Kosovo Monthly Economic Briefing

September 2006

Kosovo’s Second Mobile Operator ends the monopoly

Opening up to private competition in telecommunications has led to huge inflows of investment from overseas in most of the developing countries. Yet in Kosovo, almost seven years after the war, “Vala 900”, awarded the first GSM license in 2001, continues to operate on a monopoly status despite consumer complaints for its high charges and massive demands for mobile phone choice. Starting in 2005, the authorities have introduced the monopoly tax, which for the moment applies only to PTK. According to UNMIK Regulation 2003/16 on Law on Telecommunication, the Ministry of Transport and Telecommunication of Kosovo in cooperation with the Swedish company “Ab Stela Con” is preparing the tendering package for the second mobile phone operator. The Government decided that the method for selecting the second operator will be a combination between an auction and a “beauty contest,” increasing the license price from 6.5 million euros for the first license to 20 million euros for the second. The auction accounts for 30% plus the entrance fee, and the beauty contest accounts for 70%, which is broken down into; 30% coverage and roll-out, 20% local participation, 10% services and quality, 10% experience. The logic behind a combined method is based on the fact that there is no basic ground for auction in Kosovo. The long term objective is to establish a platform for good competition in the future. The problem, however, is that the high entrance fee may limit competition even if it creates good budget profits. An Oversight Commission consisting of representatives from the legal office of UNMIK, the EU, the Prime Minister’s Office, the Ministry of Transport and Telecommunication, and the Telecommunications Regulatory Authority will be monitoring the selection process to ensure that the legal conditions are met.

And it is expected that the second operator, assuming the process is successful, will be operating by February of 2007. Generally, having multiple private mobile phone operators is the norm throughout the developing countries. Thus, this is a positive step in the evolution of the mobile phone market in Kosovo and in the breaking of the monopolistic telecommunication infrastructure, as a crucial characteristic for a free market economy.

Government Revenues Higher than Predicted - It seems that the outcome of the 2006 budget will be much different from what was anticipated at the beginning of the year, mostly on the revenues side. The budget approved by the parliament projected revenues of 654 million Euros, while planned expenditures were 700 million Euros. A couple of months later, after discussions with the IMF, the government presented a lower revenue estimate of 623 million Euros in the Medium Term Expenditure Framework. These revised estimates implied a projected deficit of 77 million euros, or 3 percent of projected GDP, for 2006. As we approach the end of the year, the actual numbers are slightly different. On the one hand, it is almost certain that the government will underspend this year, especially in the category of capital expenditures. This can be attributed to lengthy procurement procedures, the limited planning capacity of spending ministries, and the introduction by the treasury of new procedures to tighten financial control. On the other hand, actual revenues are also higher than was projected in the MTEF.

This is primarily due to the combination of the tax administration meeting its collection targets for general taxation and the windfall tax from the PTK generating more revenue than had been predicted. As a result, the MFE now estimates that revenues for 2006 will be approximately 682 million Euros. This means that the government may return a surplus for 2006, rather than the deficit that was foreseen at in the budget, and that as a result, the level of the government’s contingency reserves will have been maintained intact. This is an important achievement, since 2007 is a year fraught with fiscal risks – related both to a potential status settlement, and to the situation in the energy sector – implying that a conservative fiscal position and a health level of reserves will continue to be essential.
Reducing Environmental Hazards of the Energy Sector in Kosovo

Because energy and mining sectors have been identified as crucial for economic growth in Kosovo considering its extensive lignite deposits and the increasing energy needs throughout the region, there is a potential to further expand the power generation and the mining business for export purposes after the status resolution. Thus, this requires an urgent rehabilitation of the existing infrastructure in accordance with the emerging electricity market while creating and strengthening an internal approach to deal with the environmental issues from power generation activities and encourage higher standards of environmental sustainability.

Due to outdated technology and aging ash handling and disposal systems, air pollution from the dust generated by Kosovo A and B electricity generation plants and the ash dumps represents a critical environmental and health problem for this region. Total dust emissions are estimated at 167,000 tons per year, with 20,000 tons from ash handling and transport and 50,000 tons per year from ash disposal particularly from the Kosovo A power plant.

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<th>Total dust</th>
<th>Bardh</th>
<th>Area between Kosovo A WHO Limit</th>
<th>WHO Limit</th>
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<tbody>
<tr>
<td>Mg/ (m² day)</td>
<td>482.50</td>
<td>2009.16</td>
<td>300</td>
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Approximations of dust and particulate matter emission levels in the Obilic area

In a given day, the approximate amount of dust that settles per m² near the mining and power station sites range between 1,000 to over 2,000 mg/m², by far exceeding the World Health Organization’s (WHO) limit of 300 mg/m² per day. Similarly, based on the air quality measures of the Particulate Matter smaller than 10 micrometer (PM₁₀), the air quality values attributable to the ash dumps in the Obilic area (at distances below 5 km from the sources) are on average above 50 g/m³ and in dry periods above 100 g/m³, exceeding EU limits.

<table>
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<tr>
<th>Concentration of Particulate Matter</th>
<th>Area between Kosovo A Power Plant and Kosovo A Ash Dumps</th>
<th>EU Limit(daily average)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM ug/m³</td>
<td>50 - 100 ug/m³</td>
<td>50 ug/m³</td>
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It is estimated that this public health impact is affecting at some level or worse around 70% of the 30,000 people that live in this area and that the elimination of dust emissions from ash disposal and dumping will result in a benefit of about US$1,600,000 per year in avoided costs related to the current health impacts.

In the context of the health implications and Kosovo’s interest to join the EU, it is important that its institutions embrace environmentally friendly technology to fully comply with applicable EU Directives, and develop strong regulatory systems for energy sector development.

As part of the World Bank Energy Sector Technical Assistance Projects in Kosovo, the Clean-up and Land Reclamation Project (CLRP), assisted by the IDA and implemented by the Kosovo Energy Corporation (KEK), attempts to address the ash disposal problems. It supports the governing authorities in dealing with environmental issues related to open dumping of ashes around Kosovo A and B power plants, increasing access to land for community development purposes, eliminating health hazards due to the dust, and building of capacity within KEK for environmentally sound mining and power generation operations.

The project has four components. The first component will prepare the Mirash open pit mine to receive and store ash from the Kosovo A Thermal Power Plant, as well as store the ash removed from Kosovo A’s open ash dump. The second component will support the full removal of ash and overburden materials from the Kosovo A ash storage facility, the transportation of these materials to the disposal site in the Mirash mine, and proper backfilling of the mine prepared under the first component. The third component will reclaim about 6.5 square kilometers of land through reshaping and re-cultivating selected overburden dumps. The fourth component will provide project implementation support to KEK. A special feature of the project is that it enables KEK to fully implement and carry out the works with own staff and equipment. This will create strong ownership in integrating land reclamation and environmental care into the core of its operations. By the time the project is completed, groundwater pollution near the Kosovo A Ash Dumps is expected to be eliminated, benefiting the health of the local population. The reclamation of the overburden dumps will make land available for natural habitats, agriculture, and residential purposes. And environmental officials will have gained significant experience in dealing with environmental legacy issues from lignite mining and power generation activities.