MCA-Kosovo
USDFC
MCC

Kosovo Compact
ACFD Outreach Event

03.19.2024

About Millennium Challenge Account Kosovo

- MCA Kosovo is the outcome of a collaborative partnership between the United States of America and the Republic of Kosovo, formalized through the signing of the Compact Agreement in July 2022.

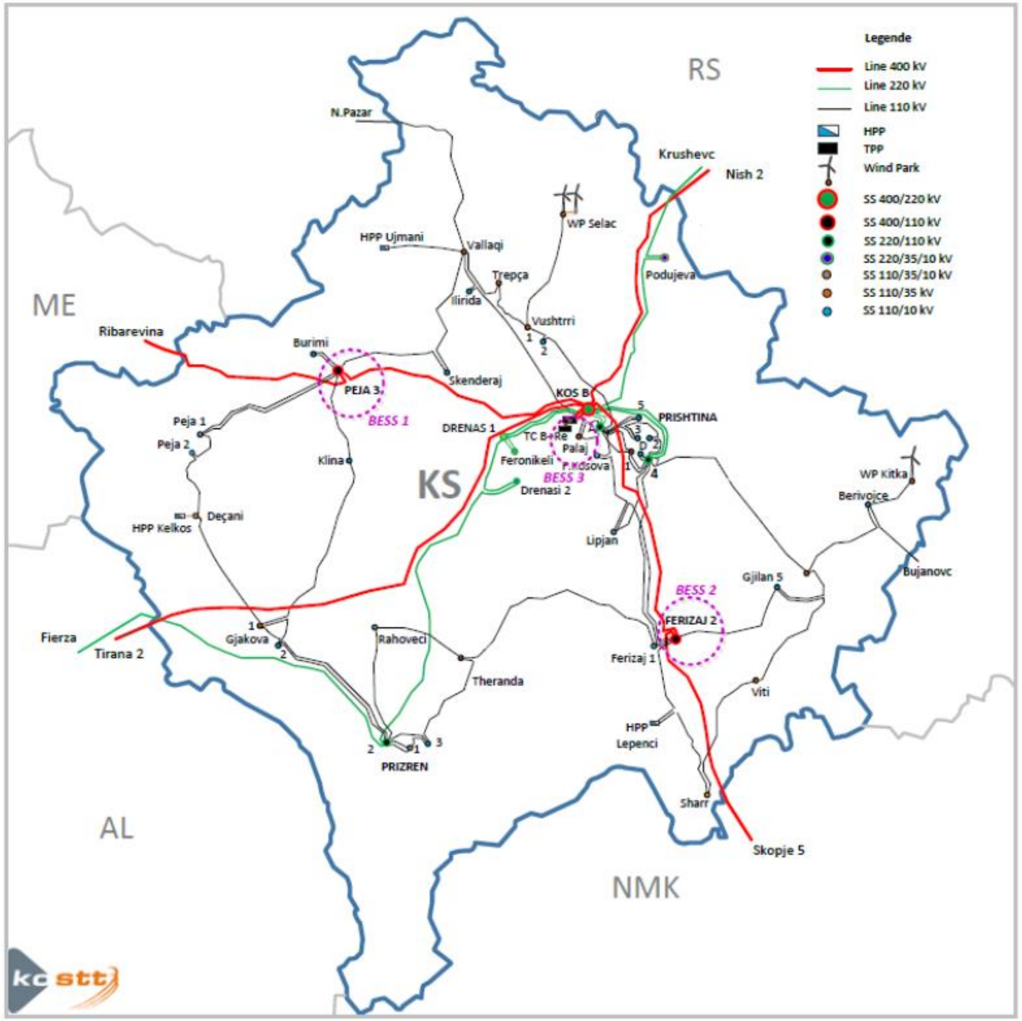
- MCA Kosovo's central objective is to oversee and implement the Compact Program, a comprehensive initiative comprising significant projects (BESS, JETA, ACFD).

- As the implementing entity for the Compact Program, MCA Kosovo takes the lead in realizing the outlined projects. This well-coordinated program is structured to ensure a cohesive impact across multiple sectors, fostering positive transformation in Kosovo's energy landscape, societal dynamics, and economic resilience.

- MCA Kosovo operates within a collaborative framework, with a key partner being the Millennium Challenge Corporation (MCC). The MCC's substantial grant of 202 million dollars provides a foundational backing for MCA Kosovo's initiatives, reflecting the joint commitment to Kosovo's sustainable growth.

