

JUST ENERGY TRANSITION IN KOSOVO - HOW TO DESIGN AND ACHIEVE IT?

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Introduction

Energy is one of the most important products that enables human activity in different areas of life. Technological developments and the digitization of all sectors have become necessary for the smooth running of life, energy plays a key role, since without it almost everything is dysfunctional. As with other sectors, the electricity sector has also advanced as a result of digitization. Energy production has been diversified in a global attempt to no longer rely on fossil fuels. This change has developed as a result of the impact that the human activity has imposed on the environment and the species that live in it, for several centuries now.

Over the coming years, every aspect of national energy systems will be affected by changes in climate and energy policies, financing, continued technological advancement, and changes in energy supply and demand. The rapidly falling costs of renewable resource-based technologies have opened up previously unimagined opportunities across the globe. Continuous developments and updating of production technology in many countries offer a promising perspective for the security, inclusiveness, and sustainability of a transformed energy sector. However, the transition must accelerate significantly and expand its scope to achieve the SDG 7 of the 2030 Agenda for Sustainable Development¹ and to align with the goals of the Paris Agreement² for climate change, achieving at the same time the full implementation of the 2030 Agenda for Sustainable Development.

Thus, the energy transition can no longer be limited to incremental and inclusive steps. It must become a transformative effort, a renewal of the system, based on the improvement and rapid implementation of all available technologies to improve and secure the future. This is the right moment to reevaluate old assumptions, perceived barriers, and decisions that lead us to stagnation. The evolving energy system must promote an economy and society that adapts to a more inclusive and equal world. Ambitious and targeted action is needed now and over the coming years to ensure that the objectives and targets for a clean, green, affordable, and sustainable future are achievable.

Energy transitions are about people: those who make the decisions and those who are affected by the decisions. A just transition ensures that the people affected are taken into account by decision-makers. So, in addition to the transformation of the energy sector and its orientation towards sources that do not emit greenhouse gases into the atmosphere, a fair transition also includes the principle that no one is left behind. Inclusiveness is a key element in building a well-structured and sustainable energy sector, with affordable prices and an uninterrupted supply.

Early action for a just transition can minimize the negative impacts of this process and maximize the positive opportunities. The Paris Agreement on climate change includes just transition as a crucial principle. A just transition is not a set of fixed rules but a vision and a process based on dialogue and a shared agenda between workers, industry, and government that must be

¹United Nations, Department of Economic and Social Affairs, Sustainable Development, accessible at <https://sdgs.un.org/goals>, (accessed in May, 2022)

²United Nations, Paris Agreement, accessible at https://unfccc.int/sites/default/files/english_paris_agreement.pdf, (accessed in May, 2022)

negotiated and implemented in their respective geographical, political, cultural and social contexts. It is implemented with a set of guiding principles, which prevent the violation of rights and enable inclusivity.

Kosovo and its energy system need transformation, based on the fact that as a country we are signatories of the Sofia Declaration on the Green Agenda for the Western Balkans in 2020³, and we are also committed to implement all the obligations of the Energy Community Treaty. In addition to these commitments, Kosovo aims for a future that is in line with technological developments and advancements, enabling a clean and stable future which ensures a full supply of electricity for all its citizens. As Kosovo works toward green policies and full decarbonisation by 2050, a just energy policy is more than a duty and obligation, it is also a necessity. Electricity generated from renewable sources and energy efficiency is the inevitable and appropriate future of the electricity sector not only in Kosovo but throughout the globe.⁴ Renewable energy is the inevitable choice for sustainable economic growth, the harmonious coexistence of people and the environment, and sustainable development. This means that distancing from coal, as the main source currently for the generation of electricity in our country⁵, needs to be done in an accelerated and consolidated steps alongside the policies that support the citizens of Kosovo.

This policy study highlights the importance of the energy transition in Kosovo's electricity system. It also reveals the challenges and opportunities for the future, knowing that as a process, the energy transition is practically inevitable. The study contains the findings and the most sensitive points that the energy sector has in our country, brings recommendations in order to achieve a fair transition, and also provides examples of other countries and the path followed by them to fulfill such an important process.

³Sofia Declaration on the Green Agenda for the Western Balkans, accessible at [file:///C:/Users/Hp/Downloads/Leaders%20Declaration%20on%20the%20Green%20Agenda%20for%20the%20WB%20\(1\).pdf](file:///C:/Users/Hp/Downloads/Leaders%20Declaration%20on%20the%20Green%20Agenda%20for%20the%20WB%20(1).pdf), (accessed in May, 2022)

⁴Just Energy, 7 Types of Renewable Energy: The Future of Energy, accessible at <https://justenergy.com/blog/7-types-renewable-energy-future-of-energy/>, (accessed in May, 2022)

⁵Energy Regulatory Office, Publications, Annual Reports, Annual Report 2021, accessible at https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Raportet%20Vjetor/Raporti%20vjetor%202021_ZRRE_Shqip.pdf, (accessed in May, 2022)

Methodology

A mixed, qualitative, and quantitative methodology was used for the drafting of this paper. For quantitative research, INDEP used the method of monitoring, analysing, and desk research to collect data and information about the energy sector in Kosovo, the energy transition process, and documents related to this process. Starting with desk research, this method contributed to the collection of data on a global scale, but also to Kosovo's background in the aspect of energy. In this process, the challenges, problems, and opportunities of the transformation of the energy sector were determined, offering suitable conditions and not discriminating against any citizen of Kosovo.

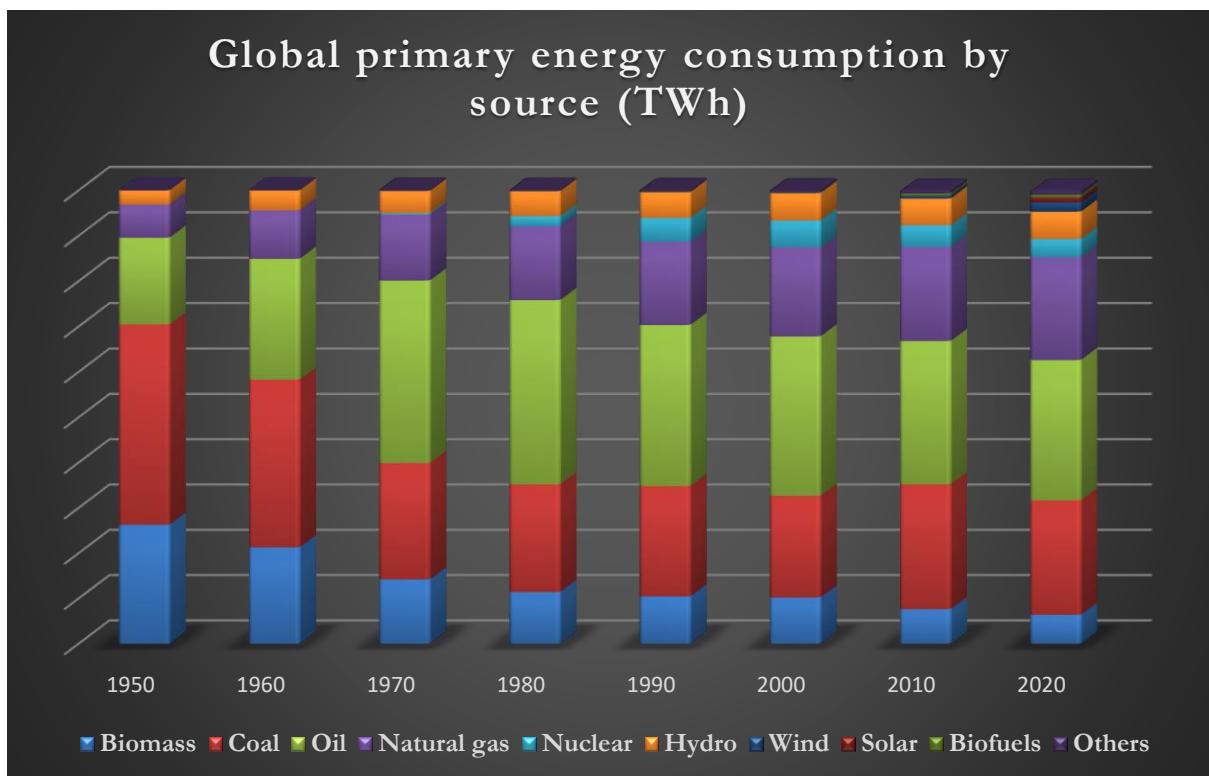
In order for this paper to be as accurate as possible, INDEP also compiled a range of quantitative information through qualitative research. More specifically, the methods selected for the drafting of this paper are case studies, data collection, and previous INDEP's research reporting. This ensures the study is as complete and suitable as possible for the circumstances in which Kosovo is found.

