



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

We wish to notify you that the Millennium Challenge Corporation intends to provide assistance to the Government of Kosovo to facilitate the development and implementation of a Millennium Challenge Compact.

If you or your staff would like to arrange a meeting to discuss the assistance, please contact Dan Petrie at (202) 521-3583 or PetrieDB@mcc.gov.

The attached notification is being sent to the Congress on July 17, 2019. The assistance may be provided and funds obligated on or after 15 days from the date of this notification.

In addition to the enclosed notification, we have attached supplemental information regarding the planned assistance.

Sincerely,

/s/

Karen Sessions
Vice President
Congressional and Public Affairs

Enclosure: As stated

MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION
July 17, 2019

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Year 2009 and 2010 Program Funds
OBLIGATION AMOUNT:	\$3,000,000

Pursuant to section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2009; section 7015(c) of the Department of State, Foreign Operations, and Related Programs Appropriations Act, 2010; and section 610(a) of the Millennium Challenge Act of 2003, as amended (the "Act"), this is to advise that the Millennium Challenge Corporation ("MCC") intends to obligate up to \$1,500,000 of fiscal year 2009 funds and up to \$1,500,000 of fiscal year 2010 funds under section 609(g) of the Act to provide assistance to the Government of Kosovo for the purpose of facilitating the development and implementation of a Millennium Challenge Compact with MCC.

The funds are expected to finance activities necessary for MCC to assess the expected impact of the proposed compact, further design activities and develop implementation strategies.

SUPPLEMENTAL INFORMATION - MCC 609(g) ACTIVITIES FOR KOSOVO

Background

Kosovo is a small developing country on the Balkan Peninsula in Southeastern Europe. With a population of 1.8 million people spread across 10,908 km, it is among the most densely populated countries in the region. Ethnic Albanians make up the majority of the population (92 percent), while the largest minority is represented by ethnic Serbs (5 percent). Kosovo is one of the world's newest countries, having declared independence in 2008.

Kosovo is also one of the poorest countries in Europe. The 2015 Household Budget Survey estimates that 17.6 percent of Kosovo's population lives below the poverty line, with 5.2 percent of the population living in extreme poverty. Kosovo's labor force participation rate remains extremely low and fell to 40.9 percent in 2017. Similarly, the unemployment rate remains stagnant at 29.6 percent in 2018.

Kosovo's population is one of the youngest in Europe with a median age of 27 years. This represents both a promising source of future growth as well as an increasing cause for concern. The unemployment rate of 55.4 percent for 15- to 24-year-olds indicates an economy that has not created sufficient employment opportunities for the country's youth. Furthermore, the country's female labor force participation rate of 18 percent is the lowest in the region and among the lowest in the world. Female labor force participation percentage rates in neighboring countries such as Serbia, Albania, Montenegro, or Macedonia are in the low to mid-50s. Additionally, women's unemployment rates are high and entrepreneurship rates lower than for comparators. Women in Kosovo account for just eight percent of individual entrepreneurs, compared to approximately 33 percent globally and in the region.

While growth in Kosovo has not been fast enough to reach the level of wealth of comparators, it has been remarkably stable. Kosovo is one of only four countries in Europe to record positive growth rates in the years following the global financial crisis in 2008, with average annual growth around three percent since 2010. Private consumption was the main driver of growth and was fueled by remittances, public sector wages, and social transfers. The inflows of remittances have enhanced the stability of the economy and financed most of the country's trade deficit. Investment, which lags behind savings, has flowed mainly into residential and commercial construction. Annual flows of foreign direct investment remain below levels received by comparable countries due in part to the uncertain legal status of the country.

Kosovo is a services-oriented economy with services contributing 54 percent of value added to gross domestic product from 2009 to 2017. Kosovo's main trading partners continue to be the western Balkan and European Union countries. Kosovo's export sector is dominated by mining commodities, but high-value agriculture is a growing contributor.

Key challenges for Kosovo continue to be implementing reforms aimed at strengthening public administration to increase the quality of and access to public services, improve the business climate, and upgrade public infrastructure, including the country's current electricity system. Through reforms to these institutions, Kosovo can attract direct investments of the scale, scope,

and quality necessary to increase productivity in key sectors of the economy, generate growth, and ultimately reduce the high rates of unemployment and poverty

Compact Eligibility and Constraints Analysis

Kosovo was initially selected as eligible to develop a compact in fiscal year 2016 after passing the MCC scorecard for the first time with 13 out of 20 indicators, including the Control of Corruption and Democratic Rights indicators. In fiscal year 2017, however, after MCC and the Government of Kosovo conducted a constraints analysis and root cause analysis, Kosovo failed the MCC scorecard; and the MCC Board of Directors selected Kosovo to develop a threshold program. In September 2017, MCC signed a \$49 million Threshold Program Grant Agreement with Kosovo that focused on two key constraints to Kosovo's economic growth: an unreliable supply of electricity; and real and perceived weakness in rule of law. In fiscal year 2019, Kosovo again passed the scorecard and was selected to develop a compact once again. While Kosovo's score on both Democratic Rights indicators remained unchanged as compared to the previous year's scorecard, its Control of Corruption score declined slightly to the 52nd percentile in fiscal year 2019 from the 60th percentile in fiscal year 2018.

