



CONGRESSIONAL NOTIFICATION TRANSMITTAL SHEET

This Congressional Notification outlines the Millennium Challenge Corporation's intent to sign a Millennium Challenge Compact with the Government of Kosovo.

The transmission of this notification to Congress on June 30, 2022 affirms that the Kosovo Compact may be signed and the funds obligated on or after 15 days from the date of this notice. Please find enclosed the notification with supplemental information regarding the compact.

If you or your staff would like to arrange a meeting to discuss the proposed compact with the Government of Kosovo, please contact Brian Forni at (202) 521-2631 or ForniBJ@mcc.gov.

Sincerely,

/s/

Aysha House
Vice President
Congressional and Public Affairs

Enclosure: As stated

**MILLENNIUM CHALLENGE CORPORATION
CONGRESSIONAL NOTIFICATION**

June 30, 2022

PROGRAM:	Eligible Countries
APPROPRIATIONS CATEGORY:	Fiscal Years 2019, 2021, 2022 Funds
OBLIGATION AMOUNT:	\$202,000,000

Pursuant to Division F, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2019 (P.L. 116-6); Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021 (P.L. 116-260); Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103); and section 610(a) of the Millennium Challenge Act of 2003, as amended (the “Act”), the Millennium Challenge Corporation (“MCC”) is notifying Congress of its intent to sign a Millennium Challenge Compact (the “Compact”) with the Government of Kosovo, through which MCC will grant an amount not to exceed \$202,000,000 to the Government of Kosovo under the Act. To facilitate implementation of the Compact, MCC intends to obligate up to \$21,248,741 (“Compact Facilitation Funding”) of the overall grant under section 609(g) of the Act, using fiscal year 2019 funds, when the Compact is signed by the parties. Under Section 605 of the Act, MCC intends to obligate up to \$180,751,259 when the Compact enters into force. After the Compact enters into force, Compact Facilitation Funding that is not needed to facilitate implementation of the Compact may be deobligated, and up to an equivalent amount of funding may be obligated under section 605 of the Act. Such funding is included in the total amount of MCC funds under the Compact and will not increase the total Compact funding.

The Compact seeks to assist the Government of Kosovo in addressing one of the country’s binding constraints to economic growth: the unreliable supply of electricity. The Compact aims to address this constraint through two projects: the Energy Storage Project and the Just and Equitable Transition Acceleration (JETA) Project. The Compact also includes the American Catalyst Facility for Development (ACFD) Project, conducted in collaboration with the U.S. International Development Finance Corporation (DFC).

Economic Justification

Demand for electricity in Kosovo has far exceeded supply in recent years—a problem that is expected to worsen. Forty percent of households in Kosovo experience energy poverty, the highest rate among five regional neighbors for which data exists. The unreliable supply of electricity results in frequent supply disruptions, which then require Kosovo to import costly emergency energy supply. Kosovo’s electricity supply options are highly constrained due to limited installed renewable energy capacity, aging and unreliable lignite-fired generation plants, the lack of flexible generators, supply shortages in neighboring countries, and an absence of any natural gas resources or infrastructure to import gas. Kosovo’s unusually heavy reliance on coal-fired electricity generation, particularly for heating in the winter, contributes significantly to this energy constraint.

At the compact level, approximately 1.8 million people will benefit from MCC's investment. This estimate is based on the Energy Storage Project, which intends to reach all households connected to the electric grid (officially reported to be 100 percent of the country's households). The JETA Project aims to benefit women, men, and energy companies across Kosovo. Detailed project design is required to conduct cost-benefit analysis (CBA), clearly define and count intended beneficiaries, and meet the statutory requirements and policy for monitoring and evaluation. The JETA Project's beneficiary analysis and statutory requirement regarding monitoring and evaluation will be completed before the Compact's entry into force.

Energy Storage Project

The Energy Storage Project aims to increase Kosovo's capacity to balance scheduled power and actual power between neighboring countries with the establishment of operational battery energy storage systems with a capacity of approximately 340MWh. This should reduce costly energy purchases during periods of energy imbalance and support longer-term capability of the transmission grid to accommodate renewable energy generation that benefits from storage capacity to smooth system use. These benefits should lead to the principal objective of the project, to support energy security, as reflected by the use of energy storage, battery availability, and the reduced cost of securing adequate electricity as Kosovo transitions towards clean energy. The core benefits captured in the estimated economic rate of return (ERR) include avoided capacity and activation payments for frequency restoration reserves, net revenues from energy arbitrage, and benefits of carbon reduction. Additionally, some benefits that are not yet quantified include savings from potential additional ancillary services, voltage regulation, and local air quality benefits with associated health benefits, which may be sizeable. The ERR for the Energy Storage Project is estimated at 8.7 percent.