The recommendations that we have listed at the end of the study will reveal the needs that Kosovo has in addition to the process of just energy transition. The recommendations have been summarized after examining the good practices followed by other countries, adapting them to the situation and economic conditions that our country can offer. All this is based on sustainable development, the green transition of the energy sector, and the provision of new and good conditions for the entire population of Kosovo.

I. Just energy transition and Kosovo

Rapid technological development, population growth and increased consumption have directly influenced the increase in the demand for electrical energy. In social, environmental and health aspects, the increased consumption of electricity has had a negative impact, as traditional electricity is produced from fossil sources and a significant amount of greenhouse gases is released from its production process. As a result of the emission of greenhouse gases and the heat blocking effect that comes from these gases, there has been a rise in earth temperatures, melting of glaciers, depletion of the ozone layer, deadly diseases, social problems, significant environmental pollution and climate change which may bring other negative effects in the future.

Until the middle of the 19th century, traditional biomass, i.e. the burning of solid fuels such as wood, crop residues, or coal, was the main source for the production of electricity used throughout the world.⁶ With the Industrial Revolution came the dramatic increase in the use of coal. By the beginning of the 20th century, about half of the world's energy was produced from coal and a half was still produced from biomass. The graph below presents global data on electricity consumption for the last 70 years.



Graphic 1. Data on global electricity consumption by the source of production 1950-2019, **Source:** Our World in Data

The graph highlights that fossil fuel resources are still at a very high level of consumption which will cause damage even after many decades to come. The consequences of the over-use of fossil

⁶Our World in Data, Energy Production and Consumption, How much energy does the world use?, accessible at <https://ourworldindata.org/energy-production-consumption>, (accessed in June, 2022)

fuels have encouraged countries to transform their energy sector, contributing to the reduction of climate change whilst also creating a more just and egalitarian society. For such a transformation to be successful, it must be coordinated and comprehensive, ensuring a sustainable and affordable future.

A transformation of the energy sector offers opportunities for sustainable economic development, social inclusion, energy security, improved health, job creation, and other societal benefits.⁷ Such opportunities will only be achieved if the transformation is implemented fairly and comprehensively. Although the government should take the lead in setting the goals and the process, the involvement of the private sector, cities, civil society, and beyond, including the youth, is essential to design a balanced and fair transition process that is consistent with the 2030 Agenda. Such an opportunity has been used by many countries which have already completed such a transition, or which are in an advanced stage of transition. For developing countries such as Kosovo, the transition process is slower since the economic and political factors are a big problem that presents significant difficulties for the process as a whole.

The just energy transition is based on several factors which enable the process as such to be considered fulfilled and successful. These factors are:

- Adequate policy for all sectors involved in the transition,
- Direct actions against climate change,
- The principle "no one should be left behind",
- Additional support for persons directly affected by the energy transition and vulnerable consumer groups, and
- Creation of new jobs.

Without the fulfillment of these points, the transition as a process can neither be called fulfilled nor fair.

⁷United Nations, Energy Transition Report, accessible at https://www.un.org/sites/un2.un.org/files/2021-twg_2-062321.pdf, (accessed in May, 2022)

Adequate policy for all sectors involved in the transition

Greening economies in the context of sustainable development and poverty eradication will require a country-specific mix of macroeconomic, industrial, sectoral and labor policies that create an enabling environment for sustainable enterprises to thrive and create job opportunities, mobilizing and directing public and private investment towards sustainable environmental activities. The aim should be to create jobs throughout the supply chain - in dynamic and high-value-added sectors - which stimulate the improvement of jobs and skills, as well as job creation and productivity improvement in more labor intensive industries that provide employment opportunities on a larger scale.⁸

Direct actions against climate change

The transition from fossil fuel sources to renewable sources (RE) as primary sources of electricity is the essence of a just energy transition. This is due to the fact that most climate changes and other consequences are caused by the emission of greenhouse gases, which are released when fossil fuels are burned during the electricity production process. Stimulating RE and increasing their capacity will create a cleaner environment and reduce dependence on resources that have already caused colossal damage. Therefore, the Energy Strategy of the Republic of Kosovo 2022-2031 foresees the further integration of RE in addition to distancing from coal.

The principle “no one should be left behind”

The energy transition has costs and affects different layers of society. Kosovo is a developing country and the economic situation of Kosovar families is not of a low standard, then the institutions and leading actors of the transition process must ensure that this process does not impoverish, damage, or create negative effects on any family. Kosovar society should be involved in encouraging the transformation of the energy sector..

⁸United Nations, Just Transition of the Workforce, and the Creation of Decent Work and Quality Jobs, accessible at <https://unfccc.int/sites/default/files/resource/Just%20transition.pdf>, (accessed in June, 2022)

Additional support for persons directly affected by the energy transition and vulnerable consumer groups

The Kosovo Energy Corporation (KEK) and the workers who are part of this institution are directly affected by the transition. This is because the energy transition presupposes complete decarbonization which cannot be achieved without the closure of power plants. Currently, KEK has 3,628 workers who ensure the smooth running of the electricity production process in Kosovo. This workforce and vulnerable consumer groups, that is, families who have difficulty or inability to afford the cost of using electricity, should be supported and not penalized by the energy transition process. The process creates new jobs and the fulfillment of these jobs can be realized through the labor force from the aforementioned groups.

Creation of new jobs

For the process of a just transition to be accelerated in the most polluting sectors of Kosovo, there is a great need for government commitment and enhanced international cooperation. In an investment context characterized by rapid technological and political change, decisions on investment, job creation, and policies will need to be made regarding the risk of failure of activities. Such an interconnection would provide acceleration, security, and stability not only for the people employed in this field but also for the state economy and the energy sector in general. Based on the transition process in other countries, it has been proven that the number of new jobs created is very high.

These practices must be followed in order to evaluate the principles and processes that make it possible to achieve a just transition and to fulfill transformative practices. In this direction, all the institutions that are participants and drivers of this very important vital process should cooperate and coordinate. As a result of this cooperation, the two-dimensional criticism, that is, social inclusion and actions against climate change could be fulfilled.

Kosovo has been involved in a number of initiatives at the international level, such as the Sofia Declaration on the Green Agenda for the Western Balkans signed in November 2020, where Kosovo pledged to become a climate neutral country by 2050. As a result, Kosovo should focus on creating relevant and cohesive development strategies. There should be a clear plan for an energy strategy which notes the stability of supply and the energy market system. This plan should also determine a date for ending coal usage since it is clear that outdated coal capacities are already inefficient, expensive to use, and cause great damage to the health of citizens and the environment. Coal poses a direct threat to the energy stability in Kosovo, as was proven in the last energy crisis.

