

The Challenger

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SPECIAL
EDITION
2017

THE GOVERNMENT OF KOSOVO

June 20th, Prishtina, Kosovo

Immediate Release

The Millennium Challenge Corporation (MCC) Board of Directors, headed by State of Secretary Tillerson, informed the Government of Kosovo that this U.S. federal agency has made the decision to allocate 49 million U.S. dollars for the MCC Threshold Program in Kosovo. These funds shall be invested in energy, environment, and rule of law programs.

The Prime Minister of the Republic of Kosovo, Dr. Isa Mustafa, stated with regards to the above decision: "This is excellent news for the people of Kosovo. The Government of Kosovo, through tireless work in collaboration with American experts, has put together a strong package of investments. Kosovo is grateful for the continued support by the U.S. Government and the American people aimed at its economic development."

Prime Minister Mustafa went on to add that "the focus of American investments, which we now know will amount to 49 million U.S. dollars, will be areas that are very important for the overall economic development and job creation, such as energy efficiency, technology, rule of law, etc. I would like to thank the team of the Millennium Challenge Kosovo MCC Office within the Office of the Prime Minister led by Mr. Petrit Selimi for their great and speedy work which has resulted in with an optimal grant for Kosovo by the MCC."

Petrit Selimi, the National Coordinator of the Millennium Challenge Kosovo Office within the Office of the Prime Minister, stated with regards to the MCC Board's decision: "The decision of the MCC Board is good news for Kosovo, it is good news for Kosovo's business community and for thousands of beneficiaries that will experience the true impact of American investments from the MCC. Kosovo's institutions have collaborated with civil society, numerous NGOs, and the business community."

In December of last year, MCC qualified Kosovo for assistance through its Threshold Program. The GoK established the separate unit within the Office of the Prime Minister for project preparation in accordance with the methodology supplied by the American side. Now, Kosovo is due to receive 49 million U.S. dollars aimed at reinforcing reforms in important areas as well as for investments in projects which will strengthen Kosovo's energy framework, rule of law and good governance.

ENERGY OF CLEAN ELECTRICITY

ENERGY OF GOOD GOVERNANCE

Petrit Selimi

National Coordinator
Millennium Challenge Kosovo Office

The past 12 months for the Millennium Challenge Office in Kosovo have been intense. Eight people staff in Kosovo, have worked with 10 experts in US MCC to develop a portfolio of projects under a Threshold Program that is meant to provide added value to the reform processes in Kosovo's economic landscape. By the end of June 2017, Board of Directors of the MCC, chaired by Secretary of State Mr Tillerson has approved Threshold for Kosovo valued at 49 million USD.

This is second biggest program of its kind granted by the MCC and we are immensely proud of this optimal result.

The implementation of the program is set to begin in late 2017 and will last bit more than three years. The big chunk of the program revolves around policy implementation that would lower energy consumption and costs for households by encouraging investments in HOUSEHOLD ENERGY EFFICIENCY and promoting the adoption of cleaner and cheaper sources and methods of DISTRICT HEATING.

Facts and numbers in energy consumption, drove the development of a program seeking to help Kosovo government and the society we live in, commit to a healthier agenda, focused in the well being while maintaining a market driven approach to energy consumption.

The issues regarding the transparency and accountability of government, which continue to negatively affect the reality and perception of rule of law and control of corruption in the country, surprised our DC team but not the local one as much.

Our 18 years of freedom and the nine years of building an independent country, featured a narrative fragmented by a sometimes unproductive relationship between institutions and the civil society. It is an experience-reality dichotomy that pushed us into carefully structure projects that would tackle the issue and foster a more collaborative relationship between the government and our civic sector. Developing latest govtech solutions in collaborative effort by a triangle of government, industry and civil society can bring efficiencies and more accountable government.

A major component in our program is The ENVIRONMENTAL DATA ACTIVITY that will provide support to Kosovo institutions involved in environmental protection and health promotion to effectively monitor and report on environmental indicators to a variety of stakeholders, including the public.

