.usaid.gov> (PN-ADI-883).

<sup>2</sup> World Bank. *Project Information Document (PID): Energy Sector Technical Assistance Project III*, Report No. AB1373. (Washington: World Bank, 28 February 2005).

<sup>3</sup> US Department of State. Kosovo Background Information Website, <http://www.state.gov/p/eur/ci/yi/c13101.htm> (accessed 10 January 2006).

<sup>4</sup> "Kosovo Land of Opportunity for European Mining and Energy," *Mining Journal*, (October 2005).

very modest. Kosovo's electrification is nearly 100%, with 360,000 customers. Only seven villages lack electricity due to damage from the 1998-1999 conflict and de-mining difficulties. Over the last ten years, the consumer mix has shifted from high-value, high-volume industrial consumers to subsidized, low-voltage households. Household share of consumption increased from 26% to 75%, while industry share fell from 67% to 12%. Kosovo possesses no other fossil fuel resource, no natural gas import or gas supply infrastructure, and no oil refinery. It depends entirely on imported liquid fuels.

District heating networks service approximately 11,000 consumers in three cities, meeting only 5% of heat demand and resulting in an excessive demand load on the power system.<sup>5</sup> Heating needs have increased for rural housing, leading many people to move into the cities. As might be expected, the residential consumption of electricity in December is more than twice that of July, as electricity is used for heating in addition to power.

Traditionally, state-owned coal mining and power generation were mainstays of Kosovo's economy, providing direct and indirect employment, sources of revenue, export earnings, and inputs to downstream industries. Now the sectors have become a drain on public resources. Electricity supply is often regulated to two hours of black-out for every four hours of supply. This lack of reliable supply is proving to be a primary obstacle to economic growth. The Kosovo Economic Memorandum (KEM) regarding-term economic outlook relies on the development of three sectors: mining, energy, and agriculture.

The data's most significant highlights are the drastic reduction in electricity production after 1997, the conversion of Kosovo from an exporter to an importer of electricity because of a lack of production capacity, and relatively higher peak demand due to increased reliance on electricity for heating and cooking.<sup>6</sup>

### **Power Utility – Background**

UNMIK created the power utility Kosovo Energy Corporation (Korporata Energjetike e Kosovës – KEK) to reestablish basic functions in 1999. The sector suffered conflict damage, which worsened a history of poor management.<sup>7</sup> In 1999, Kosovo became a net importer of electricity rather than an exporter, as it had been in 1989. However, the cost of Kosovo's lignite-fuelled electricity is the lowest in the region and, at €0.62/GJ (\$0.79/GJ), compares favorably with €0.88/GJ (\$1.12/GJ) in Bulgaria and €1.34/GJ (\$1.70/GJ) in Serbia and Montenegro.<sup>8</sup>

KEK is characterized by a dilapidated infrastructure, large technical and non-technical losses (including consumer meter by-passing, illegal connections, and non-payment); poor billing and collection rates; overstaffing and low productivity; and inefficient labor practices. KEK receives payment for only 40% of the electricity it generates.<sup>9</sup> KEK's poor operational and financial performance has resulted in the electricity sector becoming not only an obstacle to growth but a fiscal burden.

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<sup>5</sup> World Bank. *Project Appraisal Document (PAD) Energy Sector Technical Assistance Project (ESTAP) II*, Report No. 25690 (Washington: World Bank, May 2003)

<sup>6</sup> World Bank, *Project Information Document (PID) Energy Sector Technical Assistance Project (ESTAP)*. Report No. 9644 (Washington: World Bank, June 2001).

<sup>7</sup> European Agency for Reconstruction (EAR), *Annual Programme 2002 for Kosovo*, Implementing Bodies: European Agency for Reconstruction, European Commission, (2002).

<sup>8</sup> "Kosovo Land of Opportunity for European Mining and Energy," 2005.

<sup>9</sup> *Ibid.*: 4.

Kosovo's power and coal sector management lacks fundamental market-based skills for effective commercial leadership, including market orientation, decentralized planning mechanisms, public administration experience, internal management information and communication systems, and leadership ability.<sup>10</sup>

KEK's low salary structure affects management motivation, while overstaffing occurs at many levels. Management has a growing knowledge and skills gap, particularly between KEK's older workforce and a young, unskilled population.<sup>11</sup>

KEK was recently incorporated and is now a state-owned joint stock company. Like other publicly owned enterprises, KEK has been under the trusteeship of Kosovo Trust Agency (KTA) since 2002. From July 2004, KEK has been managed by Electricity Supply Board International (ESBI), an Irish company, through a turn-around management contract funded by the Kosovo consolidated budget. The contract expired in June 2006 and plans were to extend the contract to December 2006 with donor funding. In addition, the United States Agency for International Development (USAID) has proposed to assist KEK in aspects of post-ESBI transition management.<sup>12</sup>

A Managing Board and Supervisory Board (comprised of representatives from KTA, UNMIK Pillar IV, and the PISG) serves as KEK's present management structure. KEK has not been formally removed from the former Yugoslavia power grid or its administration.

### KEK's Organizational Structure

The utility operates lignite mines, and power generation, transmission and distribution networks. KEK consists of:

- Coal Production Division, including
  - Two lignite mines at Bardh and Mirash
- Energy Production/Power Plant Division, including
  - Two lignite power plants (Kosovo A and B)
  - One hydropower plant at Gazivode (built in 1981)

The Coal Production Division manages an integrated energy production system, including coal mining, transport and processing.