The Energy Strategy of the Republic of Kosovo 2022-2031⁹, has integrated important elements of the energy transition. Moreover, the vision of this strategy clearly defines that Kosovo should achieve the transformation of the energy sector as soon as possible so that by 2050 Kosovo is a carbon-neutral state.

"A CO₂-free energy sector by 2050, integrated into the Pan-European market, guaranteeing the security of electricity supply and affordability for citizens."

Based on this long-term vision, the objectives of the strategy have also been adjusted and set in order to replace fossil resources with renewable energy sources, consumer protection, reliability for the system, etc. The five objectives of this strategy, which represent the political and strategic basis of the energy transition in Kosovo, are¹⁰:

1. Improving system reliability
2. Decarbonization and promotion of renewable energy
3. Increasing energy efficiency
4. Strengthening regional cooperation and market functioning
5. Protection and empowerment of consumers

These objectives will be the guides of the transformation process of the electricity sector of Kosovo.

⁹Draft Energy Strategy of the Republic of Kosovo 2022, (accessed in June, 2022)

¹⁰Ibid

Concept definition and problem statement

The term "Just Transition" for Kosovo represents more difficult circumstances and additional problems compared to many countries that have completed or are in the transition phase. Apart from economic issues, Kosovo is a relatively new country and with an unsatisfactory economy and produces the majority of its electricity through coal. Therefore, the right transition or "Just Transition" would encourage Kosovo moving away from coal and closing thermal power plants, introducing carbon taxation, digitalization of transport, and the minimization of carbon emissions from other polluting sectors. In addition to this, those employed in these polluting sectors must also be accommodated in new workplaces that are related to their current work. This is due to the fact that a just transition does not mean only the transformation of the energy sector, but also the social inclusion and not affecting any individual.

The main problems that Kosovo will encounter in the transition process are:

- Harmonization of green policies with social problems
- Diversification of resources and creation of flexibility
- Creation of jobs for people affected by the transformation of the energy sector
- Providing funds for the realization of the transformation
- Attracting foreign investors
- Integration in the common energy market with the countries of the Western Balkans
- Provision of secondary and tertiary reserves within the territory of Kosovo

It is important that the solution to these problems is analyzed before the transition process begins so that the process as such does not have any delays during its implementation phases.

II. Main pillars of the just transition in Kosovo

Kosovo is a country that bases its electricity production on the burning of coal in thermal power plants. Such a resource, which is already more expensive than renewable energy sources, is not supported by most foreign countries, nor is it supported by international financial mechanisms. Therefore, the transformation and transition from harmful sources of energy to sources that do not emit greenhouse gases, apart from being a worldwide policy and an obligation imposed on Kosovo by agreements reached earlier, is also a financial and strategic advantage.

The main pillars of the just transition in Kosovo are based on the reduction of greenhouse gas emissions, inclusiveness and protection of consumers and vulnerable groups. One of the ways to accelerate climate change mitigation is to ensure that it is inclusive and does not harm anyone.¹¹ This means considering the consequences of distribution so that no one is left behind. It is clear that the benefits of the transition will far outweigh the costs of this process. If well managed, the transition will prevent both the huge human and economic costs of climate change and also improve quality of life, generate many new jobs and reduce inequality. The transition is essential to maintaining decent and fair work and ensuring thriving communities in the coming decades.

However, these benefits will not happen automatically or by themselves. Concrete and immediate action is needed to ensure that jobs in the low-carbon economy have working conditions at least as good as those in high-carbon sectors. The benefits of the low-carbon economy must also flow beyond the workplace to the wider community. In addition, there are important transitional implications for key sectors, regions and countries that need to be managed. If completed poorly, the result can be not only process failure, but also "stuck workers" and "stuck communities".¹² The past experience of deindustrialization in many parts of the world highlights the importance of looking beyond the direct employment impacts to understand the broader ecosystem of prosperity in the affected regions. Failure to do so could slow or even impede climate progress, contributing to economic stagnation and political instability.

To fulfill this process, the goal of a just transition for workers and communities was included as part of the Paris Agreement on climate change.¹³ At its core, the just transition is a forward-looking, action-oriented framework that identifies opportunities for public and private investment in economic development that is both sustainable and inclusive. It helps link activities between international organizations, governments, businesses and investors, development and industry sectors, and most importantly, workers and communities who will feel the effects of transition, whether well or poorly managed, most acutely. The just transition is a global agenda

¹¹The London School of Economics, Climate change and the just transition - A guide for investor action, e qasshme në https://sustainabledevelopment.un.org/content/documents/22101ijtguidanceforinvestors23november1118_541095.pdf, (qasur në qershor, 2022)

¹²Climate Justice Alliance, Just Transition Principles, e qasshme në https://climatejusticealliance.org/wp-content/uploads/2018/06/CJA_JustTransition_Principles_final_hi-rez.pdf, (qasur në qershor, 2022)

¹³Ibid

for industrialized economies as well as developing ones such as Kosovo. It is an agenda that addresses both the decarbonization dimensions and those of the transition chapters.

