

# The **Ch** **llenger**

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## KOSOVO QUALIFIES FOR MCC'S MULTI-MILLION THRESHOLD PROGRAM

*In December 2016, the Board of Directors of MCC, an independent U.S. Government agency working to reduce global poverty through economic growth, selected Kosovo as eligible to develop a threshold program.*

### ~ FREQUENTLY ASKED QUESTIONS ~

1

**What is threshold program of MCC?**

Threshold programs entail a structured and disciplined diagnostic and design process. MCC begins with a rigorous analysis of the constraints to economic growth and the policies and institutions that reinforce those constraints to growth. MCC threshold program assistance supports government efforts at reform in these areas, which have the potential for the greatest impact on growth.

2

**Why is this support important for Kosovo?**

Actively improving rule of law and enhancing good governance, is a core underlying need for Kosovo society and state. These reforms lead to country's ability to compete in global economy, job creation and growth. If successfully implemented, these reforms will reduce constraints to faster economic growth and provide MCC critical information about a candidate country's political will and capacity to undertake the types of reforms that would have the greatest impact in compacts.

3

**What type of areas will Kosovo's prospective threshold program include?**

Kosovo's institutions and Millennium Challenge Office have identified some of the key constraints to growth in Kosovo and they include reliable supply of electricity, rule of law and perception of rule of law as well as environmental services. Kosovo will seek to draft projects based on these areas to foster reforms and launch pilot projects that will have greatest impact on policy reforms and better investment climate.

4

**What is the nature of investments?**

Kosovo, as the partner country implementing Threshold, will likely have enhanced its ability to design and implement investments that will generate the greatest results.

Best case scenario, MCC may also be able to make early progress on longer duration reforms that ultimately enhance the sustainability of the results of a compact.

Size of the Threshold for Kosovo will be decided in the second part of the year but this is a robust intervention in development support.



*We are so excited to be continuing our strong partnership with Kosovo through the new Threshold program. This program will allow us to strengthen institutions and test new ideas that can open the gateway to greater investment, jobs, and growth, and have a tangible impact on the lives of the citizens of Kosovo.*



**Sarah Olmstead** MCC Country Team Lead for Kosovo

# BITS AND PIECES

## Our priority is the reliable supply of electricity for Kosovo

**Blerand Stavileci**  
Minister of Economic Development

*Kosovo government is committed to reforms that will enable diversity of electricity generation, better efficiency and the long-term energy security*

Kosovo's government has taken a series of important reforms in the energy sector aiming the liberalisation and development of the electricity market of Kosovo, focusing on the creation of legislation and regulations in line with EU acquis.

The government is committed to ensure regular supply of electricity, but we are always taking into account the social impact and environmental protection.

We have finalized the Energy Strategy of the Republic of Kosovo 2017-2026 which contains 5 key objectives: ensuring stable and quality supply of electricity; integration into regional energy market; increase the existing capacity of thermal systems and construction of new capacity; development of natural gas infrastructure and improving the efficient use of energy, renewable energy and environment.

In fulfilling these objectives, the government will ensure that key focus is on private sector participation and support all private initiatives to invest in the energy sector within the legal and institutional framework, aiming to diversify energy sources.

Concerning the commitment of the Government to assist investors in this sector, we are already working on finalizing the establishment of "One Stop Shop" for Renewable Energy, which aims to reduce regulatory procedures, licensing and eliminate potential administrative barriers.

In general it belongs to the private sector to enable the long-term energy security for Kosovo and we now see that things are moving in a positive direction. We now have a real investment opportunity in replacing our coal-based generation plants with newer and less polluting thermal plants.

Together with the World Bank and other donors, we have been working to ensure a billion-dollar investments in new production capacities by the U.S.-based company Contour Global. We are also seeing progress as in the case of small hydropower plants, and have movement associated with investments in wind and solar resources.