KEK has seven non-core divisions:

- I. INKOS (The Institute for Research and Development)



<sup>10</sup> EAR, *Annual Programme 2002 for Kosovo*, 2002.

<sup>11</sup> Ibid.

<sup>12</sup> World Bank, *PAD Energy Sector Cleanup and Land Reclamation Project*, Report No. 35870, (Washington: World Bank, 15 May 2006).

2. Work Medical Institute (health services for workers)
3. Electro Engineering (high-voltage transmission circuit design and construction)
4. MetalKos (scrap metal)
5. AutoTransport (KEK worker transportation)
6. Civil workers (civil engineering)
7. Canteens (restaurants that function as independent units, with separate bank accounts, management, staff, procurement and outside clients).

To date, little attention has been given to labor restructuring in Kosovo. This report assesses current labor trends in the sector, as well as the state of readiness of employment programs and assistance services to mitigate the effect of coal and electricity sector restructuring on labor.

## II. COAL MINING – BACKGROUND INFORMATION

Coal exploitation in Kosovo began in 1922 on a small scale in the Kosovo Basin. There are three coal basins in Kosovo. An estimated 12 billion metric tons of high-quality, easily accessible lignite coal in open pit mines are adjacent to the power plants.<sup>13</sup> Although lignite is distributed across the Kosovo, Dukagjin and Drenica Basins, mining has been confined primarily to the Kosovo Basin.

### Coal Mine and Labor Force Summary: Kosovo<sup>14</sup>

	Production	Type of Coal	Exploitable Coal Reserves	Number of Employees	Est. Workforce Change
Lignite Total	7.05 million tons (2005)	Lignite	11,503 million tons	3698 (2006) <sup>15</sup>	7.05 million tons (2005)
Mirash (Opened in 1958)	3.65 million tons/year	Lignite	Estimated to be exhausted by 2007 – 2009	1227	
Bardh (Opened in 1969)	3.4 million tons/year	Lignite		1222	



Mirash Coal Mine (Picture Source: KEK Pre-feasibility EIA, for Energy Sector Cleanup and Land Reclamation Project)

- Two open pits (Belacevac and Dobro Selo, with a production of 16.5 million tons) discontinued production, further reducing power generation by the Kosovo A and B power plants.<sup>16</sup>

<sup>13</sup> EAR, *Annual Programme 2002 for Kosovo*, 2002.

<sup>14</sup> Kosovo Energy Corporation (KEK), Official Website, (2006) <http://www.kek-energy.com>, (accessed 13 October 2006).

<sup>15</sup> KEK Database (April 2006).

<sup>16</sup> World Energy Council., *Restructuring and privatizing the Coal Industries in Central and Eastern Europe and the CIS*. (London: World Energy Council, 2000): 181.

- Current mining operations are approaching physical collapse after more than a decade of irrational mining practices, chronic under-funding, localized landslides, urban encroachment, and uncontrolled lignite fires.
- According to latest estimates, the Mirash and Bardh mines will exhaust reserves by 2007-2009, depending on the level of power generation.<sup>17</sup>
- Sustained lignite supply is dependent on development of the Sibovc coal field.
- Coal production remains well below the 25,000 metric tons per day (9.1 million tons annually) required to fuel the power stations at full capacity.<sup>18</sup>

### Coal Production Levels<sup>19</sup>

In millions of tons	July – December 1999	FY2000	FY2002	FY2006
<b>Mirash and Bardh Mines</b>	1.1	3.0	5.5	7.05
<b>Employee Approximation</b>	7,716	4,280	N/A	3,698 (2005)

### COAL PRODUCTION DIVISION – WORKFORCE DEMOGRAPHICS

#### Employment by Function Coal Production Division<sup>20</sup>

UNITS	EMPLOYEES
Support functions	28
Engineering	59
<b>Bardh mine</b>	<b>1222</b>
<b>Mirash mine</b>	<b>1227</b>
Maintenance	669
Separations Plant	443
<b>Total</b>	<b>3648</b>

Assumption: 50 administrative employees complete 3,698 total workforce

Currently, KEK's Coal Production Division (CPD) employs 3,698 people, of which 2,449 (66%) are mine employees. A total of 815 people receive pensions from the KEK trust fund and are not included in the overall number of employees. In addition, 6,500 Serbs lost jobs in what is now the KEK, and the Serbia Labor Minister announced an intention to seek compensation.<sup>21</sup>

<sup>17</sup> World Bank, *PAD: Energy Sector Technical Assistance Project (ESTAP) III*, Report No. 31430-XK, (Washington: World Bank, 24 February 2005).

<sup>18</sup> EAR, *Annual Programme 2002 for Kosovo*, 2002.

<sup>19</sup> World Bank, *PID: Kosovo ESTAP*, 2001.

<sup>20</sup> KEK Database 2006.

<sup>21</sup> International Crisis Group, *Kosovo: The Challenge of Transition*, Europe Report No. 170, (Pristina: International Crisis Group, 17 February 2006, [http://www.crisisgroup.org/library/documents/europe/balkans/170\\_kosovo\\_\\_\\_the\\_challenge\\_of\\_transition.pdf](http://www.crisisgroup.org/library/documents/europe/balkans/170_kosovo___the_challenge_of_transition.pdf)).

**KEK Coal Production Division's workforce is aging and predominantly male; 39% are low-skilled.**

Age:	47%	41-52 years (1,738)
	18%	53-65 years (666)
	35%	under 40 (1,294)
Gender:		3587 male
		111 female (3%)
Education:		39% low-skilled (1,442)
		50% industrial training (1,849)
		11% college or university (407)

**MINING WORKFORCE TRENDS**

CPD's workforce has *declined 41%* (by 2,578 employees) since 1995.

