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**Rochester Institute of Technology  
AMERICAN UNIVERSITY IN KOSOVO**

**Master of Science Degree Program in Energy & Resource Development**

**Final Report**

**February 23, 2010**

**The Resettlement Process in the Lignite Mining Areas of Kosovo**

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## Capstone Project Final Report

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### The resettlement Process on the Lignite Mining Areas of Kosovo

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And finally to God, who makes all things possible.

## **1 Project Definition**

The resettlement process for the purposes of exploiting natural resources often causes problems for governments and the people concerned. This is the case in most countries.

In fact, the use of private agricultural land or the construction of industrial buildings for the purpose of exploiting natural resources can be relatively easily compensated with money or other benefits. Industrial buildings can be rebuilt at another location, and agricultural land can be exchanged for other land owned by the company.

However, when it comes to the requirement to demolish and/or relocate houses, then the question is much more complex than just compensation of the property values. It is a question of what do you do with the people? And this question is in fact much more complex since it is mostly about social structures, employment, psychological factors, home ownership, and so forth. There is also the big question of health.

With Kosovo's previous centralized economy the question of resettlement was "solved" by moving the people to apartments somewhere in a city, but this approach is not acceptable in a Kosovo's new democratic society. Private life and the social structures developed over a long period of time are very highly valued and are now given greater respect.

In the case of Kosovo, the use of coal for power production has an enormous economic value. Having said that, it goes without saying that coal exploitation as a sole natural resource fuel for energy production is the backbone for overall development of the country. There is, however, a need to address the issue of resettlement given the fact that the experience from the past created problems that might disturb the operations in the future.

The Capstone Project addresses the issue of resettlement by providing inputs from other countries in order to point out the most important steps for carrying out a sound and acceptable resettlement. It also provides with essential legal comparative analyses as well as financial implications accruing in this process. As such, the outputs of the report will portray the best practises of resettlements to be used by Kosovo institutions.

## **2. Comparative Information**

This chapter will address the issue of resettlement process and how it is managed in countries in the region, particularly in Serbia, but also it includes examples from the Republic of Germany, and China

The main aim of this chapter is to provide the reader with sufficient information on the resettlement practices and what are the best practices that need to be utilized in Kosovo too.

### **2.1. Resettlement Process in Germany**

The Republic of Germany is a well known country for large lignite deposits and as a result they have exercised a number of large-scale resettlements over a long period of time. Their experience is a good foundation to acquire proper know-how on the resettlement process.

The best practice is shown through a study for the so-called Lusatian lignite mining area carried out by a reputable company known as Vattenfall Europe Mining AG, the fourth-largest power producer in Europe and third-largest power producer in Germany [1]. The principles and strategies they developed are as follows:

- Joint resettlement to one location
- Maintaining and developing of village life at old location up to start of resettlement
- Functional compensation for property without new indebtedness based on the existing property
- Maintaining and supporting of activities of clubs and associations
- Strategic concept for tenants with socially acceptable rents
- Maintaining and continuing of small enterprises
- Resettlement within a short period

The study case includes the settlement known as Haidemühl with 650 inhabitants and 85 owner properties as well as 176 tenant flats [1]. Population there used to develop different small-scale businesses e.g. grocery store with post service, butcher's shop and snack bar, heating- and sanitation firm, insurance and shipping agency [1]. For the mentioned settlement, the principle of joint strategy was applied. The resettlement process began in 1999 and was successfully completed in 2006. The entire period included all the necessary steps that are considered essential for a sustainable and accepted resettlement. The pictures below are best examples of showing the comparison between the old and the new settlement:



*Picture 1.1 : Resettlement of Haidemühl, the old Place (source: Vattenfall Europe Mining AG)*



*Picture 1.2: View to the new Place: Neu-Haidemühl (source: Vattenfall Europe Mining AG)*

The compensation policy within the model of a joint resettlement was carried out by Vattenfall Europe Mining pursuant to compensation regulations which ensured a functional compensation of property for owners, small scale businesses and other beneficial owners. It was the Company itself that provided the owners equivalent property (area, value) as replacement in kind at the place of resettlement. Additional support was granted by the state to the resettling communities (e.g. municipal facilities) owing to investment backlogs in infrastructure [1]. This is important to highlight because it has been proven as the most viable way of doing the resettlement process. That means that the company intending to exploit natural resource shall have sole responsibility for the entire resettlement process whereas the governments shall act as guarantor to the process.

## 2.2. Resettlement Process in China: Three Gorges Dam

The example taken, that is The Three Gorges Project of China's Yangtze River is the largest and perhaps most controversial development-induced displacement project in the world. Official estimates place the resettlement population at over 1.2 million by 2009 [2]. The displacement process is guided by China's developmental resettlement policy that aims to maintain or enhance the living standards of resettlers. However, implementing this policy on such a massive scale is absolutely a very difficult challenge for the Chinese government [2].

China Yangtze Three Gorges Project (TGP), as one of the biggest hydropower-complex projects in the world, has been ranked as the key project for improvement and development of Yangtze River. The dam is located in the areas of Xilingxia gorge, one of the three gorges of the river, which will control a drainage area of 1 million km<sup>2</sup>, with an average annual runoff of 451 billion m<sup>3</sup>. The open valley at the dam site, with hard and complete granite as the bedrock has provided favorable topographical and geological conditions for dam construction [3].

Picture 1.3: View of Three Gorges Dam ([www.cheeju.wordpress.com](http://www.cheeju.wordpress.com))



TGP is a multi-objective development project with great benefits in flood control, power generation, and navigation, and so on. The project consists of river dam, spillway structures, powerhouse, buildings for navigation, etc, and organized by the scheme officially briefed as “developed in one scale, completed in one time, water-storage by stages, and continuous migration” [4]. The dam is a concrete gravity dam, with the spillway in the middle, and the power house and non-overflow section at both sides. The axial length of the dam is 2309.47m, the crest height is 185m, and the maximum height of the dam is 181m. With a normal storage level at 175m, the total capacity of the reservoir reaches 39.3 billion m<sup>3</sup>, of which the effective flood control capacity reaches 22.15 billion m<sup>3</sup> [4].

The total period of TGP construction is 17 years, which can be divided into three phases. Phase I (1993~1997) was designed mainly to do advance work for project construction and excavation of diversion channel with the river close-off as the milestone. Phase II (1998-2003) was mainly designed for construction of spillway and left-bank power house and the ship lock, with the completion of initial water storage, commercial operation of first batch of generators and ship lock open to navigation as several significant milestones of this phase. Phase III (2004-2009) is mainly dedicated for the construction of right-bank dam and powerhouse, which is symbolized as the commercial operation of all the generator units and completion of the project [4].

### **2.2.1. Relocation of local residents**

The relocation of local residents is the central part of the Three Gorges Dam Project. Its importance is considered equally to the construction of the dam itself. The newly estimated amount of residents that need to be relocated is 1.40 million, which is greater than the number estimated (1.13 million) when the project was under planning in early 1990s [4]. It is the largest permanent relocation throughout human history.

About 140,000 residents will be relocated out of Hubei province to eastern provinces and some central provinces, while the rest will be relocated within the Hubei Province. In fact, the resettlement for the purposes of the project shows the ability and willingness by the China’s government to complete a huge project.