The Just and Equitable Transition Acceleration (JETA) Project

The JETA Project aims to support Kosovo's future ability to address the unreliable electricity supply constraint by supporting new technical training programs or building from existing programs to provide the skills demanded by employers in the energy and adjacent sectors. The project's two objectives, (1) produce graduates who are hired in relevant jobs in the energy and adjacent sectors, and (2) increase employment of women among employers participating in the Inclusive Energy Sector Workforce Activity, are expected to facilitate the Government of Kosovo's energy transition, incentivize gender equitable practices within companies, support networking and mentoring opportunities for women, and provide technical assistance to employers in the energy and complementary fields to help increase female representation. The ERR for the JETA Project is currently unavailable, pending completion of the detailed project design, however, MCC will require it prior to the first disbursement of program funding.

The American Catalyst Facility for Development (ACFD) Project

The ACFD Project is designed to leverage DFC financing to support one or more blended finance transactions that will catalyze private investment in Kosovo's energy sector and support the goals of MCC's energy investments. MCC funds will be used to de-risk DFC-led investments in the private sector and DFC will be responsible for the appraisal and oversight of the overall investment. The CBA excludes the ACFD Project because DFC will lead the identification of potential investments, and the M&E Policy will not be applied. MCC will coordinate with DFC

and the accountable entity in Kosovo to identify potential investments that align with the constraint to growth identified in Kosovo, as well as the compact timeline. MCC anticipates that the DFC will assess and report the benefits of ACFD-supported investments using its new Impact Quotient system for measuring development impact. In addition, MCC will work with DFC to consider ways to assess and quantify the benefits of ACFD.

SUPPLEMENTAL INFORMATION

Overview of MCC Kosovo Compact

MCC's Board of Directors (Board) has approved a five-year, \$202,000,000 compact with the Government of Kosovo aimed at reducing poverty through economic growth. The compact seeks to address a binding constraint to economic growth in the country: the unreliable supply of electricity. The compact will address this constraint through two projects: the Energy Storage Project and the Just and Equitable Transition Acceleration (JETA) Project. The American Catalyst Facility for Development (ACFD) Project constitutes a third project leveraging U.S. International Development Finance Corporation (DFC) financing to support or complement the objectives of the Energy Storage Project.

Background and Context

Kosovo is a small country on the Balkan Peninsula in Southeastern Europe, with a population of 1.8 million people spread across 10,908 kilometers. It is among the most densely populated countries in the region with ethnic Albanians making up the majority of the population (92 percent), while the largest minority is ethnic Serbs (5 percent). Kosovo is one of the world's newest countries, having declared independence in 2008. Kosovo is 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 38.3 percent in 2020. Similarly, the unemployment rate remained stagnant at 25.9 percent in 2020. Kosovo's population is one of the youngest in Europe with a median age of 27 years. The unemployment rate of 49.1 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 employment rate of 14.1 percent is the lowest in the region and among the lowest in the world. Women's entrepreneurship rates are lower than comparators, with women in Kosovo accounting for just about ten 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. For much of the past decade, annual flows of foreign direct investment have remained below levels received by comparable countries due in part to questions on the legal status of the country.

Kosovo is a service-oriented economy with the service industry contributing 54 percent of value added to the gross domestic product from 2009 to 2017. Kosovo's main trading partners continue to be the western Balkan and European Union countries. Kosovo's exports are 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, improving the business climate, and upgrading public infrastructure, including the country's 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 economic growth, and ultimately reduce the high rates of poverty and unemployment, including among youth and women.

Selection and Eligibility

The Board initially selected Kosovo as eligible to develop a compact in December 2015, when it passed the MCC scorecard. Following years of engagement with the Government of Kosovo, the country failed the Control of Corruption "hard hurdle" indicator, and the MCC scorecard. In December 2016, the Board selected Kosovo for a threshold program. Kosovo is currently in the final stages of implementing its \$49 million threshold program focused on promoting reliable energy and enabling transparent and accountable governance.

During threshold program implementation, Kosovo improved its performance on the Control of Corruption indicator and passed the scorecard two years in a row. As a result, in December 2018, the Board selected Kosovo as eligible to develop a compact while it continued to implement its threshold program.