To further encourage constructive engagement by civil society and the private sector around both the judiciary and environmental monitoring an OPEN DATA CHALLENGE will help get data into the hands of the public in a way that facilitates its use. The open data mechanism can also facilitate a constructive dialogue with the public sector.

The activity would also strengthen the ability of civil society and business community to use the data in order to engage more productively with the Government on environmental and health issues.

One other bit we couldn't disregard is the PUBLIC ACCESS TO JUDICIAL SECTOR Activity, designed to improve the analytical use of publicly available judicial and environmental data by civil society and NGOs through data transparency activities.

If a program that will facilitate an engagement by providing transparency and data to ensure that information about the performance and ongoing reforms in the public sector are available to the public and can reinforce these efforts. Combining improved transparency with altered communication and spectacular outreach, we believe this modest innovative tool coming in the format of a portal, will help build investor confidence and address excessively negative perception of our country.

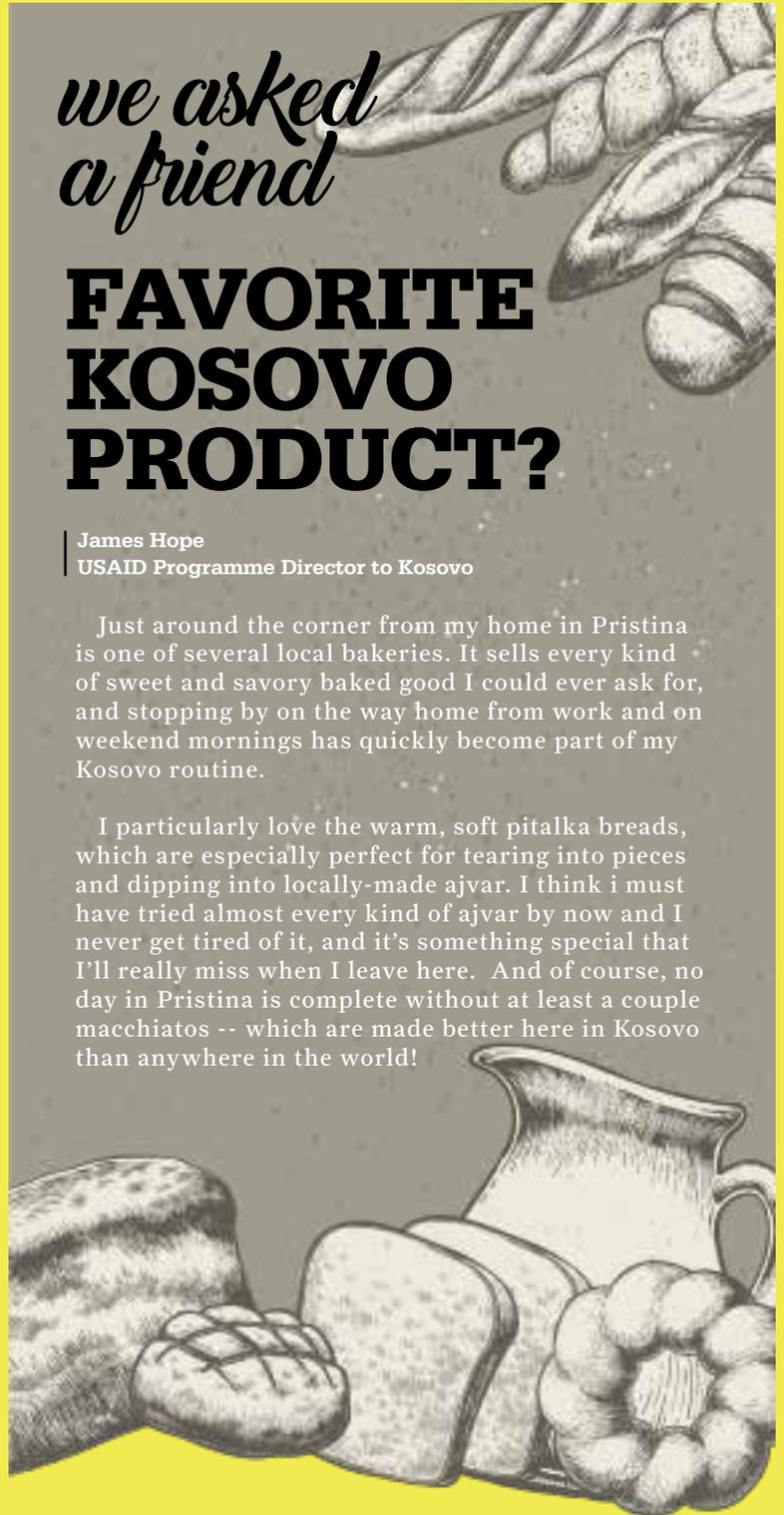
*we asked
a friend*

FAVORITE KOSOVO PRODUCT?

James Hope
USAID Programme Director to Kosovo

Just around the corner from my home in Pristina is one of several local bakeries. It sells every kind of sweet and savory baked good I could ever ask for, and stopping by on the way home from work and on weekend mornings has quickly become part of my Kosovo routine.

I particularly love the warm, soft pitalka breads, which are especially perfect for tearing into pieces and dipping into locally-made ajvar. I think i must have tried almost every kind of ajvar by now and I never get tired of it, and it's something special that I'll really miss when I leave here. And of course, no day in Pristina is complete without at least a couple macchiatos -- which are made better here in Kosovo than anywhere in the world!



The
Challenger

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Opinions published may not reflect opinions

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MILLENNIUM
CHALLENGE KOSOVO

