1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Project Title</th>
<th>Trade and Private Sector Development</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRIS Decision number</td>
<td>2013 / 024-216</td>
</tr>
<tr>
<td>Project no.</td>
<td>05</td>
</tr>
<tr>
<td>MIPD Sector Code</td>
<td>3. Private Sector Development</td>
</tr>
<tr>
<td>ELARG Statistical code</td>
<td>02.22</td>
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<tr>
<td>DAC Sector code</td>
<td>33120</td>
</tr>
<tr>
<td>Total cost (VAT excluded)</td>
<td>€ 7.5 million</td>
</tr>
<tr>
<td>EU contribution</td>
<td>€ 6.5 million</td>
</tr>
<tr>
<td>Management mode</td>
<td>Centralised management (Activity 1 and 2), Joint management with the International Organisation for Migration (IOM) (Activity 3)</td>
</tr>
<tr>
<td>EU Delegation in charge</td>
<td>European Union Office in Kosovo*</td>
</tr>
<tr>
<td>Implementation management</td>
<td>European Union Office in Kosovo. Activity 3 will be implemented by the IOM in Joint Management.</td>
</tr>
<tr>
<td>Implementing modality</td>
<td>2 service contracts, 1 Contribution Agreement with the International Organisation for Migration (IOM)</td>
</tr>
<tr>
<td>Project implementation type</td>
<td>C01</td>
</tr>
<tr>
<td>Zone benefiting from the action(s)</td>
<td>Kosovo</td>
</tr>
</tbody>
</table>

1 The total project cost should be net of VAT and/or of other taxes. Should this not be the case, clearly indicate the amount of VAT and the reasons why it is considered eligible.

* This designation is without prejudice to positions on status, and is in line with UNSCR 1244 and the ICJ Opinion on the Kosovo declaration of independence.
2. RATIONALE

2.1 PROJECT CONTEXT: ISSUES TO BE TACKLED AND NEEDS ADDRESSED

The overall purpose of this project is to increase economic growth, private sector employment and international trade in Kosovo, by improving the competitiveness of locally operating enterprises, active in a conducive business, investment and trade climate. The project aims at supporting the Ministry of Trade and Industry (MTI) and its relevant agencies in improving competitiveness and export readiness of Kosovo companies and improving international trade relations through continuous strengthening of the MTI’s trade policy capacities and a strong public-private dialogue with relevant stakeholders.

The economy of Kosovo is weak, even in comparison to other countries in the Western Balkans. Current economic growth hovers around 4% per year, driven mainly by government investments, private consumption and privatisation. Unemployment rates reached as high as 45% in 2009 and are even higher in the rural regions. Kosovo’s imports account for around 50% of GDP while its exports cover only around 6% of GDP. Kosovo’s trade deficit is the highest in CEFTA and increased from €674 million in 2001 to €1.84 billion in 2010. Still, export penetration remains low creating the largest trade deficit as a ratio of GDP in the region (185% of regional average).

As recognized in most Kosovo strategic documents, unemployment, the associated poverty and low GDP (€1,795 per capita in 2009) are the most pressing problems in Kosovo and there is an urgent need for additional economic growth to create more jobs. Effective trade and private sector development policies will play a crucial role in facilitating export-led economic growth in Kosovo and promote Kosovo’s integration into the world economy. An outward-oriented export strategy and a coherent trade strategy are necessary elements for small economies to achieve sustainable growth. Increased import of capital- and technological intensive goods can stimulate the processing of innovations and new technologies through which labour and capital productivity will be increased and economies of scale will be reached. Moreover, market access to and market knowledge of major export markets are important success criteria to induce an export-led growth strategy, which is particularly important for economies with small internal markets like Kosovo.

A priority for Kosovo’s economic reconversion is to reduce the current trade imbalance through a sustained drive to increase exports and reduce imports. Part of the task of achieving that result will involve Kosovo becoming a part of international trade arrangements that will facilitate the export of competitive goods and services. A second and related priority is to assist Kosovo businesses to become more effective and to develop the capacities to access external markets and compete at home with imports. Together these measures aim to improve Kosovo's balance of trade. The proposed project will tackle these challenges through three inter-related activities:

**ACTIVITY 1 – Support to trade policies:** To strengthen Kosovo trade policy by enhancing the trade facilitation and negotiation expertise within MTI, in line with international trade requirements and EU best practices, to benefit the private sector by facilitating its access to new business opportunities abroad.

**ACTIVITY 2 – Increase of competitiveness and export promotion:** To support the continuous development of Kosovo companies through improving their performance and overall competitiveness and to increase exports of products and services generated in Kosovo, as a means of reducing the trade deficit.
ACTIVITY 3 – Grants to SMEs: A new financing facility for SMEs will assist a selection of enterprises with viable plans and clear capabilities to take concrete steps to improve their competitiveness in both domestic and international markets. Through these measures the project aims to achieve significantly better business and economic results with those enterprises taking part in the scheme, while demonstrating and disseminating new models of approach to other businesses that will help Kosovo’s enterprises more generally to better realise their potential.

