1. Basic information

1.1 CRIS Number:

1.2 Title: Support to Mines and Minerals Sector in Kosovo

1.3 Sector: 02.20

1.4 Location: Kosovo

Implementing arrangements:

1.5 Contracting Authority: The European Commission Office in Pristina.

1.6 Implementing Agency: The European Commission Office in Pristina.

1.7 Beneficiary Institutions:

<table>
<thead>
<tr>
<th>Project activity/component</th>
<th>Beneficiary institution</th>
<th>Contact point responsible for project/activity coordination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to ICMM to develop the Geochemical Survey</td>
<td>Independent Commission for Mines and Minerals (ICMM)</td>
<td>Director of the ICMM</td>
</tr>
<tr>
<td></td>
<td>Ministry of Energy and Mining</td>
<td></td>
</tr>
</tbody>
</table>

1.8 Overall cost: €1.0 million

1.9 EU contribution: €1.0 million

1.10 Final date for contracting:

Three years after the signature of the financing agreement between the European Commission

1.11 Final date for execution of contracts

Two years after the final date for contracting.

1.12 Final date for disbursements:

One year after the final date for the execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective of this project is revitalisation of the Kosovo economy through sustainable and environmentally sound exploitation of natural resources.

2.2 Project purpose:

The purpose of the project is to provide the Kosovo government and the public with credible baseline information on Kosovo's mineral resources, through the geochemical survey, in order to enable sustainable planning and management and attract the foreign investments in this sector.
2.3 Link with: European Partnership (and its action plan); SAp/STM

The project directly responds to specific priority identified in the European Partnership, which is:

- Create the conditions for investment, trade and economic growth.

The Kosovo Economic Memorandum (KEM) defines the medium-term economic outlook as relying heavily on three economic sectors in which Kosovo has considerable endowment and/or comparative advantage: energy, mining and agriculture. Both energy and mining have the potential in the medium to longer term to revitalise the Kosovo economy (World Bank Project Information Document, 28 February 2005, Report No. AB1373).

According to a joint survey conducted several years ago by the ICMM and the World Bank, it was estimated that Kosovo mine resources are worth over 13 billion Euros. Given the massive increase in the cost of metals since then, this value may be a substantial higher. Those resources could have a substantial impact in attracting significant investment and accelerating economic growth. The mining industry will also have a substantial impact in boosting employment in Kosovo, in most of its regions and including the areas dominated by the Kosovar Serb minority.

According to the STM 2007 Progress Report, the government approved the Youth Employment Action Plan in October 2006 to employ the 200,000 young persons expected to be arriving on the market in the next five years. The revitalisation of the domestic mining industry may significantly improve the employment prospects of the increasing number of unemployed in Kosovo.

2.4 Link with the Multi-Annual Indicative Planning Document (2007-09) for Kosovo (MIPD)

The Pre-accession Assistance Strategy for the Period 2007-2009 suggests that Kosovo must seize the opportunities such as natural resources with a high potential for domestic and foreign direct investment and the willingness of the European Union and the international donor community to provide financial assistance as well as facilitating regional and cross border cooperation in the context of its European perspective.

The document identifies the following priority which is addressed by this project:

- Developing Kosovo’s economy and enhancing the wider socio-economic and institutional environment.

2.5 Link with National Development Plan

The development of Mining in the development plans is mentioned in the context of economic growth and sustainable employment generation through consolidated EU integration process.

In the second planning period (2010-13) it is estimated that the consolidation of an SME sector and the recovery of the telecommunication and mining sectors will help creation of a favourable context for significant investments in Kosovo.

2.6 Link with national/sectoral investment plans

The development of a comprehensive, strategic long-term sector plan, the Kosovo Mining Development Strategy is under way (with the support of a World Bank grant). This is a key step towards improving sector performance and making mining a source of economic growth.
The mining development strategy will focus on the following issues:

- Strengthening of institutions and capacity building on mining-related issues, in order to increase the competitiveness of the industry to support commercialisation of SOEs and attract quality private investors who will provide both short-term and long-term benefits to Kosovo.
- Preparation of appropriate sector regulations based on best mining practice to support implementation of the new law (UNMIK Regulation 2005/2 and UNMIK Regulation 2005/3).
- Employment of data regarding mines, mineral processing plants, and undeveloped mineral resources.
- Awareness of greenfield exploration opportunities in addition to potential within existing mines and metallurgical plants.

3. Description of project

3.1 Background and justification:

The Kosovo economy inherited in 1999 had been damaged by poor economic policies, broken external trade and financial links, international sanctions, a lack of investment and ethnic conflict.