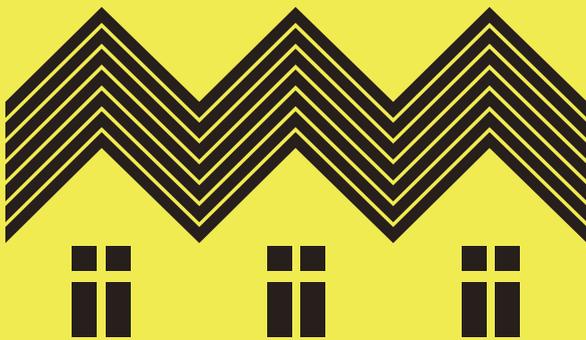


The MCC's investment funds focused on energy and good governance throughout the project cycle will integrate gender perspective and social inclusion to ensure equal participation, opportunities and benefits for all in Kosovo, for women and men, poor groups and other marginalized groups.

Due to the serious concern of women's low participation in the labor market, which is one of the lowest in the world, there will be special activities that will focus on addressing the specific challenges faced by women with helping to create a more convenient environment to encourage equal opportunities for employment.

Thus, for example, within the framework of the energy project, an activity will be designed in particular for women and girls of Kosovo to help to increase the employment opportunities in the energy sector which is mainly dominated by men.

Violeta Rexha
Gender Expert and Social Inclusion
Millennium Challenge Kosovo



The objective of the Reliable Energy Landscape Project is to pilot methods to lower household energy use by incentivizing investments in energy efficiency and switching to non-electric and cleaner sources of heating. The project will pilot various types of incentives and modalities for households, which account for 60 - 70% of all energy use in Kosovo (of which 80% is for space and water heating), to invest in cost-effective, energy saving measures (e.g. insulation, weatherproofing, etc.). The project will also pilot the metering of district heating systems in order to test the cost-effectiveness of charging households for the energy they use, which could allow for the expansion of such systems and more households switching to non-electric sources of heating.

Furthermore there will also be support for the IPP's bankability and access to finance. A detailed market assessment and due diligence will be carried out to first ascertain feasibility and support needed to establish a viable and commercially sustaining Non-Bank Financial Institution (NBFI) and a separate Technical Assistance facility. The feasibility analysis should then build upon that due diligence to center on the most appropriate structure and the viability of that structure when aligned with MCC's core objectives under the Kosovo Threshold Program.

