



Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 27-Mar-2020 | Report No: PIDA28448

**BASIC INFORMATION****A. Basic Project Data**

Country Kosovo	Project ID P169150	Project Name Fostering and Leveraging Opportunities for Water Security	Parent Project ID (if any)
Region EUROPE AND CENTRAL ASIA	Estimated Appraisal Date 06-Apr-2020	Estimated Board Date 11-May-2020	Practice Area (Lead) Water
Financing Instrument Investment Project Financing	Borrower(s) Republic of Kosovo	Implementing Agency Ministry of Infrastructure and Environment	

Proposed Development Objective(s)

The proposed project development objective is to: (i) strengthen national capacity for managing water security, and (ii) improve water security in Morava e Binces basin.

Components

Foundational measures for water security
Addressing water crisis with catalytic investments
Project management

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	31.59
Total Financing	31.59
of which IBRD/IDA	30.50
Financing Gap	0.00

DETAILS**World Bank Group Financing**

International Development Association (IDA)	30.50
IDA Credit	30.50



Non-World Bank Group Financing

Other Sources	1.09
EC: European Commission	1.09

Environmental and Social Risk Classification

Substantial

Decision

The review did authorize the team to appraise and negotiate

Other Decision (as needed)

B. Introduction and Context

Country Context

1. Kosovo faces a unique set of challenges and opportunities as one of Europe's poorest countries in terms of its Gross Domestic Product (GDP) per capita and as the youngest country in the continent.

Since its independence in 2008, the country has made considerable socioeconomic progress, benefiting from the support of the international community and its own diaspora. With policies anchored in its overarching political objective of joining the European Union (EU), Kosovo has made progress in promoting growth, reducing poverty, and improving the business climate. However, it has one of the lowest living standards in Europe, with per capita GDP (Purchasing Power Parity - PPP terms) of US\$10,069 in 2018. The country scores particularly low on labor dimensions of gender equality, including from a regional perspective. Poverty in rural area is especially high and over 40 percent of the rural population is unemployed. At the same time, with its new statehood and majority of its population under the age of 30,¹ Kosovo is the youngest country in Europe.

2. Kosovo is at an important point in its development, and water security is at the heart of all socio-economic activity.

As a small country with relatively many intertwined socio-economic activities, Kosovo's economy has been sustained by limited water resources, including hydropower, cooling water for electricity generation in the two existing thermal power plants, municipal uses, industrial uses for light and heavy industry, including mining and metallurgy, and irrigation. Irrigation infrastructure, enabling summer agriculture production, suffered a steep post-war decline from 29,000 ha to about 12,000 ha and is now slowly bouncing back to around 18,000 ha. The broadening gap between growing water demand and available water supply quantities leads to water shortages and interruptions in water supply services, particularly in the drier southeastern part of the country, which are expected to become more frequent

¹ Kosovo Agency of Statistics, (http://ask.rks-gov.net/media/5082/vjetari-2019_ang-final.pdf)



and severe due to climate change. Given the economic and social importance of sustainable land and water management and development, it is critical to address the root causes of water insecurity to support growth in Kosovo. Currently, Kosovo is facing a very acute water crisis with several below average rainfall years leading to restricted water supply in major towns in the east of the country, and constraints on other uses. A more fundamental challenge is rooted in the lack of infrastructure, institutions and information that would have built resilience to these shocks.

3. **In this light, it is critical that Kosovo moves from fragmented, single sector specific actions to joint decisions and concrete investments and measures that will set it on a more robust water secure trajectory.** The World Bank's Water Security Outlook for Kosovo² studied the role of water as it permeates the economy, society and environment in many aspects, and highlighted immediate objectives, also highlighted in Kosovo's national strategies. This requires a two-pronged approach with both foundational measures, and concrete multi-faceted investments to address the current crisis and catalyze a broader transformation.