Through September 2007, 1.22 million people have been relocated according to the Xinhua Net. This amounts to about 1.3% of the population of the two provinces the reservoir covers. The fourth phase of the relocation is still ongoing. Phase four involves moving people living just below the 175 meter water level [4].

As of 13 October 2007, an estimated 1,400,000 citizens have already been displaced and have settled in neighboring areas with governmental aid. On October 11, 2007, Chinese state media announced that under a development plan of Chongqing province, an additional 4,000,000 people will be encouraged to move from their homes near the dam to the Chongqing metropolitan by the year 2020 [2].

However, the corruption and the violation of human rights have occurred frequently through the process. Although most of the residents are properly relocated, there is still significant amount of residents who haven't been receiving enough government aids and are still living in poor conditions.

### **2.3. Resettlement Process in Serbia**

Serbia has lignite mining areas that are similar with conditions in Kosovo. The so-called Kolubara field produces lignite for power generation industry and for domestic heating [5]. The current operations in the lignite mines will increase and as a result the mining area will expand by 2010 affecting thus four villages inhabited by approximately 1300 people [5].

The above mentioned lignite field comprises of 4 open pits: Field B, Field D, Tamnava - East Field, Tamnava - West Field and part of the enterprise Kolubara Prerada. The current mining operations will require expansion of the Tamnava West and therefore the Serbia's electricity company known as Elektroprivreda Srbije (EPS) has already prepared a "Tamnava West Resettlement Plan" which is designed to allow the southward expansion of coal mining operations in the valley of the Tamnava River, located some fifty kilometers south of Belgrade. The Tamnava West mine is one of four lignite mines in the Kolubara Basin, an area in which lignite has been exploited for several decades, and is classified as one of the richest basins in coal for Serbia [5].

Initial expropriation started in November 1985. Extensive geological surveys defined the exact border of the richest coal deposits and which is required for the excavation site. Since then nearly 300 hectares have been exploited [6]. The site comprises arable land, forests and pastures, as well as houses belonging to the villages of Kalenic and Radljevo, and the expropriation and relocation has had to be carried out in the same manner as in the Tamnava East field and the other minefields that preceded it [6].

The whole process is managed by the Electric Power Industry of Serbia (EPS), which has been involved in exploiting lignite in the Kolubara basin for almost half a century and has already developed the organizational capacity and the competence to deal with most aspects of the resettlement. EPS has experience of moving several settlements in the past, and although they operated within a centralized political system, they proved to be sensitive to the needs of local communities. Local representatives in the affected municipalities were of the opinion that previous resettlement programs were generally positive.

### **3. Legislative Assessment**

The section provides an analysis of the main legislation and directives regulating the resettlement process and identifies the gaps of local legislation compared to the international legislation. The review gives emphasis on the expropriation and compensation, as this is the most essential impact looking from the mining project point of view.

It shall be noted that there no specific EU directive on resettlement thus the World Bank Resettlement Policy OP 4.12 and the International Finance Corporation (IFC) performance standards 1 and 5 are used as the international benchmarks against which to measure the Kosovo legislation and regulations. The following key issues have been analyzed as part of the resettlement legislation assessment:

- Resettlement planning and procedural requirements
- Public consultation and participation of affected communities
- Extent of compensation and type of assistance to be offered
- Categories of people eligible for compensation
- Property measurement and income restoration

#### **3.1. Resettlement planning and procedural requirements**

There is presently no requirement to prepare a formal Resettlement Action Plan (RAP) under Kosovo law (Law on Expropriation 03/L-139, approved by Kosovo Assembly on 26<sup>th</sup> of March 2009), nor to undertake any of the component activities of a resettlement action plan, such as census, socio-economic survey, consultation with project affected communities, monitoring or reporting [7]. Core planning as outlined in the World Bank Resettlement Policy [8] such as the need for community participation in the resettlement planning process and the requirement to improve or enhance affected people's living standards and income production levels, are not explicitly addressed in the current legislation. Legal additions to Kosovo's legislation required to ensure compliance with international best practice should include:

- Provisions for consultation with potential project-affected people on feasible measures for resettlement;
- Drafting and implementing a full public consultation strategy and disclosure plan before construction. Allocation of financial and human resources for consultation activities.
- Carry out a scoping study as soon as possible to identify the need for a Resettlement Action Plan (RAP and/or a Land Acquisition Plan (LAP).

### **3.2. Compensation Eligibility in Kosovo**

The categories of people who must be compensated under Kosovo legislation are narrower than those defined under the World Bank policies. Under the legislation, the only people entitled to compensation are those with registered property rights and registered identity documentation [7]. Within Kosovo context, these criteria would exclude some of the poorest and vulnerable people. Additionally, there is no specific mention of compensation for commercial businesses and loss of profit due to economic displacement.

### **3.3. Extent of Compensation and Resettlement Assistance**

Under current legislation in Kosovo, compensation is payable for loss of land, buildings, crops and other damages arising from the acquisition of land for a project. Kosovo law on compensation allows only cash to be provided for compensation and not compensation “in kind”. Nevertheless, within international guidelines, including the International Finance Corporation performance standard 5, compensation in kind is recommended for agricultural communities [8]. Therefore, Kosovo legislation should amend the law to reflect this recommendation

### **3.4. Property Measurement**

The World Bank policies stipulate that compensation for lost properties is calculated on the basis of full replacement cost, which needs to be equal in order to enable the affected people to restore their livelihood at the level prior to the resettlement [8]. Under the Kosovo law, compensation is equal to the market value of lost properties. These two rules mean the same theoretically, in that full market price is equal to the price at which land owners are willing to surrender the property voluntarily in the open market, which should reflect the cost not only of the productive value of the land but also that to restore livelihood. But in reality the two can differ because not all affected people may be aware of what full replacement cost really means, and hence what is their entitlement. That’s why it is important that the affected people are aware of their entitlements and the government and project sponsors clearly understand and agree that the concept of full replacement cost will be used in projects for measurement of properties. In addition to this, the World Bank’s Guideline OP4.12 requires that resettled people should be assisted with their move and supported during their transition period at the resettlement site, and shall be assisted in their efforts to improve their former living standards, income earning capacity and production levels or at least to restore them [8]