Burim Hashani
Energy Sector Expert
Millennium Challenge Kosovo



MCC funds are expected to have a catalyzing effect in support of private sector investment in Kosovo through offering the private sector new opportunities in order to stimulate economic growth and social wellbeing. The private sector could benefit at the overall project implementation level; programmatic lines implementation level for example, energy efficiency, rule of law; and on the project intervention level, for example with Termokos for installation of meters.

Edona Kurtolli Alija
Private Sector Development Specialist
Millennium Challenge Kosovo



"It has taken a lot of hard work to get to where we are today. It has truly been a team effort between us and MCC. With the MCC threshold program, Kosovars are a step closer to reliable energy in their homes and businesses. Threshold program will have a significant impact on rule of law and environment, as well. This is a great opportunity for Kosovo's economic development and poverty reduction."

Alban Zogaj
Chief Economist
Millennium Challenge Kosovo



Transform Kosovo.



MC Threshold RKS
 @MCDevKosovo
 News on #Kosovo economy & development of #Kosovo's Threshold Program. Tweets do not represent the views of MCC.gov.

Joined April 2016

33 Photos and Videos



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MC Threshold RKS Retweeted
Millennium Challenge @MCCgov · Jun 21
 At their quarterly meeting, MCC's board approved the #Kosovo Threshold program mcc.gov/news-and-event...



1 37 44

MC Threshold RKS Retweeted
Nora Loxha Sahatolu @NoraLoxhaSahat · Jun 21
 Congratulations for another positive news for Kosova.

MC Threshold RKS @MCDevKosovo
 #Kosovo is awarded one of the biggest Threshold grants today by @MCCgov. Nearly 50mil\$ awarded for energy, RoL, etc mcc.gov/news-and-event...

2 5

MC Threshold RKS Retweeted
Hashim Thaçi @HashimThaciRKS · Jun 21
 Great news! #Kosovo to receive 49mil\$ investment from @MCCgov for an innovative package of programs including governance & energy efficiency



1 16 53

MC Threshold RKS Retweeted
Petrit Selimi @Petrit · Jun 22
 There is one person who worked hard & didn't stop to enable #Kosovo receive @MCCgov grant - @RepEliotEngel, whose dedication is unsurpassed!

1 11 35

MC Threshold RKS Retweeted
Berlin Process WB6 @BerlinProcess · Jun 22
 All donor support for #WesternBalkans essential for progress. Congrats to [user] for the MCC grant. RoL & good governance key for EU as well!

MC Threshold RKS @MCDevKosovo
 #Kosovo is awarded one of the biggest Threshold grants today by @MCCgov. Nearly 50mil\$ awarded for energy, RoL, etc mcc.gov/news-and-event...

11 6

MC Threshold RKS @MCDevKosovo · Jun 20
 #Kosovo's forthcoming #Threshold program with @MCCgov also seeks to boost women employment in energy sector.

Financial Times @FT
 Morgan Stanley is launching an 'innovation lab' to boost start-ups led by women and minorities on.ft.com/2sPmSoo

12

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CONGRESSIONAL NOTIFICATION

PROGRAM: Threshold Countries

APPROPRIATIONS CATEGORY: Fiscal Years 2009, 2016, 2017 Program Funds

OBLIGATION AMOUNT: \$11,000,000 (Fiscal Year 2009); \$30,000,000 (Fiscal Year 2016); \$8,000,000 (Fiscal Year 2017)

The proposed Threshold Program is designed to support the Government of Kosovo in implementing policy and institutional reforms in two areas critical to economic growth and poverty reduction: reliable electricity and transparent and accountable governance. To do so, the program plans to encourage investments in energy efficiency and promote the adoption of cleaner and less expensive sources of heating; explore an innovative approach to catalyzing private sector financing for independent power producers to bring additional energy supply online if determined to be feasible by MCC; and foster a data-driven approach to increase transparency and accountability in key areas affecting the reality and perception of rule of law and control of corruption in the country.