**Workforce Reductions 1995-2005: Coal Production Division – KEK<sup>22</sup>**

	1995	1996	1999	2000	2001	2002	2003	2004	2005
No. of employees	6276	6688	7176	4280	4217	N/A	4059	3694	3698

**A reduction of 3,548 coal production employees** is projected over the next six years. No salary increases are expected through 2012. However, recent plans to develop a new Sibovc mine and power plant may dramatically reduce the projected workforce losses.

**Planned Reductions 2005-2011: Coal Production Division – KEK<sup>23</sup>**

	2005	2006	2007	2008	2009	2010	2011	2012
Necessary employees	3698	3593	3420	2780	2230	1070	850	45
Average monthly salary per employee in € (\$USD)	€270 (\$340)							

<sup>22</sup> KEK Database 2006.

<sup>23</sup> Ibid.

### III. COAL-FIRED POWER PLANTS

The two lignite-fired power plants, Kosovo A and Kosovo B, are near Pristina and the coal mines.

#### Kosovo Coal-Fired Power Plants<sup>24</sup>

	Production (GWh/year) <sup>25</sup>	Year Opened	Number of Units Installed capacity (2003)	Coal Use	Number of Employees in 2006
Kosovo	4046				1582
Kosovo A <ul style="list-style-type: none"> <li>• All five units rehabilitated</li> <li>• Near the end of useful life</li> <li>• Rehabilitation of A3, A4 and A5 would postpone more generation additions until 2013</li> </ul>	746	1962	5 units (800MW)	Lignite	
Kosovo B <ul style="list-style-type: none"> <li>• Both units B1, B2 rehabilitated</li> <li>▪ Twenty years added to life cycle</li> </ul>	3300	1983	2 units (339 MW each)	Lignite	

- A power transmission master plan identifies the need for substantial investments in substations and transmission lines.
- The transmission line system is being connected with neighboring systems outside Kosovo to improve power exchanges between the power systems of the Second Synchronous Zone of the Union for the Coordination of Transmission of Electricity (UCTE).<sup>26</sup>
- The maximum design capacity of the Kosovo A and B units exceeds Kosovo's summer power needs, but is insufficient to meet peak winter demand (when 64% of electricity is used for heating).<sup>27</sup>
- Actions to reduce pollution to European Union (EU) standards for Kosovo A and B have begun, except for Kosovo A1, which is scheduled for phase-out in 2007.

KEK conducts the only lignite mining operation in Kosovo but low availability of coal supplies has limited thermal power production.<sup>28</sup>

#### ELECTRICITY PRODUCTION DIVISION – WORKFORCE DEMOGRAPHICS

KEK's **Division of Energy Production/Power Plants** currently employs 1,582 people, of which 1,125 (71%) are power plant employees.

<sup>24</sup> KEK, Website, 2006.

<sup>25</sup> Electric Power Industry of Serbia (EPS), *Electric Power Industry of Serbia: 2005 EPS Annual Report* (Belgrade: EPS 2005).

<sup>26</sup> World Bank, *PAD: UNMIK ESTAP II*, 2003: 3.

<sup>27</sup> EAR, *Annual Programme 2002 for Kosovo*, 2002.

<sup>28</sup> World Bank, *PID: Kosovo ESTAP*, 2001.

**Energy Production/Power Plant Division  
Employment by Function<sup>29</sup>**

<b>Units</b>	<b>Employees</b>
Administration	9
Engineering	122
Support functions	1
Maintenance	325
<b>TPP Kosova – A</b>	<b>679</b>
<b>TPP Kosova – B</b>	<b>446</b>
<b>Total</b>	<b>1582</b>

**ELECTRICITY WORKFORCE TRENDS**

No data were available about past or planned power plant staffing reductions.

**The power plant workforce is aging and predominantly male; the majority are low-skilled:**

Age: 47% 41-51 years  
30% 53-65 years  
23% under 40

Gender: 1513 male  
69 female (4%)

Education: 46% low-skilled  
43% industrial training  
11% college or university

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<sup>29</sup> KEK Database 2006.

## MINING AND POWER PLANT EMPLOYMENT BY MUNICIPALITY

The following chart summarizes and compares the coal sector employment by municipality in Kosovo.

**Employment by Municipality, April 2006<sup>30</sup>**

Municipalities	Mining Sector		Division of Energy Production/Power Plant		Total	
	No. of Employees	%	No. of Employees	%	No. of Employees	%
Podujevë	150	4.2	131	8	281	5
Decan	1	0	-	-	1	0
Glogoc	262	7.3	28	2	290	6
Ferizaj	1	0	5	0.3	6	.1
Fushë Kosovë	740	21	78	5	818	16
Istog	1	0	1	0.1	2	0
Obilic	818	23	338	21	1156	22
Kamenicë	0	0	1	0.1	1	0
Klinë	4	0.1	-	-	4	.1
Leposavic	1	0	-	-	1	0
Lipjan	50	1.4	27	2	77	2
Malishevë	3	0.1	-	-	3	.1
Medvegjë	2	0.1	-	-	2	0
Mitrovicë	57	1.6	20	1.3	77	2
Prishtinë	788	22	670	42	1458	28
Shtime	0	0	2	.1	2	0
Skenderaj	59	1.6	2	.1	61	1
Suharekë	1	0	-	-	1	0
Viti	0	0	1	0.1	1	0
Vushtri	664	18	278	18	942	18
<b>Total</b>	<b>3602</b>	<b>100</b>	<b>1582</b>	<b>100</b>	<b>5184</b>	<b>100</b>

<sup>30</sup> KEK Database 2006

## IV. LABOR LAWS AND REGULATIONS

Few – if any – active labor market policies appear to be in place to assist the unemployed. There are current legislative efforts to better define employment subsidies, inter-mediation, vocational training, micro-credits, and unemployment benefits.<sup>31</sup>

### Salary and Pension Payments

KEK provides workers with a social scheme that includes early retirement, voluntary retirement and forced retirement. An estimated 2,400 people received early retirement in the mine sector/coal production division. There is a hiring freeze in the sector, but there has been no additional cut in benefits, and all contracts provide for permanent placement.