## **4. Resettlement Process in Kosovo**

### **4.1. Problem Background**

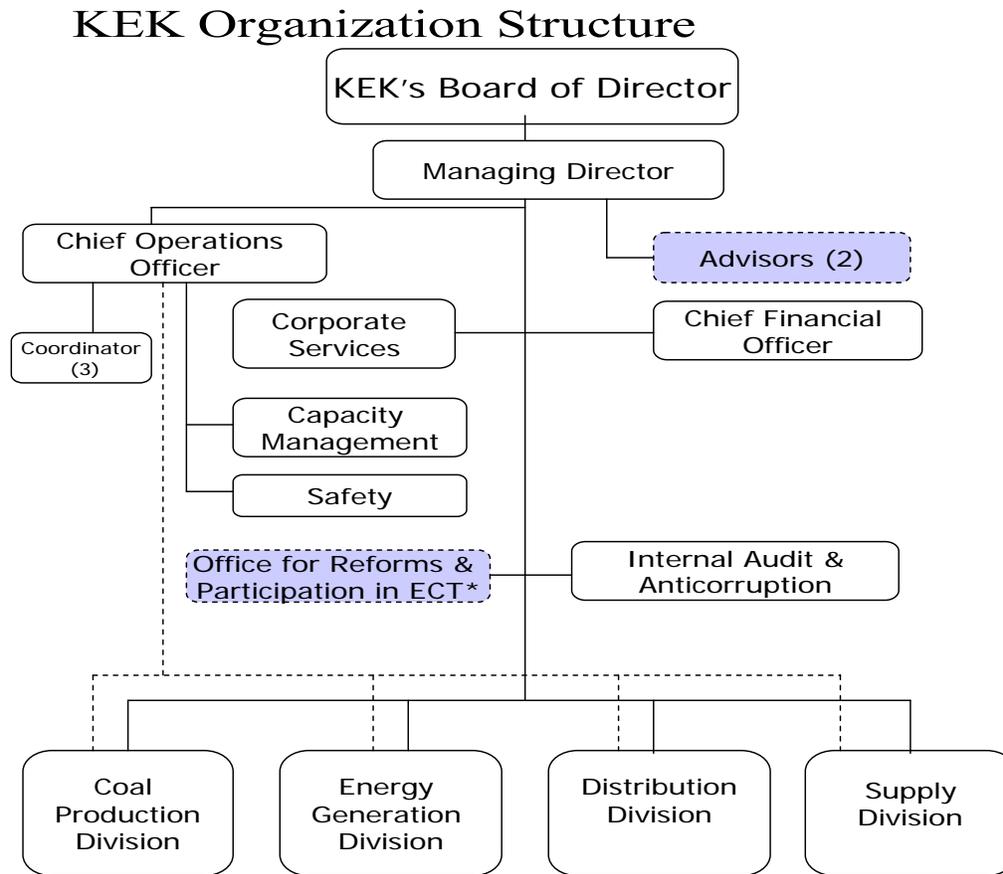
Lignite-fired power generation is dependent on accessing the available geological resources, meaning the lignite deposits. In a dense populated country like Kosovo it is a continuous requirement to deal with landowners and people living in the potential mining area. Logically the question of resettlement and the ability to solve the precipitating problems has a very direct effect on the business

Energy facilities in Kosovo are primarily made up of lignite mines. Kosovo has the world's fifth-largest accumulation of lignite, which is in fact Kosovo's only domestic fossil fuel source that results in 97 % of its domestic electricity generation [9].

Kosovo Energy Corporation is a vertically integrated electricity utility in charge of coal mining and the generation, distribution and supply of electricity. KEK is a state-owned company under the Ministry of Economy and Finance. Since 2005, KEK has been a joint-stock company and has undergone a process of legal and accounting unbundling. The Company at present includes the open-cast mines of Mirash and Bardh mines, as well the new mine being opened in the actual period, known as Sibovc Southwest Open Pit Mine, the two power plants, "Kosova A" and "Kosova B", 51,969km of distribution network covering whole of Kosova and the supply division handling customer and the energy sale functions. Company employs around 7.500 employees in variety of functions

Kosovo Energy Corporation JSC (KEK) comprises of four Divisions: Mine (Coal) Division, Generation Division, Distribution Division and Supply Division. The organizational structure is shown below.

Figure 3.1.KEK’s Organizational Structure (www.kek-energy.com)



7/30/2008

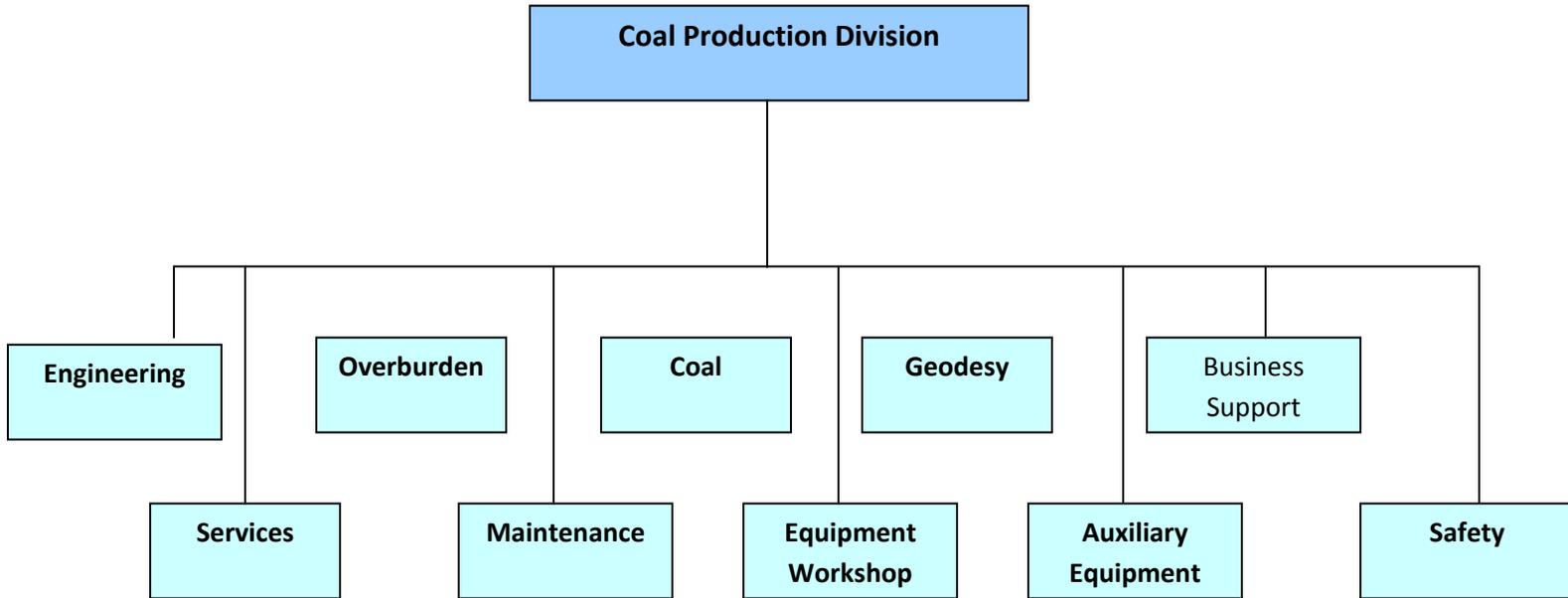
\*Energy Community Treaty for South East Europe

## 4.2. Lignite Mining

Lignite is currently extracted by KEK in the open mines of Bardh and Mirash in the Kosovo Basin, and is used to feed the nearby power plants Kosovo A and B. The mines and plants are located in densely populated regions, adding to the difficult mining conditions. Emissions at the mines and power plants are well above internationally allowed limits, resulting in serious environmental and health issues [10].

