



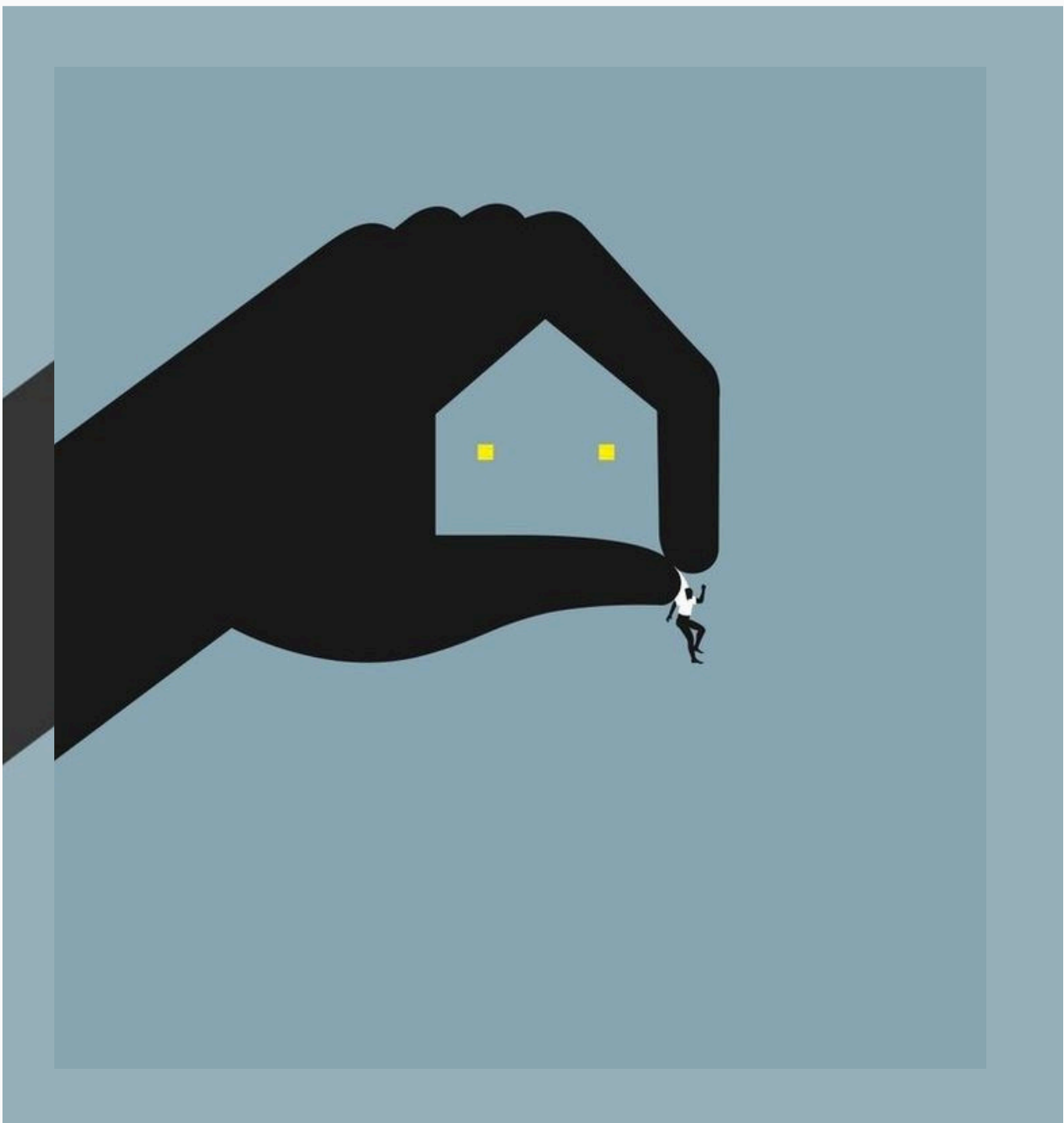
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# ***BUILDING RESILIENCE***

**A Policy Framework for Financing Protection of  
Kosovo's Vulnerable Electricity Consumers**



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## I. Introduction

In light of the recent launch of the "Program for the Protection of Vulnerable Electricity Consumers" by the Government of Kosovo,<sup>1</sup> it is imperative to examine and build upon the longstanding recommendations put forth by the Institute for Development Policy (INDEP). INDEP has advocated for the establishment of a fund for vulnerable consumers since 2018-19, recognizing the pressing need to address the challenges faced by marginalized groups within the society.