Since 1999, there has been a shift toward liberal market policies. An open trade regime was put in place with no quantitative barriers. The use of foreign exchange was legalised for all domestic transactions, initially establishing the Deutsche Mark and later the Euro as the de facto local currency. The Banking and Payments Authority of Kosovo (BPK) was established to handle domestic payments, licensing and supervision of the banking sector. The Ministry of Finance and Economy (MFE), with responsibility for the budget, and a tax system and administrative structure has also been established.

The macroeconomic data indicate that there has been a recovery of economic activity and positive growth since 2000. Private sector activity shows signs of recovery, with construction activity exhibiting considerable strength and growing banking credit potential. However, the recovery in industry, agriculture and mining was very slow.

*      *      *

As part of the SFR Yugoslavia, Kosovo’s socially-owned enterprises produced ore and processed minerals to supply the rest of the country. Once a major industry, these mining and processing operations have suffered for decades from poor maintenance and management, damage caused during the conflict, and social and environmental legacies. As a result they are largely non-operational today. The overarching obstacle to growth in this sector is that operations cannot restart or recover without appropriate management, major capital injections and technical/technological improvements.

Based on the preliminary surveys undertaken by ICMM the potential for mineral deposit discoveries in Kosovo is considered to be a very high. Although Kosovo’s deposits are modest by global standards, they enjoy a competitive advantage in being close to Western Europe with relatively low transport costs to markets. Sustainable management/exploitation of minerals will provide substantial input for the economic growth and increase employment opportunities.

The existing information on the mineral resources in Kosovo, produced by the preliminary surveys needs to be further upgraded to sufficiently credible level which will satisfy the standard requirements for planning and management of the mineral resources. The baseline information is also required to attract potential investors in this sector.
Practically all mineral-rich areas of countries that have a strong reliance upon the exploitation of mineral resources have a multi-element geochemical baseline survey. The baseline information upgraded by the geochemical survey will be used to:

- Provide reliable information on the mineral and energy resources to be used in drafting the Kosovo Mining Development Strategy, and resource management plans.
- Identify and locate the harmful elements in the drainage network.
- To attract the investments for the sustainable and environmentally sound exploration of metalliferous and industrial minerals.
- In the land use planning and other related activities.

Geochemical Survey of stream sediments is a critically important component of the technical database which provides the basic information required to attract investment into Kosovo’s minerals sector.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact

The results of the Geochemical survey will be used to upgrade the information database and produce detailed Geochemical Maps to enable future explorations and sustainable exploitation of minerals in Kosovo.

- This project will provide a Kosovo-wide geochemical baseline database (53 elements) of the drainage network that can be used to establish a preliminary overview of existing conditions.
- This project has an important cross border impact, since the elaborated and standardised information on mining and minerals is intended to increase cross border cooperation in economic activities, covering the Member States and South Eastern Europe.
- The capacity building activities supporting technical expertise and technological input are intended to ensure that the ICMM is a fully sustainable and functioning institution.
- The baseline information on the mineral deposits in Kosovo will provide to the MESP’s public health protection efforts as it would identify the areas contaminated by dangerous elements, whether dumped by human activity or naturally occurring in the environment.
- Revitalisation and restart of mining activities will create conditions for export growth and improve the employment opportunities for young unemployed.

3.3 Results and measurable indicators:

a. The baseline information produced by the Geochemical Survey is used for overall planning purposes including land use strategies, resource management and the environment protection.

b. Kosovo becomes more attractive for the investments in the mining and minerals sector.

c. Technical expertise available locally and capable for further upgrading of the information database for the future needs.

**Measurable indicators:**

a. Geological baseline information completed through the Geochemical Survey and the technical documents prepared and introduced into the database system.

b. Promotional materials including CDs available for distribution.
ICMM representatives participate in at least 3 international conferences on mining where the promotional material is presented and CDs distributed.

Statistic on website usage.

At least 5 foreign companies have shown the interest and contacted ICMM or the Ministry of Energy and Mining to assess the possibilities for investment.

c. Information on the radioactive and other hazardous materials available and distributed to the relevant government institutions.

d. ICMM technical staff trained and certified.