SUPPLEMENTAL INFORMATION KOSOVO THRESHOLD PROGRAM

Background

Over the past few years, the Government of Kosovo has made significant strides to pass laws that strengthen public administration to increase the quality of, and access to, public services as well as improve the business climate and upgrade public infrastructure. These reforms, closely embedded in the European Union (EU) integration process, are key policy instruments to attract direct investments of the scale, scope, and quality necessary to increase productivity in key sectors of the economy, generate “catch up” growth, and ultimately reduce Kosovo’s high rates of unemployment and poverty. However, while they have made great progress in adopting legislation, they have lagged in implementation of these new laws.

Kosovo passed the MCC policy performance scorecard for the first time in 2015 due to a concerted effort by the Government of Kosovo and the United Nations Kosovo Team to collect relevant data needed to complete an MCC scorecard. The country, however, did not pass the next year, when the country failed the indicator used to measure control of corruption. MCC’s Board of Directors, which had initially selected Kosovo for a compact in 2015, decided to continue the relationship by selecting Kosovo for Threshold Program assistance in December 2016.

The Government of Kosovo has remained an engaged and committed partner throughout the program development process including appointing a dedicated development team – the Millennium Challenge Kosovo Development Office (MCK). In 2016, MCC and MCK jointly conducted a constraints to economic growth analysis (CA) in Kosovo, which identified three binding constraints: (1) unreliable supply of electricity; (2) reality and perception of weak rule of law; and (3) poor environmental services. The CA also identified that low women’s labor force participation could limit the opportunities for women to benefit from economic growth and the MCC program. After extensive consultations and further analysis into the root causes of the binding constraints, the Government of Kosovo proposed two projects addressing the electricity and rule of law constraints.

Program Objectives

The proposed program would support Kosovo in implementing policy and institutional reforms in two areas critical to economic growth and poverty reduction: reliable electricity and transparent and accountable governance. To do so, the proposed program is designed to:

- encourage investments in energy efficiency and promote the adoption of less expensive sources of heating;
- explore an innovative approach to catalyzing private sector financing for independent power producers to bring additional energy supply online if determined to be feasible by MCC; and
- foster a data-driven approach to increase transparency and accountability in key areas affecting the reality and perception of rule of law and control of corruption in the country.

In order to meet these objectives, the proposed Threshold Program would:

- provide evidence about the cost-effectiveness of electricity demand management investments and consumption-based billing for district heating to support the goals of increasing energy efficiency and decreasing heating costs;
- provide households with information about how to lower their energy costs, increase private-sector capacity to supply energy efficiency technology and services, and create opportunities for women to participate in the energy sector;
- accelerate the development of new electricity generation projects;
- promote an increase in publicly available and accessible statistical data on the judiciary, environment, and labor force;
- increase communication between government and civil society to foster greater trust, cooperation, and private sector investment; and
- lead to policies that even the playing field for women and encourage equal opportunities for employment.



Projects and Activities

The proposed Threshold Program includes two projects – the Reliable Energy Landscape Project and the Transparent and Accountable Governance Project – united through a common focus on supporting the Government of Kosovo in implementing policy and institutional reforms in two areas critical to economic growth and poverty reduction.

Project Activity	Budget
Reliable Energy Landscape Project	
Pilot Incentives for Household Investment in Energy Efficiency Activity	\$20,700,000
District Heating Metering Activity	\$10,900,000
IPP Financing Facility Activity	\$2,400,000
Subtotal	\$34,000,000
Transparent and Accountable Governance Project	
Public Access to Judicial Information Activity	\$4,000,000
Environmental Data Collection Activity	\$3,000,000
Open Data Challenge Activity	\$1,300,000
Subtotal	\$8,300,000
Monitoring and Evaluation	\$1,700,000
Program Administration	\$5,000,000
Threshold Program Total	\$49,000,000

1 RELIABLE ENERGY LANDSCAPE PROJECT

Project Objective: to pilot methods to lower household energy use by incentivizing investments in energy efficiency, switching to non-electric sources of heating, and accelerate new generation to help fill the gap between electricity supply and demand.