Kosovo Compact (1/4)

Kosovo Compact Signature
July 15, 2022
Enters Into Force
April 1, 2024



MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Kosovo Compact (2/4)

Compact signed – **July 15, 2022**

$236M program – $202M MCC & $34.6M Government of Kosovo

Expected to benefit over **1.8 million people** in Kosovo

Three complementary projects that

- Support Kosovo's energy security and transition to a cleaner energy future
- Address existing skill gaps in the energy sector's education and training system, and
- Leverage DFC financing to support blended finance transactions to catalyze energy sector private investments

MILLENNIUM CHALLENGE ACCOUNT KOSOVO

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Kosovo Compact (3/4)

Energy Storage Project
USD
$180 million

JETA Project
USD
$16 million

ACFD Project and M&E
USD
$5.5 million

Program Management and Administration** USD **34.4 million

MILLENNIUM CHALLENGE ACCOUNT KOSOVO

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

Kosovo Compact (4/4)

Compact Development
2018 - 2022

Compact Mobilization
2022 - 2024

Compact Implementation
2024 – 2029 (60 months)

Compact Closure
120 days plus

Compact Selection for Development December 2018

Compact Negotiations May 2022

Compact Signing and Ratification July 2022

Compact Entry into Force (EIF) o/a April 2024

Compact End Date o/a April 2029

Compact Closure

Kosovo ACFD Initial Funding - $2 million

ACFD

The Project seeks to support DFC in attracting private investment(s) to strengthen Kosovo's economy

Catalyze complementary **economy** private sector growth opportunities

Support energy investments that bolster generation and strengthen the domestic energy mix

Leverage partnerships to scale services and solutions to unlock smart climate focused opportunities

De-risk opportunities that **crowd-in additional donors and DFIs** to to scale large-scale investments

About Millennium Challenge Corporation

- The Millennium Challenge Corporation (MCC) is an independent U.S. foreign assistance agency created in 2004
- MCC provides time-limited grants promoting economic growth, reducing poverty, and strengthening institutions
- MCC forms partnerships with developing countries who are committed to good governance, economic freedom and investing in their citizens.
- MCC previously had a Threshold Program in Kosovo
- MCC grants take the form of:
  - Compacts
  - Concurrent Compact for Regional Investments
  - Threshold Programs