Recently we had the opportunity to present the project for the construction of generating capacities of 150 MW of solar energy resources, project from a private German-based Jaha Group Company. The same company had previously invested in the opening of the factory for the production of solar panels.

We hope that Millennium Challenge Corporation and the Millennium Challenge Kosovo Office within the Office of Prime Minister of Kosovo, will enable Kosovo to identify and implement a good mix of generation initiatives and efficiency measures, helping us implement regulatory reforms.

*we asked  
a friend*

## FAVORITE KOSOVO PRODUCT?

**Angelika Viets**  
German Ambassador to Kosovo

On a first impulse I thought I'd write about the delicious Kosovar paprika but then I heard that in the first edition of Challenger my American colleague wrote about raspberries - so not a very original idea. In the search for a product that is not food - difficult in Kosovo! -, that might one day replace the notorious mineral stone as a typical local souvenir or that can be bought as a gift, I decided on Kosovar Filigree, in German "Filigran".

The term filigran, or filigrani as it is called in Kosovo, means literally "granulated wire" (from the Latin "filum", filament, wire, and "granum", grain) and refers to very delicate silver or gold lace-like works of art made of metal (corded) wires with attached metal beads or drops, sometimes even braided without hardly any soldering to an intricate web. The thickness of the wire is only up to 0.01 mm. It is an old ornamental technique known since about 2000 BC which arrived in Kosovo in the 15th century. This craft at its peak employed hundreds of artisans in the region. Filigran is still produced in many countries but seems to be slowly dying out in Kosovo. When I go to Prizren I always try to find a nice small piece to take home or give away. Prizren is also the birthplace of the artist Simon Shiroka whose work is characterized by folklore, figurines and mystic ornaments worked in filigree and "expressing the soul of these lands".

At a recent reception I was happy to notice a Kosovar man wearing a piece of filigran on his jacket lapel. Fortunately I met a few passionate and far-sighted Kosovars committed to collecting, studying and preserving traditional techniques such as filigran and, as a next step, to developing ideas how this craft could be modernized and turned into small industries supporting local people as well as stimulating tourism.

The  
**Challenger**

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# KOSOVO'S GOT A CODE

Kosovo has confirmed that the country finally obtained its own international dial code, 383. Prime Minister Isa Mustafa wrote on Facebook that Kosovo had made a big step towards affirming its statehood - which Serbia

contests - adding that "the economic benefits to the Republic of Kosovo will be in the millions [of euros]." The long-delayed agreement on allocation of a dial code was reached between Kosovo and

Serbia on November 13. According to the European Commission, which facilitated the negotiations, the parties agreed on a transition period of two years.

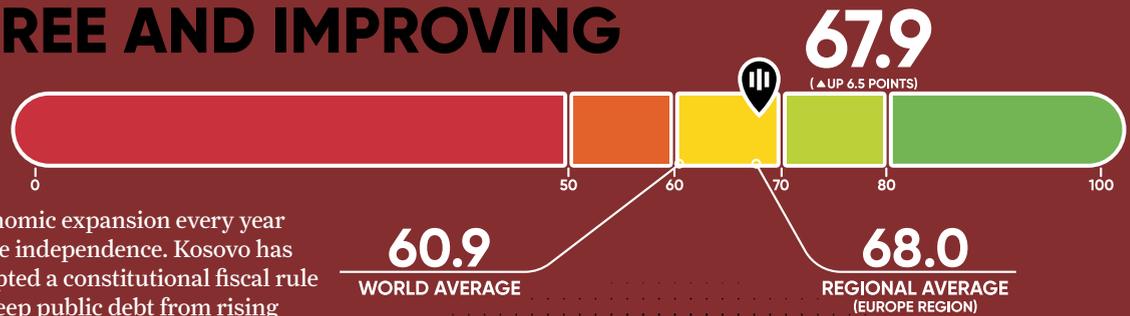


## MODERATELY FREE AND IMPROVING

Kosovo's economic freedom has been ranked as Moderately Free in the 2017 Index of Economic Freedom of Heritage Foundation. This report reviews Kosovo as an open market-based economy with an increasing degree of economic freedom.