Activity 1:

Pilot Incentives for Household Investment in Energy Efficiency Activity

The largest consumers of electricity in Kosovo are households, accounting for over 60 percent of all energy use. However, to date, the energy efficiency measures supported by the Government of Kosovo and donor community have been mostly confined to public sector buildings. This proposed activity seeks to address two root causes of high electricity consumption rates by households: the lack of awareness of energy saving measures (e.g. sealing the building envelope or installing insulation, etc.) and their implications for cost savings; and the ability of households to pay for those measures. MCC funding would support the Government of Kosovo to pilot different types of efficiency interventions, incentives, and program modalities for households, especially those with low incomes. The results of the pilots would inform which incentives might be scaled up by the Kosovo Energy Efficiency Agency.

The proposed approach involves a mix of incentive piloting, regulatory support, and technical assistance. The proposed activity would educate consumers and design the most cost-effective and affordable measures for each household through energy audits and appropriate design. Economic incentives – such as subsidies, low-cost loans, or other tools – would be provided, requiring some amount of customer contribution, and a formative assessment during the course of the pilot would provide cost-effectiveness data. The proposed incentive program would be supplemented by technical assistance to investigate the potential of private energy service companies or other private sector options to serve Kosovo's growing energy management needs. The proposed activity would also support the development of a certification program for energy auditors, which will create employment opportunities and ensure that there are enough energy auditors to fulfill the needs of the activity. Due to concerns over the barriers to women's employment, this activity also will focus on addressing the particular challenges faced by women in the sector to enable them the opportunity to access project benefits. The proposed activity will support proactive measures for women's employment and entrepreneurship, such as training for energy auditors or vendors of energy supplies and



Activity 2:

District Heating Metering Activity

The proposed District Heating Metering Activity would test the cost-effectiveness of charging households for the energy they use through the district heating system via the public utility Termokos in Pristina. District heating, which is the system by which co-generated steam and hot water from a power plant is piped through to buildings in a district or community, can help households more efficiently heat their homes and access hot water, thus decreasing reliance on electricity. Currently, however, individual households in Kosovo have limited control of the flow of heat, and its use is billed based on a square meter basis rather than on actual consumption per household. The proposed activity would test the magnitude of energy savings stemming from household responsiveness to switching to consumption-based billing. This switch could save households money by increasing awareness and control over that energy use, potentially allow for expansion of the district heating system using the resulting energy savings, and inform the feasibility of potential future privatization of Termokos.

The proposed activity would support the installation of meters, the design of tariffs for household consumption-based district heating, and assess the needs of the Termokos billing system to support this transition. It would also investigate the formation of heat accounting companies or other private sector options to provide related services to building owners and occupants, or the formation of homeowners associations in larger apartment buildings as a means of encouraging collective decisions regarding energy efficiency investments.



Activity 3: IPP Finance Facilitation Activity

Kosovo has implemented incentives for independent power producers (IPPs) to enter the generation market, such as feed-in-tariffs for the output from renewable energy sources (hydro, solar, wind, and biomass) and preferential dispatching. However, a number of factors have prevented IPPs from entering the market, including cumbersome permitting processes involving a wide set of government agencies and challenges in attaining finance. While other donors are actively working on the permitting process and policy elements of the financing problems (such as developing standardized power purchase agreements), banks are still reluctant to finance energy projects in Kosovo, or engage in any project financing of any kind, focusing almost exclusively on shorter term commercial loans or credit. This proposed activity would explore the establishment of a project development and financing company to facilitate the financing of IPPs in Kosovo. Specifically, MCC would support the assessment and capacity of the Kosovo Energy Development Company to develop IPPs to achieve financial close and serve as a nonbank project finance institution capable of delivering IPP commercialization by facilitating loan syndication, blended-finance investments, or other financial tools not yet used in Kosovo.