MILLENNIUM
CHALLENGE CORPORATION
UNITED STATES OF AMERICA

MILLENNIUM CHALLENGE CORPORATION
UNITED STATES OF AMERICA

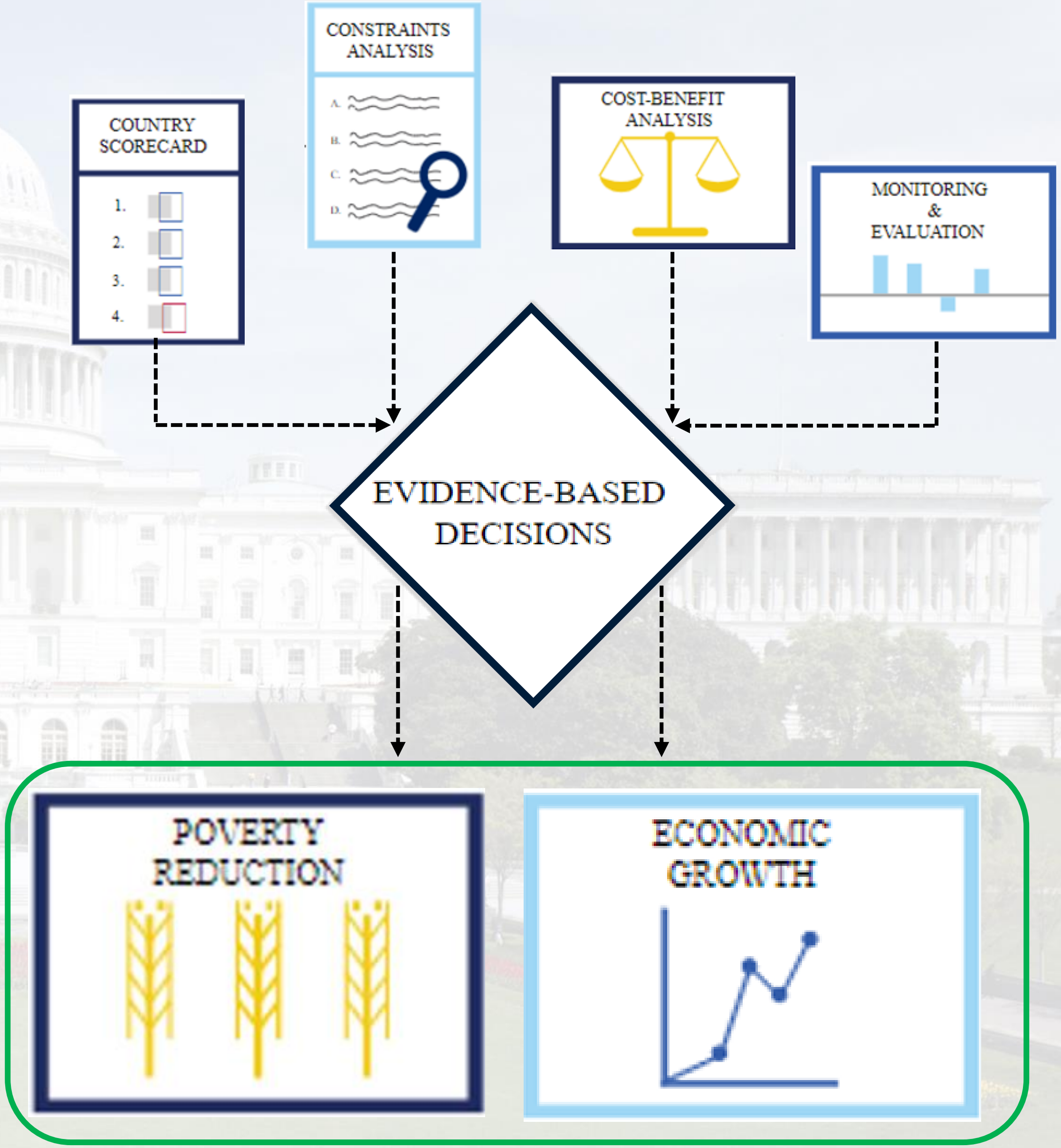
Advancing Economic Growth

MCC's Operating Model

Evidenced based decision making

The **difference**

MCC's singular focus on increasing economic growth to reduce poverty



American Catalyst Facility for Development

ACFD

BLUF

- *ACFD is a "**project**" under the Kosovo Compact*
- *The project is a **transaction(s)** financed in part by the US DFC*
- *The project – from MCA's perspective - is complete when the transaction(s) reaches **financial close**.*
- *ACFD catalytic are additional funds **specifically for Kosovo***
- *Kosovo was one of the first MCC countries chosen for **ACFD***
- ***The project has not been defined yet. This outreach is the start!***

ACFD creates a formal platform for collaboration

Objective

- Create a **formal platform** to optimize and organize MCC-DFC collaboration
- **Leverage the strengths of both agencies** to catalyze and enable DFC investments (that would not otherwise be viable), consistent with both MCC and DFC missions
- Crowd-in and **maximize the overall impact** of U.S. government development efforts
- **Low implementation risk** and **reduces complexities** for MCA

Mechanism

- A **dedicated pool of funding** for DFC to draw on for eligible projects in MCC program
- Strategic grants to de-risk projects & catalyze private investment in MCC countries that **do not need to be identified and structured during MCC program development**
- **Tools: investment grants, guarantees, structured finance, currency hedging**

ACFD has several key features

ACFD funds de-risk or improve projects returns by paying for: premiums for first-loss guarantees, interest rate buy-downs, tenor extensions, letters of credit, viability gap funding, other credit enhancements, as well as other transaction costs and TA.

MCC and DFC seek to avoid distorting markets or crowding out any private sector players with blended finance instruments focusing on the "cascade" approach

MCC control of funds mitigates moral hazard of having a DFI subsidize its own investment transaction to make it financially viable. Managing this potential conflict of interest is consistent with DFI best practice in the EU, IFC, and World Bank.

ACFD helps MCC and DFC reduce coordination challenges by including funds in a compact at the outset that can be drawn on over the course of the program to "de-risk" or enhance returns of DFC-led deals in the MCC partner country

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Benefits for the country and private sector

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MCC perspective - Alleviates development challenges

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Potential uses of funding for DFC projects

Investment grants

Covering specific costs and **decreasing overall project costs**, they are usually part of a larger package and are used mostly to purchase or upgrade existing fixed capital, such as tools or facilities. Some, such as interest rate subsidies, help lower the costs of finance resulting from underdeveloped local financial markets.

Loan guarantees

Protect investors against losses and/or improve the financing costs (**government guarantees reduce borrowing costs**), e.g., the new equipment attracts private investors, but they still think the risk is too high, so the public sector provides a guarantee of payment should the expected increase of productivity not materialize.

Structured finance

First-loss piece **absorbs risks by making the public entity the first to take losses** that may occur should the project incur losses. For instance, a project fails and does not leave enough capital for all the investors to be paid back. The ‘first loss’ investors (in this case, the public entity) lose their money first

Currency hedging

Debt financing in foreign currencies can be detrimental to emerging economies due to currency mismatches and investing in local currency equally carries FX risks to int’l investors. **Currency hedging de-risks the capital inflow and foreign capital runs less volatility** through long-term FX risk hedging instruments.

Transaction advisory

The key challenge in developing countries is a shortage of well-structured, bankable deals. Funding transaction advisors can overcome this constraint, **strengthening the existing transaction** and providing successful models for future transactions.

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Transaction Steps + Roles and Responsibilities

1

Project Sponsors

Collaborates with MCC and partner countries to develop and present potential opportunities

Prepares and **submits** Application to DFC

2

US DFC

Reviews applications

Originates transactions

Proposes Investment to MCA-K

Manages investment

3

MCC

Screens DFC projects for compliance with policy and statutory requirements

Provides No Objection on proposed project and Grant Agreement

4

MCA-K

Reviews DFC Investment Proposal

Approves projects

***Drafts* Grant Agreement** with DFC and/or Client

Conducts Disbursements

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Transaction Steps + Roles and Responsibilities