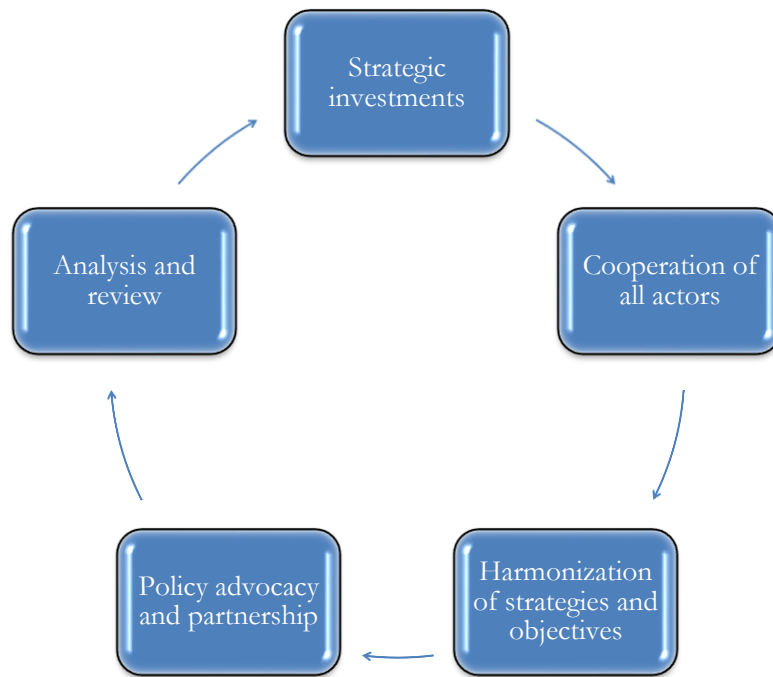


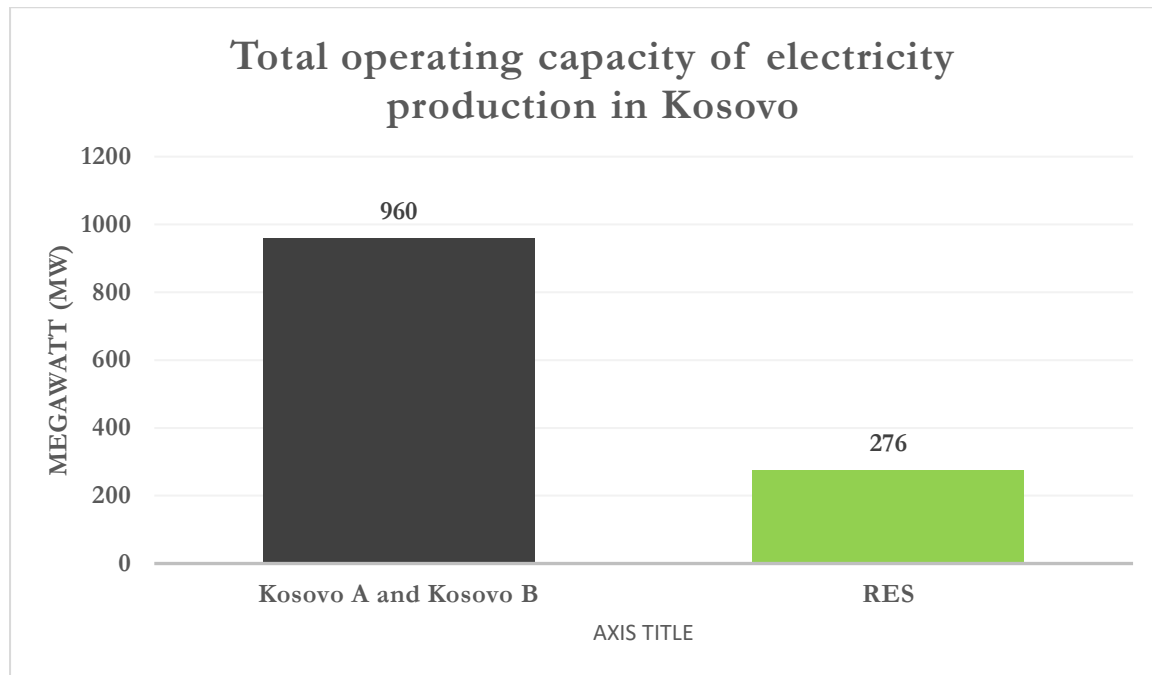
Figure 1. Action areas of energy transition

During the transition process, Kosovo should take into account the actions of other states that have completed or are in the process of a just transition. By doing so, Kosovo may be able to mitigate negative consequences of an energy transition, creating a stable energy market and switching to renewable resources..Kosovo’s Energy Strategy has established a framework for the next ten years. It presents a framework of objectives that are in line with the just energy transition.

A just transition is necessary in Kosovo because of its reliance on carbon, its aspiration to integrate into the European Union, and the goal of decarbonisation by 2050. To fully achieve the transition and improve and increase generation capacities, increase energy efficiency measures and achieve security of supply will require rapid development, inter-institutional coordination, and public and private investments. Therefore, understanding the current situation and the future developments of the process of just energy transition in Kosovo are of great importance for both the public and private sectors.

Energy production in Kosovo

Kosovo has a total operational electricity production capacity of 1,236 MW.¹⁴ Of this value, 960 MW are produced by the thermal power plants Kosova A and Kosova B through the burning of coal, while 276 MW are produced by generation technologies through renewable energy sources. The further integration of renewable resources would increase the energy production capacity, and at the same time would contribute to the development of a more successful market.



Graph 2. *The total operating capacity of electricity production in Kosovo, Source: ERO*

The outdated thermal power plants, which do not have the technical possibility of operating at their optimal capacities, do not guarantee security even for the economic development of the country. This emphasises why Kosovo needs to achieve the transformation of the electric power sector: in order to open up new opportunities and achieve strategic objectives. Kosovo's production capacities do not provide either energy security or stability, and besides these elements, they do not meet the demands of consumers.

Energy security represents access to sources of electricity with a stability of supply and an affordable price for consumers. Energy security is achieved when there is the most demand for it and it represents the basis for the functioning of a good energy market. Today, with the advancement of technology, the need for electricity has only increased and consumers' main demand is to be supplied with electricity at all times and at an affordable price. The integration of different sources for the generation of electricity would provide Kosovo with uninterrupted electricity supply for its consumers.

¹⁴Zyra e Rregullatorit për Energji, Publikimet, Raportet Vjetore, Raporti Vjetor 2021, e qasshme në https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Raportet%20Vjetor/Raporti%20vjetor%202021_ZRRE_Shqip.pdf, (qasur në qershor, 2022)

Stability of supply is the basis of energy security. This means that supply without reductions of electricity and high quality of energy should represent a standard of each country. According to the annual report of ERO, during 2021 energy reductions as a result of its lack were 29,068 MWh.¹⁵ Energy security will only increase with the achievement of diversification of electricity production sources and this represents another advantage of the transition process.

The Energy Strategy of the Republic of Kosovo 2022-2031 aims to increase local production capacities. In the second objective of this strategy, as one of the main goals, it is stated:

“Development of new wind and photovoltaic RES capacities, **to reach a total installed RES capacity of at least 1400 MW** (including here 100 MW of self-generating consumer capacity) by 2031, with possibility of increasing this goal if such a thing is possible.”

In order to create better conditions and stability of the sector, these numbers are quite ambitious and hopeful regarding the transformation of the sector. However, renewable sources also require flexibility in terms of energy reserves.

In Kosovo, at the moment, only the primary reserve of 5 MW is provided by the thermal power plants, called FCR reserve. Secondary and tertiary reserves (aFRR and mFRR) are provided by the electricity system of Albania. Automatic frequency restoration reserve (aFRR), also known as secondary reserve, is a reserve in the power grid that helps keep the grid frequency stable. To keep the frequency within certain limits, Transmission System Operators activate balancing services such as aFRR, which they receive from Balancing Service Providers.¹⁶ Countries differ in their specifications, but following the European harmonization of balancing markets, Balancing Service Providers must ensure that they provide backup within 5 minutes. As a secondary backup, aFRR gradually replaces FCR after 30 seconds, mFRR, a tertiary backup, supports or partially replaces aFRR after 12.5 minutes.

All three of these reserves are of significant importance to energy independence and regular supply. Without these reserves, balancing the network and avoiding deviations would be impossible, and therefore penalties from ENTSO-E would not be missing. Therefore, renewable resources as difficult resources in terms of flexibility, securing these reserves through local capacities would greatly help in regulating and improving the sector in general.

¹⁵Zyra e Rregullatorit për Energji, Publikimet, Raportet Vjetore, Raporti Vjetor 2021, e qasshme në https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Raportet%20Vjetor/Raporti%20vjetor%202021_ZRRE_Shqip.pdf, (qasur në qershor, 2022)

¹⁶NEXT, What is aFRR (automatic frequency restoration reserve) and how does it work?, e qasshme në <https://www.next-kraftwerke.com/knowledge/afrr>, (qasur në qershor, 2022)

The network and the market

Kosovo's electricity grid needs investments and technology updates. There are two main networks of the energy sector in Kosovo:

- Broadcast network
- Distribution network

The transmission network, operated by KOSTT, plays an important role in the electric power system by making the transmission of large amounts of electricity from local generators and imports to large consumers and distribution nodes possible. The increasing dependence on electricity means that the tolerance for supply interruptions must be minimal, while extended interruptions cannot be accepted. This implies high standards of supply from the transmission network in the future. The distribution network, operated by KEDS, made it possible to transmit electricity below 110 kV from distribution nodes to transformers and then to consumers.

The transmission network operates at European levels and the losses caused are at an acceptable level. Losses in the transmission network are at an acceptable level of 1.26% of the energy input to the transmission, and are approximately at the same level as losses in transmission networks in the region and Europe.¹⁷ The same does not apply to the distribution network.

During 2021, the technical losses in the distribution network were 12.46%, while the energy consumption, which was unauthorized, was 12.11%.¹⁸ The outdated network, consumptions that are not billed, and illegal use of electricity (electricity theft) are the main reasons why the figures of losses are still high in this network. Therefore, investments should be oriented in this direction, knowing that these high values of losses affect the destabilization of the entire energy sector.