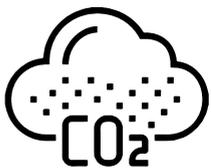
2 TRANSPARENT AND ACCOUNTABLE GOVERNANCE PROJECT

Project Objective: to improve the analytical use of publically available judicial, environmental, and labor force data to promote transparent and accountable governance and data-driven decision-making, and fostering positive, collaborative relationships between government and the citizenry.



Activity 1: Public Access to Judicial Information Activity

The judiciary in Kosovo is one of the country's least respected and trusted institutions. Cases languish in the court system and both the timing and substance of decisions deters the resolution of disputes and private investment. The Government of Kosovo, with the assistance of USAID and Norway, is developing a case management information system (CMIS), but it is currently only available for judges and prosecutors. Other case management systems, such as the one utilized by U.S. federal courts, provide a portal for the public to access redacted documents filed in the courts. The proposed Public Access to Judicial Information Activity would add similar functionality to the CMIS to shine light into a system widely regarded as opaque and inefficient. The activity would provide the public access to the CMIS to view cases, thus allowing plaintiffs and defendants to know where their cases stand, making them more effective participants in their cases and potential advocates for judicial reform. Additionally, the proposed activity would help courts make decisions publicly available. MCC would support the Government of Kosovo to update the legal framework to allow judgements to be made public, and also support courts and judges improving the quality of the decisions to make them more appropriate for publication. Holding judges' decisions up to the scrutiny of public viewing helps to provide incentives that may improve the quality and consistency of decisions, and allow others (e.g., Ministry of Justice, media, NGOs) to analyze and use key data to identify policies that need clarification. This activity would be supplemented with technical assistance to the Kosovo Judicial Council and judges on communicating their activities to the public, and engage the Ministry of Justice on communications and public outreach and the use of judicial data for decision-making.



Activity 2: Environmental Data Collection Activity

The Government of Kosovo has asked for support for government institutions involved in environmental protection and health to effectively monitor and report on select environmental indicators. This activity would strengthen the ability of civil society to interpret the data in order to engage more productively on these issues. The proposed activity also would support the Kosovo Environmental Protection Agency (KEPA), responsible for reporting environmental data, and the Kosovo Hydrometeorological Institute (KHMI), the department responsible for collecting environmental data.

Through the proposed activity, KEPA and KHMI's current monitoring and collection of data and gaps in target indicators, as well as reporting capacity for air, land and water, would be assessed. Assets that currently monitor air quality would be optimized, ensuring all equipment is well placed, functional and data is automatically transmitted to KHMI. In addition, this activity would assist the Government of Kosovo to plan for proper maintenance and calibration of these assets. Working with civil society, government consumers, such as the Kosovo Institute of Public Health, and others, the activity would also support the productive communication, collaboration, and use of data for decision-making.



Activity 3: Open Data Challenge Activity

This proposed activity aims to foster productive partnerships between government and civil society (such as local NGOs, the media, think tanks) and support innovation in data use and analysis. The activity would bring civil society into a problem-solving role with government, in addition to its current, somewhat adversarial "watchdog" role. The Kosovo Open Data Challenge Activity (KODC), which will award grants to individuals or organizations with creative ideas about how to use, analyze, and present data to respond to Government of Kosovo's analytical and public communication needs. KODC will support relevant ministries in sharing data (improved through other program activities) and will formulate their critical needs or questions, emphasizing problem identification and solution-oriented analysis of data to assess potential inequalities related to gender, ethnicity, or region. KODC specifically would support analysis of data through a gender-disaggregated lens to help Kosovo address gender barriers in access to justice, employment and entrepreneurship, particularly in sectors such as energy.



**49mil\$
for Kosovo:
not
bad
at all***

*As informally stated at the offices of Millennium
Challenge Kosovo on June 20th 2017
