



## CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to inform you that the Millennium Challenge Corporation intends to negotiate and sign a threshold program agreement with the Government of Kosovo obligating up to \$49,000,000. In addition to the enclosed notification, we have included supplemental information regarding the program.

Members of MCC's staff are available to meet with you to discuss the planned program. If you or your staff would like to arrange a meeting, please contact Dan Chaison at (202) 521-3593. This notification is being sent to the Congress on June 26, 2017 and negotiations with Kosovo may be started on or after July 11, 2017.

Sincerely,

/s/

Chris Dunn  
Chief of Staff (Acting)  
Office of the Chief Executive Officer

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION  
CONGRESSIONAL NOTIFICATION**

June 26, 2017

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)

Pursuant to (i) sections 7015(c) and 7057(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009, (ii) the heading “Millennium Challenge Corporation” and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2016, and (iii) the heading “Millennium Challenge Corporation” and section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2017, this notification is to advise that the Millennium Challenge Corporation (“MCC”) intends to negotiate and sign an agreement with the Government of Kosovo obligating up to \$11,000,000 of fiscal year 2009 funds, up to \$30,000,000 of fiscal year 2016 funds and up to \$8,000,000 of fiscal year 2017 funds for a program authorized under section 616 of the Millennium Challenge Act of 2003, as amended (the “Threshold Program”).

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.

<b>Project/Activity</b>	<b>Budget</b>
<b>Reliable Energy Landscape Project</b>	
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
<b>Subtotal</b>	<b>\$34,000,000</b>
<b>Transparent and Accountable Governance Project</b>	
Public Access to Judicial Information Activity	\$4,000,000
Environmental Data Collection Activity	\$3,000,000
Open Data Challenge Activity	\$1,300,000
<b>Subtotal</b>	<b>\$8,300,000</b>
Monitoring and Evaluation	\$1,700,000
Program Administration	\$5,000,000
<b>Threshold Program Total</b>	<b>\$49,000,000</b>

## **Project 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 services.

- 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.

## **Project 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.