MCC and the Government of Kosovo conducted a constraints analysis in 2016 that identified three binding constraints to growth in Kosovo: (1) lack of reliable electricity supply; (2) perception and reality of weak rule of law; and (3) environmental services. In addition, the constraints analysis identified the low participation of women in the labor market as a critical, cross-cutting concern that could limit the equitable distribution of the benefits of MCC assistance. This constraints analysis has been used to inform and guide current compact development. In May 2019, MCC conducted its first technical mission to refresh the root cause analysis and stakeholder consultations conducted in October 2016. In June 2019, MCC assessed the Government of Kosovo's proposed concepts, which focused on the lack of reliable electricity constraint.

As noted in the constraints analysis, a key factor impeding robust growth in Kosovo is inadequate infrastructure, particularly energy infrastructure. While the Government of Kosovo has undertaken a series of important reforms in the power sector, the unreliability of the current supply of coal-fired electricity increases operating costs for companies and limits their competitiveness. Frequent power outages disrupt manufacturing and other income-generating activities, imposing costs to business and households and hindering investment. The proposed interventions below aim to alleviate the root causes of this binding constraint.

Summary of Proposed Project Interventions

Potential compact projects may focus on the following concepts:

Strengthening Energy Supply. Potential projects include (a) ancillary services¹ that improve the quality of electricity as well as the power system's flexibility and overall reliability; (b)

¹ Ancillary services are the transmission services that help grid operators maintain a reliable electricity system by maintaining the proper flow and direction of electricity, addressing imbalances between supply and demand, and helping the system recover after a power system event.

electricity network improvements that reduce technical losses,² allow for shorter durations of outages, address frequency and voltage fluctuations, and generally improve the system's reliability; and (c) policy and institutional reforms supporting electricity market liberalization.

Energy Demand Management. Potential projects include (a) expansion of district heating services and coverage; (b) private energy efficiency incentives, including a specific focus on small and medium enterprises and women entrepreneurs; and (c) alternate energy access for the private sector.

Across both concepts, potential activities will include a focus on strengthening workforce skills and training for energy sector employment with a particular focus on women and on the specific types of jobs and skills that will be needed as a result of the compact.

MCC will work with the Government of Kosovo to develop project proposals advancing this strategic approach. MCC currently projects that the MCC Board of Directors will consider a fully-developed compact program for Kosovo in 2020.

Assistance to Develop the Compact Proposal

In order to assist the Government of Kosovo to further develop the proposed compact, MCC intends to fund preparatory activities for each of the projects listed above. Specifically, funds would be used to conduct studies to determine if targeted projects are technically, environmentally, and socially sound. Results will include preliminary project designs, allowing MCC to conduct economic, beneficiary, and other analyses. Funding these activities reflects MCC's commitment to preparing projects in a comprehensive manner in order to reduce implementation risk and increase confidence in the economic justification and technical feasibility of the proposed projects.

Update on and Sustainability of the Kosovo Threshold Program

On September 12, 2017, MCC and the Government of Kosovo signed a \$49 million Millennium Challenge Account Threshold Program Grant Agreement that addresses two constraints to Kosovo's economic growth: (1) an unreliable supply of electricity and (2) the real and perceived weakness of rule of law. MCC's assistance is designed to strengthen the power sector by fostering a market-driven approach to lowering energy costs for households and businesses, encouraging energy efficiency, and developing new sources for electricity generation. The program also supports the Government of Kosovo's efforts to improve decision-making and accountability by increasing accessibility and use of judicial, environmental, and labor force data.

The Government of Kosovo has been dedicated to working with MCC throughout its engagement on both the threshold program and compact development and has committed over \$1.8 million to development team salaries, data collection, and office space since 2015. There have been high-level Government of Kosovo cooperation and interest in the partnership with MCC.

² Technical losses are power losses that occur within the distribution network due to the cables, overhead lines, transformers and other substation equipment used to transfer electricity.

The Kosovo Threshold Program is comprised of two projects:

1. **Reliable Energy Landscape:** This project encourages greater household energy efficiency and facilitates the switch to non-electric sources of heating through a pilot activity. MCC's assistance also works to bolster private-sector participation in the power sector by exploring barriers to finance for independent power producers and creating opportunities for women to participate in the energy sector through employment and entrepreneurship. Most major procurements for this project are nearing finalization and will begin implementation in July 2019.
2. **Transparent and Accountable Governance:** This project supports the implementation of a case management information system to make judicial information publicly available and improvements to the collection and reporting of environmental data to the public. An open innovation competition will let the government pose its challenges to civil society and private sector stakeholders to propose creative, data-grounded solutions, which can be a model for more productive partnerships between government and civil society. All activities except the judicial information activity are under way, with the last activity to be procured in summer 2019.

The program will continue implementation through September 2021.