### Social Programs

Before 1989, Kosovo operated its social protection schemes under the general umbrella of Federal Yugoslav legislation. The former pension system was generous by Western standards and included pensions and unemployment benefits. In 1990, various Kosovo pension and disability schemes merged with Serbian programs directed from Belgrade, and excluded Albanians from eligibility. Albanian staff members were also replaced by Serbs.

Benefits remained similar and – in practice – the scheme was purely a social insurance program. Only a comparatively small proportion of the population participated, almost all employed in the state sector. Perhaps a quarter or less of those over retirement age actually received a pension.

Social protection was subsidized from the budget and from the Fund for Undeveloped Regions, a Yugoslavia-wide fund that distributed resources from richer to poor regions, of which Kosovo was a major beneficiary. **The last payment was made in January or February 1999,**<sup>32</sup> and contributions ceased at about the same time. Kosovar experts note that the system had the largest arrears of any part of the former Yugoslavia when payments ceased. **Currently, the Fund is not paying any benefits and is only maintaining data on previous beneficiaries.**

Social programs were abandoned in 1999 and basic social protection has been provided by extended family networks, remittances from the Albanian community outside Kosovo, or from various humanitarian organizations (in particular, the Mother Teresa Society).<sup>33</sup>

### Key Provisions Labor Laws and Regulations Kosovo

Collective Agreements	
Union Representation	●
Early Warning	
Planning Committees (Company)	
Community Planning	
Migration Program	
Social Insurance	
Pensions	●
Health Insurance	●
Severances	
Wait Listing	
Early Retirement	●
Forced Retirement	●
Voluntary Retirement	●
Hiring Freeze	●
One-Time Financial Compensation	
Retraining	
Alternative Employment	
Vocational Training	
Social Programs	●
Health and Safety	
Medical Care	
Inspections	
Safety Gear	
Hazardous Work Compensation	
Meals	
Environmental Protection	●

<sup>31</sup> Kushtrim Shaipi, *Report on the Present State and Future of Social Security in Kosovo*, Social Institute Support Program, Council of Europe, (Pristina: KODI Institute 2005): 3.

<sup>32</sup> World Bank. *Project Appraisal Document (PAD) Kosovo Social Protection Project*, Report No: 22503-KOS., (Washington: World Bank, 2001): Annex 11: The Pre-Conflict Social Protection Structure.

<sup>33</sup>Ibid.: 3.

## Current Social and Pension Programs

Kosovo has established a rudimentary social assistance program for the most vulnerable unemployed households. Resources are drawn from the Kosovo budget, but limited budget resources place an obvious constraint on re-establishing the system.

Since March 2002, state- and socially-owned enterprises with more than 500 employees have been required to contribute to two types of pension programs financed by compulsory contributions from employees and employers. Supplementary pensions may be provided by an employer or individual, but there are no providers currently licensed in Kosovo.<sup>34</sup>

The **Kosovo Pension Savings Trust (KPST)** manages the pension scheme as an independent legal entity under the supervision of the Banking and Payments Authority. Responsibilities include managing Individual Accounts for Savings Pensions, investments, and acting as a trustee for beneficiaries.<sup>35</sup>

The **Ministry of Labor and Social Welfare (MLSW)** develops regulations for social protection in a tripartite system consisting of the Government, Labor Union, and Chamber of Commerce.<sup>36</sup> In the MLSW, the following oversee labor market measures:

- The **Department of Labor and Employment (DLE)** is responsible for designing and implementing active labor market policies, including unemployment registration and employment assistance.
- The **Kosovo Pension Administration** manages the basic pension program.
- **The Centers for Social Work (CSW)** administer the social assistance scheme through 31 Centers throughout Kosovo's municipalities. The program connects with employment bureaus, as some beneficiaries are required to provide documentation of unemployment.

Kosovo also has more than 500 NGOs, of which more than 200 are international. Many are recent and formed to attract donor funds, but lack a clear understanding of what an NGO sector can or should do. Collaboration between NGOs is limited, and there is significant competition for funding.<sup>37</sup>

## Donor Activity (See Annex A)

Major donors with significant past, on-going, or planned activities include a range of EU Member States, the IMF, World Bank, USA-USAID, and UNDP.

The European Commission (through the European Agency for Reconstruction) has contributed more than €398 million (\$501 million) to Kosovo's energy sector.<sup>38</sup> In 2006, EAR budgeted €3.9 million (\$4.9 million) to continue its support for Kosovo's management framework and to support integration into the Energy Community of Southeast Europe (ECSEE). Other programs have or will include:<sup>39</sup>

- assistance to the Ministry of Energy and Mining to develop the Kosovo Energy Strategy 2005-2015
- support of implementation of the Energy Strategy

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<sup>34</sup> Shaipi 2005: 3.

<sup>35</sup> Ibid.

<sup>36</sup> Ibid.