Financial Close by Compact End Date

4

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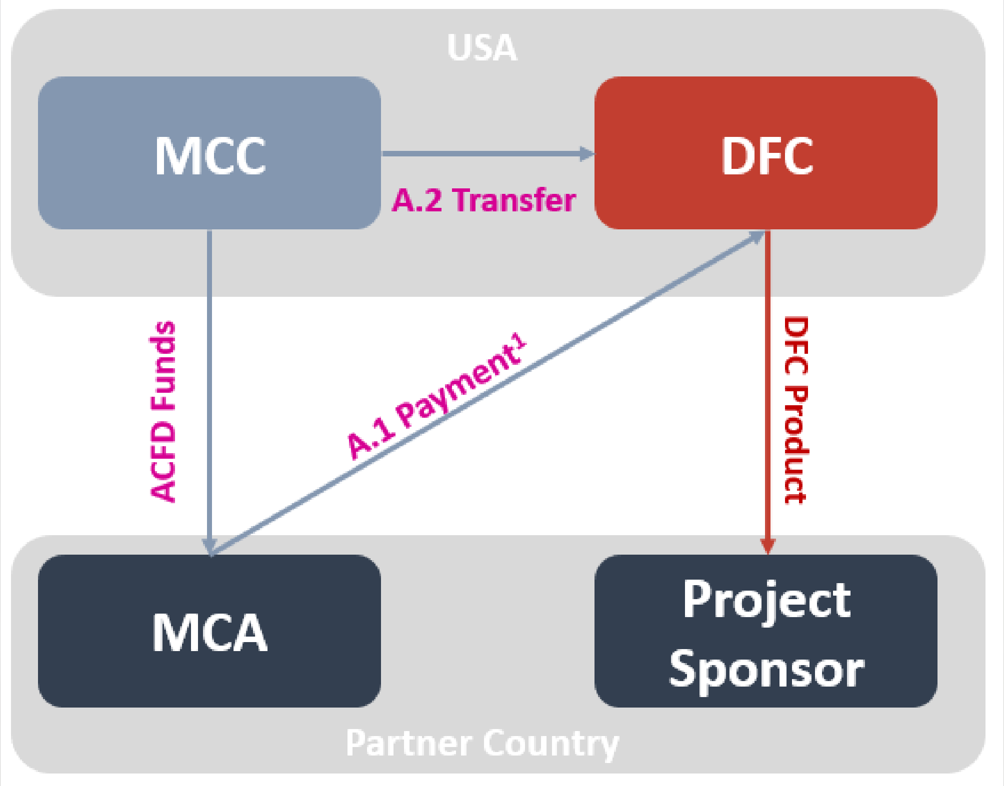
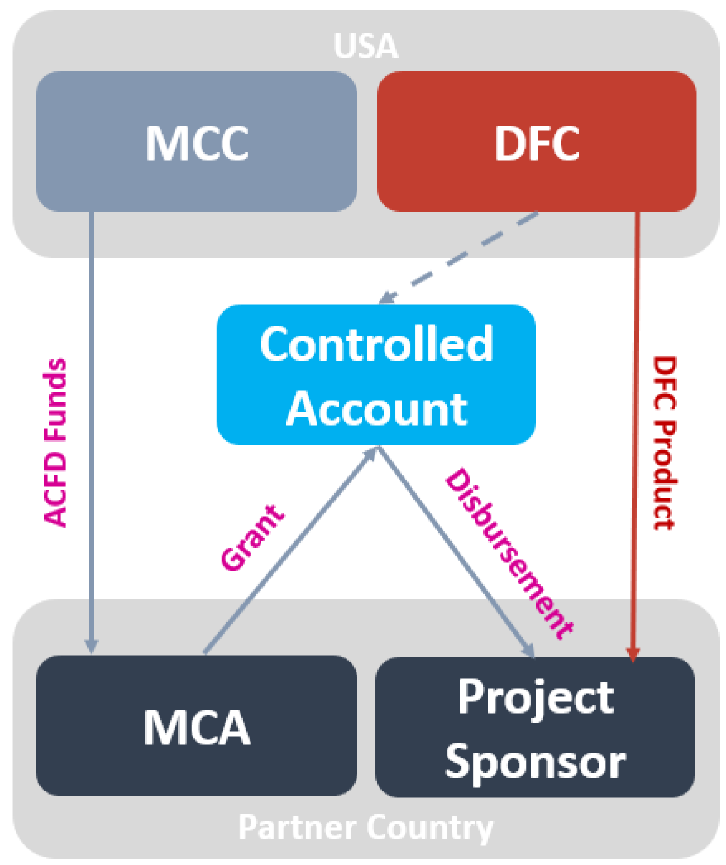
Potential Structure A



Payment to DFC

- Transaction structuring costs
- Political risk insurance fees
- Credit guarantee fees – structuring, subsidy, and implementation
- Equity investments
- Buy down of loan interest rate
- Up to 5% of the compact budget can be transferred to DFC to cover direct expenses

Potential Structure B



Grant from MCA to Project via third-party

Viability gap funding

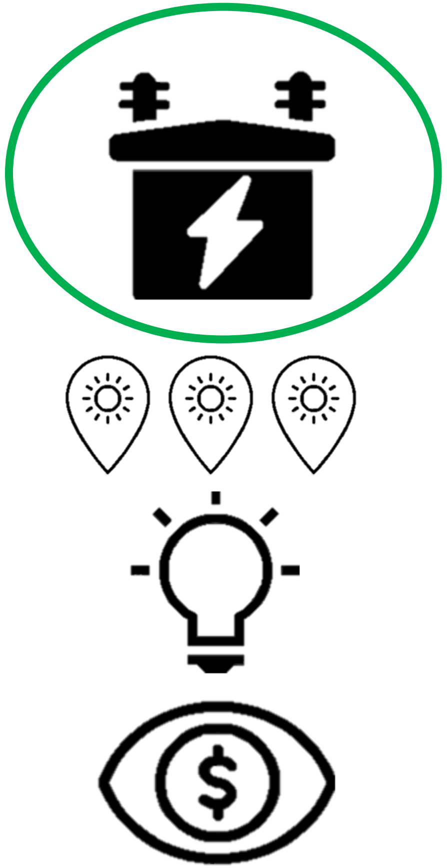
Controlled Account

- MCA disburses funds to the controlled account
- The DACA governs the use of the controlled account