'In a challenging regional economic environment, the landlocked economy has outperformed its neighbours, recording

economic expansion every year since independence. Kosovo has adopted a constitutional fiscal rule to keep public debt from rising to unsustainable levels and has implemented competitively low corporate tax rates.' - notes the report.



## Kosovo's Women Go WOW: Online and Working!

Erlisa Zherka is a 22-year-old finance math student from Kosovo. She recently landed a full-time online contract with a US-based car brokerage startup through the Women in Online Work (WoW) program, a pilot that aims at rapidly training up to 100 beneficiaries on technical (IT) and soft skills, which are in demand by the ever-growing online freelancing market.

The pilot graduate, Erlisa, who received her online work training in the municipality of Lipjan, is already making more than country's wage average (€300-400, per Kosovo 2015 Labor Market Survey). Her duties include testing proprietary software and customer relations. She works in tandem with another online freelancer - a young male from Serbia.

Erlisa is a members of the graduating cohort of the first phase of the World Bank's WoW pilot, funded by the Korea Green Growth Trust Fund and implemented by Danish firm CodersTrust. The success of this employability- and skills-enhancing training program was to be measured against an ambitious target of at least 66 pilot graduates earning at least one hundred euros through online work, gained competitively, in the three-month period following the completion of training.

The success of this employability- and skills-enhancing training program was to be measured against an ambitious target of at least 66 pilot graduates earning at least one hundred Euro through online work, gained competitively, in the three-month period following the completion of training. Now, it can be said with certainty that this target is within reach.

Potentially, online work training programs could show a way to connect to more, higher-paying, and inclusive jobs for women and other vulnerable groups - young unemployed men, people with disabilities, and minorities. This is in line with the findings of the World Development Report 2016 on Digital Dividends, which regards skills development as the most crucial element for developing a productive and competitive workforce for the digital economy.

### favorite tweets

**USAID Kosovo** @USAIDKosovo · 1 Dec 2016  
 Today in #Leposavic. #EMPOWERing private sector thru investments in new equipment and advanced tech, & thru market expansion.

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**Fatema Z. Sumar** @FatemaDC · Jan 2  
 Building #infrastructure, creating #jobs, expanding #markets, investing in #youth & #women key to stronger economies

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**Petrit Selimi** @Petrit · Jan 3  
 Initial '16 numbers from #Kosovo Central Bank: 3.6% GDP growth, reaching expected 4% 2017; bad loans dropped to 4.6%, lowest in #Balkans.

# Reduce poverty.

# NARRATIVE

*Millennium Challenge Kosovo has organized a series of workshops with stakeholders across Kosovo's economic landscape to identify the root causes of the binding constraints to economic growth in the country. Senior executives, ministers, civil society activists met in Prishtina and discussed what are the most fundamental challenges affecting reliable supply of energy, ineffective rule of law, detrimental effects of pollution on economy and low participation of women in the labor market.*

*Below you'll read a short narrative of our findings.*

A major barrier to greater private sector investment in Kosovo is lack of reliable supply of electricity. Frequent power outages disrupt business operation and hamper industry, posing significant challenges to the country's economic growth.

According to the analysis of the combined MCC and Government of Kosovo teams, one of the binding constraints to economic growth in Kosovo is the unreliable supply of electricity.

According to root cause analysis workshop participants (October, 2016) unreliable supply of electricity is due to the fact that the current demand for electricity exceeds the current supply.

The supply of electricity is heavily impacted by the unreliability and insufficiency of electricity generation. Moreover, limited availability of renewables limit supply of energy options, and this could be problematic as demand for energy is set to increase as the economy grows. Trading/importing electricity is costly and irregular hence causing unreliability of electricity supply. Finally, the outdated distribution system causes outages and makes the supply of electricity unstable and unreliable.