Although Kosovo declared independence from Serbia in 2008, in terms of energy, Kosovo was still considered an internal territory of Serbia until 2020. This caused many issues within the energy sector. Some of the main problems included the import and blocked roads of the energy highways, financial costs and the malfunction of the 400kV interconnecting line with Albania. With the achievement of Kosovo's energy independence and its recognition as an independent energy zone, the problems mentioned above have begun to decrease.

On April 20, 2020, the Regional Group of Continental Europe (RGCE) voted on the new Agreement for the connection between KOSTT and ENTSO-E.¹⁹ Until April 2020, Kosovo was part of the SMM regulatory Block (Serbia, Montenegro, North Macedonia). According to this agreement, Kosovo finally left the SMM regulatory Block, and was recognized as an independent

¹⁷Zyra e Rregullatorit për Energji, Publikimet, Raportet Vjetore, Raporti Vjetor 2021, e qasshme në https://www.ero-ks.org/zrre/sites/default/files/Publikimet/Raportet%20Vjetor/Raporti%20vjetor%202021_ZRRE_Shqip.pdf, (qasur në qershor, 2022)

¹⁸Ibid

¹⁹KOSTT, Për media, Përmbillet me sukses votimi i Marrëveshjes së re të Kështesës KOSTT/ENTSO-E, e qasshme në <https://www.kostt.com/News/New/2021>, (qasur në qershor, 2022)

energy territory. Kosovo then formed the Regulatory Block with Albania, otherwise known as the AK Block (Albania-Kosovo). The 400kV interconnecting line, which was built in 2016 and was not allowed by Serbia to become functional, is now able to operate without any problems. Kosovo and Albania, as two separate energy zones, have already opened the way to the establishment of a common electricity market, and is expected to materialize soon.

The market is the main component of the energy union, a process which has already taken significant steps between Kosovo and Albania. The market represents the joining of interconnectors and then the trading of energy through them. The creation of a common energy market is beneficial for each country. This is because it ensures a safer flow of energy, easier capacity allocation, faster and cheaper trading, as well as provides a more affordable price for consumers. ENTSO-E's objectives, Energy Strategies, European Union Directives and the Third Energy Package support the integration of markets into a single one, finding that this guarantees more transparency and greater liquidity for both traders and operators, as well as also for buyers. In the near future, Kosovo and Albania aim for a common market not only with each other, but also with other Balkan countries, and why not with other European countries later.

The Energy Community Treaty and its principles encourage energy zones to join each other and create common energy markets. Some of the favors of countries in common energy markets are:²⁰

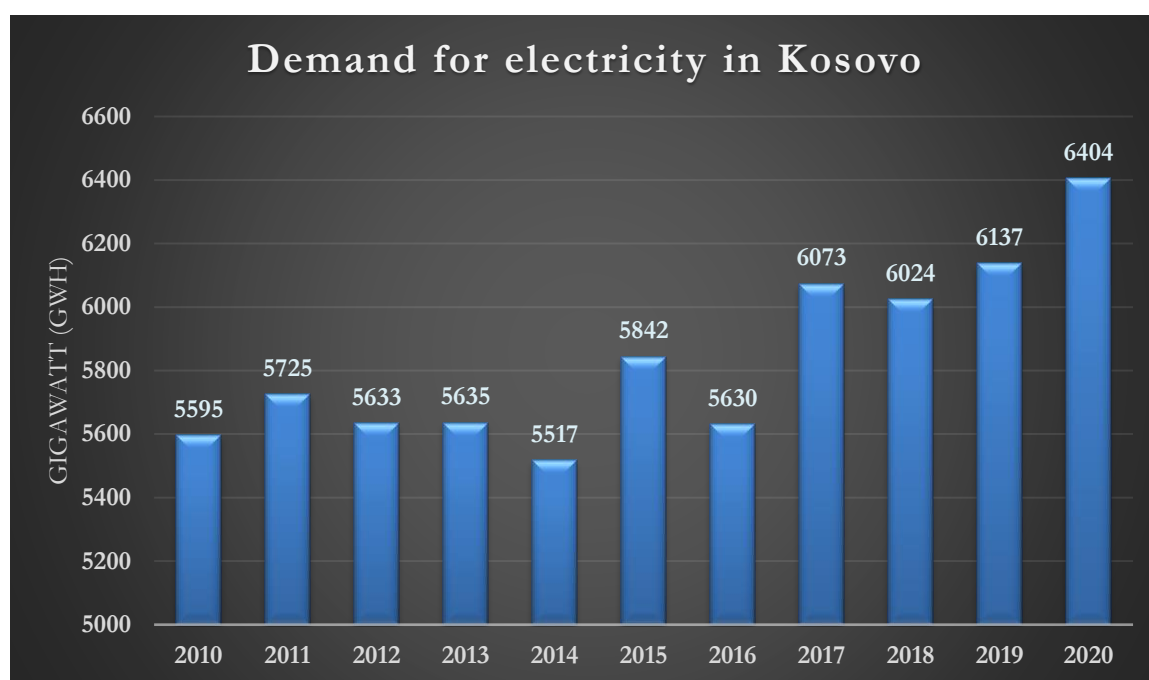
- The common energy market would create greater investment opportunities
- The market, which contains a larger number of consumers, is also more attractive for the investor, since it presents more security for their investment.
- The consumer benefits from the use of renewable energy sources, because their price is cheaper in a larger market
- The common energy market creates opportunities in advancing the greater use of renewable resources

These and many other benefits, such as the easier operation of the system, are the reason and basis on which the Government of Kosovo should finalise the energy union with Albania, and then expand the common market with other countries of the Western Balkans.

²⁰INDEP, Bashkimi Energjetik Kosovë-Shqipëri - Sfidat dhe Mundësitë për të Ardhmen, e qasshme në https://indep.info/wp-content/uploads/2021/11/INDEP_Bashkimi-energjetik-Kosove-Shqiperi.pdf, (qasur në qershor, 2022)

Energy consumption in Kosovo

Urbanization, technological development and population growth are the main reasons for the increase in energy consumption in Kosovo. The average annual growth rate of total electricity consumption over the last 10 years in Kosovo was 1.4%, driven mainly by growth in the household sector.²¹ While the increase in demand continues every year, the addition of operating generating capacities has not increased in the same line as to cope with the overall demand.



Graph 3. Demand for electricity from 2010-2020 in Kosovo, Source: Draft Energy Strategy of the Republic of Kosovo 2022-2031

In Kosovo, the greatest energy demand and consumption occurs during the winter months. This is because Kosovar families achieve the element of heating through the use of electricity, as the most suitable and currently cheapest form of heating. Such use of electricity negatively affects the environment, and also does not stimulate families to increase energy efficiency measures.

Kosovo also faces the element of unauthorized use of electricity. The main factor in the appearance of this negative phenomenon continues to be the four northern municipalities of Kosovo, which are not billed and therefore fulfill the payment obligation to their supplier. According to the 2021 Annual Report of the Energy Regulatory Office, the value of unauthorized energy used by these municipalities is 5.95% or 372 GWh. Such a problem affects the destabilization of the entire energy sector, since that electricity cannot remain unbilled nor can it remain unpaid. Therefore, for some time now, KOSTT is obliged to cover the cost of electricity consumed by these municipalities.

²¹Draft Energy Strategy of the Republic of Kosovo 2022, (accessed in June, 2022)

III. The case study of Sweden towards the just energy transition

During the 1970s, Sweden generated electricity mainly from fossil fuel sources. However, as a country that depended on the import of these resources, Sweden had no security of supply and no sustainability of the energy system. In response to the risk of security of supply, Sweden turned to nuclear power. This aspiration was strengthened by the global oil crash of 1973. In 1986, nuclear power had become the first energy source in Sweden's primary balance. Between 1970 and 1990, the share of oil products in the final energy balance almost halved, while electricity consumption doubled. This caused significant problems for Sweden, such as budget deficits, increasing unemployment, further jeopardizing electricity supply, and slow economic development. Therefore, significant reforms were needed in Sweden.