The purpose of this policy brief is to offer a comprehensive set of recommendations aimed at shaping the newly launched program to protect vulnerable electricity consumers. As the government embarks on this crucial initiative, it is vital to ensure that it not only provides immediate relief but also lays the groundwork for sustainable, long-term solutions. This policy brief will outline key strategies and measures to achieve this goal, focusing on the program's financing, functionality, and implementation strategy.

The recently initiated program places special emphasis on certain segments of society, including the disabled, self-supporting parents, and pensioners living alone, who are vulnerable to energy poverty.<sup>2</sup> It is evident that the energy crisis gripping Europe and the ongoing impacts of climate change necessitate a robust energy policy that safeguards the welfare of all citizens. The Government's commitment to energy reform, as demonstrated through the Energy Strategy 2022-2031, underscores the importance of energy efficiency and consumer protection.

This policy brief seeks to build upon the Government's efforts by providing a model for the program's success. It considers the Government's investment of approximately 700 million euros in long-term energy projects and the European Union's support package of 75 million euros to address the energy crisis. Moreover, it aligns with the international standards for poverty thresholds, as cited by the Minister of Finance, Labor, and Transfers, ensuring that vulnerable consumers receive equitable access to affordable electricity.

In the following sections, we will delve into specific recommendations concerning the energy poverty limit, fund financing, fund functionality, and implementation strategy. These recommendations aim to transform the program into a pilot initiative that not only alleviates the immediate challenges faced by vulnerable consumers but also serves as a learning opportunity to draft a comprehensive, long-term program.

The Energy Strategy 2022-2031 underscores the critical importance of safeguarding the well-being of vulnerable electricity consumers in Kosovo.<sup>3</sup> The recent European energy crisis brought to the forefront the need for a comprehensive energy protection scheme to support those in need. The existing scheme, while offering direct financial support in the form of reduced electricity bills, has historically been limited to two relatively small categories of citizens: beneficiaries of the Aid

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<sup>1</sup> Kosovo Government, (2023), Lansohet Programi për Mbrojtjen e Konsumatorëve të Cenueshëm të Energjisë Elektrike, available in Albanian at <https://kryeministri.rks-gov.net/blog/lansohet-programi-per-mbrojtjen-e-konsumatoreve-te-cenueshem-ne-energji-elektrike/> (accessed in November, 2023)

<sup>2</sup> Ibid.

<sup>3</sup> Republic of Kosovo, (2023), Kosovo Energy Strategy 2022-2031, Available at [https://reskosovo.rks-gov.net/wp-content/uploads/2023/04/Strategjia-e-Energjise-e-Republikes-se-Kosoves-2022-2031\\_compressed.pdf](https://reskosovo.rks-gov.net/wp-content/uploads/2023/04/Strategjia-e-Energjise-e-Republikes-se-Kosoves-2022-2031_compressed.pdf) (accessed in November, 2023)

Scheme Social and war-related beneficiaries. This narrow selection criteria has left many citizens who may be at risk of energy poverty without protection.

## II. Energy Poverty Limit

Energy poverty remains a pressing socio-economic challenge, particularly for households with limited financial resources. It represents the inability to meet basic energy needs required for maintaining a decent standard of living. Establishing a clear and actionable energy poverty threshold is vital for identifying those in need of targeted interventions. This threshold enables policymakers to direct support to the most affected households, preventing further socio-economic marginalization.

### B. Proposal for Determining the Limit

To address energy poverty comprehensively, a robust and inclusive methodology for defining the threshold is essential. Drawing from INDEP's analysis and experiences in energy policy, we propose a dynamic approach that considers both income levels and the share of income spent on energy services. Specifically, we recommend defining energy poverty as occurring when a household spends more than **25% of its disposable income** on energy-related expenses.

