

COMMENTS AND ANALYSIS
OF THE
KOSOVO'S DRAFT
**NATIONAL ENERGY AND CLIMATE PLAN
(NECP)**



Institute for Development Policy (INDEP)

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Introduction

The Institute for Development Policy (INDEP) has been an integral part of Kosovo's journey towards a sustainable and energy-efficient future. Our active involvement in the working groups of the National Energy and Climate Plan (NECP) during 2019-2020 has been a testament to our commitment to shaping Kosovo's energy, environmental, and climate strategies. This participation not only allowed us to contribute our expertise but also to gain valuable insights into the complexities and challenges of energy policy development in Kosovo.

Following our engagement in these working groups, INDEP published a comprehensive paper that critically analyzed the drafts of the NECP. This paper served not only as a reflection of our findings and recommendations but also as a guiding document for further refinements in Kosovo's energy policy framework.

European Commission's report on Kosovo for 2023, mentions a range of areas in which progress is needed and that are relevant for the NECP:

Implementing the 2019-2028 climate change strategy and the action plan for 2021-2023 is very limited. Kosovo has still not adopted the law on climate change. The national energy and climate plan needs to be adopted at the end of June 2024. The government should start drafting a Decarbonisation Strategy including actions related to energy, agriculture, forestry, and overall economic development. The re-established National Climate Change Council took concrete measures to mainstream climate action and raise public awareness. The greenhouse gas emissions inventory reporting for 2020 is not yet available. The strategic and legislative framework needs to be aligned with the EU strategic goals stemming from the Green Agenda for the Western Balkans. Kosovo needs to get prepared for alignment with the climate acquis as per the important modifications brought in by the Fit for 55 package. Kosovo needs to take the necessary steps for the establishment of a mechanism on carbon pricing aligned with the EU ETS to advance the implementation of the EU acquis and adequately prepare for the EU Carbon Border Adjustment Mechanism that enters into force in its transitional phase as of 1 October 2023.¹

The NECP, envisioned as an umbrella document, is more than a mere compilation of strategies; it is meant to be a beacon guiding Kosovo towards a sustainable future. Its initial aim was to establish a long-term strategic vision for the country, encompassing key areas such as energy sustainability, environmental stewardship, and climate action. This vision is essential for aligning Kosovo's policy framework with the broader goals of energy independence, economic growth, and environmental preservation.

As we delve into the detailed analysis of the "First Draft NECP 2025-2030 of Kosovo," it is imperative to acknowledge the foundational role that the NECP plays. It is not just a policy

¹ European Commission, (2023), 'Kosovo Report 2023', pp. 116.

document; it is a roadmap for Kosovo's journey towards a greener, more sustainable future. INDEP's role in this journey has been and continues to be, one of critical support, analysis, and advocacy, ensuring that the strategies laid out in the NECP are not only visionary but also practical and implementable. With this perspective, our analysis aims to constructively critique and enhance the draft NECP, ensuring it fully embodies the ambitious yet essential goals for Kosovo's energy and environmental future.

Decarbonization (Section 2.1 & 3.1)

Kosovo, like many nations worldwide, is grappling with the challenges and imperatives of decarbonization. Understanding the current state of Kosovo's decarbonization efforts is essential for developing effective strategies moving forward.

The trends in greenhouse gas emissions in Kosovo indicate a pressing need for comprehensive decarbonization measures. The energy sector, primarily reliant on fossil fuels, is a significant contributor to these emissions, along with the transport sector, which is experiencing growth and consequently, an increase in GHG emissions. While there have been efforts to transition to cleaner energy sources, the pace and scale of these efforts must be accelerated to meet global and regional environmental standards.

In Kosovo, the primary sectors contributing to GHG emissions include energy production, transportation, and to a lesser extent, agriculture and waste management. The energy sector, heavily dependent on coal-fired power plants, remains the most substantial contributor. This dependence not only exacerbates environmental concerns but also presents challenges in aligning with global decarbonization norms. The transport sector, rapidly expanding in response to economic growth, adds to the emissions burden, underlining the need for cleaner, more sustainable modes of transportation.

Kosovo has laid down some foundational strategies to combat climate change, notably the 2019-2028 climate change strategy. This strategy outlines a framework for reducing emissions and transitioning to a more sustainable future. However, its implementation has been limited, as highlighted in the European Commission's Kosovo Report 2023. The absence of a comprehensive law on climate change significantly hampers these efforts, creating a policy vacuum that needs to be urgently addressed. This legislative gap limits Kosovo's ability to effectively plan, implement, and monitor decarbonization initiatives, hindering progress towards its environmental goals.