The main reforms focused on the energy sector. These reforms included green policies aimed at improving the sector, which are:

- A liberalization policy was implemented for the gas and electricity sectors
- The overhaul of the tax system was extended to energy taxation, with the introduction of a tax on CO2 emissions
- Developing renewable energy and increasing energy efficiency measures
- The desire to maintain energy supplies at a moderate cost to industry led to the continued operation of Sweden's nuclear power plants rather than their early shutdown

These policies of Sweden were a guide in the gradual distancing from fossil resources and in the greening of the sector.

In 2017, the Swedish Parliament adopted a climate policy framework outlining Sweden's approach to complying with the Paris Agreement.²² The framework sets ambitious climate and energy targets and goes beyond the European Union's 2050 climate neutrality targets and current energy and climate targets for 2030. Sweden has committed to reducing all net greenhouse gas emissions to zero by 2045 and using 100 percent renewable energy by 2040. The Climate Policy Framework also includes a climate act, which sets out the government's climate policy work, including its overall aims and how they should be implemented. These policies used by the Swedish state show determination and a clear intention that by 2045, this state will achieve a just energy transition.

Sweden, along with other Nordic countries, has shown a clear position against policies that contribute to a fair energy transition even earlier, with the creation of the Nordic energy market. The Nordic electricity market is a common market for the Scandinavian countries which has renewable energy sources as the main source of generation and which uses advanced ways of trading it. Norway, Sweden, Finland and Denmark have long shared a single electricity market

²²Sweden's Climate Act and Climate Policy Framework, e qasshme në <https://www.naturvardsverket.se/en/topics/climate-transition/sveriges-klimatarbete/swedens-climate-act-and-climate-policy-framework/#:~:text=In%202017%20Sweden%20adopted%20a,by%202045%20at%20the%20latest,> (accessed June, 2022)

and serve as a leading example for other countries around the world on how to liberalize electricity markets across national borders. Interconnectors join each other on land and water, and form a common market that ensures efficient trade. Utilizing electricity generation from renewable sources, the Nordic market has earned the epithet of an exemplary market for other countries.

The "World Forum" report on the effectiveness of the energy transition confirms that Sweden holds the lead in terms of this very important process.²³ The measuring index points for Sweden in 2021 were 79, leaving behind countries like Norway, Denmark, Switzerland, Austria and so on. The performance of the energy system was evaluated with 84.4 points, while the transition process with a total of 72.7 points. Although each country's energy transition path is different, they all share common attributes including:

Low levels of fossil fuel subsidies

- Improved energy security from a variety of fuel mix and imports
- Improving carbon intensity
- Reducing dependence on fossil fuels in energy diversification
- A strong regulatory environment to drive the energy transition

Hydropower is today the main source of renewable energy in Sweden. It accounts for the majority of electricity production with 61,605 GWh in 2018, while wind power is the second most efficient source of renewable energy with more than 20 TWh in 2019.²⁴ The International Renewable Energy Agency stated that "The country's energy system is now almost entirely decarbonised, based on extensive hydropower and nuclear power resources, as well as biomass-generated district heating".²⁵ Sweden has successfully integrated energy strengths with its current climate targets, alongside policies that force negative impacts on the environment.

Sweden was the first country to introduce a Carbon pricing policy. Today Sweden has the highest carbon price globally, showing that renewable energy sources are favored over continuing to support the use of fossil fuels. . The drafting of other policies has influenced the achievement of many objectives regarding the transformation of the energy sector, thus making the Swedish state an example for other states that have decided to achieve a green and sustainable future.

²³World Economic Forum, Fostering Effective Energy Transition 2021, e qasshme në https://www3.weforum.org/docs/WEF_Fostering_Effective_Energy_Transition_2021.pdf, (qasur në qershor, 2022)

²⁴The Borgen Project, 100% RENEWABLE ENERGY IN SWEDEN BY 2040, e qasshme në <https://borgenproject.org/renewable-energy-in-sweden/>, (qasur në qershor, 2022)

²⁵IRENA, INNOVATIVE SOLUTIONS FOR 100% RENEWABLE POWER IN SWEDEN, e qasshme në https://irena.org/-/media/Files/IRENA/Agency/Publication/2020/Jan/IRENA_Innovative_power_Sweden_2020_summary.pdf?la=en&hash=9FC47DCAD97F5001B07663FD7D246872DBC0F868, (accessed June, 2022)

Sweden has taken steps towards the energy transition many years ago. Some of the main policies which today have made this country a leader in the energy sector are²⁶:

- The country has no fossil reserves, importing increasing volumes of petroleum products since the years after the Second World War
- Until the 2000s, hydropower plants could enter the market without public assistance
- Sweden first strengthened its energy efficiency policy, structuring action on the ground through a national agency supported by partner organizations in local communities to help consumers technically and economically. Sweden then adopted the Green Certificate System to promote renewable energy. Implemented in 2003, this system has encouraged the development of cheaper renewable energy sources, with two-thirds coming from wind and one-third from biomass.
- Sweden introduced carbon taxation as an incentive measure for environmentally friendly resources
- Integrated the energy market together with other Nordic countries
- Sweden designed policies that pushed the transport sector towards electrification, thus reducing the greenhouse gas emissions caused by this sector

²⁶Études de l'Ifri, The Energy Transition in Sweden, e qasshme në https://www.ifri.org/sites/default/files/atoms/files/etude_suede_gd_ok-db2_complet.pdf, (qasur në qershor, 2022)

Table 1. *Lessons learned from Sweden's just energy transition process, Source: INDEP*

Case study of Sweden		
Lessons learned from the case of Sweden	Advantages in the context of Kosovo	Deficiencies in the context of Kosovo
Sweden initially strengthened its energy efficiency policy, structuring action on the ground through a national agency supported by partner organizations in local communities to help consumers technically and economically	The level of excess energy consumption is reduced and at the same time the economic burden of families is reduced as well as the level of greenhouse gas emissions.	-
Sweden started taxing carbon emissions	The level of carbon emissions is reduced	KEK and consumers are directly affected
Sweden integrated its energy market with other Nordic countries	The energy union with Albania first, and then with other countries in the region, guarantees security of supply, network improvement, increases opportunities for market liberalization and offers more favorable conditions for foreign investors.	-
Sweden designed policies that pushed the transport sector towards electrification	The level of carbon emissions is reduced	The level of electric stations is insufficient, while the subsidy for electric cars does not exist
Sweden reduced dependence on fossil resources	Renewable energy production technologies are pushed forward	-
Sweden liberalized the energy market, offering more space for all actors in the sector, as well as for consumers	Competition increases, offering more favorable conditions for consumers and the sector in general	The Bulk Supply Agreement is Kosovo's main obstacle towards market liberalization, knowing that this agreement obliges KEK to supply KEDS with the entire amount of electricity required

IV. Financial implications of the just energy transition

Accelerating the clean energy transition in developing economies such as Kosovo must become a top priority for governments and investors around the world. The transition does not just present benefits for Kosovo, but for the wider region and world because the impact of climate change will be reduced.

In clean energy transition processes, capital matters more than anything else. The ability to borrow from inter-municipal financial institutions and leverage a large share of debt, as well as to ensure adequate risk-adjusted investment returns for equity holders, are critical to attracting investment and shifting capital allocations towards clean energy.²⁷ Managing funding costs and diversifying funding sources is increasingly important to make these transitions affordable. While the debt component is defined in terms of loans and obligations based on prevailing interest rates, capital returns depend much more on the profitability of activities after debt repayment, as well as on the risks associated with project development and construction.