A **Deposit Agreement Controlled Account (DACA)** is a tri-party agreement among a deposit customer (the debtor), a deposit customer's lender (the secured party) and a bank. DACA allows lenders to perfect their interest in a debtor's deposit account(s) and define who can initiate disposition (transfer) instructions to the bank with respect to the controlled deposit account(s). Lenders establish deposit account control agreements as an additional level of protection against default.

All things relative, $2 MIL USD could be seen as…

- 1 large(r) opportunity
- **2-3 or a "*couple*" small(er) opportunities**
- *But what is the opportunity …?*
- *And… why didn't we already identify it…?*



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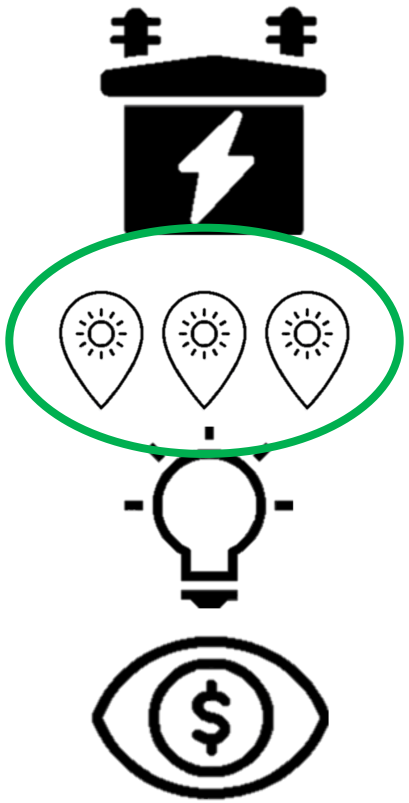

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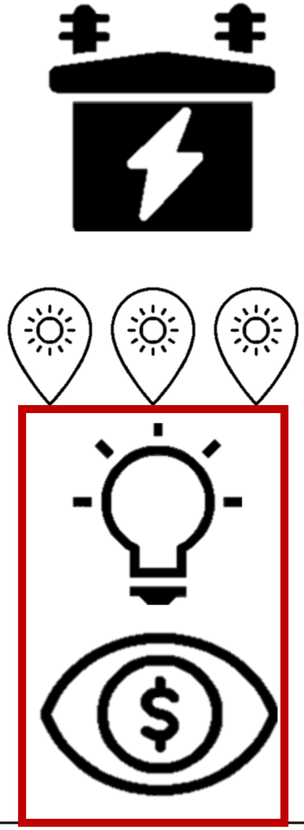


The MCC Kosovo Compact

- The Outreach Event is the first step, "***Open for Business***"
- Kosovo Compact Entry in Force expected next month
- MCA wanted to wait until the right time to "**go to market**"
- **MCA has a vested partner in the DFC.**
- **We wanted to be ready for *opportunity***

Key Takeaways

1. A **formal platform** enabling MCA - Kosovo and the US DFC to collaborate

2. A **dedicated pool of catalytic funds** for DFC to draw on for strategic projects

3. **Financial close by Compact end** is the hurdle, not finance & build like a compact project

DFC U.S. International Development Finance Corporation

U.S. International Development Finance Corporation

Who We Are

U.S. International Development Finance Corporation

The U.S. International Development Finance Corporation (DFC) is **the U.S. Government's development finance institution.** Established in 2018, DFC mobilizes private sector capital to finance solutions to the **most critical challenges** facing the developing world today.

What We Do

The BUILD Act of 2018 established DFC to:

- Advance development impact and U.S. foreign policy interests
- Make investments with a greater emphasis on low and lower-middle income countries
- Mobilize private capital with new tools and an expanded investment cap of $60 billion
- Provide a high-standards alternative to state-directed investments by authoritarian govts

Our Interagency Partners

DFC's tools complement the diplomatic, foreign assistance, and technical assistance offerings from our interagency partners to achieve development and foreign policy impact, including:

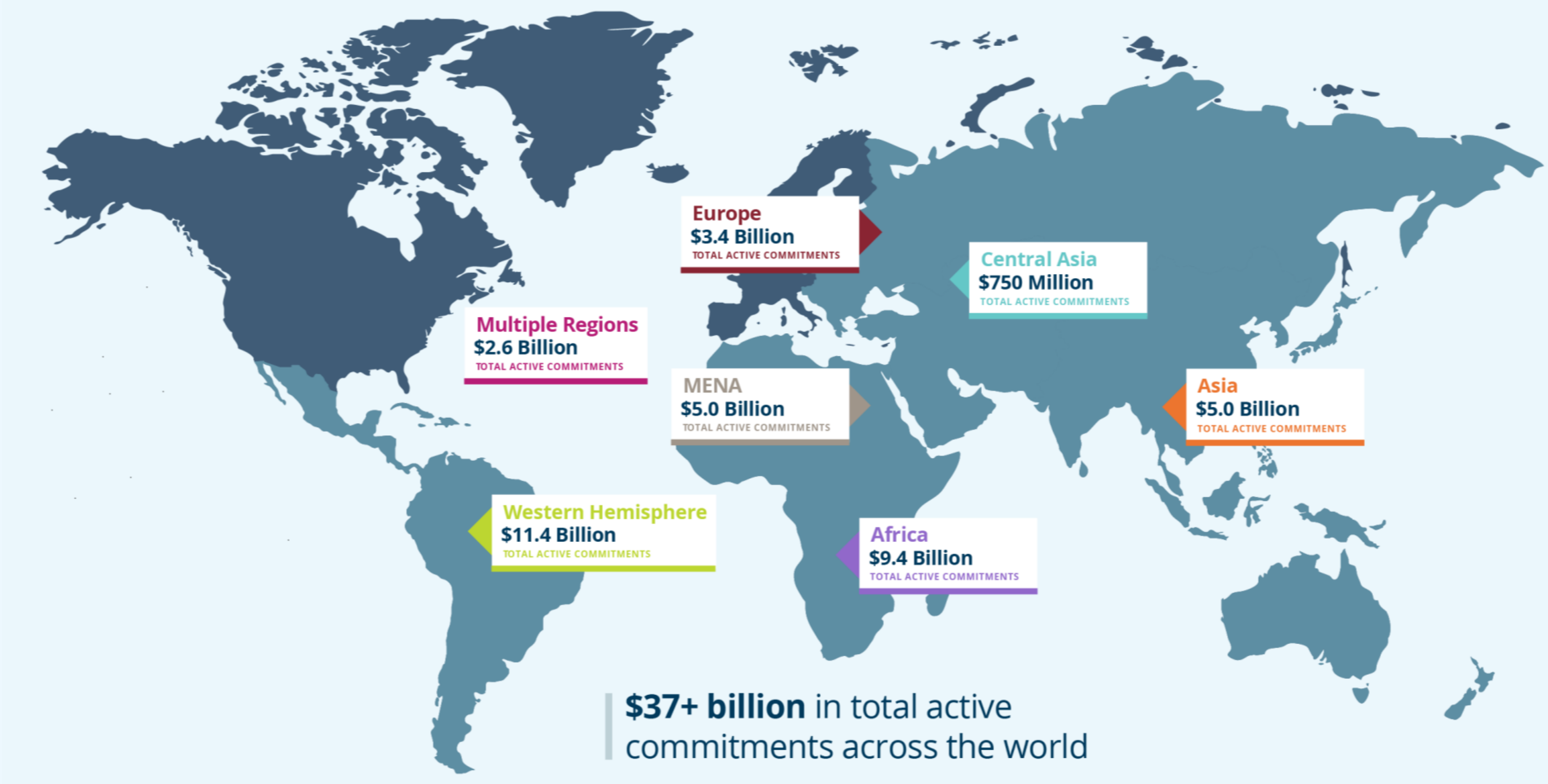
- State
- Commerce
- MCC
- USTDA
- USAID
- Treasury
- ExIm

DFC's Board includes representatives from State, USAID, Commerce, and Treasury, as well as four nongovernment members.

Where We Work

As of FY 2021

. International velopment iance Corporation



Our Priorities

DFC U.S. International Development Finance Corporation

Infrastructure

Investments in critical infrastructure can promote trade and regional connectivity, create jobs, and foster economic growth in developing countries. This includes WASH, ICT, transportation and logistics.

Health

Supporting vaccine manufacturing and distribution and communicable disease mitigation strategies, while strengthening healthcare services and infrastructure, manufacturing and supply chain, and digital health/technology.

Energy

Building on its extensive experience in the energy sector, DFC can work to strengthen emerging energy markets and focus on transactions that help expand electricity access, diversify energy sources to promote security and development (including critical minerals), strengthen power markets, and support emerging energy technologies.

Food Security & Agriculture

Agriculture is a vital sector in the economies of many developing countries and is essential to promoting a healthy population as well as supporting the livelihoods of smallholder farmers. Investments help smallholder farmers access training & tools to increase yields, strengthen value chains to reduce food waste, build critical food processing infrastructure, & enable countries to expand food exports.

Financial Services & Small Business Support

Many developing countries face a considerable credit gap that prevents women-owned small businesses and entrepreneurs from reaching their full potential. By enabling individuals to start and grow businesses, financial services increase revenues and incomes, create jobs, and help communities grow.

Climate

Help developing countries respond to climate change and expand access to affordable energy by investing in power generation and enabling technologies

Our Tools

U.S. International Development Finance Corporation

Debt Financing

Direct loans and guaranties of up to $1 billion for tenors as long as 25 years, with specific programs targeting small and medium U.S. businesses

Investment Guarantees

Investment guaranties of up to $1 billion that either support initiatives identified by USAID field missions (in conjunction with MTU)* or that support financial institutions and NBFIs**.