The proposed project will tackle directly, and in a new way, some of the most persistent problems of company competence and behaviour that have resulted in Kosovo under-performing in business and economic development in relation to its potential. As well as upgrading certain public agency capacities (see below) the project will highlight and help to tackle widespread company-level practices that limit business performance e.g. double accounting, limiting tax receipts and also company access to business finance; poor corporate governance lessening returns on assets of labour and capital; limited strategic vision, increasing competition in an already crowded domestic market;

Each of the three “activities” supports the others for its rationale and success. This unity of purpose is illustrated and summarized in Annex 6 (Unity of purpose of the three Components).

2.2 LINK WITH THE MIPD AND SECTORAL STRATEGIES

The Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Kosovo states that “development of a functioning market economy with a sound financial basis is one of the priority areas of the Kosovo government” (page 19). It further states that “support for small and medium-sized enterprises (SMEs) needs to be improved to provide incentives for entrepreneurship, stimulate innovation and transform informal entrepreneurial activity into formal businesses. Kosovo would benefit from programmes aimed to raise the competitiveness of its economy, focusing on access to finance, adoption of new technology, increased productivity and value chain production, reduced labour costs and the generation of jobs. Such programmes should help increase the transparency of business regulation, including licences, permits, certification, and effective independent supervision, and also offer support for networking initiatives” (page 20).

Kosovo has the willingness to negotiate and implement a trade agreement, and to identify measures that Kosovo should undertake in order to ensure progress (Point 3.2.1). Furthermore, one of the 3 preferred components to be supported by IPA is the Market and Access in the Market, and one of the objectives stresses the need for support in developing policies aiming for reduce of administrative barriers and harmonization of cross-border systems and procedures (no. d.3.3). One of the main objectives of IPA is to assist Kosovo in the preparation in EU Free Trade Negotiations (Point 3.2.3)

The Small Business Act for Europe (SBA) was adopted by the European Commission in June 2008. It is an initiative by the European Commission to address the needs of Europe's small and medium-sized businesses, consisting of a set of 10 principles to guide the conception and implementation of policies at EU and Member State level. The focus of SBA is put on three policy areas: (1) Cutting red tape and bureaucracy for SMEs; (2) Improving access to finance for SMEs; and (3) SME participation in EU programmes. Last assessment of Kosovo’s overall SME Policy Index (an SBA tool managed by OECD) was done in 2009, and
the following graphical representation speaks of the need for further improvements in all 10 SBA dimensions.

**Kosovo overall SME Policy Index Scores (2009)**

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Average</th>
<th>Dimensions 1-10</th>
<th>48%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1: Entrepreneurship education and training</td>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>2: Cheaper and faster start-up</td>
<td></td>
<td></td>
<td>70%</td>
</tr>
<tr>
<td>3: Better legislation and regulation</td>
<td></td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>4: Availability of skills</td>
<td></td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>5: Improving online access</td>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>6: Getting more out of the Single Market</td>
<td></td>
<td></td>
<td>40%</td>
</tr>
<tr>
<td>7: Taxation and Access to Finance</td>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>8: Strengthening the technological capacity</td>
<td></td>
<td></td>
<td>30%</td>
</tr>
<tr>
<td>9: Successful e-business models</td>
<td></td>
<td></td>
<td>50%</td>
</tr>
<tr>
<td>10: Develop stronger representation</td>
<td></td>
<td></td>
<td>60%</td>
</tr>
</tbody>
</table>

The **European Partnership Action Plan** highlights importance of transposition of directives for conformities assessment; implementation of consumer protection program, and the capacity building in almost the entire spectra of actors comprising the segment of Free Movement of Goods (EPAP 2012, p. 48.1; and 3.1.1 the Chapter on Free Movements) On the “Situation of the Free Movement of Goods” in Kosovo, a recent European Commission mission recommended further support to Kosovo institutions in removing trade barriers.

The **Kosovo National SME Development Strategy** (hereinafter referred to as the “SME Strategy”), was approved by the Kosovo government in July 2011. The Mission of the SME Strategy is to “Improve the business environment and entrepreneurship culture with the aim of the creation and rapid growth of sustainable SMEs” (page 23). The SME Strategy’s focus is on improving the overall competitiveness of the Kosovo private sector by directly addressing the identified needs of the SMEs, including limited of access to finance, low productivity, low penetration of international markets by Kosovo made products and services, etc.

The Kosovo Trade Policy was elaborated in 2009, with the support of UNDP. In December 2009, the government approved the document “Trade Policy of Kosovo” to provide the formulation and interpretation of trade policy of Kosovo. The policy clearly reflects Kosovo’s commitment to trade liberalisation and it highlights the urgency in tackling Kosovo's negative trade balance. The coordinating working groups that now are in place are derived from the plans on the Trade Policy Document.

The **World Bank 2011 Doing Business Report** ranks Kosovo on the bottom of Central and Eastern Europe region for starting a business and for enforcing contracts. Kosovo’s current overall Doing Business ranking is 119th out of a total of 183 countries.