Sectoral and Institutional Context

4. **Kosovo's water resources are constrained, largely due to its geography.** Kosovo is a small landlocked country with limited water resources and very little inflow from other countries, with only one river (Iber) flowing into the country. All rivers and smaller watercourses belong to the four main river basins: The White Drin (Drini i Bardhë), the Iber, the Morava e Binces, and the Lepenc. Kosovo's water availability is largely shaped by its topography and geographic location. The climate features cold and snowy winters and hot and dry summers. The annual average rainfall is highest in the west at around 800 mm/yr and lowest in the east around 600 mm/yr, with an overall declining trend, including longer dry spells and shorter and more intense precipitation periods leading to flash floods. Temperatures can range from -27 °C in winter to +39 °C in summer and precipitation generally falls in winter. Therefore, agriculture relies on irrigation, and all sectors require larger water storage capacity to meet summer's demands, which are augmenting with population and economic growth.

5. **By regional comparison Kosovo is water stressed, and it has among the lowest level of water resources development and storage.** It is estimated that Kosovo has about 1,600 m³ total renewable water resources per person per year, which is about 16 percent of the regional average. Also, storage volume per capita is only 300 m³, about 41 percent of the regional average. This combination makes Kosovo very vulnerable to current and future climate change-related natural hazards, especially floods and droughts. Several large water users are currently showing suppressed demand, and their revitalization is a key government priority. The anticipated increase in shocks and deterioration of water quality—associated with climate change—will require a more harmonized approach to and additional and improvement in management of storage (snowcaps, groundwater and artificial) and water pollution at its multiple sources, to satisfy increasing needs.

² World Bank. 2018. Water Security Outlook for Kosovo. © World Bank



6. **In addition to physical water stress exacerbated by climate change, poor management of available resources also makes Kosovo water insecure.** Inadequate investments in infrastructure, heavy water pollution, data-poor decision making based on limited, unreliable data, and lack of integrated planning and enforcement of regulations, add pressure to an already constrained resource base. While the drinking water sector has made strides in increasing access, the problem of high non-revenue water persists, sewage and waste water treatment are lagging, and access to services is still uneven across the country.

7. **There is no systematic surveillance of dam safety in the country.** Monitoring and the maintenance of the dams were partially suspended in recent years. The few existing large dams in Kosovo all pose major hazards if safety is not guaranteed, especially with projected trends of shorter and more intense periods of rainfall due to climate change. The absence of systematic dam safety surveillance and planning is of concern for downstream communities, their economic lifespan and their broader operations and management, and it will block the much-needed expansion of water storage capacity. Careful integration of dam safety and operational improvements cognizant of basin changes can significantly enhance overall basin water efficiency for multiple sectors.

8. **The ongoing water crisis caused by severe drought particularly in the eastern part of the country raises the urgency for action.** Within the Morava e Binces basin, the area already with lowest rainfall, and among the highest water stress and least storage of Kosovo's basins, the 2019 drought has had major consequences. Reservoir levels are at record lows due to absence of seasonal rains after a drier than usual 2018 raining season. The southeast municipalities of Gjilan and Viti have been particularly hard hit with more than six months of water restriction among residents and businesses which has become a repeated episode in this region of Kosovo.

9. **Today's challenges need to be addressed and new approaches need to be tested.** The government has laid out its long-term vision in the National Water Strategy (2017–2036) which includes both foundational measures and recognizes the need for immediate investments particularly in the most water stressed parts of the country, where services are interrupted. This provides an opportunity to address the water crisis while also learning valuable implementation lessons in applying a broader water security lens. Development of new multipurpose water storage will be the backbone of this approach, and this will include the "Kike-Kremenata" system, which has remained an unrealized priority project since the 1980s.