This proposal improves upon static income-based definitions and aligns with international best practices for measuring energy affordability. While the draft Program for Protection of Vulnerable Consumers in Kosovo identifies energy-poor households based on fixed income thresholds (e.g., per capita income of €100 or household income of €400 for a family of four), it fails to capture the disproportionate financial burden experienced by many households due to variable energy costs and consumption patterns.

Key advantages of this expenditure-based approach include:

- **A more precise measurement of financial burden:** Linking the energy poverty threshold to the proportion of income spent on energy ensures the inclusion of households experiencing significant financial stress, even if their income marginally exceeds fixed income criteria.
- **Adaptability to market and economic changes:** Energy prices often fluctuate due to external factors, including seasonal demand and global market dynamics. A flexible threshold that accounts for these variations ensures that households remain protected during periods of rising costs.
- **Recognition of diverse household structures:** Larger families typically face higher energy needs, which are not adequately addressed by per capita income-based assessments. An expenditure-focused metric accommodates these variations more equitably.
- **Continuous relevance through periodic updates:** Regular revisions of the threshold, informed by trends in energy prices, household consumption, and socio-economic conditions, ensure its enduring effectiveness and applicability.

By proposing this expenditure-based threshold, INDEP aims to foster an equitable and comprehensive framework for addressing energy poverty in Kosovo, ensuring that policies reflect the lived realities of vulnerable households.

### C. State's Role in Establishing the Limit

Defining and institutionalizing the energy poverty limit falls under the remit of the government, particularly relevant ministries such as the Ministry of Economy and the Ministry of Finance. The government's leadership ensures consistency, transparency, and alignment with national priorities, as highlighted in the Energy Strategy 2022-2031.

The state's responsibilities should include:

- **Data-driven policymaking:** Conducting nationwide data collection on income levels and energy expenditure patterns is critical for setting a threshold reflective of the population's socio-economic diversity.
- **Inter-agency collaboration:** Coordination between statistical offices, energy regulators, and other stakeholders is necessary to design a methodology that balances inclusivity with administrative feasibility.
- **Transparent governance:** The threshold-setting process must involve consultations with civil society, industry experts, and affected communities to ensure fairness and public buy-in.
- **Policy integration and monitoring:** The defined threshold should inform energy assistance programs, subsidy schemes, and efficiency-focused initiatives, with mechanisms for tracking progress and adapting to emerging challenges.

### III. Fund Functionality

#### A. Dual Purpose – Subsidy and Investment

The functionality of the fund for protecting vulnerable electricity consumers should pursue a dual purpose: immediate subsidies to alleviate energy poverty and long-term investments in energy efficiency to ensure sustainability. This approach strikes a balance between providing short-term relief and building systemic resilience to energy crises. To achieve this, lessons can be drawn from existing best practices such as the **Kosovo Credit Guarantee Fund (KCGF)** and the **Kosovo Energy Efficiency Fund (KEEF)**.

The KCGF, established under *Law No. 05/L-057*, has demonstrated how targeted financial instruments can effectively meet societal and economic objectives. Article 1 of the Law highlights its purpose: *“to help meet the need for increased access to finance for micro, small and medium enterprises in Kosovo in order to create jobs, increase local production and value-added services.”* Similarly, the Fund for Vulnerable Electricity Consumers should provide targeted subsidies while simultaneously facilitating energy efficiency investments to reduce energy costs for consumers in the long run.

#### B. Investment in Energy Efficiency

A robust investment strategy in energy efficiency is central to ensuring the long-term viability of the program. This strategy must include mechanisms for identifying and prioritizing beneficiaries, as well as an effective allocation system.

##### 1. Vulnerable Consumer Ranking Table

To optimize resource allocation, a **Vulnerable Consumer Ranking Table** should be established. This table would rank households based on a combination of socio-economic indicators, including:

- Household income and composition
- Energy expenditure as a share of income
- Energy efficiency of residential units

This ranking mechanism mirrors the targeted approach employed by the KCGF, which, under *Article 5*, applies rigorous risk assessment methodologies to determine eligibility for credit guarantees. Similarly, the ranking table will ensure that funds are allocated to households most in need, thus enhancing the effectiveness of the program.