The year following its selection, Kosovo was reclassified by the World Bank as an upper middle-income country and exited MCC's candidate country pool. The Board has repeatedly affirmed its support for Kosovo continuing to develop a compact with MCC, and Kosovo has continued to demonstrate its commitment to the principles of democratic governance that underpin MCC's eligibility criteria and the scorecard.

Compact Overview and Budget

The compact aims to address Kosovo's major constraint to economic growth—the lack of reliable electricity. MCC's investments in Kosovo's energy sector will accelerate Kosovo's transition towards an energy future that is more sustainable, inclusive, reliable, and affordable.

Below is a summary describing the components of the compact with the Government of Kosovo. The anticipated budget for the compact is up to \$236,670,600 which includes up to \$202,000,000 funded by MCC and a contribution from the Government of Kosovo of \$34,670,600. In addition, the Statutory References and Fiscal Year Funding Sources Table sets forth the amount of funding under sections 605 and 609(g) of the Act for each fiscal year of funding.

Kosovo Compact Budget

Component	Amount
1. Energy Storage Project	\$147,695,906
1.1 Frequency Restoration Response Activity	\$21,481,015
1.2 Multi-Functional Energy Storage Activity	\$116,588,890
1.3 Energy and Climate Policy Support Activity	\$9,626,001
2. Just and Equitable Transition Acceleration Project	\$16,000,000
2.1 Energy Skills for the Future Activity	\$8,000,000
2.2 Inclusive Energy Sector Workforce Activity	\$8,000,000
3. American Catalyst Facility for Development	\$2,000,000
4. Monitoring and Evaluation	\$3,565,000
5. Program Administration and Oversight	\$32,739,094
Total MCC Funding	\$202,000,000

Total Compact Funding	Amount
Total MCC Funding	\$202,000,000
Government of Kosovo Contribution	\$34,670,600
Total Compact	\$236,670,600

Statutory Reference Requiring Congressional Notification	Program Funding under Section 605 of the Act (up to)	Compact Facilitation Funding under Section 609(g) of the Act (up to)
Division F, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2019 (P.L. 116-6)	\$28,951,259	\$21,248,741
Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2021 (P.L. 116-260)	\$75,800,000	
Division K, Title III under the heading “Millennium Challenge Corporation” of the Consolidated Appropriations Act, 2022 (P.L. 117-103)	\$76,000,000	
Total	\$180,751,259	\$21,248,741

Project Summaries

The projects and activities to be completed are:

1. **Energy Storage Project:** The objective of the Energy Storage Project is to support energy security and transition to a cleaner energy future, as reflected by (1) usage of energy storage systems, (2) availability of the energy storage system, and (3) reduced cost of securing adequate electricity for Kosovo. The Project includes three activities:
 - **Frequency Restoration Response Activity:** This activity intends to support the transmission system operator to own and operate approximately 90 megawatt-hours (MWh) of energy reserves to cost-effectively smooth out unexpected imbalances in the electricity grid.
 - **Multi-Functional Energy Storage (MFES) Activity:** This activity intends to support a new public or public-private partnership battery storage entity to own and operate approximately 250MWh of energy storage that could be used for frequency restoration reserves, energy arbitrage, or other potential ancillary services, filling in gaps of longer-scale, unexpected outages or shifting energy to cover peak demand.
 - **Energy and Climate Policy Support Activity:** This activity intends to support technical and administrative capacity building for energy and climate regulators and the policy and institutional reforms required to ensure the operating environment for energy storage in Kosovo is well defined and regulated through Kosovo’s laws and supported by good planning, maintenance, and cost-reflective tariffs. It will also support cross-cutting measures on female employment and entrepreneurship across projects, and policy and institutional reform around pro-poor and gender-inclusive planning in the sector.

2. ***Just and Equitable Transition Acceleration Project:*** The objectives of the JETA Project are to (1) produce graduates who are hired in relevant jobs in the energy and adjacent sectors; and (2) increase employment of women among participating employers in the Inclusive Energy Sector Workforce Activity.
- **Energy Skills for the Future Activity:** This activity aims to establish new technical training programs and builds from existing programs to provide the skills demanded by employers in the energy and adjacent sectors, aiming to facilitate the Government of Kosovo’s just energy transition and increasing women’s participation in such programs.
 - **Inclusive Energy Sector Workforce Activity:** This activity aims to incentivize gender equitable practices among energy sector employers, support networking, training, and mentoring opportunities for women, and provide technical assistance to help increase female representation in energy companies in Kosovo.
3. ***American Catalyst Facility for Development Project:*** The objective of the ACFD Project is to facilitate complementary DFC investments in Kosovo. The project aims to leverage DFC financing to support one or more blended finance transaction(s) that will catalyze private investment in Kosovo that could include (1) complementing MCC’s funding to deliver a public private partnership focused transaction for energy storage in lieu of a public entity for the MFES Activity; (2) leveraging private sector participation to scale a successful energy storage public entity launch via additional private sector delivered storage systems and services (i.e., additionally leased energy storage capacity); and (3) catalyzing complementary renewable energy investments that bolster generation capacity and strengthen the energy storage entity business case.