10. **Given its water scarcity, Kosovo aims to reduce high inefficiencies in the water services sectors.** Despite steady improvements in recent years, efficiency gains can still be made. For instance, nonrevenue water levels in 2017 reached 58%, negatively affecting service costs and service level (WSRA 2017). This high level of Non-Revenue Water (NRW) is due to a combination of factors including outdated infrastructure, outdated metering devices, data-handling errors, and water misuse. The Government is currently developing a comprehensive irrigation investment framework that will help prioritize and prepare irrigation and drainage investments in the country that support a thriving agricultural sector and are based on sustainable water balances and water use efficiency. This study will be ready in July 2020 and will inform future investments in this sector.



11. **Currently, Kosovo is underprepared to tackle these water management challenges.** Efforts to address them are hampered by a multitude of factors. A major challenge is weak and fragmented institutional arrangements and capacity for water management at both national and local levels and a severe lack of funding for these activities. The current institutional framework for water management in Kosovo involves many Government institutions and other stakeholders. The last decade saw an impressive development of the legal framework, strategies, action plans and policies, as well as notable successes in sub-sectors. Yet, institutional capacity to deliver on mandates and integrated water resources planning remains weak across line Ministries and enforcement of plans and rules remains haphazard.

12. **Realizing the challenges, the government, with its partners have begun to address the multiple challenges.** Under the guidance of the IMWC and following the National Water Strategy (2017-2036), efforts have begun to rehabilitate and improve management of critical water resources assets in the country. The Government of Kosovo has requested the World Bank assistance to prepare a comprehensive water security project in close coordination with other partners, particularly the SDC given their overarching institutional support. While development of new storage capacity presents a key objective in the Government's vision, it is important to complement this in with a holistic approach towards planning and investment preparation that could be the major outcome of the project and pave the way for further development of a transformational program in the broader water sector. The "Fostering and Leveraging Opportunities for Water Security" (FLOWS) program aims to support this vision through a sequence of two interlinked phased projects, of which this PAD describes the first phase Project.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The proposed project development objective is to to (i) strengthen national capacity for managing water security, and (ii) improve water security in Morava e Binces basin.

Key Results

13. The project proposed the following indicators for each of the two PDO aspects:
- i. Strengthen national capacity for managing Kosovo's water security (PDO part 1):
 - National Water Resources Investment Preparation Study developed including climate change analysis³, and presented for endorsement to the government;
 - Number of new and refurbished stations with data for near real-time hydro-met, climate, and spatial planning made publicly available ;and
 - Number of people downstream of high hazard dams with access to relevant early warning systems.
 - ii. Improve water security in Morava e Binces basin (PDO part 2):
 - Number of days per year without unplanned interruptions in the water supply systems.

³ The National Water Resources Investment Preparation Study will conduct assessments of climate change impacts on water demand and water resources supply as part of the water balance modeling.



14. In this context, water security is defined as the capacity to safeguard sustainable access to adequate quantity and quality of water for socio-economic development, improve a range of water services, preserve the environment, and build resilience against shocks which includes floods and droughts. It will be achieved by improving the information base for managing water resources, ensuring safety and effective management of water assets, improving water services for selected areas, and improving the planning and preparation of water management actions by government, communities and individuals in a phased way.

D. Project Description

15. **This project is the first of two phases of the FLOWS program in a “series of projects” approach, with the overall objective to improve Kosovo’s long-term water security and resilience to expected climate change-induced water shocks.** The projects will run partially in parallel and together will directly address the needs as identified in the Kosovo strategy and the Water Security Outlook. The programmatic approach is built around two pillars of a) foundational measures for long-term transformation and b) catalytic investments that address the immediate investment needs, deliver implementation lessons and catalyze additional integrated interventions in water security. The Series of Projects approach was selected as it will allow staging of investments when they are ready, prioritize emergency measures, strengthen capacity, and build in the possibility to adapt to changing circumstances including increased drought and flood episodes, unforeseen implementation bottlenecks, and consolidate success from the first phase in to the second phase. A key foreseen activity in the second phase project is a storage reservoir in the “Kike-Kremenata” hydro-System, not currently ready to be appraised, and the first phase project will finance the technical, social and environmental studies to allow a more detailed appraisal for the second phase project.