The limited progress in implementing the existing climate change strategy and the absence of a comprehensive legal framework underscore the challenges Kosovo faces in its decarbonization journey. To align with global and regional environmental standards, and to contribute to the broader fight against climate change, Kosovo must enhance its efforts in policy formulation, implementation, and monitoring. This will require not only governmental action but also the engagement of various stakeholders, including the private sector, civil society, and international partners.

The National Energy and Climate Plan (NECP) of Kosovo proposes several measures aimed at decarbonization, reflecting a commitment to addressing climate change. However, a critical examination of these measures reveals areas where scope, ambition, and alignment with the broader goals of the EU Green Agenda for the Western Balkans could be enhanced. While the plan includes strategies for transitioning to renewable energy sources and improving energy efficiency, the depth and comprehensiveness of these strategies need further development. The ambitious goals of the EU Green Agenda necessitate a more robust and integrated approach, one that not only addresses energy production but also encompasses transportation, industry, and other key sectors.

A significant gap in the NECP is the absence of a comprehensive Decarbonisation Strategy. This gap potentially undermines the effectiveness of the plan's decarbonization section. A Decarbonisation Strategy would provide a more detailed, sector-specific roadmap, outlining clear steps and milestones for reducing carbon emissions. Its absence means that Kosovo lacks a cohesive and coordinated approach to tackling the various aspects of decarbonization, from technological adoption to regulatory reforms.

The lack of a comprehensive emissions inventory in Kosovo hampers the country's ability to effectively track and manage its decarbonization efforts. An emissions inventory is crucial for understanding the sources and scale of GHG emissions, setting realistic and impactful reduction targets, and monitoring progress over time. Without this tool, Kosovo's policymakers and stakeholders are navigating without a clear picture of the current emissions landscape, which can lead to ineffective or misdirected policies.

As NECP mentions, concerning electricity prices, the Energy Strategy projects price levels of around 79-82 EUR/MWh (2016 prices: 73.5 – 76.3 EUR/MWh) for between 2026 and 2031.² However, while the modelling results for the Energy Strategy contain a carbon price which gradually converges to EU-ETS allowance price levels, the calculations presented in the NECP do not include a price on carbon emissions in the Western Balkans region. Hence, without domestic and/or regional carbon pricing, NECP projects a wholesale electricity prices of around 40 EUR/MWh by 2030 (45-50 EUR/MWh by 2040)³.

Recommendations for Enhancing Decarbonization Efforts

Detailed Outline of a Decarbonisation Strategy

In the decarbonization section of the NECP, starting on page 24, we recommend including a detailed outline for a Decarbonisation Strategy. This outline should encompass all relevant sectors (energy, agriculture, forestry) and integrate sustainable economic development goals. In the NECP, it is noted that “Although it is a strategy for energy development, the decarbonization dimension is covered too, as several strategic objectives of the strategy relate with decarbonization and

² Republic of Kosovo, (2023), ‘Kosovo Energy Strategy’, Çmimet me shumicë dhe mbështetja e burimeve të ripërtëritshme, pp. 14.

³ Republic of Kosovo, (2023), ‘Kosovo’s Draft National Energy and Climate Plan (NECP)’, pp, 127

renewable energy. This strategic objective is addressed by 3 specific objectives: 1. Gradual implementation of carbon pricing, 2. Promoting renewable energy sources in the electricity generation mix, 3. Promoting the use of renewable energy in heating.”⁴ However, this approach, while commendable in its inclusion of renewable energy and carbon pricing, falls short of the comprehensive and multi-dimensional strategy that true decarbonization necessitates. A dedicated Decarbonization Strategy would extend beyond these specific objectives, encompassing wider sectors such as transportation, agriculture, and waste management, and integrating sustainable economic development alongside environmental considerations. As recommended by the European Commission in its Kosovo Report 2023, such a strategy should align with the EU strategic goals stemming from the Green Agenda for the Western Balkans and prepare Kosovo for alignment with the climate acquis brought in by the Fit for 55 package.⁵ It should also address the strengthening of administrative and inspection capacities and include detailed actions, timelines, and responsible entities. This is critical for Kosovo to not only meet its environmental commitments but to also ensure a coordinated and effective approach to achieving the broader objectives of sustainable development and EU alignment.

Strengthening Administrative and Inspection Capacities

In Chapter 3, under the section '3.1 Dimension Decarbonisation,' it is recommended to add a specific measure focusing on the enhancement of inspection and administrative capabilities. This measure could be articulated as follows:

Measure: Strengthening Inspection and Administrative Capacities for Effective Decarbonisation Implementation

Objective: To ensure robust enforcement and effective implementation of decarbonization policies and measures through enhanced inspection and administrative capabilities.

Description: This measure involves a comprehensive strengthening of the capacities of environmental regulatory bodies and other relevant government agencies. It includes training programs to enhance the technical expertise of staff, investments in technology and infrastructure for better monitoring and enforcement, and the development of clear guidelines and protocols for inspection processes. Additionally, the measure will involve regular evaluation and adaptation of administrative procedures to ensure their alignment with evolving decarbonization goals and EU standards.