3.4 Activities

Assistance will cover the following mutually reinforcing areas:

a. Update of the information database through execution of the survey in Kosovo

Prepare the survey strategy and methodology and update of the information database through execution of the geochemical survey. The survey will include the following:

- Execution of the sampling
- Multi-element analytical examination by an approved laboratory
- Import of the data into IMS GDK
- Production of single and multi-parameter maps
- Networking with other geo-scientific and geo-economic data
- Reporting in English and completion of conclusions and recommendations

b. Promotional activities

Prepare and publish the promotional materials including CDs and the ICMM website. Participation of the ICMM representatives in at least 3 international conferences on Mining and Minerals, representing Kosovo and distributing the promotional materials.

c. Health and Environment

Advice and training should be provided to the relevant government institutions to use and incorporate in their planning activities the Geological information.

d. Training of ICMM technical staff

The ICMM technical staff requires training to achieve self-sufficiency in achieving success in technical undertakings. The project team has to involve the technical staff of ICMM and train them in the application of sampling and data processing technologies.

Contracting arrangements

One service contract is envisaged for the activity 1.

Project management and administration

The European Commission Liaison Office (ECLO) in Pristina will manage the procurement, implementation, quality control, reporting and coordination with other donors of the development assistance and of the financial and technical cooperation related to the actions described in this project fiche, taking remedial actions if and when needed. The ECLO is responsible to prepare the project Terms of References and all other relevant tender dossier documents.

The Team Leader engaged through the contract for this project will have the authority to run the project activities on a day-to-day basis under the supervision of the Commission Office. His/her primary responsibility shall be to ensure that the project produces the required outputs, to the required standards of quality and within the specified constraints of
time and cost. The team leader and others will also address cross-cutting issues. A detailed
description of the duties of the team leader and key experts will be elaborated in the Terms
of Reference, in line with this project fiche.

Project Steering Committees will be responsible for the overall direction of the project and
comprise of representatives from the beneficiary institution and the Commission Office.

Monitoring will be performed centrally by the Commission. The project may be evaluated
at the interim or ex-post stages under the supervision of Commission’s Evaluation Unit.
The project may be audited by Court of Auditors - in line with the standard European
Commission procedures.

3.5 Conditionality and sequencing:

- Commitment of ICMM to implement the proposed activities.
- Overall political and security situation and the possibility of movement and operation
  in the entire Kosovo area.

3.6 Linked activities

So far all funding for ICMM, including all of its technical projects have come from the
Kosovo Consolidated Budget (KCB) apart for some inputs on the operations costs from
Pillar IV. Since November 2004, through funding drawn from the KCB the ICMM has
undertaken a series of integrated technical programmes, including the development of the
following:

- Kosovo Quarry Plan - completed
- Airborne Geophysical Survey - completed
- Explosives Security System - completed
- ICMM website - completed
- Geo Database Kosovo - completed
- Geological Laboratory – in progress, due to be completed in 2008
- Geo-Scientific Maps – in progress, due to be completed in March 2008
- Geochemical Survey – small areas of Kosovo covered, requires funding to complete

The results of many of these activities either have been made available to the public. This
dissemination of information in the public domain has been achieved by a link on ICMM’s
website to the Geo Database Kosovo, by the distribution of CDs at Mining and Geology
Conferences, by the publication of a Mining Journal Special Supplement on Kosovo
(25,000 hard copies distributed to 125 countries) and by the open door system of access to
the geological archive that is housed in ICMM’s basement.

Commencing in 2006, through funding drawn from the PISG’s Kosovo Consolidated
Budget, the ICMM has undertaken the geochemical baseline survey covering the following
restricted areas:

- Area in eastern Kosovo covering the Artana/Novo Brdo and Hajvalia Mines in 2006.

This project links to both capacity building and gender equality aspects. During the
surveying of these areas, the contractor trained ICMM’s geologists in the field craft
techniques necessary to collect representative samples at the correct locations. The ICMM
geologists involved included both male and female colleagues and the entire geological
complement was actively engaged upon field sampling.

The aim of the project is to extend this Geochemical Survey across the remainder of
Kosovo.
3.7 Lessons learned

- **Local capability development**: Engagement of local expertise and public institutions has demonstrated the need for firm local anchoring of activities and capacity development.

- **Coordination**: Close consultation among the many stakeholders in the sector of mining and minerals and a collaborative approach are essential to ensure that all these stakeholders are fully informed, and are supportive of the reforms to be carried out.

- **Prioritising investment needs**: The mining sector is highly capital intensive. Thus, it is vital that investments in the sector are properly prioritised, ensuring that investments have the maximum impact in realising the objectives for the sector.

- **Ownership**: Experience of previous EC funded programmes in Kosovo has shown the importance of having counterpart ‘ownership’ of capacity building and reform projects. This project helps ICMM in implementing sector relevant programmes and builds further the capacity for a sustainable development.

- **Coordination with the local institutions of the government**: Further improvements – in line with the spirit of EU accession – could be realised with a stronger government leadership in the coordination efforts among the local institutions and ministry departments.