Component 1: Foundational measures for water security (IDA €6.2 million)

16. **This component will build the foundations for water security in the country, thereby increasing targeted communities’ resilience to the climate change-induced threat of droughts and build readiness for major investments that duly consider current and foreseen climate change impacts.** It will support: 1) national level water resources investment preparation; 2) enhancement of water information system for decision making; and 3) dam operations improvement and safety regulations and measures. These activities will also enable improved implementation of Kosovo’s Climate Change Framework Strategy.

Component 2: Addressing water crisis with catalytic investments (IDA €19.1 million and WBIF⁴ grant €1 million)

17. **This component aims to catalyze water security investments in the Morava e Binces Basin that address the immediate challenges of water shortage and other risks exacerbated by climate change**

⁴ Western Balkans Investment Framework (WBIF) is a joint facility of the EU, financial institutions, bilateral donors and the governments of the Western Balkans. It supports socio-economic development and EU accession across the Western Balkans through the provision of finance and technical assistance for strategic investments in the energy, environment, social, transport and digital infrastructure sectors. The World Bank became a full member of WBIF in June 2019. A recipient executed trust fund will be established.



(erosion, rising temperatures and evapotranspiration rates, etc.), poor service delivery and a single-sector approach to cross-cutting water security issues, while embarking on an integrated water security agenda. It will finance immediate measures in integrated basin development and management, including: (i) preparation of the “Kike-Kremenata” hydro-system; (ii) improvements to enhance the quantity and quality of drinking water supply in response to the region’s ongoing drought crisis; and (iii) bottom-up, integrated upstream water stewardship measures that can strengthen water security and resilience, protect source water, reduce erosion, and improve ecological services in an integrated approach; and improve rural livelihoods.

Component 3 – Project Management (IDA €2.2 million)

18. **This component will provide funding to contract professional and support staff to strengthen the Project Management Team (PMT)** to be established in the Ministry of Infrastructure and Environment, facilitate its operations and ensure that certain specialized tasks are professionally executed by people with the required background and knowledge, including professional staff, short term expertise, and support staff.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	Yes
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

Environment

19. Aside from the studies for the new dam for which the project is financing preparatory technical, social and environmental studies, the proposed investments under component 2 are either small scale construction like check dams or are rehabilitation/ reconstruction or expansion of the existing irrigation and water supply network. The project also includes non-infrastructure interventions such as upstream watershed protection through afforestation, forestry and biodiversity monitoring, sustainable local tourism development and technical studies for forest and agricultural land improvement. The project is likely to generate positive impacts on human population and environment. It is reported in the ESMF that there are no protected areas or physical/cultural heritage/monuments present in the project area as majority of the project activities will happen in already settled and urban areas. The potential adverse environmental impacts could be medium to large scale but those would be predictable and reversible. Some of the project activities can be classified green field, for example, creation of new/ improve existing minor irrigation and water supply infrastructures, and flood management and erosion control infrastructure. The scale of construction may result in temporary adverse impacts on human health resulting from work related accidents or inadequate waste management. Rehabilitation or reconstruction of irrigation and water supply system may require retrieving old pipes manufactured of asbestos. Typical



construction related environmental impacts noted for the project are: excessive noise and dust levels, localized air and water contamination, impacts on human health due to hazardous waste management and inadequate OHS aspects, increased use of chemical fertilizers and pesticides and impacts on community safety. Management of construction waste, adequate management of labor camps and maintenance of machinery and yards, appropriate closure and restoration of work sites are some other key and potential E&S issues during construction. Proposed on-farm investments for agricultural modernization could also result in the increased use of chemical fertilizers and pesticides, though quantities may not be very significant in relative terms.

20. **The past experience of the MIE in developing and implementing complex Projects is limited.** The existing capacity to manage environmental risks and impacts is also basic and weak and will be strengthened for implementation by assigning dedicated E & S specialists in the PMT. Based on both, MIE's capacity assessment for the implementation of environmental and social due diligence and the nature and scale of project investments, the environmental risk classification is Substantial.