<sup>37</sup> World Bank, *PAD: Social Protection Project*, 2001: 4.

<sup>38</sup> EAR, *The EU at Work in Kosovo*. (2006),

[http://www.ear.eu.int/publications/main/documents/2006\\_CC\\_EN\\_KOSOVO.pdf](http://www.ear.eu.int/publications/main/documents/2006_CC_EN_KOSOVO.pdf). Accessed on 8/16/2006.

<sup>39</sup> European Commission, *Kosovo Annual Action Program* (2006).

- funds to establish the Energy Regulatory Office and the independent transmission system
- further development of the KEK Training Center to improve employee technical and management skills<sup>40</sup>
- a demand-driven vocational education and training system for youth and adults, with assistance to the Ministry of Labor and Social Welfare for training the unemployed and job seekers
- employment generation and socio-economic development with disadvantaged minority communities, particularly Roma
- development of the Investment Promotion Agency to support investment and promote exports
- support for the Ministry of Trade and Industry to create jobs and increase incomes in areas of high unemployment
- development of the rural economy, with particular attention to women and minorities

Donors and the PISG are reaching consensus on specific actions in the energy sector, including:<sup>41</sup>

- developing a Power Sector Action Plan to improve billing and collection
- developing a financing plan for a new mine to reduce blackouts
- reducing air and water pollution from power plants
- reclaiming lands covered by ash piles and overburden
- establishing framework and building local capacity for attracting private sector investments in new power plants and mines

The World Bank has continued to support development of lignite-powered electricity generation through two other ESTAPs. A Mining Development Strategy is underway. In 2006, the government requested further assistance from the World Bank to address environmental legacy issues and to develop a new mine and power plant. The Lignite Power Technical Assistance Project<sup>42</sup> was approved in October 2006 to encourage private development and investment and the Energy Sector Cleanup and Land Reclamation Project was approved in June 2006.<sup>43</sup> There are strong incentives for KEK to integrate clean-up and reclamation into its mining operations, as new mining licenses require that proper mine closing plans be in place.

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<sup>40</sup> European Agency for Reconstruction (EAR), *Annual Report to the European Parliament and the Council: January to December 2005* (EAR 12 June 2006): 25.

<sup>41</sup> World Bank, *PID: Lignite Power Technical Assistance Project*, Report No. AB2007 (Washington: World Bank, March 2006)

<sup>42</sup> World Bank, *Lignite Power Technical Assistance Project Proposal* (Washington: World Bank, March 2006).

<sup>43</sup> World Bank. *PAD Energy Sector Cleanup and Land Reclamation Project*, 2006.

## V. RESTRUCTURING AND PRIVATIZATION

Given the complex political situation, very limited progress has been made in privatizing socially-owned enterprises (SOEs) and restructuring publicly-owned enterprises (POEs). Ownership of KEK, mineral resources, and mines remain to be clarified with Serbia, which places a high priority on securing property and assets and therefore resists Kosovo's privatization program.

### Power Restructuring

Operational and financial audits were completed for KEK in 2003. KEK is in the process of unbundling from the Coal Production Division, beginning with electricity generation.

### Coal Sector Restructuring

By establishing the Coal Production Division, the basis is in place for a cost center within KEK to ensure responsibility and improve control of production costs. Coal sector restructuring has followed the World Bank-funded Energy Sector Technical Assistance Project (ESTAP) 2002 study recommendations to make lignite mining viable through sufficient production to meet power station requirements while gradually, but significantly, reducing the number of workers.<sup>44</sup>

The ESTAP study recommended that:

- Production of lignite increase to about 7.5 million tons/year from the existing mines
- Mining in Mirash East begin by 2005<sup>45</sup>
- All lignite (except about .05 million tons) be used for power generation
- A new Sibovc lignite mine be established by 2017<sup>46</sup> (Note: Development may require resettlement of Hade village.<sup>47</sup>)
- Naturally occurring fires that have been rampant in the Mirash and Bardh mines be extinguished
- Heating oil be used as a more efficient substitute for electricity and fuel wood<sup>48</sup>
- 1,000 hectares of ash dumps be reclaimed within 10 years, which could be sold to the public for cultivation<sup>49</sup>

### Status of Coal and Energy Restructuring Process in Kosovo

	CM	CPP
Unbundling	◐	◐
Producer Subsidization	◐	◐
<b>Corporatization</b>		
Separation of Transmission Network	-	◐
Separation of Distribution Network (ISO)	-	●
Independent Regulator	-	●
Liquidation of Non-Viable Entities	◐	◐
Refurbishment	◐	◐
<b>Commercialization</b>		
Liberalization/Deregulation	○	○
Price Stabilization	○	○
Consumer Subsidies	○	○
<b>Privatization</b>		
Private Investors	○	○

CM – Coal Mines ; CPP– Coal-Fired Power Plants  
 Completion Status:  
 ● Full ◐ Partial ○ None – Not applicable

<sup>44</sup> World Bank, *Implementation Completion and Results (ICR) Report Kosovo Energy Sector Technical Assistance Project (ESTAP)*, Report No. 25645 (Washington: World Bank, 11 June 2003): 6.

<sup>45</sup> World Bank, *PAD: UNMIK ESTAP II, 2003*.

<sup>46</sup> October 13, 2006, tender was announced for the Rehabilitation of Coal System for the new Sibovc south west mine in KEK.

<sup>47</sup> World Bank, *Project information Document (PID) Concept Stage: Kosovo Social and Environmental Support Project*, Report No. AB1792, (Washington: World Bank, 23 August 2005).