4. **Indicative Budget** (amounts in € million)

<table>
<thead>
<tr>
<th>ACTIVITIES</th>
<th>IB (1)</th>
<th>INV (1)</th>
<th>IPA COMMUNITY CONTRIBUTION</th>
<th>NATIONAL CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
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<td>TOTAL IB</td>
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<tr>
<td>TOTAL INV</td>
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<tr>
<td>TOTAL PROJECT</td>
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</table>

**Note:**

1. In the Activity row "X" is used to identify whether IB or INV
2. Expressed in % of the Total Expenditure (column (a))

5. **Indicative Implementation Schedule** (periods broken down per quarter)

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering (tender launch)</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Support to ICMM</td>
<td>Q3 2008</td>
<td>Q4 2008</td>
<td>Q4 2010</td>
</tr>
</tbody>
</table>

Q = quarter
6. Cross cutting issues

6.1 Equal Opportunity (gender mainstreaming)

The project will promote the participation of women in the ICMM technical and other teams. Terms of Reference for the project will explicitly identify the project’s intended effects /impact/ opportunities on and for women.

Promoting a more diverse (gender and ethnic wise) workplace will be a strong element in strengthening the institutional capacity of the target institution. The project will ensure mainstreaming of gender and minority issues both (i) within the target institution and (ii) the outputs (services provided by this institution):

- Address the barriers in the workplace that prevent the achievement of gender equality and ethnic diversity; create a workplace culture supportive of gender equality and ethnic diversity to improve gender/ethnic balance within the organisation. Opening up new possibilities for minorities as well as opportunities for women to work in non-traditional areas will, in turn, contribute to change the policy, business and customer focus of these institutions.

- Introduce concepts of equality and diversity in strategic planning and management, including the business case for equality and diversity so as to make the workforce more representative of/responsive to Kosovo customer base. A work culture that is respectful and accommodating of diversity will in turn contribute to the creation of a mining sector at the service of a multi-ethnic Kosovo.

Terms of Reference will explicitly identify the project’s intended effects /impact/ opportunities on/for women as well as minorities. Data systematically disaggregated by sex and ethnicity shall be produced to establish baseline and measure progress. Team of experts must possess relevant skills to ensure effective mainstreaming of gender equality and minorities inclusion/participation.

6.2 Environment


The Development Strategy of Kosovo defines a set of priorities regarding the protection of the environment and pollution mitigation, and the implementation plan provides for both legal measures, and investment in pollution mitigation measures.

One of the conditions for the reform of the economy in the KDSP in the period 2010 – 2013 is Environment protection: policies and investments to limit the negative impact of the mining and energy production. The position of the government according to the plan is that after 2013 the Mining and energy production play an important role, but limited and subject to strong environment cautions.

The ICMM’s database of information will give clear guidelines on the mineral resources in Kosovo, based on which the Environment Policies may be further updated and upgraded in detail, in accordance with the EU directive. It should be noted that Kosovo’s drainages ultimately discharge into the Black Sea, the Adriatic Sea and the Aegean Sea. Thus, any chemical pollution in Kosovo’s drainages also presents a public health hazard to neighbouring countries (including current members of the European Union and potential accession countries), including their marine resources. The ability to locate and define zones of pollution in Kosovo via the Geochemical Survey will aid in the eventual efforts to
contain and/or neutralise these sources of danger to the general public and their livestock, plus fluvial and marine fishing stocks.

The information database of the mineral deposits will help in locating the areas with contamination of heavy metals that may pose a public health hazard.

6.3 Minorities

The project will promote the participation of minority communities in the ICMM. Terms of Reference will explicitly identify the project’s intended effects /impact/ opportunities on and for minorities.
### ANNEX 1: Logical framework matrix in standard format