The Coal Production Division (hereinafter referred to as CPD), within the structure of Kosovo Energy Corporation is the focal division for coal exploitation and consequently for the resettlement and the land claim. The organizational chart of the CPD consists of the following departments:

Figure 3.2. Organizational Chart of Coal Production Division ([www.kek-energy.com](http://www.kek-energy.com))



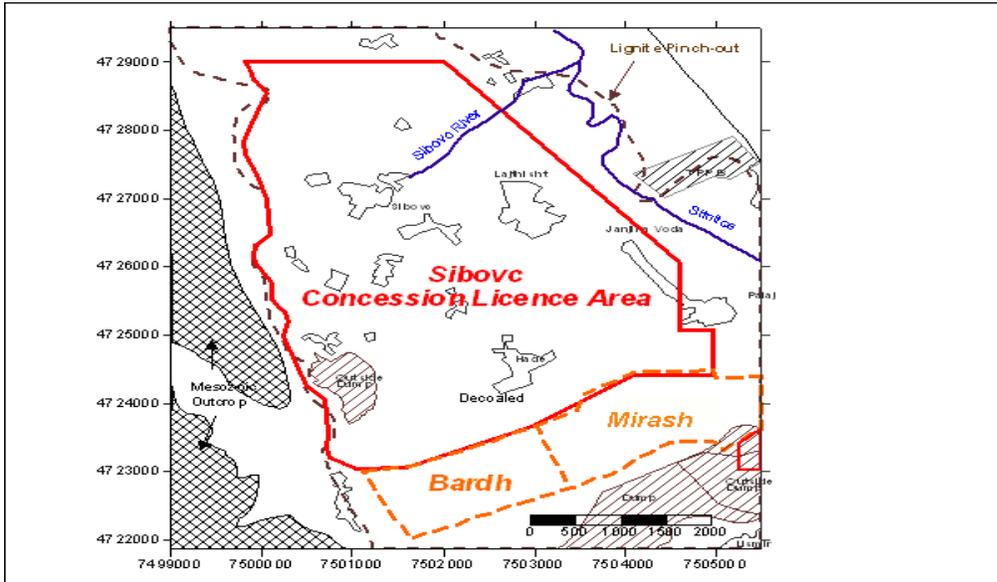
The existing mines have a life expectancy to only 2011 [11]. Thus, KEK is placing high priority on the development of a new mine, the Sibovc South-West (Sibovc SW) mine, which is part of the large Sibovc deposit [11]. The total Sibovc field contains a geological reserve of ca/ 990 million tonnes and covers an area of 19.7 km<sup>2</sup>. Development of the Sibovc SW mine is now underway, which will feed the KEK's existing generation units until 2024, with total mineable reserves of 123 million tonnes [11]. Financing is done through donor funds and through the Kosovo Consolidated Budget. To meet the demand for coal at an amount of 123 million tonnes, the area claimed for mining as Sibovc Southwest field will extend to some 4.8 km<sup>2</sup> within the period until 2024. The Sibovc field, as a whole, forms the basis for a long term economic development in this region

The overview of current mining activities and the Sibovc determined area are shown in the following tables:

Table 3.3: Location of Existing Mines (source: KEK Survey Department-Survey Maps)



Table 3.4: Sibovc Area – Location Map (source: KEK Survey Department-Survey Maps)



The development of the mine will also require executing resettlement activities for those inhabited villages situated on the land where the lignite exploitation will take place. In the past, KEK executed such activity but no proper steps were taken mainly because of a lack of

information and absence of the proper widely known tools and procedures. All that has created a conflict that influences KEK's business as well as the life of the people themselves.

## **5. Current situation and area description**

### **5.1. Project Description**

The Sibovc Fiel is within the Kastriot-Obiliq municipality, which is located immediately northwest of Prishtina on the main road to Mitrovica. Although an official census has not been conducted since 1981, the estimated population of Obiliq municipality is around 32,300 [12]. There are around 5,300 inhabitants in town and 27,000 in the rural areas. The average population density is 304 persons per km<sup>2</sup> (higher than the Kosovo average of 193 per km<sup>2</sup>) [12]. The municipality comprises a total of 20 villages including the town of Obiliq itself. The most important settlements in Obiliq municipality are Hade, Lajthishte, Sibovc, Grabovc i Poshtëm, Shipitulle, Hamidi, Plemetin, Palaj, Dardhishte [13].

The social conditions of the population in this area are complicated and can be compared with the average living conditions in Kosovo. The average net wages are about 150-200 €/ month. According to LSMS (Living Standard Measurement Survey 2000), 12 per cent of population in Kosovo is extremely poor and another almost 40 per cent is poor [14]. The average net wages are higher for men than for women and higher in the private sector than in the public sector (LSMS 2000) [14].

The most important forms of land use are agriculture and forestry [7]. However their importance is decreasing. Approximately 60 % of the population living in the region are farmers and have own land adjacent to their homes [7]. Nevertheless, the development of the mining industry has a social effect, too. It provides jobs with higher and securer income than it is possible by the cultivation of own land. For some families, agriculture remains the most important income source now as before. But in the majority of households, one family member is employed with KEK [9].

The resettlement of the villages will change the rural structure with regard to the number and size of agricultural enterprises. Resettlers, whose income does not 100% originate from agriculture, are more easily ready to move to a prepared resettlement site with infrastructure or to build a big house without farmlands at a decentral site [9].

Some resettlers use the resettlement effect to separate from the large family (extended family). For example, two-room flats in the town are offered to adult family members using this occasion to set up a family. The presently frequent family size of 10-12 members will reduce to a family size of 5-7 members [14].

## 5.2. Communities affected by Resettlement

The major village in the affected area is Hade with a population of 2,500 inhabitants. Besides Hade the following villages and/or groups of houses are located within the mining field Sibovc (north-south extension 5 km, east-west extension 3 km):

- Lajthishte
- Palaj
- Sibovc (sparse settlement) with different districts (In total, these settlements have around 2,200 inhabitants [14]).

Figure 4.3. Overview of affected villages (Mine Plan, [www.kek-energy.com](http://www.kek-energy.com))



### **Lajthishte**

The village Lajthishtē-a is located in the eastern part of the mining area of the deposit Sibovc and is to be completely resettled.

It has approx. 85 houses with about 595 inhabitants (according to Cadastre office: 85 plots with buildings)

The village has a one-storey primary school (base area of approx. 20m x 8m) with 8 classes. Opposite the school there is a food store. 95% of the Kosovo land has been reconstructed after the war. The latter and the newly built houses are in a good condition. Only the fence walls (mostly brickwork) have not been reconstructed yet.

The cemetery of Lajthishte is located in west of the village, at the new road to Crkvena Vodi. South of the road from Lajthishte to Palaj there are approx. 6 residential real estates, which are not included in a map of 1979. In the north of the road there exists a built-up residential real estate [14].

### **Sibovc**

The following groups of houses belong to the sparse settlement Sibovc:

- Bregovinska Mahala
- Barbatoska Mahala
- Muhicku Mahala
- Spasina Mahala
- Michanska Mahala
- Nicak
- Kelmendi
- Megjuani
- Curilo

Bregovinska and Barbatoska form the centre of the sparse settlement consisting of approx. 200 to 300 houses (about 1,700 inhabitants).