The rest of the article details each of the causes identified by the participants of the root cause analyses workshop.



Demand as a starting point for problem analyses raised questions about the issues causing continuous unreliable supply of electricity due to demand exceeding supply of electricity. Demand exceeds current supply because there is an overall inefficiency in energy usage, there is lack of overall awareness on the structure of electricity tariffs and economic growth, thus demand is not matched by new generation capacities.



Demand exceeds current supply of electricity also because of lack of alternative energy sources.

There are only a few collective heating solutions (e.g. district heating, HOBs in apartments) and the energy sector is underdeveloped and not incentivized.

Some of the main reasons for this are lack of awareness about benefits of collective heating solutions.

Unreliable supply of electricity is

due to inflexible generation, insufficient quantity of generation, including low of renewable resources generation capacities and deterioration of existing aging generation capacities.

There are a number of other specific issues related to Kosovo's lack of alternative supplies of electricity.

The country faces serious issues with perception and lack of experience in attracting investors, which results in lack of interest from investors. Although Kosovo



# CONSTRUCTING RESILIENCE OF ELECTRICITY SUPPLY



## Distribution

has been one of the highest growing economies in Balkans in last eight years on average, Kosovo HH being dependent on electricity usage for overwhelming portion of their energy needs are struggling to cope with electricity bills. Studies point that around 80% of HH fall under the energy poverty (energy bill is more than 10% of their monthly income). Hence, the ERO takes a keen interest in affordability which are influenced by sub-optimal tariff structures and balancing social welfare.

Unreliable supply of electricity is also caused by fundamental problems in distribution, which include the outdated network, network design itself, legacy issues (technical outages and damages) and overload (excess demand).

One of the root causes of unreliable supply is the frequent overload of the distribution network caused by substantive and consistent episode of excess demand. The reasons behind inability to manage excess demand are multiple and complex.

Kosovo HH and businesses are over-dependent on electricity to satisfy their energy needs, from simple kitchen and heating appliances to production facilities at factories. There is insignificant usage of gas and European style district heating is limited in parts of the capital city.

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## Trade

even after the war in 1999, Kosovo has been unable to be active and independent actor in energy trading. Due to political resistance by Serbia, the country's energy stakeholders have been excluded from the formal participation in the regional trade.

The current plans for common energy markets with neighboring Albania based on complementary sources of electricity generation of the two countries have also stalled despite significant investments in high voltage transmission lines. Both the regional trade and deepening cooperation/market coupling with Albania are dependent on the ability to allocate interconnection capacities. Kosovo cannot independently allocate interconnectors until it becomes an independent member of international regulatory mechanism, most importantly a signatory party of ENTSO-E (European Network of Transmission System Operators for Electricity).

Also, Kosovo and Serbia are in final phases of an agreement that would ensure Kosovo's autonomous access and membership to the regional and international trading platforms.

As we speak, energy trading in Kosovo is also hampered by a wider regional problem in generation capacities. Moreover, inability to trade efficiently is also caused by import price instability, which contributes to high electricity costs.

photo by Meddy Huduti

*This narrative is derived from workshops organised in October 2016, by the Millennium Challenge Office within the Office of the Prime Minister of Kosovo.*

# GOOD KOSOVO |

# G



by Rina META

Kosovo covers 4,212 mi<sup>2</sup> and is shared by roughly 2 million people. Let us repeat those known figures again: 60% younger than 35, of six different religious backgrounds, party girls and boys, all isolated due to visa restrictions with most of Europe, each super wired to internet.

It's where you delve deep, travel long, meet people, make some heart-space for them, get drunk for cheap, party hard for real, listen to good music and isolation stories, talk hard-core politics, enjoy beautiful graphic design, afford great fashion designer pieces, go festivals and get to know everyone meanwhile.

The luminosity of these experiences is sometimes documented, sometimes put into lists of flabbergasted visitors that come to visit a country, initially reducing it to post-war notions.