21. **The ESMF provides guidance on the preparation of environmental assessments or site-specific ESMPs and proposes broader E&S impacts mitigation and monitoring program.** The document also identified key project implementing agencies and the need for setting up environmental and social management unit within PMT for day-to-day project implementation. Each financed subproject will prepare an environmental assessment/site-specific ESMP based on the criteria given in the ESMF. All environmental assessments will fulfill Kosovo national environmental regulatory requirements and will be cleared by the World Bank as well.

22. **The ESMF was consulted with communities, CSOs and other stakeholder on January 31st, 2020 and feedback received from the consultation was reflected in the draft final document.** The ESMF was disclosed locally (both in English and Albanian (summary only)) at MIE website with the weblink (<https://mmph.rks-gov.net/en/publikimet/68/njoftime>) on February 10th, 2020, and at the World Bank on March 25, 2020.

Projects on International Waters

23. **Morava e Binces basin, where major project activities will take place, is a transboundary basin shared by Kosovo, Serbia, North Macedonia and Bulgaria.** 'Morava e Binces' is a river that originates in mountains of 'Crna Gora' in North Macedonia north of Skopje (close to the border between North Macedonia and Kosovo) and south of the Municipality of Viti. It flows in north-easterly direction through the Southeast of Kosovo, to join the Western Morava River in Serbia. The Western Morava River flows into the Danube which in turn flows into the Black Sea. The length of the river in Kosovo is approximately 50 kms. Since the project also considers support to irrigation following Masterplan Priorities and locations are not yet known, the riparians of the other river Basins (Iber, Drini I Bardhe, Lepenc) were also alerted. Under OP 7.50 requirements, the World Bank on behalf of the GoK notified riparian countries of the proposed project through letters sent to them on December 5th, 2019 with January 15th as the deadline to receive their comments. Only Serbia and North Macedonia have responded in support of the project and its objectives, with questions for clarification that were subsequently provided.



Social

The impacts of the project will be positive in longer term. The project will improve reliability, security and quality of water supply in rather dry region and rural areas that have extensive agriculture activities. Some activities will directly support the livelihoods from farming.

The overall social risk is deemed moderate: Most probably labor influx is not likely because the Project would only support rehabilitation/reconstruction or extension of already existing water reconstruction which are small in scale and will not require a large number of external workers. The project will not finance building of the Kike-Kremenata hydro system and will only finance the preparation studies. For other sub-projects communities could face project induced traffic but this would be in much smaller scale. Other risks are those related that poor, vulnerable and minority communities might be excluded from project benefits. The implementing agency will prepare the stakeholder engagement with separate strategies to engage the vulnerable groups and take necessary measures so they will benefit from the project. Risks related to land acquisition is not very significant since the project will be financing design and financing small-scale construction of irrigation, water supply, erosion control and flood management, on-farm modernization, watershed management, and non-infrastructure interventions such as upstream watershed protection through afforestation, forestry and biodiversity monitoring, sustainable local tourism development and technical studies for forest and agricultural land improvement. The MIE, through its Department for Resettlement has experience in the World Bank involuntary resettlement policy for much more complex resettlement. There is a risk that the MIE is unable to properly manage the coordination of multiple stakeholders during the Water Resource Investment Planning processes. In addition, MIE does not have capacity in managing risk related to labor and working conditions as these is a mandate of the labor inspectorate which is not under the MIE. The Project will assist the capacity development of the MIE in broad social and environmental risk management including labor related issues as well as addressing livelihoods impact and vertical and horizontal coordination of multisector stakeholders

E. Implementation

Institutional and Implementation Arrangements

24. **Policy level sector coordination will be organized through the (extended) IMWC.** To ensure broad government ownership and long-term leadership of the approach, and to support cross-sector coordination, the project will seek high level coordination through the IMWC⁵. In principle, the IMWC will be responsible for general policy coordination, approval of annual work plans and budgets, adoption of project operations manual and review of semi-annual and annual implementation progress reports, including audit reports, and inter-ministerial coordination. The FLOWS program manager will work with the IMWC Secretariat in preparing documentation for IMWC meetings.