<sup>48</sup> World Bank, *PAD: UNMIK ESTAP II, 2003*.

<sup>49</sup> Ibid.

## Privatization and Restructuring Responsibility and Process

The Kosovo Trust Agency (KTA) is responsible for privatization of SOEs and restructuring strategies for POEs, as well as management of public utilities. SOEs and POEs represent 90% of Kosovo's industrial and mining base.

One priority objective is to incorporate the utilities into clearly defined legal entities. However, frequent KTA management changes and continued policy controversy over privatization program implementation has distracted management. KTA had three Directors between 2002 and 2004, and the POE department head position has been intermittently vacant, for as many as nine months.

The KTA employs three methods in the privatization process:

1. Spin-off: Assets and a limited number of liabilities are transferred to newly-established joint-stock companies, with the shares of the new companies then tendered for sale to private investors. The remaining liabilities and employees remain with the SOEs.
2. Special Spin-off: The KTA attaches conditions (such as maintaining a minimum level of employment, investment commitments, and remaining in the same line of business) to the tender. Special spin-offs are to be used generally for only the largest, most strategic SOEs.
3. Voluntary Liquidation: Applied to non-viable SOEs. The assets are generally liquidated through public auction.

Proceeds from tenders and asset liquidations (after certain payments to employees) are held in trust for use towards the settlement of ownership and creditor claims against the SOE.<sup>50</sup>

## DEMONSTRATED GOVERNMENT COMMITMENT

Despite the current political and economic environment and the long lead time required for organization change, government authorities have demonstrated ownership of, and commitment to, restructuring the power sector.

In mid-2004, the Provisional Institution of Self Government (PISG):

- Passed the Law on Energy, the Law on Electricity, and the Law on the Energy Regulator
- Established the Ministry of Energy and Mines, which in July 2005, prepared a Mining Law and an Energy Strategy for 2005-2015 approved by the Kosovo Assembly. It established roles and responsibilities for regulation and governance of the energy industry by Parliament, Government, an independent energy regulator, public producers and suppliers, and a transmission system operator.

The recent reconnection of the power system of the Southeast Europe Region (including Kosovo) to the main European power system (operated by UCTE) is another example of government commitment. Sustainability depends on continuation of regional integration.

The consensus among the international donor community is that the top priority for private sector development is the privatization of socially-owned enterprises and restructuring of publicly-owned enterprises.<sup>51</sup>

## ATTRACTING PRIVATE SECTOR INVESTMENT

There has been no direct private investment in coal mines, coal enterprises, or coal transport. Significant investment will need to come from private investors. Required investments through 2014 are estimated to be near \$850 million,<sup>52</sup> with the following needed specifically for the coal sector:

<sup>50</sup> "Kosovo Land of Opportunity for European Mining and Energy," 2005.

<sup>51</sup> World Bank, *Implementation Completion and Results (ICR) Report Kosovo – Fourth Economic Assistance Grant Project*, Report No. 29632 (Washington: World Bank, 29 July 2004).

<sup>52</sup> World Bank, *ICR: Kosovo ESTAP*, 2003.

- \$39 million to rehabilitate Units A3 and A5 of the Kosovo A Power Plant
- \$27 million for power transmission network
- \$14 million for Supervisory Control and Data Acquisition (SCADA) System
- \$177 million for the power distribution network
- \$73 million for lignite mines
- \$23 million for district heating<sup>53</sup>

The World Bank helped Kosovo authorities develop an energy sector strategy and a framework for attracting private sector investment. It is supporting Kosovo's efforts in:

- restructuring the power sector to create an independent Transmission and Systems Operator (TSO)
- developing electricity transmission and retail tariffs consistent with EU Directives, while improving subsidy targeting for the poor
- developing a mine sector strategy and capacity-building within PISG to implement the plan for large and small mines
- developing a policy framework for community participation in planning new mines
- capacity development to improve mining sector SMEs' financial, operational and environmental performance.

Meaningful recovery of the sector depends upon policies and strategies that promote private sector-led growth. Kosovo's unresolved final status continues to limit private sector development. Action to prepare or adopt laws on competition, contracts and new companies has been slow.<sup>54</sup>

Sector Opportunities	Sector Challenges
<ul style="list-style-type: none"> <li>• Potential for development of mining, energy, and agriculture sectors</li> <li>• World's fifth-largest lignite coal deposits</li> <li>• Lowest lignite-fueled electricity costs in SEE</li> <li>• Transmission line system connection to improve power exchanges</li> <li>• Development of Sibovc field to exploit coal reserves</li> <li>• Coal mining employment reduced by 2,578 employees since 1995</li> <li>• Substantial potential for large-scale electricity generation and exports in the regional market</li> <li>• Various legal frameworks, institutions, strategies, and action plans in place or pending to support restructuring and attract private sector investment</li> <li>• Demonstrated government ownership and commitment to restructuring the coal and power structure</li> </ul>	<ul style="list-style-type: none"> <li>• Unreliable electricity supply (main obstacle to growth)</li> <li>• Uncertain ownership of utility, mineral resources and mines</li> <li>• Nascent institutions and management, leadership, and commercial market skills</li> <li>• Dilapidated utility infrastructure, technical losses, poor billing, and collection rates,</li> <li>• Mine and utility overstaffing and low productivity</li> <li>• Low coal production, which impedes power production capacity</li> <li>• Mining operations approaching physical collapse</li> <li>• Expected exhaustion of existing mining reserves by 2007 – 2009</li> <li>• Significant level of investment for rehabilitation</li> </ul>

<sup>53</sup> Ibid.: 7.