We can't help but enjoy this type of media coverage, no matter the superficiality. It's our coffee culture, the youth, the buzzing graphic and fashion design scene, our hiking trails and the frozen waterfalls being recognized, hyped and shared with the widest of world, in times when for all of us, that's the only possible flight away.

It is the beginning of the year and in our holistic approach to transforming Kosovo and enabling growth in it, being grateful is essential.

And so we cozy into past year memories, finding Flutura Ibrahim's hike to Himalayan Mountains an incredible achievement. We do remember when she started hiking herself, we enjoyed her shared experiences in social media and watched her grow into a mountain goddess.

Her company **Butterfly Outdoor Adventure** offers now tailor-made tours around Kosovo and the region. Her hard-work resulted with the inclusion of a Kosovo trail to **VIA DINARICA**. The Dinaric Alps being one of Europe's least explored mountain ranges – runs through the heart of the Western Balkans. Each country along the range is a combination of outdoor paradise and living museum dedicated to a culture which has long since passed from the rest of the continent.

It is a hike aiming to make connections between cities and rural communities in the region, raise awareness about good business practices and environmental protection, and to assist a blossoming tourism which relies on nature, traditional products, and this path's unique cultural heritage.

Viewing it from a Kosovar perspective, there are just too many challenges owned by Flutura. One of them, the most annoying, never backing off in front of a Schengen Visa restriction regime. She's the do it yourself icon from Balkans, and not just do it, but thrive while at it.

Era Istrefi is a global pop star raising from the capital Prishtina with social media as her main platform.

photo courtesy of Metro Lyrics



# IRRL



Flutura Ibrahimji hiking to Black Summit 2585, Konjushja 2578, Guzhababa 2609, Bistra 2651 - at Sharr Mountain. photo courtesy of Butterfly Outdoor Adventure



Blerta Thaci is 22 year old. She co-founded Girls Coding Kosova last year. photo by Majlinda Hoxha

We got more punk to unveil, so stay with us while we take our time to present you Girls Coding Kosova. A community of thirty IT girls in their early 20s who joined forces of awesome, to create an APP helping women to report sexual harassment. Called 'Ec Shlire' (Walk freely), the free mobile app relies on crowdsourcing to discreetly report sexual harassment. These trends are shared with the authorities and advocacy groups. Since its launch in February 2016, #EcShlirë has been downloaded over 800 times and over 300 incidents of sexual harassment have been reported through the application. You find the same



# GLO RY

one being used in Spain, as our coding girls felt like there's work to be done there and borders don't make it into their list of challenges.

Recently they worked together with Open Data Kosovo on an Amnesty International project aiming to connect volunteers from all over the world assist in mapping villages of Darfur from generic satellite images, making it possible for Amnesty International to later discover potential targets of military attacks and verify the situation on the ground.

You get emotional when going through these humans and their doings. They transcend every possible expectation, adding to their existence the status of icons. The context narrative will never serve the rationale in their stories. As they come undone, with all the needed possible space for growth, they come in numbers, in unique souls, filling the room or adding extra layers if need be, never giving a flying damn about our new year lists.

Back in the city, macchiato serves as a backdrop of grander events. The isolation sometimes causes moments of pause but it is uncertainty that inspires local heroes into global ones.

In an legit argument of pop stars today having to stand for something, a friend reminded me of Era Istrefi, who's single BonBon made it global.

She embodies the small town hero, whose hard work and wittiness gave

her the world.

Diving into her social media planets, you encounter thousands of young people from around the world finding inspiration in her story. She stands for each and every small town grandiose soul, dreaming of the world outside their reduced scapes.

The agenda of hope my friends, that's what our girl stands for and pushes forward. It's what punk is today, if it didn't die.

# Kosovo: moving forward\*



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\*as witnessed by the latest Heritage Foundation report where Kosovo is now noted for its progress in improving economic freedoms.