Policy Reform and the Compact

The compact requires that a suitable legislative framework be established for parts of the energy sector in order to provide better sector management. This includes legislative and regulatory amendments to define energy storage technology in Kosovo law. The compact also requires a formal decision by the Government of Kosovo to allow the transmission system operator to own storage resources.

The benefits of the Energy Storage Project depend on the broader investment in private renewable energy generation. To encourage this type of investment, the compact includes a set of policy conditions that seek to ensure that the full benefits of the program can be achieved and focus on assisting the Government of Kosovo to meet its renewable energy generation goals.

Specific reforms the Government of Kosovo will undertake include:

- passing the relevant laws and reforms to incentivize renewable independent power generators to enter the market;
- completing legal and administrative steps to define battery storage systems in Kosovo energy policy and define potential ownership structures; and

- implementing a vulnerable customers program to ensure that means-tested, lower income customers can access more affordable electricity.

There are no major policy reforms required for the JETA Project, although MCC will seek the operationalization of existing but unfulfilled national legal requirements, especially around gender equitable work practices.

Update and Sustainability of the Kosovo Threshold Program

Kosovo's \$49 million threshold program 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 threshold 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 support team salaries, data collection, and office space since 2015. There has been high-level Government of Kosovo cooperation and interest in the partnership with MCC. The threshold program is expected to close in September 2022, with close collaboration with the Municipality of Pristina for any sustainability and further scale-up of the district heating metering investment.

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. MCC's assistance also aims to bolster private-sector participation in the power sector by exploring barriers to finance for independent power producers. This project includes the Women in Energy initiative, provides scholarships, internships, and entrepreneurship grants and training for women. These activities create opportunities for women to participate in the energy sector as both employees and entrepreneurs. All major procurements for this project are complete and in implementation.
- 2. *Transparent and Accountable Governance:*** This project supports the implementation of a case management information system to make judicial information publicly available and improves the collection of reporting of environmental data to the public. An open innovation competition allowed civil society and private sector stakeholders to propose creative, data-grounded solutions to the challenges faced by the Government of Kosovo in this domain, which process can be a model for more productive partnerships between government and civil society. All major procurements for this project are complete and in implementation.

As of May 2022, the threshold program reports the following milestones and achievements:

- Household Retrofits. 692 grant agreements for household retrofits have been approved in the first two application windows, with a third window ongoing. 350 household retrofits are complete. Apartment-level retrofits will cover at least 600 households by the end of the program.
- Education. 26 women scholarship recipients graduated from Millennium Foundation Kosovo-Des Moines Area Community College energy degree program in May 2021; 88 percent are employed, continuing education, or interning in the energy sector.
- Inclusion & Gender. Over 200 women interns placed in 6-month internships in the energy sector and approximately 400 beneficiaries have been awarded grants as part of the Women Entrepreneurs in Energy program.
- Monitoring & Evaluation. All windows of the Open Data Challenge have now closed, with 21 small grants having been awarded over the course of four challenges.

In addition to the above-noted results, the threshold program has supported a significant awareness-raising campaign focused on the importance of energy efficiency and has gathered rich learning from the progressive iterations of household and apartment-level energy efficiency retrofit subsidy schemes, as well as from the Women in Energy initiative. This learning is being shared with all relevant Government of Kosovo entities and may also be built upon by other donors in the coming years. A Threshold Program Sustainability Plan was submitted to the Government of Kosovo in June 2022, detailing commitments and recommendations the Government should adopt to ensure the sustainability of the threshold program's objectives. Through September 2022, MCC will be working closely with the threshold program accountable entity, Millennium Foundation Kosovo, to mark the closure of the threshold program activities.

The compact builds upon lessons learned in the threshold program, with the JETA Project moving beyond a compliance approach to enhancing female employment by incorporating specific and dedicated outreach and additional measures to reach minority group participation.