Expected Outcomes: Improved compliance with decarbonization policies, more effective monitoring of emissions and environmental impacts, and a higher level of preparedness for implementing complex decarbonization initiatives.

This measure aligns with the European Commission’s recommendations in the Kosovo Report 2023, which emphasize the need for significant strengthening of administrative and inspection capacities in the environmental sector. By incorporating this measure into the NECP, Kosovo can

⁴ Republic of Kosovo, (2023), ‘Kosovo’s Draft National Energy and Climate Plan (NECP)’, pp, 23.

⁵ European Commission, (2023), ‘Kosovo Report 2023’, pp. 116.

ensure that its decarbonization efforts are not only well-planned but also effectively executed and monitored."

Public Awareness and Engagement

In reference to the NECP's PAM 34 detailed on page 76,⁶ which focuses on 'Consumer Information Programs,' it is commendable that the NECP recognizes the importance of consumer information in fostering energy efficiency and sustainable practices. However, to truly maximize the impact of decarbonization efforts, it is recommended to expand this approach to include comprehensive awareness and engagement policy measures across all sectors.

Building on the foundation of PAM 34, this expanded approach would involve the development and implementation of awareness campaigns and educational programs aiming at different sectors, such as transportation, agriculture, and waste management, in addition to energy. These campaigns should aim to inform the public about the importance and benefits of decarbonization efforts, promoting behavioral changes that support Kosovo's sustainability goals. The programs could include partnerships with educational institutions, media, and civil society organizations to reach a wider audience and create a more significant impact.

These efforts would result in increased public understanding and support for decarbonization policies, leading to behavioral changes that contribute to the reduction of GHG emissions and the promotion of sustainable practices across various sectors. This broader approach to awareness and engagement is essential for cultivating a societal mindset that supports and participates in decarbonization efforts. It acknowledges that effective climate action requires not only top-down policy implementation but also bottom-up societal change.

Carbon Pricing Mechanisms

In accordance with the European Commission's report on Kosovo, which states, 'Kosovo needs to take the necessary steps for the establishment of a mechanism on carbon pricing, aligned with the EU ETS, to advance the implementation of the EU acquis and adequately prepare for the EU Carbon Border Adjustment Mechanism, that enters into force in its transitional phase as of 1 October 2023'⁷, it is essential for the NECP to not only anticipate but actively integrate the establishment of a carbon pricing mechanism. While the NECP on page 59 already forecasts a measure under PAM 1: 'Study on the effects of CBAM and/or a domestic carbon price', this recommendation aims to strengthen and expedite the implementation process.

Recommendation: Revise PAM 1 to: Accelerated Implementation and Expansion of Carbon Pricing Mechanism

Objective: To expedite the implementation of a carbon pricing mechanism in Kosovo, ensuring alignment with the EU Emissions Trading System (ETS) and preparation for the EU Carbon Border Adjustment Mechanism (CBAM).

⁶ Republic of Kosovo, (2023), 'Kosovo's Draft National Energy and Climate Plan (NECP)', pp, 76.

⁷ European Commission, (2023), 'Kosovo Report 2023', pp. 117.

Building on the NECP's PAM 1 measure, this recommendation involves not only conducting a study on the impacts of CBAM and a domestic carbon price but also initiating steps for the early implementation of a carbon pricing mechanism. This mechanism should be informed by the study but should also proceed with the necessary urgency to meet EU alignment goals. The recommendation includes the transposition of relevant EU regulations on monitoring, reporting, accreditation, and verification of greenhouse gas emissions and establishing the requisite institutional, technical infrastructure, and governance system. It should also encompass a detailed timeline and specific actions for the operationalization of the carbon pricing mechanism.

Energy Efficiency (Section 2.2 & 3.2):

The National Energy and Climate Plan (NECP) of Kosovo presents an array of promising policy measures aimed at enhancing energy efficiency. These measures are crucial in reducing the overall energy consumption and transitioning towards more sustainable energy practices. The NECP's focus on energy efficiency is not only environmentally prudent but also aligns with the broader goals of energy sustainability and economic resilience.

However, upon a thorough review of the NECP, it becomes evident that there is a notable absence of fiscal measures designed to encourage the adoption of efficient equipment, practices, and processes. This gap is significant because fiscal measures are a powerful tool to incentivize both individuals and businesses to adopt more energy-efficient technologies and practices. The absence of such incentives, especially for equipment could slow down the pace of energy efficiency improvements across various sectors in Kosovo.