<sup>54</sup> World Bank 2004.

Energy and mining have the medium- to longer-term potential to revitalize Kosovo's economy, especially given large and increasing regional energy needs. The Generation Investment Study (commissioned by the European Commission and carried out by the World Bank) confirmed that Kosovo has substantial potential to develop expertise and large-scale electricity generation. With significant investments, Kosovo could add 4,000 MW to its installed capacity and become a large exporter in the regional market.<sup>55</sup>

## VI. KEY STAKEHOLDERS

The following stakeholders have played and will play key roles in coal sector restructuring:

**Ministry of Energy and Mining (MEM)** – Established in December 2004 within the PISG to define policies and future development strategies of the energy and mining sectors. Under the World Bank-funded Energy Sector Technical Assistance Project III, MEM is responsible for developing a mine sector strategy, detailed guidelines and procedures for community consultation and participation, and community development plans for new mines.

**The Energy Regulatory Office** – Reviews and approves tariffs, prices and new generating capacities; monitors the market; ensures transparency; and regulates market players and efficiency based on sound economic, social, and environmental practices. The Office also ensures that suppliers are held accountable for supplying energy commitments in a reliable manner and employ a sound pricing structure based on objective standards and criteria. Will develop transmission and retail tariffs under the World Bank funded Energy Sector Technical Assistance Project III.

**Kosovo Trust Agency (KTA)** – Established by the UNMIK in June 2002 as the shareholder of the KEK. Entrusted with responsibility for managing the energy and mining sector enterprises, restructuring publicly-owned enterprises, and privatizing socially-owned enterprises. Developed a roadmap for privatization. Under the World Bank-funded Energy Sector Technical Assistance Project III, the KTA is responsible for institutional development of the Transmission and System Operator (TSO).

**United Nations Interim Administration Mission in Kosovo (UNMIK)** – Retains final legal authority over the energy and mining sectors.

**Provisional Institution of Self Government (PISG)** – As established in 2001, PISG continues to assume significant responsibility on economic policy, trade, and investment matters as part of the transition to self-government.

**Independent Commission of Mines and Minerals (ICMM)** – Appointed in January 2004 as the UNMIK-nominated body for all administrative affairs concerning mining in Kosovo. Forms the Independent Regulator to the mining industry. Issues and administers all mining-related permits and licenses. Carries out technical supervision of mining and plant installations, and implements legal, safety and health regulations at the working sites. Advises investors on geological resource estimations and potential areas of interest. Under the World Bank-funded Energy Sector Technical Assistance Project III, responsible for technical assistance to small mining operators to improve their technical, financial, and environmental performance.

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<sup>55</sup> "Kosovo Land of Opportunity for European Mining and Energy," 2005.

The **Ministry of Labor and Social Welfare (MLSW)** develops regulations for social protection within the tripartite system of the Government, Labor Union, and Chamber of Commerce. Within the MLSW, the following oversee labor market measures:

- **Department of Labor and Employment (DLE)** is responsible for designing and implementing active labor market policies, including unemployment registration and employment assistance.
- The **Kosovo Pension Administration** manages the basic pension program.
- **The Centers for Social Work (CSW)** administer the social assistance scheme through 31 municipal centers.

The **Ministry for Environmental and Spatial Planning (MESP)** formulates environmental legislation, policy, and strategy. MESP is preparing the Kosovo Environmental Action Plan and chairs the project coordinating committee for the World Bank-funded Energy Sector Cleanup and Land Reclamation Project. Within the MESP, the **Inspectorate of Environmental Protection (IEP)** is responsible for permitting and enforcement.

**Kosovo Environmental Protection Agency (KEPA)** is being established by merging the existing Institutes of Nature Protection and Hydrometeorology. KEPA is in charge of pollution control and monitoring and environmental research and will serve on the project coordinating committee for the Energy Sector Cleanup and Land Reclamation Project funded by the World Bank.

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## ANNEX A DONOR FUNDED ACTIVITIES

The reconstruction program has proceeded well, and foreign aid has resulted in recovery of economic activity and positive growth. Donor activity in the energy and coal sectors started declining significantly in 2002.

### Donor Funded Activities

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
<u>Energy Sector Technical Assistance Project (ESTAP-I)</u> Developed plans for reconstruction, rehabilitation and restructuring of the power, lignite, and district heating sectors. An energy sector study informed many of the measures taken by the UNMIK, PISG and MEM to implement an energy policy.	Completed	World Bank	2001-2002	\$2.5m
<u>Second Energy Sector Technical Assistance Project (ESTAP-II)</u> Developed capacity to exchange power with regional system and to optimize existing power capacity through a dispatch system. Establish a TSO as subsidiary to KEK. Developed framework for attracting private investors.	Completed	World Bank	2003-2005	\$1.5m
<u>Third Energy Sector Technical Assistance Project (ESTAP-III)</u> Build capacity to foster an independent TSO; develop tariff framework; develop mining sector strategy; develop framework for community participation in future mining projects; assist mining sector SME development.	Active	World Bank	2005-2008	\$2.5m
<u>Energy</u> Assist Ministry of Energy and Mining to implement Energy Strategy; establish and assist the Energy Regulatory Office and independent transmission systems and Market operator; rehabilitate power plants, substations, and coal mines; provide technical assistance to KEK for employee training.	Active	EAR/EC	2000-2006	€403 million (\$507.8 m)
<u>Social Protection Project</u> Designed a basic, immediate safety net and sustainable medium-term social welfare system; developed capacity to deliver pensions, veterans', and disability benefits. <sup>56</sup>	Completed	World Bank/DIFD	2001-2006	\$6.62m (DIFD \$2.42)
<u>Energy Sector Cleanup and Land Reclamation Project</u> Enable KEK to remove, transfer, and re-cultivate Kosovo A ash dump to free 650 ha for community development in municipality of Obiliq. Provide direct and indirect employment. Build waste management capacity of mine operators to ensure future mining licenses.	Start-up	World Bank	2006-2010	\$5.5 m
<u>Lignite Power Technical Assistance Project</u> Provide advice on policy and legal and regulatory safeguards, plus strategic environmental and social assessment specific to energy sector development. Conduct technical studies of new Sibovc coal mine site and new power plant. Develop strategies for renewal energy and efficiency.	Approved 10-12-06	World Bank	2006-2009	\$10.5 m (EC/EAR 2.0)