Guarantees are used to de-risk investment to priority sectors and underserved groups.

Political Risk Insurance

Coverage of up to $1 billion against losses due to currency inconvertibility, government interference, and political violence including terrorism. DFC also offers reinsurance to increase underwriting capacity

Investment Funds

Support for investment funds aligned with DFC development priorities in DFC-eligible geographies where access to capital is limited

Direct Equity

DFC direct equity investments can provide critical support to companies committed to creating developmental impact

Technical Assistance

Support to increase the developmental impact or commercial sustainability of existing DFC projects or develop potential DFC projects

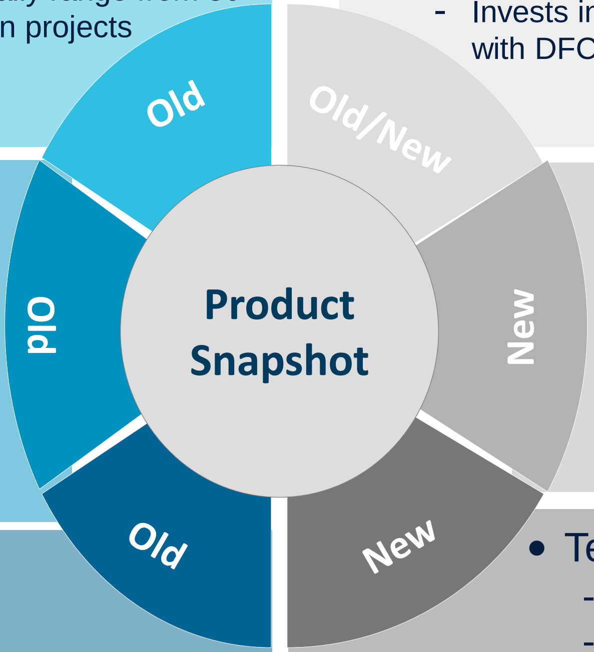
*MTU refers to the Mission Transaction Unit
**NBFI refers to Non-Banking Financial Institutions

Our Product Terms

- **Debt Financing**
  - Loan Sizes: over $50 million and infrastructure of all sizes in Structured Finance, $1-$50 million in Office of Development Credit
  - Debt Limits, vary by sector, and generally range from 50-80% depending upon new or expansion projects
  - Loan tenor: Three to 25 Years
  - Rate Type: Fixed or Variable

- **Investment Guaranty**
  - Coverage Sizes: Up to $1 billion
  - Tenor: Three to 25 Years
  - Rate: Fixed or Variable
  - Utilized by MTU to execute transactions initiated and managed by USAID.

- **Political Risk Insurance**
  - Coverage Sizes: Up to $1 billion
  - 100% coverage for 3rd party lenders 90% coverage for equity investors
  - Covers equity investments, debt, leases, tangible assets etc.
  - Tenor: Up to 25 Years
  - Rate: Fixed



- **Investment Funds**
  - Equity commitments: typically $10 - $50 million
  - Equity allocation based on appropriation for fiscal year
  - Invests in funds with investment strategies that align with DFC development priorities

- **Direct Equity**
  - Equity Investments: $10-$50 million
  - Less than 30% pro-forma company ownership
  - Focus on growth-stage companies

- **Technical Assistance**
  - Grant Range: $100K-$5 million
  - Client shares 50/50 cost for intervention with DFC
  - Focus on increasing the developmental impact /commercial viability of a transaction

Our Project Life Cycle

U.S. International Development Finance Corporation

Sourcing

Have thorough discussions with a DFC officer about the project

Determine whether lead has sought project financing

Determine if the project includes activities the DFC cannot sponsor

Learn if the client has failed to access funding before

Prescreening

Decide whether the lead meets DFC eligibility requirements

Align lead profile with DFC's development, financial and foreign policy objectives

Determine if the lead warrants use of DFC resources compared to other projects in the pipeline

Application

Refer to application on www.dfc.gov

Ensure completed application includes business plan, developmental return, financial projections & other information needed to evaluate creditworthiness

Schedule initial session with stakeholders to evaluate project

Due Diligence

Conduct credit and legal underwriting activities

Evaluate expected development impact and potential ESG risks of the project

Review investor management experience & track record

Conduct compliance analysis, and "know your customer" due diligence

Approval

Projects under $20 million are evaluated by VP Finance and Credit Policy.

PI2 projects between $1-$20 million approved by VP Finance

For projects over $20m, credit and investment committee needed, and for projects over $50m, Board of Directors approval also needed

Direct Equity investments ≤ $15 require investment committee (IC) approval and >$15 million require Board approval

Investment Funds commitments ≤ $25 million require IC approval; and projects > $25 million require Board approval

Project Close

Draft and negotiate documentation and ensure that all the conditions precedents are met in order to disburse funds

Monitoring

Evaluate the financial, environmental & social impact of the project

Annually collect data on development impact

Close to project end, determine the full development impact of the project

Assessing Our Impact

IQ Pillars	**Economic Growth** Metrics measure scale of impacts through infrastructure improvements, contribution to local income, trade benefits to the local economy, and jobs supported. **Innovation** Focuses on benefits to people, the planet, and the market from innovations in products or services, the use of innovative financial structures to mobilize private capital, and knowledge or technology transfer.
Country Context	Will the project's impacts help address a critical development challenge in the host country? Is the project meaningful?
Risks	Assessment of environmental, social and developmental risks that have the potential for negative impacts. This assessment is based on the sophistication of the investor and the country/sector context.