Also a school (8 classes, dimensions approx. 56m x 30m) with nursery school (300 pupils) and a doctor's office (9m x 10m) exist there. Opposite the school there is a food store. Muhicku Mahala, Spasina Mahala and Michanska Mahala (individual groups of houses) are situated in the centre of the mining field Sibovc in the south of Bregovinska and Barbatoska. The cemetery of the centre of Sibovc is located in the east of the village Barbatoska Mahala. The groups of houses of Nicaj are located at the west mining boundary, close to the Çiçavica Mountains. The cemeteries of the groups of houses of Kelmendi and Megjuani are situated in the proximity of Nicaj [14]. The group of houses of Curilo existing in the northern area of the mining field comprises about 6 residential real estates [14].

According to information from the administration of Obiliq, the following belong to the Sibovc area:

- Approx. 135 residential buildings (families) with approx. 945 inhabitants (according to Cadastre office 135 plots with buildings)
- A primary school with approx. 200 pupils in Bregovinska
- A doctors' office in Bregovinska
- 1 mosque in the group of houses of Megjuani (Midanska)
- The village has three food stores
- 6 cemeteries:
  - main village cemetery (village centre) – Barbatoska
  - Serbian cemetery
  - cemetery of the Kelmendi group of houses
  - cemetery of the Megjuani group of houses
  - The new cemetery of the Megjuani group of houses was built in 2003
  - Cemetery of the martyrs and victims of war

It's worth to mention that one negative example was the evacuation of the northern part of the Hade village in the vicinity of the KEK mines. A large part of the village has been destroyed in the 70s and 80s without an appropriate procedure. Another part had to be evacuated in 2004/2005 due to danger for the life of the people as well as the mine operators.

This fact and the interest of the families living in this area were never communicated and managed in a proper way resulting with enforced evacuation of the area by police. The conflict is still influencing the KEK business as well as the life of the people.

## **6. Financial and Economic Analysis**

This section provides the financial and economic analysis for the mine development including also the resettlement costs. The section has been worked out in close cooperation with Project Consultant and the KEK officials involved in the process. Detailed financial models and implications for the future mine development were not disclosed to this report owing to the confidentiality provisions. However, the general figures are provided, whereas for further correspondence and information the author of the report shall be contacted.

The calculations have been made in accordance with the usual European standards of IFRS (International Financial Reporting Standards). The main results of profitability calculation are as follows:

The relatively good deposit conditions contribute to low operative costs but imply a strong influence that the investments will have to be made within a short period at the beginning of the operation in Sibovc.

So the costs of coal at 12% IRR come to 7.51 EUR/t and/or **6.84 EUR/t at 10% IRR.**

Figure 5.1: Sensitivity of discount rate

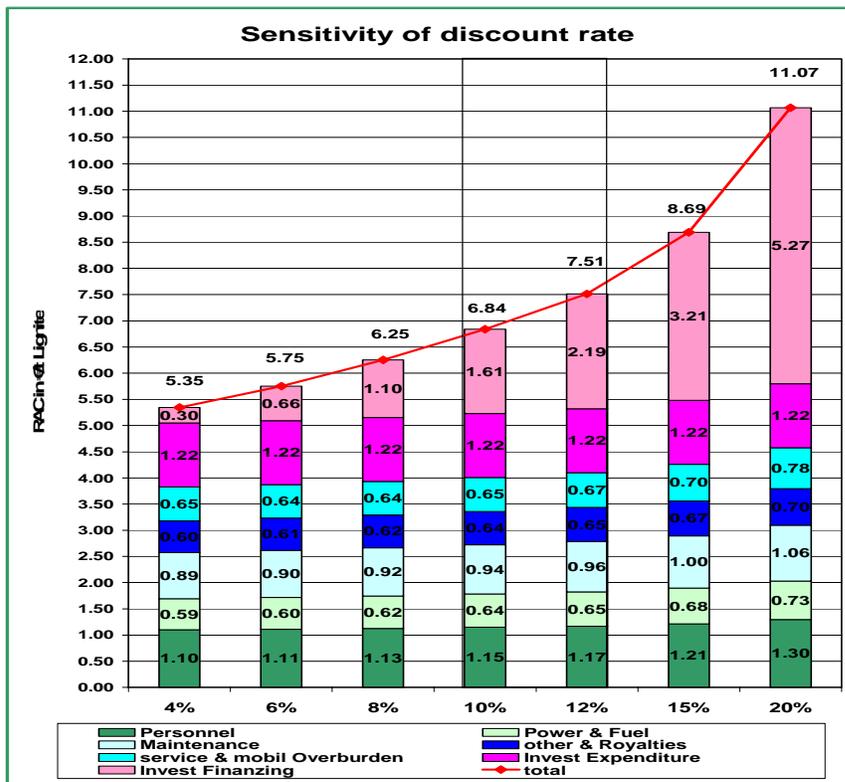
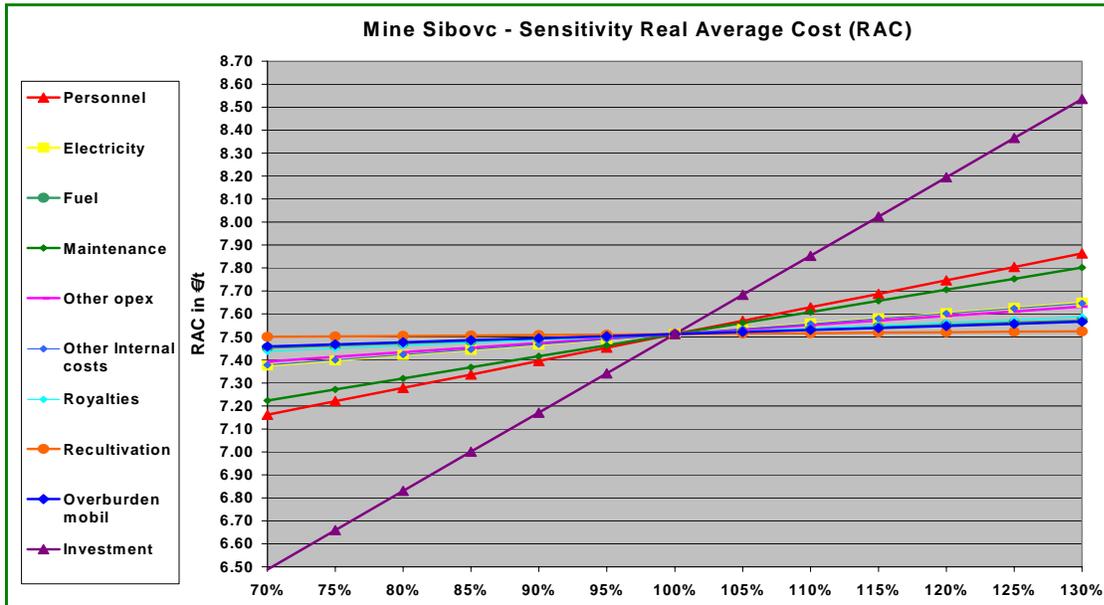


Figure 5.2: Sensitivity Real Average Cost for Sibovc Mine



## 6.1. Resettlement Costs

On the entire Sibovc field, approximately 5700 people live in four villages and separate settlements. Hade is the largest village. There are two resettlement scenarios for the Hade village: (a) the emergency evacuation of people living in the dangerous zone close to the unstable Northern slope of the existing Bardh and Mirash mines; (b) the resettlement of the remaining larger part of Hade outside the endangered zone.