<sup>56</sup> World Bank, PAD: *Social Protection Project*, 2001: 24.

## Donor Funded Activities

ACTIVITY	STATUS	DONOR	YEAR	AMOUNT
<u>Rehabilitation of Coal System for the New Sibovc South West Mine in KEK</u> Technical assistance to support preparation to rehabilitate new Sibovc coal mine	Announced 10-13-06	EAR/Cards	2007-2008	€400,000 (\$504,000)
<u>Community Development Fund II</u> Promote institutional community and municipal- level capacity-building to improve service delivery and enhance stakeholder participation in local development consistent with the role of self-government	Active	World Bank/CIDA	2003-2007	\$5.22 m (CIDA .96)
<u>Business Environment Technical Assistance</u> Improve the business environment by reducing the uncertainty of key regulatory processes and increasing the transparency and accountability of implementing institutions	Active	World Bank	2005-2010	\$6.91 m
<u>Economic Assistance Projects I,II,III,IV</u> Support private sector development by enacting regulations to reduce business environment constraints	Closed	World Bank	2000-2004	\$20m
<u>The Industrial Development Program</u> Injects financial resources into Kosovo's SOEs to restart production, create employment and alleviate poverty	Active	EC		
<u>Energy Program for Kosovo</u> <sup>57</sup> Re-established the power supply as a result of breakdowns in electricity generation and in central district heating	Completed	EAR	1999-2001	€287.5 m (\$362.3 m)
<u>Improve energy production, transmission and distribution networks</u> <sup>58</sup> <ul style="list-style-type: none"> <li>• train KEK employees in exploitation of coal mines; production, transmission, distribution activities; and revenue collection</li> <li>• refurbish and provide equipment for coal mines, coal separation plants, maintenance workshops, INKOS*, power plants, and distribution system</li> <li>• rehabilitated ash dumps from power stations</li> <li>• establish an international energy utility consortium to develop a framework for a steady regional energy supplier</li> </ul> *Technical site investigation company formerly associated with KEK, now nominally independent	Completed	EAR	2002-2003	€55 m (\$69.3 m)
<u>Billing and collection system improvements</u> <sup>59</sup>		USAID		
Establish KEK cost centers, new organization structure, job descriptions, skill requirements, and employee performance evaluation <sup>60</sup>		EAR		

<sup>57</sup> European Agency for Reconstruction (EAR), *Energy Evaluation Programme for Kosovo 1999-2001:€287.5 million; Executive Summary*, (EAR 2002), <http://www.ear.eu.int/publications/publications.htm> (accessed 16 August 2006).

<sup>58</sup> EAR, *Annual Programme 2002 for Kosovo*, 2002.

<sup>59</sup> World Bank, *PAD: UNMIK ESTAP II*, 2003.

<sup>60</sup> Ibid.

## ANNEX B LEGISLATIVE BACKGROUND

### Relevant Laws and Policies:

- Law on Energy - No. 2004/8
- Law on Electricity - No. 2004/9
- Law on Energy Regulator - 2004/10
- Mining Law (July 2005 under consideration)
- Regulation on Mines and Minerals in Kosovo - No. 2005/03
- Regulation No. 2005/02 - Created the Independent Commission for Mines and Minerals
- Regulation on Essential Labour Law in Kosovo
- Regulations on Long-Term Allocation of and the Right to Use Socially-Owned Immovable Property Managed by the Municipalities in Kosovo
- Regulation on the promulgation of the law adopted by the Kosovo Assembly on Environmental Protection
- Regulation 2003/19 on the promulgation of the law adopted by the Kosovo Assembly on Occupational Safety, Health, and the Working Environment
- Law on Social and Family Services/2003. (The Ministry of Labor and Social Welfare is primarily responsible for implementing and administering the Law.<sup>61</sup> The law provides for social and family services, personal care, in-home care, mobility assistance; counseling; material assistance; and personal need (orphan, elderly, disabled, mental illness, abused, trafficking, addiction, natural disaster/emergency, etc.).
- Law on Social Assistance Scheme in Kosovo 2003/15

Note: By 2005, there were no policies, institutions, legislation or regulations to address resettlement that may be required for proposed lignite extraction areas. Land acquisition and resettlement activities undertaken to date would not meet the compliance requirements of the World Bank/International Finance Corporation Involuntary Resettlement policies. In addition, environmental laws were inadequate to address proper development of mining and power generation projects, and regulation of existing pollution sources and new projects is very weak because of inadequate staffing.<sup>62</sup>

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<sup>61</sup> Shaipi 2005: 3.

<sup>62</sup> World Bank, *PID Concept Stage: Kosovo Social and Environmental Support Project*, 2005.