⁵ IMWC is a standing sector-coordination body, chaired by the Prime Minister and comprised of the IMWC member ministries – Office of the Prime Minister, MIE, Ministry of Economy, Employment, Trade, Industry, Entrepreneurship, and Strategic Investment (MEPTINIS), Ministry of European Integration (MEI), and Ministry of Finance and Transfers (MoF) with participation of representatives of the donor community as observers.



25. **A FLOWS Program Technical Committee (PTC)** will be established and responsible for providing technical oversight of project implementation as well as reviewing and recommending project work plans and budgets to the IMWC. The PTC will meet on a quarterly basis or more frequently as need arises and provide technical and practical work planning coordination among the implementing agencies. This committee will be comprised of IMWC Secretariat, Directors of the principal departments and agencies, Hidromorava RWC management, as well as municipalities involved in project implementation, and external experts; and operate in an advisory role to the IMWC on project matters. The PTC will supervise the Technical Working Group (TWG) and members of the PTC serve as representatives of their departments when engaging on cross-agency tasks.

26. **Technical Working Group.** The Technical Working Group that has been established throughout project preparation will continue to strengthen the PMT during implementation. While there is clear responsibility for implementation with the hired professional staff that form the PMT (Program Manager and Component Coordinators), they will not work in isolation. Civil servants' staff of each of the implementing agencies will continue throughout project implementation as focal points for the various activities for coordination. The cooperation between the implementing agencies will be set out in the MoU defining the roles and responsibilities of each institution, as well as specific ToR for the different bodies. Details of these arrangements will be provided in the POM.

27. **Project Management Team (PMT):** Given the complexity and multi-sector nature of the proposed operation, it is proposed that a multi-sector PMT be housed in the MIE, with participation of the other implementing agencies. The PMT will oversee day to day implementation and administration of the project within parameters of POM and annual workplan and budget. It will be a fully integrated unit, comprised of externally hired experts, and links with the relevant departments in the agencies through the TWG.

28. Hidromorava RWC will be responsible for day to day implementation of activities under sub-component 2.2, including preparation of technical requirements or Terms of Reference for respective activities, evaluation of bids, contract signing, financial management, monitoring and evaluation, and safeguards compliances of mentioned sub-project activities. PMT staff (including procurement specialist and international procurement expert), will provide procurement support (i.e. preparation of bidding documents/request for proposals; assistance on the bid evaluation, etc) to Hidromorava for all activities foreseen under sub-component 2.2. The PMT FMS will provide technical advice to Hidromorava RWC finance department on project financial management issues. Details on responsibilities of respective institutions (MIE/PMT, Hidromorava, etc) will be described in detail in the POM.

29. **Following resource efficiency and aid effectiveness principles, the PMT will share common services with the parallel Greening Land for Development (P172992),** also under MIE. The common services will include the fiduciary, safeguards and communications/M&E specialist functions, as illustrated below. These fiduciary, safeguards and communications specialists will form an integral part of both PIUs and will be hired on full time basis within the PMT. While serving both projects they do not form a separate unit.



30. **Partnership arrangements have been established with active partners in the water sector: among others the SDC, SIDA, EU, UNDP.** Particularly SDC is currently preparing a long-term capacity building program in the water sector that will closely dovetail with FLOWS; and technical assistance activities will need to continue to be harmonized. Overall, SDC program objectives are in strengthening the national level institutional framework, through IMWC and RBDA. These are very important for the implementation of FLOWS and the project will support the SDC program, while not duplicating its technical assistance in this area. Coordination will take place through the existing donor and implementers (of water projects) coordination mechanisms and through continued close collaboration between SDC and World Bank teams.

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