In Kosovo, the energy transition process means the transformation of the sector, from the most polluting sector to the sector with less greenhouse gas emissions. In fact, transforming the energy sector and increasing the efficient use of clean electricity are also key pillars of sustainable development and account for most of the emissions reductions needed to meet global climate change goals. Since such a thing represents such an important pillar, the financial implications are also higher in cost.

Investments in production technologies that use renewable resources, energy efficiency, electric cars, digitalization, the creation of new jobs and many other elements of the just energy transition present intensive approaches to the technology and methodology of reducing emissions without affect anyone's social status.

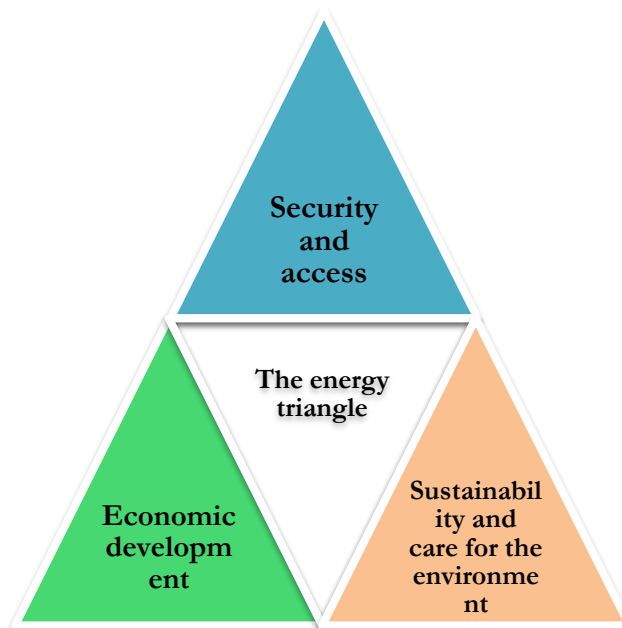
As spending shifts toward these more intensive technologies, the role of financing becomes more critical to the feasibility and affordability of the just transition. Mobilizing much higher levels of investment will depend on policies and market conditions, as well as the sustainability goals increasingly set by developers and investors, all of which affect the return on investment.

Mobilizing much higher levels of investment in utility-scale solar panels and wind farms depends on energy policies and market conditions, as well as sustainability targets increasingly set by developers and investors, which all affect the profitability of investments. Decisions to invest or not by foreign investors are likely to be influenced by²⁸:

²⁷IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, e qasshme në https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4-b73428ff9c72/FinancingCleanEnergyTransitionsinEMDEs_WorldEnergyInvestment2021SpecialReport.pdf, (qasur në qershor, 2022)

²⁸IEA, Financing Clean Energy Transitions in Emerging and Developing Economies, e qasshme në <https://iea.blob.core.windows.net/assets/6756ccd2-0772-4ffd-85e4->

- Costs of solar panels and wind technology, which depend on the quality of local resources, global industry trends and the flow of supply chains in a given country or region
- Government clean energy strategies and policies, including clear visibility on procurement plans and infrastructure projects to create scope for investment
- Expectations for obtaining the required rate of return and successfully servicing the debt
- Well-designed contracts to provide clarity on revenue and guarantee the bankability of the Project
- The cost and availability of capital, which depends on the above factors, as well as financial mechanisms that address specific issues such as payment risks
- The availability and cost of land and the level of enabling transmission infrastructure to ensure effective integration of variable renewables.



Fiscal mechanisms and the construction of a sustainable financing system

Sustainable funds differ from conventional funds because they have a sustainability objective while also seeking financial returns. Within this broad class of funds, some funds are more narrowly focused on the environment, and another subcategory is specifically concerned with climate change mitigation. Investments during the transition process require the creation of a system which will be functional and contributory even later, this mechanism which serves only in terms of improving the environmental condition, reducing greenhouse gases and creating new jobs.

The Government of Kosovo must first strengthen the climate information system, which includes data, disclosures and stable financial classifications, both for firms and for investment funds. For example, the best classification systems for funds, where fund labels and taxonomies are used and understood uniformly, help to summarize a fund's investment strategy and its overall approach to engagement and management. Second, there must be adequate regulatory oversight to prevent "green projects," that is, to ensure that the labels accurately represent the investment objectives of the funds. This, in turn, boosts market confidence and further increases flows into stable funds. Third, once these elements are in place, the means to channel savings into transition-enhancing funds become important. For example, increased eligibility of climate-themed funds for favorable tax treatment in savings products could help complement other climate change mitigation measures, such as a carbon tax.

The creation of an eco fund by the Government of Kosovo would represent an important financial mechanism in terms of financing the transition, aiming for this mechanism to provide long-term stability. The Eco Fund can operate alone or incorporate the existing Efficiency Fund as part of a merger process that should be inclusive and transformative. Funds collected from the carbon tax should be returned to the community, but with investments that directly affect the improvement of living conditions, increased comfort and other processes that protect the environment. Investments in renewable resources, increasing energy efficiency measures and accelerating the energy transition are some of the categories in which the Eco Fund should allocate the amount of money collected from the carbon tax. It is very important that the funds raised from the carbon tax go directly to improving the environment and not to other investments that are not related to reducing carbon emissions.

EU instruments (IPA III, Green Climate Fund and Just Transition Fund)

The European Union uses instruments such as The Instrument for Pre-Accession Assistance III (IPA III) to encourage potential candidates achieve the objectives of the Green Agenda. The IPA III is a fund of 14.2 billion euros which serves to provide assistance to countries that undertake major political, institutional, social and economic reforms.²⁹ This fund will address sustainable economic recovery, energy supply, transport, environment and climate change as well as digital transformation.

The Green Climate Fund is a fund established under the UNFCCC as an operating entity of the Financial Mechanism to assist developing countries in adaptation and mitigation practices to combat climate change.³⁰ Only during 2021, the board of this fund has approved close to 3 billion euros of new investments in projects related to climate change and the improvement of the negative impacts caused by this phenomenon.³¹ Even Kosovo, as a developing country, has the possibility of applying to such funds, reducing the impact of the greenhouse gases it emits within the energy, transport, industry and household sectors.

The Just Transition Fund is a financial instrument for supporting projects within the just transition process. The Just Transition Fund is a new financial instrument within the Cohesion Policy, which aims to provide support to countries facing serious socio-economic challenges aimed at transitioning to climate neutrality.³² The Just Transition Fund will facilitate the implementation of the European Green Deal, which aims to make the EU climate neutral by 2050.

The Just Transition Fund is implemented under common management rules, which means close cooperation with national, regional and local authorities. To access the support of the Just Transition Fund, member states (Kosovo is not a member state) must submit territorial just transition plans. These plans outline specific areas of intervention, based on the economic and social impacts of the transition. In particular, these plans should take into account the expected job losses and the transformation of the production processes of industrial facilities with the highest greenhouse gas intensity.