## 2. Allocation Strategy

The allocation strategy must differentiate between **revolving and non-revolving components**, drawing inspiration from *Article 34* of *Law No. 06/L-079 on Energy Efficiency*. Under this structure:

- The **revolving component** would fund energy efficiency upgrades, such as home insulation, installation of efficient heating systems, and renewable energy solutions. These investments would reduce long-term energy costs for vulnerable households and generate savings that can replenish the fund.
- The **non-revolving component** would provide direct subsidies to vulnerable consumers for immediate financial relief during periods of crisis. This component should remain flexible to address emerging needs.

The legal provision states: “*KEEF can maintain in parallel a non-revolving component to provide grants, partial guarantees and other non-revolving financing instruments.*” By adopting a similar dual-component model, the fund can ensure its long-term sustainability while addressing urgent needs.

## C. Phasing Out Direct Subsidies in Fees

While direct subsidies are necessary in the initial phases of the program, they should be gradually phased out and replaced with investments in energy efficiency. Temporary measures, such as the 2022 government energy support packages noted in the **Kosovo 2023 EU Report**, provided critical relief during the energy crisis. However, as the report highlights: “*The measures could have been better targeted and more transparent.*”

To improve targeting and transparency, the government should develop a clear roadmap for transitioning from direct subsidies to sustainable, efficiency-focused measures. This transition will ensure that financial resources are used effectively and contribute to reducing the structural causes of energy poverty.

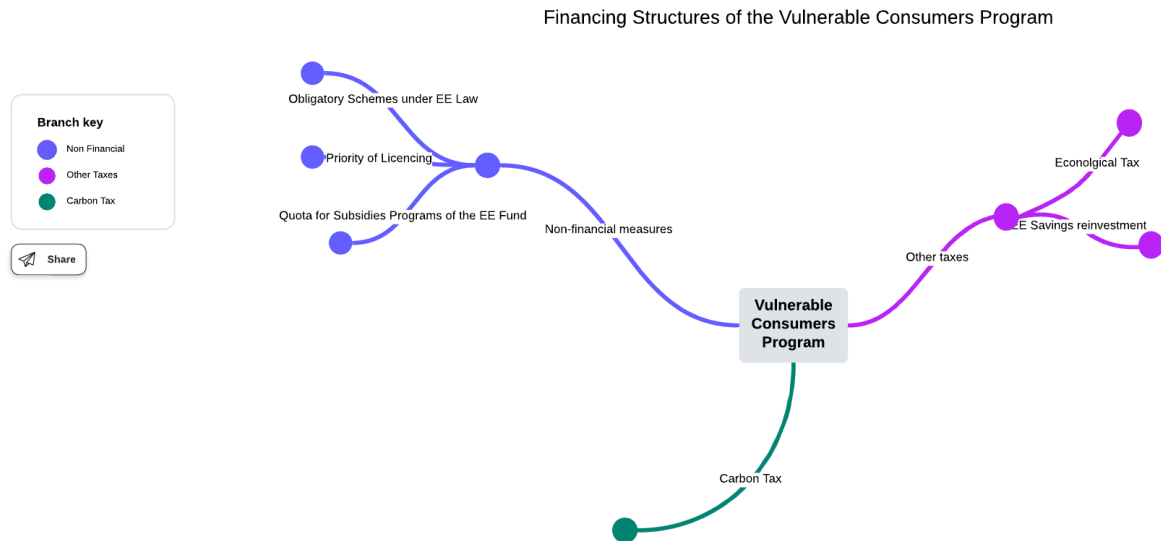
## D. Transparency and Accountability

Transparency and accountability are fundamental to the success of the fund, aligning with the **SIGMA Principles of Public Administration**, which emphasize effective governance and citizen engagement. The following measures should be adopted to ensure transparency:

1. **Clear Eligibility Criteria:** The methodology for determining beneficiaries and ranking households must be publicly available and easily accessible.
2. **Regular Monitoring and Reporting:** Both revolving and non-revolving components should be monitored separately, as required under *Article 34* of the Energy Efficiency Law: “*Both components of the fund will be monitored separately, using separate monitoring and*

*accounting systems.*” Regular reports should be published to provide insights into fund performance and allocation.