The (a) emergency resettlement has been started in 2002, is funded by UNMIK and involves responsible and acting persons. This partial resettlement of village Hade is almost finished. However, there are still people who haven't been compensated for the emergency evacuation.

The (b) resettlement of the larger remaining part of Hade has not been started yet.

So it is a very ambitious target to resettle Hade in time.

The village should have been resettled in the period 2008/2009 for overburden removal. This period includes the removal of all basements and the transference of the land to KEK. It shall be noted that to date, the expropriation of land hasn't been completed yet due to the issues with property registration (out of 70 properties, only 22 have been registered and evaluated up to now, in accordance with provisions of the Expropriation Law) and consequently there are delays in the process

Apart from the emergency resettlement the cost amounts to approximately 59 m€, for the rest of the village. It proportionally includes all measures for the deconstruction of the village and the

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establishment of a new social- and infrastructure. Allocated to 597 households, the sum is totally 100,000 € per household..

Furthermore, considerable resettlement costs are yielded with regard to the villages of Lajthishte, Palaj and Sibovc.

Time and costs resulting from the resettlement are shown in the following tables.

*Table 5.3.: Overview of Households*

	Year of Resettlement	Households	Payment per household	Investment
	Year	No.	1000 € / no.	m €
Hade	2007 -2009	597	90	53.7
Lajthishte	2027 - 2037	85	100	8.5
Palaj	ca. 2027	7	100	0.7
Sibovc	2009 - 2032	54	100	5.4
Sum		743		89

*Table 5.4.: Public facilities, infrastructure and land claim (farmland)*

	Public Facilities	Infrastructure (inside villages)	Infrastructure (outside villages)	Sum
	m €	m €	m €	m €
Hade	1.02	4.19	0.82	6.03
Leskovcic	0.21	0.98	0.94	2.13
Janina Voda	0.02	0.09	0.31	0.42
Sibovc	2.1	0.75	1.50	4.35
Sum	29	205	258	105

#### ***Land claim (farmland)***

The total land use is 1,158 ha of which 1,081 ha are farmlands. This land will be claimed according to the mine advance until 2038.

The price assumed for compensation is 47,500 €/ha (4.75 €/m<sup>2</sup>). This comparably high price includes the full compensation for the harvests.

Therefore costs of 51.4 m€ are yielded.

The following costs will arise over a period of 30 years:

68.3 m€ for households

12.9 m€ for facilities and infrastructure

51.4 m€ for claim of land

Total: 132.6 m€

Referring to the households the sum is ca. 178,000 € and referring to the ca. 5,200 inhabitants (until 2038) the sum is about 25,000 Euro per person.

Compared with the coal content, all expenses incurred with the resettlement correspond nominally to 0.24 €/t or approximately to 3 to 4% of the cost price.

## 6.2. Resettlement Cost Breakdown

The details of the resettlement costs are indicated below. It is important to highlight that when doing cost calculations for the resettlement process the following subdivision shall be made:

- Households with garden land
- Public Facilities
- Infrastructure within the villages
- Substitute measures outside the villages
- Land claim (farm land)

The following average values resulted from the abovementioned emergency resettlement of the Hade village:

Average compensation per built-up estate	€50,000
Average compensation for building land:	€360/m <sup>2</sup>
Average compensation for farmland:	€240/m <sup>2</sup>
Average size of estates safety zone Hade	€600/m <sup>2</sup>

A lot of owners have never agreed with these compensations so that legal proceedings can be expected. Given that, the following assumptions were made for the compensations of the villages of Lajthishte, Palaj, and Sibovc with regard to the resettlement time and the maintenance of value to be expected:

Average compensation per built-up estate:	€100,000
Average compensation for building land:	€500/m <sup>2</sup>
Average compensation for farmland:	€2000/m <sup>2</sup>
Average size of estates:	€2500/m <sup>2</sup>

### 6.2.1. Households

The following table includes the compensation sums for households and the land claim:

Table 5.5.: Resettlement Costs for households and the land claims (basis for calculation: Main Mine Plan for Sibovc Mine, prepared by Vattenfall Europe Mining AG)

Village	Year of the resettlement	Households	Members of households estimated	Land claim	Investments	
					Payment per household	House-holds
					[€/No.]	[€]
<b>Hade (residual area)</b>	2007-2009	597	2,500		<b>90,000</b>	<b>53,730,000</b>
Household without land					76,200	45,491,400
Building land households				358,200	13,800	8,238,600
<b>Lajthishte</b>	2027-2037	85	850		<b>100,000</b>	<b>8,500,000</b>
Household without land					78,500	6,672,500
Building land households				42,500	11,500	977,500
Gardenland households				170,000	10,000	850,000
<b>Palaj</b>	2027	7	70		<b>100,000</b>	<b>700,000</b>
Household without land					78,500	549,500
Building land households				3,500	11,500	80,500
Gardenland households				14,000	10,000	70,000

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<b>Sibovc</b>	2009-2032	54	540		<b>100,000</b>	<b>5,400,000</b>
Household without land					78,500	4,239,000
Building land households				27,000	11,500	621,000
Gardenland households				108,000	10,000	540,000
<b>Total</b>		<b>743</b>	<b>3,960</b>	<b>723,200</b>		<b>68,330,000</b>

Besides the households it is important to calculate other costs too, such as public facilities, infrastructure outside the villages, and the claim of land. The bulk figures used for the purpose of the Capstone Project are deriving from mining projects prepared by KEK and Vattenfall Europe Mining AG, and the prices set herein are on the basis of market value of the concerned area and have not been changed significantly in the last few years.

### 6.2.2. Public Facilities

The following financial means are being planned for compensation of public facilities (substitute measures):

*Table: 5.5. Resettlement costs of Public Facilities* (basis for calculation: Main Mine Plan for Sibovc Mine, prepared by Vattenfall Europe Mining AG)

Allocated to the Villages	Year of the resettlements	Landwith-drawal	Investments		
			Payment per land withdra wal	Payment per building	Total buildings with land withdrawal
		[m <sup>2</sup> ]	[€]	[€/No.]	[€]
Hade (residual area)					
Primary school	2007	4,000	92,000	800,000	892,000
Evacuation of the graveyard	2009	4,000	13,000	120,000	133,000
Lajthishte					
Primary school	2027	2,000	46,000	100,000	146,000
Evacuation of the graveyard	2035	3,000	9,750	60,000	69,750

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Sibovc					
Primary school	2019	10,000	230,000	800,000	1,030,000
Mosque	2019	400	9,200	200,000	209,200
Ambulance	2019	500	11,500	200,000	211,500
Evacuation of 6 graveyards	2019-2031	18,000	68,500	600,000	658,500
<b>Total</b>		<b>41,900</b>	<b>469,950</b>	<b>2,880,000</b>	<b>3,349,950</b>

### 6.2.3. Infrastructure within the villages

For substitute measures of infrastructure inside the villages (Roads, Power supply, Water supply) 5,000 € per estate were determined and a lump sum for social and technical assistance depending on the size of the village. The costs for demolition were calculated from the outline of quantities of the estates to be resettled basing on an estimated price of 3.50 €/m<sup>3</sup> enclosed space.