<table>
<thead>
<tr>
<th>Project Title:</th>
<th>Programme name and number</th>
<th>IPA 2008</th>
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<tbody>
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<table>
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<tr>
<th>Sector: Socio Economic</th>
<th>Contracting period: (see section 1.10)</th>
<th>Disbursement period: (see section 1.12)</th>
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<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revitalisation of the Kosovo economy through sustainable and environmentally sound exploitation of natural resources.</td>
<td>Investments on the mining and mineral sector in Kosovo.</td>
<td>Government Reports on the mining sector growth</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Project purpose</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>The purpose of the project is to provide the Kosovo government and the public with credible baseline information that highlights Kosovo's potentials through the geochemical survey, in order to enable sustainable planning and management of the mineral resources and attract the foreign investments in this sector.</td>
<td>Geological Information Database. The ICMM and the government start to develop resource management plans in the mining and minerals sector in Kosovo.</td>
<td>ICMM Information Database and Geological Map. Kosovo government management plans for exploitation of the mineral resources in Kosovo.</td>
<td>The Geochemical Survey is successful and provides information on the Kosovo potentials. Sufficient technical capacities in the ICMM and MEM to assist in the Geochemical Survey.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Results:</th>
<th>Objectively verifiable indicators</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
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</thead>
<tbody>
<tr>
<td>The baseline information produced by the Geochemical Survey is used for overall planning purposes including land use strategies, resource management and the environment protection. Kosovo becomes more attractive for the investments in the mining and minerals sector. Technical expertise available locally.</td>
<td>Technical documents on Geochemical Survey prepared. Available promotional material and CDs Statistic on website usage. At least 5 foreign companies have shown the interest and contacted ICMM or the Ministry of Energy and Mining to assess the possibilities for investment. Information on the radioactive and other hazardous materials available and distributed to the relevant government institutions. ICMM technical staff trained and certified.</td>
<td>ICMM GeoDatabase ICMM website</td>
<td>The ICMM demonstrates commitment to undertake the project tasks. The ICMM technical staff absorption capacity to learn the exploration techniques.</td>
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<table>
<thead>
<tr>
<th>Activities</th>
<th>Means</th>
<th>Costs</th>
<th>Assumptions</th>
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<tbody>
<tr>
<td>Prepare the survey strategy and methodology and update of the information database through execution of the geochemical survey. Prepare and publish the promotional materials including CDs and the ICMM website and presentation into the international conferences on mining. Prepare and distribute the relevant information on health, environment and other related issues to the Kosovo government institutions.</td>
<td>The project will be organised through a service contract with a number of experts to accommodate the diverse nature of the activities envisaged. The services of a specialised laboratory provided by the contractor to enable the examination of minerals that fulfils all international standards.</td>
<td>1 mil EUR</td>
<td>Available expertise in this area.</td>
</tr>
</tbody>
</table>
ANNEX II: Indicative planning of the amounts (in EUR million) contracted and disbursed by quarter for the project (cumulated)

<table>
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ANNEX III. Description of Institutional Framework

At present, the ICMM fills the roles of both the Mining Regulator and a Geological Survey.

The Independent Commission for Mines and Minerals (ICMM) was established by UNMIK Regulation No. 2005/2 ("On the Establishment of the Independent Commission for Mines and Minerals"), and is governed by a Governing Board. The ICMM oversees and administers all activities in the field of mining and mineral extraction in Kosovo. In carrying out its duties, the ICMM applies UNMIK Regulation No. 2005/3 ("On Mines and Minerals in Kosovo"). As exploitation licensees pay royalties, the ICMM is a net revenue earner for the Kosovo Consolidated Budget (KCB).

The Geological Survey function involves commissioning technical projects related to geology, hydrogeology and geophysics to create a modern, reliable and high quality geological database. The combination of these two functions has resulted in the ICMM becoming Kosovo’s “one stop shop” for potential mining investors.
ANNEX IV. Reference to laws, regulations and strategic documents

ICMM
Much of the legislative framework for the operation of mining activities within current environmental constraints is in place.

The ICMM was established by UNMIK Regulation 2005/2 and currently administers the mining legislation in the form of UNMIK Regulation 2005/3.

Powers and Responsibilities of the Commission include regulation and overseeing of exploration and exploitation of mineral resources in Kosovo in accordance with the applicable law; [http://www.unmikonline.org/regulations/2005/RE2005_02.pdf](http://www.unmikonline.org/regulations/2005/RE2005_02.pdf)

Reference to National Development Plan

Completing privatisation and quick recovery in mining, energy and agriculture

Significance of the sector for economic development

The mineral industry is of special importance for the economic and social development of Kosovo. The sector has the potential to provide economic benefits for the country through production and processing of minerals for export, which will not only provide employment but also have a positive impact on the country’s trade balance. The mining sector will also play a key role in supplying raw materials to the energy sector, which in turn will ensure a reliable energy supply for both domestic and business users.
ANNEX V Details per EU funded contract (*) where applicable:

Activity 1.

1. Preparation of the survey strategy.

2. Geochemical survey covering all regions of Kosovo through:
   - Execution of the sampling
   - Multi-element analytical examination by an international laboratory
   - Import of the data into IMS GDK
   - Production of single and multi-parameter maps
   - Networking with other geo-scientific and geo-economic data
   - Reporting in English and completion of conclusions and recommendations
   - Preparation and distribution of the promotional material, upgrade of the ICMM webpage.
   - Training of ICMM staff in the above procedures.