3. **Stakeholder Engagement:** Consultations with civil society, consumer representatives, and energy experts will ensure public buy-in and fairness in the program’s implementation.
4. **Auditing Mechanisms:** Independent audits should be conducted annually to assess the fund's financial integrity and efficiency.



By ensuring transparency and aligning with the SIGMA principles, the program can build public trust and avoid shortcomings previously noted in targeted support schemes.

## IV. Fund Financing

Establishing sustainable and transparent financing mechanisms is critical for the success of the **Program for the Protection of Vulnerable Electricity Consumers**. The proposed financing strategy leverages a combination of innovative financial instruments and existing legal frameworks to ensure both the short-term and long-term viability of the fund.

### A. Internal Carbon Taxation

The implementation of **internal carbon taxation** represents a strategic opportunity to align Kosovo with regional and EU climate policies, while also generating a dedicated revenue stream to support vulnerable consumers.

The Western Balkan Six (WB6), including Kosovo, have committed to the **Sofia Declaration** (2020) and the subsequent **Decarbonization Roadmap** (2021), pledging to adopt carbon pricing mechanisms as part of the EU Green Agenda. However, progress in implementing such mechanisms has been limited across the region, largely due to the complexities of power market structures and monopolistic tendencies that inhibit competition and renewable energy penetration.



The introduction of carbon taxation in Kosovo aligns with broader EU incentives, particularly the **Carbon Border Adjustment Mechanism (CBAM)**, which requires trading partners to adopt carbon pricing frameworks by 2026 to avoid carbon-related tariffs. As studies have shown, the macroeconomic impact of CBAM can be managed effectively if carbon tax revenues are reinvested productively, such as in energy efficiency measures and targeted consumer support.

The proposed internal carbon tax would provide dual benefits:

- **Revenue generation:** Dedicated revenues would directly fund subsidies for vulnerable electricity consumers and long-term energy efficiency investments.
- **Policy alignment:** Kosovo would advance its EU integration goals by implementing market-based instruments that internalize the environmental costs of carbon emissions.

To maximize effectiveness, the carbon tax should be accompanied by:

1. **A robust Monitoring, Reporting, and Verification (MRV) system** to ensure transparency and accountability in emissions data.
2. **Fossil fuel subsidy reform** to prevent counteracting incentives that undermine carbon pricing effectiveness.
3. **Regional coordination** to mitigate carbon leakage concerns and harmonize price levels across WB6.

## B. Energy Efficiency Fund – Savings Investments

The second financing mechanism involves reinvesting **savings achieved through energy efficiency measures**. The existing **Kosovo Energy Efficiency Fund (KEEF)** provides a proven framework for managing such investments. Article 34 of *Law No. 06/L-079 on Energy Efficiency* allows KEEF to operate under both **revolving and non-revolving components**, enabling funds to be recycled into future projects.

To ensure dedicated financing for the protection of vulnerable consumers, the following approach is proposed:

- **Revolving Mechanism:** Energy efficiency investments in residential units (e.g., insulation, efficient appliances, heating systems) will generate measurable energy savings. These savings will replenish the fund, ensuring long-term sustainability.
- **Non-Revolving Grants:** A portion of the fund will be allocated as grants to subsidize immediate costs for vulnerable households, following the non-revolving model allowed under Article 34.

The combined approach mirrors international best practices, ensuring that energy efficiency not only reduces costs for consumers but also creates a self-sustaining financing cycle.

## C. Ecological Tax Revenues

Another proposed source of financing is the **Ecological Tax** collected during vehicle registration in Kosovo. Currently, these revenues are treated as general income under the *Law on Public Finance Management*. To maximize the impact of ecological taxes, amendments should be made to the law to ensure that dedicated tax revenues are allocated to specific environmental and energy-related programs.

By earmarking ecological tax revenues for the protection of vulnerable electricity consumers, the government can demonstrate fiscal transparency while addressing environmental and energy poverty challenges simultaneously.