*Table. 5.6.: Substitute Measures Infrastructure inside the Village and other Costs (basis for calculation: Main Mine Plan for Sibovc Mine, prepared by Vattenfall Europe Mining AG)*

Allocated to the villages	Year of the resettlement	Investments			Total
		Infra-structure	Demolition	Social and technical assistance	
		[€]	[€]	[€]	
Hade (residual area)	2007-2009	2,985,000	870,800	332,800	4,188,600
Lajshishte	2027-2037	425,000	360,000	200,000	985,000
Sibovc	2009-2032	270,000	151,200	332,800	754,000
Palaj	2027	35,000	19,000	31,200	85,200
<b>Total</b>		<b>3,715,000</b>	<b>1,401,000</b>	<b>896,800</b>	<b>6,012,800</b>

#### 6.2.4. Infrastructure outside the villages

The following assumptions are bases for the determined compensation sums for the substitution of the available infrastructure outside the villages:

- Power supply (80,000 € for a substation 2x630 KVA, 45,000 €/ km disassembly and assembly of medium-voltage overhead transmission line)
- Water supply (120,000 € for drinking water DN 200)
- Road construction (150,000 €/ km asphalt road from Palaj via Lajthishte to Sibovc, 58,440 €/ km for gravel roads in the villages).

*Table 5.7 Substitute measures for infrastructure outside the village* (basis for calculation: Main Mine Plan for Sibovc Mine prepared by Vattenfall Europe Mining AG)

Allocated to the villages	Year of resettlement	Investments			Total
		Power supply	Water supply	Roads	
		[€]	[€]	[€]	
Hade (residual area)	2007-2009	170,000	240,000	409,080	819,080
Lajthishte	2027-2037	170,000	240,000	533,760	943,760
Sibovc	2009-2032	305,000	600,000	592,200	1,497,200
Palaj	2027	45,000	60,000	208,440	313,440
<b>Total</b>		<b>690,000</b>	<b>1,140,000</b>	<b>1,743,480</b>	<b>3,573,480</b>

## 6.2.5. Claim of Land (Farmland)

The following table gives an overview on the costs needed related to the claim of land:

Table 5.8 Claim of farmland (basis for calculation: Main Mine Plan for Sibovc Mine prepared by Vattenfall Europe Mining AG)

Claim of land	Investments				Total
	Land use	Land use villages	Farmland	Price	
	[ha]	[ha]	[ha]	[€ /ha]	[€ ]
2007-2008	271.000	27.500	243.500	47,500	11,566,250
2008-2013	137.000	11.169	125.831	47,500	5,976,973
2013-2018	102.000	0.000	102.000	47,500	4,845,000
2018-2023	140.000	2.049	137.951	47,500	6,552,673
2023-2028	183.000	11.854	171.146	47,500	8,129,435
2028-2033	89.000	16.030	72.970	47,500	3,466,075
2033-2038	236.000	7.908	228.092	47,500	10,834,370
Total	1,158.000	76.510	1,081.490		51,370,775

The table below gives a summary of the compensation sums to be expected in connection with resettlement and land purchase.

Table 5.9 Provisional estimation of resettlement (basis for calculation: Main Mine Plan for Sibovc Mine, prepared by Vattenfall Europe Mining AG)

Village	Term	Land use	Investments	Total costs per village
		(m <sup>2</sup> )	(€)	(€)
Hade	Households in the residual area		45,491,000	59,762,680
	Building land households	358,200	8,238,600	
	Primary School		800,000	
	Building land Primary School	4,000	92,000	

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	Evacuation graveyard		120,000	
	Land graveyard	4,000	13,000	
	Demolition		870,800	
	Social and technical assistance		332,800	
	Infrastructure (Roads, Power supply, Water supply) inside village		2,985,000	
	Infrastructure (Roads, Power supply, Water supply) outside village		819,080	
Lajthishte	Households		6,672,500	10,644,510
	Building land households	42,500	977,500	
	Garden land households	170,000	850,000	
	Primary School		100,000	
	Building land Primary School	2,000	46,000	
	Evacuation graveyard		60,000	
	Land graveyard	3,000	9,750	
	Demolition		360,000	
	Social and technical assistance		200,000	
	Infrastructure (Roads, Power supply, Water supply) inside village		425,000	
	Infrastructure (Roads, Power supply, Water supply) outside village		943,760	
Palaj	Households		549,500	1,098,640
	Building land households	3,500	80,500	
	Garden land households	14,000	70,000	
	Demolition		19,000	
	Social and technical assistance		31,200	
	Infrastructure (Roads, Power supply, Water supply) inside village		35,000	

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	Infrastructure (Roads, Power supply, Water supply) outside village		313,440	
Sibovc	Households		4,239,000	9,760,400
	Building land households	27,000	621,000	
	Garden land households	108,000	540,000	
	Primary School		800,000	
	Building land Primary School	10,000	230,000	
	Mosque in Midanska		200,000	
	Building land Mosque	400	9,200	
	Ambulance		200,000	
	Building land ambulance	500	11,500	
	Evacuation of 6 graveyards		600,000	
	Land graveyards	18,000	58,500	
	Demolition		151,200	
	Social and technical assistance		332,800	
	Infrastructure (Roads, Power supply, Water supply) inside village		270,000	
Infrastructure (Roads, Power supply, Water supply) outside village		1,497,200		
Farmland		10,814,00		51,370,775
<b>TOTAL PAYMENT</b>		<b>11,580,000</b>		<b>132,637,005</b>

### 6.3. Time Scheduling for Resettlement Measures

In normal conditions, including all preparatory measures (principles and contracts) a period of 10-12 years is recommended to carry out a normal planned resettlement of locations [14]. Nevertheless, this might also be implemented faster, if compromises are agreed in written form in a contract.

To start the project, financing of the resettlement according to the individual project stages shall be ensured.

Table 5.10 Steps for a joint resettlement of a village

Measure	Minimum Period
Creating planning requirements for the resettlement (passing of the resettlement law and resettlement criteria, conclusion of a basic contract between municipality, mining company and government)	1 year
Information of the concerned and inventory taking	1 year
Installation of a consulting office as local contact partner for technical and social assistance of residents)	5 years
Questionnaires with criteria (interviews about individual plans, wishes, doubts and participation possibilities)	1 year
Preparation of an offer for a socially acceptable resettlement on the basis of the results of inventory taking and interviews	9 months
Identification of sites, area acquisition and establishing of legal planning prerequisites for the development of the joint resettlement site; start of development works	1 year
Inventory taking, contract negotiations and conclusion of notary contracts for land swap with the private owners	1 - 2 years
Structural building measures for private owners, collective housing (apartments) and council housing	1 year

The table above is the result of discussions and consultations with KEK officials and the Project Consultant, the examples taken from practices elsewhere, as well as the World Bank guidelines and principles.

## 7. Discussions and summary

The latest decision by the Government of Kosovo in the energy sector has been made in order to construct a new power plant with a capacity of 500 MW, with possibility of extension of capacities, and the immediate development of the new open pit mine known as Sibovc Mine. The decision was issued on December 17<sup>th</sup>, 2009. [15]. There will be a need to follow up on the activities to be undertaken with regards to the involvement of private investor in the mining sector and hence highlight the resettlement issue.