Internal Energy Market (Section 2.4 & 3.4):

The recommendation for PAM 56, which involves the full phase-out of the Bulk Supply Agreement (BSA) between Kosovo Electricity Supply Company (KESCO) and Kosovo Electricity Corporation (KEK), and the introduction of financial Public Service Obligations (PSO), aligns with the broader objective of enhancing competition in Kosovo's energy retail markets. This move is indeed in line with the core principles of a free market and is expected to improve market functioning. Given that PAM 56 lacks specific measures for implementation, a structured approach should be considered to address the urgency of phasing out the BSA:

- **Detailed Roadmap for Phase-Out:** Develop a comprehensive roadmap with clear timelines and milestones for the phase-out of the BSA. This should include specific legal and regulatory changes, as well as operational steps to be undertaken by ERO, KEK and/or KESCO.
- **Introduction of Contracts-for-Difference (CfD):** Implementing CfDs through a transparent and competitive tendering process could be a viable approach. CfDs can provide a stable and predictable pricing mechanism for electricity, encouraging investment while protecting consumers from price volatility.

- **Stakeholder Engagement and Capacity Building:** Engage with all relevant stakeholders, including KEK, suppliers, government bodies, and the energy regulator, to build consensus and understanding of the new market model. Training and capacity-building initiatives might be necessary to ensure a smooth transition.
- **Public Communication Strategy:** Implement a comprehensive communication strategy to keep all stakeholders and the public informed about the changes and their benefits. Transparency in this process is crucial to gain public trust and support.

Research, Innovation, and Competitiveness (Section 2.5 & 3.5):

In the context of the National Energy and Climate Plan (NECP) of Kosovo, the section dedicated to "3.5 Dimension research, innovation, and competitiveness," as detailed on page 89, lays a crucial foundation for the nation's journey towards a sustainable and competitive energy future. This section commendably identifies and addresses the pivotal role of research, innovation, and competitiveness in driving forward Kosovo's energy and climate objectives. The comprehensive approach outlined, encompassing facets such as capacity building in universities, establishment of joint research centers (JRCs), and the integration of energy and climate topics into academic curricula, demonstrates a forward-thinking strategy that aligns with global best practices in energy transition and climate change mitigation.

Furthermore, the NECP's emphasis on fostering collaborations between governmental bodies, academic institutions, and industry stakeholders reflects a holistic approach to tackling the multifaceted challenges in the energy sector. This collaborative model not only aims to enhance the quality of research and education in energy and climate sciences but also seeks to bridge the gap between theoretical research and practical, industry-oriented solutions.

- **Annual Budget Quota for R&D:** It is recommended that the Ministry of Economy establishes a fixed quota percentage of its annual budget to be allocated specifically for Research and Development activities within the energy sector. This dedicated R&D budget should be strategically utilized to support a range of initiatives, including the funding of independent research institutes, joint research projects with universities, development of innovative technologies, and other activities that align with the objectives outlined in the NECP. Setting a defined percentage ensures a consistent and predictable flow of funding, crucial for long-term planning and execution of R&D projects.
- **Subsidy Program for Independent Research Institutes:** Establish a dedicated subsidy program aimed at supporting specialized independent research institutes in Kosovo. This program could provide financial assistance for research projects, operational costs, and infrastructural development, focusing on energy, climate, mobility, and sustainable growth.
- **Networking and Diaspora Engagement:** Leverage the Kosovo diaspora for networking and collaboration opportunities. This could involve establishing partnerships between independent institutes in Kosovo and research entities where the diaspora is active,

fostering international collaboration and technology transfer. We recommend this to be included either under PAM 59 or draft a separate PAM.

Conclusions

The National Energy and Climate Plan (NECP) of Kosovo represents a significant step forward in integrating and harmonizing the nation's policies across the domains of climate, energy, and environment. This comprehensive framework not only encapsulates a range of policies but also serves as a critical mechanism for aligning these policies towards a unified goal. The NECP's breadth and depth underscore its pivotal role in guiding Kosovo through a transformative journey towards sustainable energy and environmental stewardship.

Kosovo's NECP is indeed an ambitious document, one that sets forth a vision that is both progressive and challenging. It outlines a pathway that necessitates an accelerated pace of implementation to meet its objectives effectively. The ambition encapsulated within the NECP, while commendable, also underscores the need for rigorous and sustained effort across multiple sectors.

The recommendations by Institute for Development Policy (INDEP) in this analysis are designed to complement and enhance the NECP's strategies. These recommendations aim to fill gaps, address potential challenges, and provide pragmatic solutions that are essential for the successful decarbonization and energy transition of Kosovo.

The successful implementation of these measures, along with the robust framework provided by the NECP, is crucial for Kosovo to achieve its environmental and energy goals. This necessitates not only a commitment from all stakeholders involved but also a proactive approach to adapt and evolve as the situation demands. The combined efforts of governmental bodies, private sectors, academic institutions, and international partners will be instrumental in realizing the vision laid out in the NECP.