#### D. Energy Efficiency Obligation Scheme

The **Energy Efficiency Obligation Scheme**, established under *Article 10 of the Law on Energy Efficiency*, mandates energy providers and distributors to achieve cumulative energy savings through specific measures. The proposed financing strategy builds on this framework by requiring obligated parties to contribute to the fund in two ways:

1. **Direct Investments:** Energy providers must invest in energy efficiency measures targeting vulnerable consumers, such as subsidizing home upgrades or providing efficient technologies.
2. **Buy-Out Contributions:** Obligated parties unable to meet their energy savings targets can compensate by contributing to the fund, as permitted under Article 10.12.5: *“an obligated party can buy-out partly or fully its obligation by transferring to the KEEF the corresponding amount at a flat rate per Ktoe.”*

This approach ensures that obligated parties play an active role in financing energy efficiency for vulnerable households while maintaining flexibility for compliance.

### V. Recommendations

The Government of Kosovo should adopt an expenditure-based threshold for energy poverty, defining it as households spending more than 25% of their disposable income on energy-related expenses. This threshold must be revised periodically, based on updated data on energy prices, household incomes, and socio-economic conditions, to ensure continued relevance and accuracy. The government should initiate this process within six months, ensuring that vulnerable households are identified and supported effectively. Nationwide data collection, led by the Ministry of Economy and supported by the Kosovo Agency of Statistics, should be completed within one year to facilitate the threshold’s establishment.

The Ministry of Economy should ensure the functionality of the fund for vulnerable electricity consumers by establishing two distinct components: one for immediate subsidies and another for energy efficiency investments. Drawing lessons from the Kosovo Credit Guarantee Fund and the Kosovo Energy Efficiency Fund, the Ministry should introduce a transparent allocation strategy, including a Vulnerable Consumer Ranking Table, within the next nine months. This table should prioritize support based on income levels, energy expenditure, and the efficiency of residential units, ensuring equitable distribution of resources.

The Government should gradually phase out direct subsidies over the next three years, replacing them with efficiency-focused investments. A clear roadmap for this transition should be developed within the next six months, leveraging mechanisms outlined in the Energy Strategy 2022-2031. This shift will address the structural causes of energy poverty while ensuring more sustainable and impactful use of resources.

The Ministry of Finance should introduce internal carbon taxation within the next two years, dedicating revenues to subsidize vulnerable consumers and fund energy efficiency measures. In

alignment with EU climate policies and the Carbon Border Adjustment Mechanism, this tax will also support Kosovo's integration into EU markets. Additionally, amendments to the Law on Public Finance Management should be made within the next year to earmark revenues from the Ecological Tax for environmental and energy-related programs. The Ministry should collaborate with the Energy Efficiency Agency to reinvest savings from energy efficiency measures into a revolving fund model while maintaining non-revolving grants for immediate relief.

The Energy Efficiency Agency should ensure that energy providers and distributors contribute to cumulative energy savings through investments targeting vulnerable households. Obligated parties unable to meet their targets should be required to make financial contributions to the fund, as stipulated in Article 10 of the Law on Energy Efficiency. This mechanism should be operationalized within one year, with clear guidelines and monitoring systems established to track compliance and contributions.

The Energy Regulatory Office should oversee the publication of eligibility criteria and the ranking methodology for fund beneficiaries, ensuring transparency and public accessibility. Regular monitoring and independent audits should be mandated annually to evaluate the fund's performance and financial integrity. The Office should publish reports on the fund's revolving and non-revolving components, as required under Article 34 of the Energy Efficiency Law, starting within the next 12 months.

The Government should intensify regional cooperation to harmonize carbon pricing mechanisms and energy market reforms. Collaboration with Western Balkan partners and the EU should be prioritized within the next two years to prevent carbon leakage, enhance capacity-building, and share knowledge on best practices. Additionally, Kosovo should seek technical and financial support under the EU Green Agenda to accelerate the implementation of these measures.

The Ministry should treat the current program as a pilot to evaluate its effectiveness and identify best practices. Within three years, the insights gained should inform the development of a comprehensive long-term strategy for energy poverty alleviation. The strategy should integrate climate resilience measures, ensuring that vulnerable households are protected from the impacts of future energy crises and climate risks.



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