KEK has undergone the process of unbundling and as a result a new Distribution Company has been established being however still as a passive entity operating within the KEK's operations until new decision for its privatization is made. Similarly, the activities are developed for the privatization of KEK's Generation and Mines, which would enable involvement of private investors in constructing a new power plant as well as in opening up a new lignite mining area. The transaction process for the mines and generation is undergoing with a view to be completed in 2010/2011. This will provide clear picture to move forward. However, considering the experience from elsewhere it is obvious that the investor will be responsible for all liabilities caused by its ownership and operation (i.e. from the date of the facility transfer and going forward), but that the Government (or perhaps KEK) will be responsible for all liabilities existing at the time of the transfer. The new investor may be ready to take over the resettlement process, however, that will have an effect on the total price the investor is offering for the investment.

KEK mining operations will approach first houses of the affected village by 2010 and therefore practical and pragmatic steps need to be taken immediately. There are concerns that people affected are not sufficiently informed on the process and consequently no clear picture is drawn as to compensation policy that will be applied. Their concern must be listened carefully and their requirements must be addressed properly and in a sound manner.

The resettlements of Hade and Shipitulla villages have great impact on the future mining development. There are concerns that such resettlement could be undertaken by using the emergency procedure. In the worst case such action might disturb the public acceptance for new lignite mining activities in Kosovo.

The village of Hade should have been resettled in the period 2008/2009 for overburden removal. This period includes the removal of all basements and the transference of the land to KEK. It shall be noted that to date, the expropriation of land hasn't been completed yet due to the issues with property registration (out of 70 properties, only 22 have been registered and evaluated up to now, in accordance with provisions of the Expropriation Law) and consequently there are delays in the process [16].

## 7.1. Summary

The Capstone Project delivers the best practices for a resettlement process in areas with natural resources and particularly with lignite mining. The principles outlined are useful for future activities given the importance for lignite extraction.

The best practice is shown through a study for the so-called Lusatian lignite mining area carried out by a reputable company known as Vattenfall Europe Mining AG, the fourth-largest power producer in Europe and third-largest power producer in Germany. The principles and strategies they developed are as follows:

- Joint resettlement to one location
- Maintaining and developing of village life at old location up to start of resettlement
- Functional compensation for property without new indebtedness based on the existing property
- Maintaining and supporting of activities of clubs and associations
- Strategic concept for tenants with socially acceptable rents
- Maintaining and continuing of small enterprises
- Resettlement within a short period

The three Gorges Dam case in China has shown the ability and willingness of the China Government to complete such a huge project. However, the corruption and violation of human rights have frequently occurred through the process. Although most of the residents are properly relocated, there is still significant amount of residents who haven't been receiving enough government aids and are still living in poor conditions.

And finally, the case in the regional perspective, i.e. the case of Serbia has shown that the whole process there is managed by the Electric Power Industry of Serbia (EPS), which has been involved in exploiting lignite in the Kolubara basin for almost half a century and has already developed the organizational capacity and the competence to deal with most aspects of the resettlement. EPS has experience of moving several settlements in the past, and although they operated within a centralized political system, they proved to be sensitive to the needs of local communities. Local representatives in the affected municipalities were of the opinion that previous resettlement programs were generally positive.

In addressing and mitigating the effects of resettlement there are several issues that need to be part of any planning for resettlement. First of all, active participation of affected people within the planning and decision process is the basis for building an acceptance to carry out the resettlement.

The examples described in the report strengthen the position that the company operating with lignite mining shall bear full responsibility for the resettlement process, whereas the Governmental Institutions shall guarantee the process through laws and regulations derived for such purpose.

The legislation assessment carried out in the report highlights the loopholes within the existing law. In this respect, it is important to underline that within Kosovo Law there is no clear definition of resettlement and therefore there is no scope for application of mitigating instruments such as Resettlement Action Plan or social management plan, as required under international guidelines, particularly under the World Bank Guidelines, which clearly defines the scope of definition which protects both the developer and those who are to be resettled

Many of the key principles of the World Bank's Resettlement Guidelines are partly covered by current Kosovo Law. These include:

- The requirement to pay compensation in advance where land is compulsory acquired (Law on Land Expropriation, Article 8)
- The need to compensate based on full market value or through grant of another land plot or buildings, of equal quality, size and value (Chapter 4, Article 17 of the Expropriation Law)
- The requirement to compensate for losses whether temporary or permanent in production or damage to productive assets and crops, and
- Provision for pre-judicial avenues for resolution of disputes and rights of appeal.

Financial implications of the resettlement process are crucial and therefore need to be given a serious consideration.. The financial range to be considered for the entire process until 2038 is ranging from €100 Million to €150 Million. The calculations in the report indicate the total amount of €132 Million. The basis for financial calculation is the costs incurred during the emergency resettlement, the market value, as well as the experience from other countries. The calculations were carried out in a close cooperation with the Project Consultant and are therefore essential for further use. They took into consideration the mining development projects for Sibovc using the International Financial Reporting Standards.

## **7.2. Recommendations:**

- The company operating with lignite extraction shall be fully responsible for the entire resettlement. The Government shall be the guarantor making sure to have a smooth and sustainable process through laws and regulations that comply with international standards
- Integration and active participation of affected people before, during and after the resettlement
- Prepare a Resettlement Action Plan in order to encompass component activities the resettlement such as census, socio-economic survey, consultation with project affected communities, monitoring or reporting
- The loopholes in the legislation shall be satisfied including the following:
  - Resettlement definition
  - Resettlement planning and procedural requirements
  - Public consultation and participation of affected communities
  - Extent of compensation and types of assistance to be offered
  - Categories of people eligible for compensation
  - Property measurement

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## ANNEX 1

### PROJECT CONSULTANT CURICULLUM VITAE

<b>1. Family name</b>	<b>Laux</b>
<b>2. First names:</b>	<b>Peter</b>
<b>3. Date of birth:</b>	<b>24.05.1961</b>
<b>4. Nationality</b>	<b>German</b>
<b>5. Civil status</b>	<b>married</b>
<b>6. Contact information:</b>	<b><u><a href="mailto:peter.laux@vattenfall.de">peter.laux@vattenfall.de</a></u></b>

#### 7. Key qualifications:

- Proven practical know-how and 25 years of experience in mechanical and mining engineering for opencast lignite mines and equipment
- Masters degree in Mining Engineering after 5 years direct study at university
- Proven professional experience in project management including preparation and supervision of complex lignite mining equipment rehabilitations investments
- Deep managerial and technical experience in the mining sector with bucket wheel excavators, spreaders and conveyor lines
- Experience with preparation, management and supervision of contracts under FIDIC conditions of contract.
- Detailed knowledge of the Kosovo lignite mines and long term managerial and technical experience in this region
- Excellent English command and good communication skills

**8. Present position:** **Project Manager**

**9. Working years with the firm:** **26**

**10. Specific experience in the region:**

Country	Date
Kosovo	2002, 2003-2006, 2007-2009
Serbia	2001
Ukraine	1999 - 2001
Russia	1996, 1997, 1998, 1999, 2000, 2001
Turkey	2007
Mongolia	1998, 2008, 2009
Kazakhstan	2009