The IQ also considers the country context of a project to prioritize projects that address key agency priorities, such as investing in lower-income countries, or in regions facing critical development challenges. Scores will be adjusted to account for potential negative impacts and risks.

DFC Eligibility

Who Qualifies

Categories	Key Questions	
Bankability	• Is the project greenfield or brownfield? • Does the party seeking finance have a sound business plan (i.e. does the plan demonstrate commercial viability and debt service capability)?	• Will the project commit equity? • Is the party or project majority owned and controlled by the private sector? • Are there local content requirements?
Impact	• What is the anticipated development impact? • Is the project in a low income / lower middle-income country? • Does the project have a plan for environmental and social sustainability?	• Does the transaction address a significant constraint to economic growth or a DFC impact priority? • Does the transaction have potential adverse labor, environmental, health, safety or other negative impacts?
Additionality	• Has the party tried to raise private sector finance? • Is the DFC crowding out risks that the commercial sector would take?	• Would DFC financing catalyze the flow of additional private sector capital into the project? • Does the transaction support a specific borrower, group of borrowers or create market liquidity?
Foreign Policy Alignment	• Does the transaction advance U.S. foreign policy or national security strategy? • How does the transaction complement existing USG activities in the country or region?	• Could the transaction result in the loss of U.S. jobs?
Political Risk	• Are there any political, macroeconomic, exchange or sovereign risks associated with the transaction? • What are the steps in place to mitigate the identified risks?	• Are there any individuals or entities associated with this transaction that trigger corruption, laundering or sanctions concerns?
Management Capacity	• What is the management's track record (e.g. experience in management, expertise with similar deals, financial performance, country / regional depth)?	• Who are the shareholders in the transaction? What do we know about their character? • What is the financial arrangement with those shareholders? • Is there a breadth of talent on the management team thereby reducing "key person" risk.?

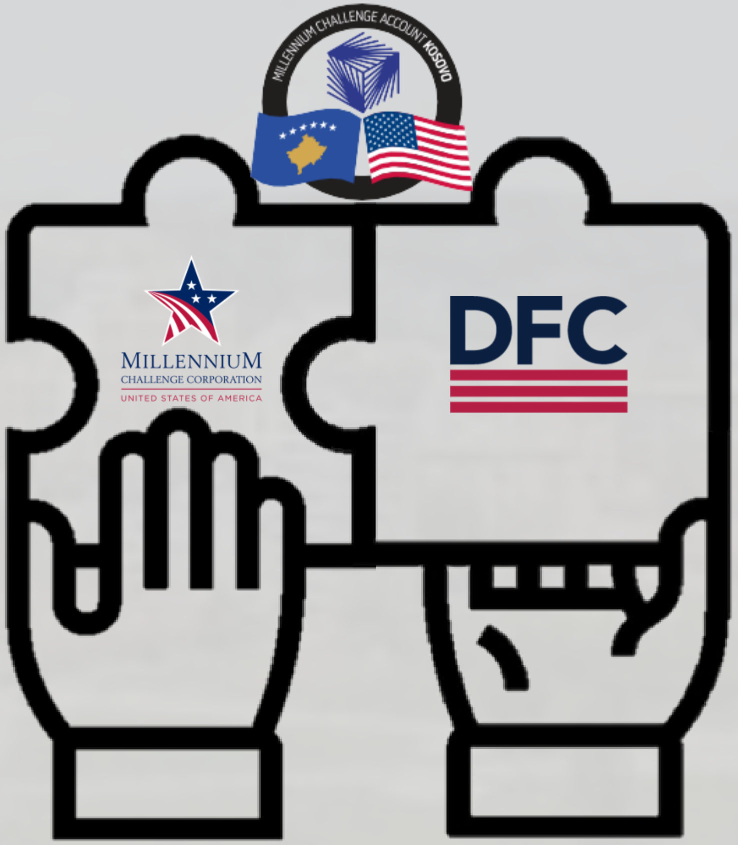
Moving Forward, *"What's Next?"*

- MCA-Kosovo Enters Into Force Kosovo Compact April
- ACFD "*open for potential opportunities*"
- Interested Project Sponsors encouraged to begin dialogue with MCA-Kosovo and US DFC
- MCC continues to support all parties to identify aligned opportunities
- DFC Town Hall questionnaire circulated to all attendees

How to Connect and Contact

- Send comments and questions to
- Send the DFC Town Hall questionnaire circulated to all attendees
- Email: ACFD@mcakosovo.org

Question and Answer Open Forum



Closing Comments

MCA Kosovo CEO

MCC Resident Country Director

Thank You