The initiatives of Kosovo and other signatories of the Sofia Declaration, from the Western Balkans will be supported by the Economic Investment Plan for the Western Balkans from the European Commission with a support amount of up to 9 billion euros.³³ These funds are not allocated or earmarked, therefore the application through green and promising projects could be

²⁹Komisioni Evropian, Enlargement region: European Commission welcomes final adoption of EU's new €14 billion pre-accession assistance budget for 2021-2027, e qasshme në https://ec.europa.eu/neighbourhood-enlargement/news/enlargement-region-european-commission-welcomes-final-adoption-eus-new-eu14-billion-pre-accession-2021-09-15_en, (qasur në qershor, 2022)

³⁰Green Climate Fund, e qasshme në <https://www.greenclimate.fund/>, (qasur në qershor, 2022)

³¹Green Climate Fund, Annual Results Report 2021, accessible to <https://www.greenclimate.fund/sites/default/files/document/20220412-arr2021.pdf>, (qasur në qershor, 2022)

³²European Parliament, Just Transition Fund, e qasshme në <https://www.europarl.europa.eu/factsheets/en/sheet/214/just-transition-fund#:~:text=The%20Just%20Transition%20Fund%20is%20one%20of%20the%20European%20Union's,growth%20policy%20for%20the%20EU.>, (qasur në qershor, 2022)

³³European Commission, Economic&Investment Plan – European Union, accessible to <https://ec.europa.eu/neighbourhood-enlargement/system/files/2022-02/EIP-WB-GG-2022.pdf>, (qasur në qershor, 2022)

made for the entire allocated amount. Therefore, the financial mechanisms for financing the just transition exist and day by day their assistance to the countries that undertake this process is increasing.

Conclusion

Kosovo and the energy market are in a critical and very difficult phase. The technology of the past centuries, polluting sources and unstable network prevent the security of supply and the stability of the entire energy sector in Kosovo. Therefore, the energy transition process must be of the highest importance, so that Kosovo achieves its goals, objectives and promises to be a carbon neutral state in 2050. The Sofia Declaration and now the Energy Strategy for the years 2022-2031 will steer the country towards sustainable and green policies, policies which are still lacking and do not constitute a priority as necessary for this essential process for humanity.

Kosovo has not taken significant steps towards the integration of renewable resources. Public investments are almost zero in this direction, but even the policies for attracting foreign investors and making the market more attractive for them are shallow and do not coincide with the demands of foreign investors. Currently, Kosovo does not offer support schemes for these energy sources and the non-liberalized energy market made our country unfavorable compared to other energy markets in the region. Such shortcomings affect the high percentage of energy production from fossil sources, having no other production alternatives from production technologies with friendly and non-emitting sources.

The harmonization of policies and the drafting of strategies for the transition leave much to be desired, knowing that such a thing has not been achieved in Kosovo. Adequate and interconnected policies make the energy transition process clearer and easier to achieve. While the drafting of strategies that provide transformation of the energy sector and at the same time create new jobs and deal with the social impacts that this process will have, are in the early stages and not satisfactory. Knowing that the right energy transition aims not only at transformation but also at all inclusion and not affecting family economies, our state has done almost nothing towards the drafting of strategies and operational plans that detail the process and offer solutions for the benefit of every citizen of Kosovo.

Energy consumption still remains high and is only increasing year after year, taking into account technological developments and population growth. Excessive and unnecessary consumption is at a high level in Kosovo. Such a phenomenon results from the lack of energy efficiency measures and non-implementation of building standards.

Sweden is the best example in the energy transition process. Harmonization of policies, long-term and sustainable strategies centered on security of supply and market integration using RES are just some of the points through which Sweden has achieved the success it enjoys today. As a practice of success, Kosovo has the opportunity to analyze the process and use the experiences towards achieving a successful process of just energy transition.

Pollution remains among the most challenging pillars of the Green Agenda. Kosovo has made little progress in improving air pollution, water management and land management. This is as a result of being stuck in many processes, the wrong policy and not providing adequate solutions to citizens. Also, the creation of weak market conditions has resulted in no foreign investment and dependence on fossil resources.

Financial mechanisms and instruments provided by the EU help countries towards a just transition. Kosovo can also benefit from these funds, thus making such a process affordable. The EU's approach to transition shows the path that the EU has decided to follow and the path that it expects from its member states and those who intend to be its members in the future. Therefore, access to these financial mechanisms contributes to the achievement of environmental objectives and the greening of the sector in terms of social impact on Kosovar families.

Recommendation

1. Kosovo to define the right transition through the Energy Strategy and the package of legislation in the field of energy, especially the Law on Energy, the Law on Energy Efficiency and the Law on Renewable Energy Sources. The definition of the term "just transition" should be done in such a way that it includes not leaving anyone behind, its cross-sectoral character and include elements of maintaining social cohesion, transforming work skills and protecting vulnerable groups.
2. The Government of Kosovo must draw up plans and strategies for new investments in the energy sector which must be linked to a set of criteria that promote a just transition. Investments in the energy sector must be made in parallel with the protection of vulnerable consumers and the preservation of the well-being of the workforce and the preparation of new professions.
3. Harmonization of strategies related to the environment and its protection, as well as policies that advance the process of just energy transition. The creation of reliefs through these points represents an important basis for pushing forward the transformation of the energy sector and its digitalization. At the same time, facilities and clarity are created for participating citizens, institutions, businesses and foreign investors. A clear hierarchy of strategies and legal basis is needed so that the principles of just transition are applied in all sectors and without discrepancies in implementation.
4. To stimulate energy efficiency measures. The creation of reliefs, stimulation with money or through soft loans, co-financing or other methods that contribute to the improvement of household conditions, which directly affect the reduction of electricity consumption, are some of the measures that the Government of Kosovo should apply in relation to citizens or businesses. Efficiency programs should be related to the status of consumers in the energy transition, an instrument that will enable a fair transition and inclusiveness in the process. Also, through this instrument, it will be possible to fight energy poverty and protect consumers.
5. The Government of Kosovo allocate funds to support investments in renewable resources by consumers. These projects would have a direct impact on reducing the need for consumption and guaranteeing inclusiveness in the process. The scheme must be linked to the program of consumers in need and prioritize the reduction of energy demand precisely among the groups that are most affected by the transition. Increasing the generation capacity of electricity, energy security and energy transition are just some of the benefits of such projects.
6. Kosovo should follow the example of Sweden and its path towards energy transition. Sweden's current market model is a good example of how the transition should link social welfare to the transformation of the energy sector, creating new jobs and making it possible to produce electricity through sources that do not emit greenhouse gases. With

the Swedish market model, we could benefit from the experience while also increasing transparency and data sharing in general.

7. The Government of Kosovo should initiate talks with institutions such as the European Investment Bank, the Development Bank of the Council of Europe, the World Bank, and also provide funds and grants from the financial instruments of the European Union such as IPA III and the Green Climate Fund. It is these financial mechanisms that facilitate and enable the fulfillment of the just transition process for developing countries like Kosovo. A general investment plan should be approved alongside the approval of the new Energy Strategy, which would enable greater efficiency in the absorption of funds and their implementation.
8. The Ministry of Economy in cooperation with the Ministry of Education and the Ministry responsible for vocational training centers, to draft the Reorientation and Retraining Program for green professions. With this, employees would be retrained and new jobs would be provided with good conditions, especially in emerging green industries. Securing jobs meant commitment to social issues and the impact that the transition would have on individuals who carry out their activities in polluting industries. Inclusion is one of the main principles of the just transition, therefore the Government of Kosovo together with its internal and external partners must design employment strategies in line with the replacement of the positions of the current industries emitting greenhouse gases.
9. To intensify efforts to create the regional energy market. Common energy markets have already proven to be successful, therefore, in transformative energy processes, they provide an extraordinary facilitating contribution. First with Albania and then the Government of Kosovo to examine the possibilities of joining with other regional countries, to stabilize the energy network and to accelerate the transformation.
10. The Government of Kosovo to approve during 2022 the green package of energy legislation including the Law on Renewable Energy Sources, the National Plan for Energy and Climate, the Decarbonization Strategy as well as the Municipal Plans for Energy and Climate. At the same time, harmonize these documents with the Energy Strategy 2022-2031, so that the strategic objectives are fulfilled and the current situation is improved. Timely and without delay adoption of the energy legislation package would also allow for more and timely attention to the energy transition and its "fair" component.