In the Spring of 2011, the government elaborated a New Vision for Economic Development in Kosovo (Vision 2014), including a list of concrete objectives and measures aimed at reducing the administrative and regulatory burden on business, and to boost economic growth through increased competitiveness. The government has set new ambitious targets, to reach sustainable economic growth of 7-8% p.a., thereby reducing unemployment by 8-10%. Among other goals, the vision aims for Kosovo to be recognized as a “Top Reformer” by 2013, in the World Bank’s Doing Business Index.
The Action Plan on Implementing Economic Vision of Kosovo 2011 – 2014 has highlighted in its second objective the support on development of the private sector, attracting the foreign direct investments and the improvement of the doing business environment.

2.3 LINK WITH THE ASSOCIATION PARTNERSHIP (AP) / EUROPEAN PARTNERSHIP (EP) / STABILIZATION AND ASSOCIATION AGREEMENT (SAA) / ANNUAL PROGRESS REPORT

Through its agreements with the EU, Kosovo has already chosen its general economic direction. The European Partnership (2006) puts Kosovo on a path towards Europe. Kosovo is also a member of CEFTA and has access to IPA funds. Beyond its regional approach to trade policy in the Western Balkans, the EU is developing a bilateral model with the individual countries. Since 2000, the EU operates Autonomous Trade Preferences (ATP) for Kosovo, allowing for duty-free access to the EU market for nearly all products.

The European Commission Kosovo 2011 Progress Report identified three main barriers encountered by businesses in Kosovo; unreliable electricity and water supplier, limited access to finance, and insufficient rule of law. The Progress Report concluded that “(…)significant economic uncertainty remained an obstacle to job creation and private-sector development. In 2011, in an attempt to remedy some of the major policy weaknesses, the government presented an economic vision and action plan for economic reform. This is commendable for the leading role given to the private sector in sustainable economic development. However, the plan lacks prioritisation and sequencing of proposed measures.” (page 28).

2.4 PROBLEM ANALYSIS

ACTIVITY 1 – Support to trade policies

Kosovo’s trade policy pursues three objectives, namely the membership and participation in CEFTA; the accession to the World Trade Organization (WTO); and the achievement of a trade agreement with the European Union (EU). The new “CEFTA 2006”, which entered into force in 2007, aims to establish a comprehensive free trade agreement among its members covering not only trade in goods but also services, investment, trade rules (such as subsidies, standards, and rules of origin), protection of intellectual property rights, competition policy, state aid and a dispute settlement mechanism. The Agreement fully conforms to WTO rules and procedures and to EU regulations and aims to prepare its members for EU accession, as has been the case with the founding CEFTA members. However, the full implementation of the “new CEFTA” including not only comprehensive rules for trade in goods but also for trade in services, investment, IPRs and trade-related matters (such as standards, safety, SPS, conformity assessments) implies significant institutional challenges for Kosovo’s trade-related institutions, particularly MTI. Kosovo's trade policy adopted in 2009 sees FTAs and regional trade liberalizing agreements, such as CEFTA, as second best choices compared to multilateral liberalization, and therefore the government has been considering accession to the WTO as an important step towards fully integrating in the world trading system. While the benefits from WTO membership would be significant for Kosovo, which heavily depends on foreign trade, the government is very much aware that reaching WTO membership is a very complex process. With respect to trade policy, Kosovo is in the process of preparing for negotiating a Free Trade Agreement with the EU. On a longer-term perspective, among other economic, social
and political criteria to be fulfilled, Kosovo needs to align its policies towards third countries (commercial commitments) and its positions within international organizations with the policies and positions adopted by the Union and its Member States, as part of Chapter 30 of the *acquis*. There is a need to establish appropriate institutional structures and strengthen the resources within these structures to support the implementation of Kosovo trade policy, including negotiations with the European Union on the FTA and implementation of agreed policy initiatives in line with international trade requirements and EU practices. On an inter-ministerial level, there is a need for improved collaboration on trade policy issues between MTI and Ministry of Finance, which is responsible for tariff policy, one of the most important trade policy tools. Through intensive capacity-building measures, it is the ambition of MTI to improve the coherence in Kosovo trade policy and improve efficiency in trade negotiations.

**ACTIVITY 2 – Increase of competitiveness and export promotion**

Economic growth in Kosovo over the past years has been increasingly driven by government expenditure, while external trade imbalances remained significant (EC Kosovo 2010 Progress Report). According to World Bank reports, much of the economic progress in the recent period has been based on donor aid and remittances, which cannot be the foundation of a sustainable economic strategy. Kosovo has the lowest GDP per capita in the CEFTA region and its trade balance and current account are one of the most unbalanced in the region. Kosovo’s imports account for around 50% of GDP while its exports cover only around 6% of GDP. Kosovo’s trade deficit is the highest in CEFTA and increased from €674 million in 2001 to €1.84 billion in 2010. There is general consensus that an outward-oriented export strategy and a coherent trade strategy are necessary elements for small economies to achieve sustainable growth. Access to and knowledge of major export markets are important success criteria to induce an export-led growth strategy, which is particularly important for economies with small internal markets like Kosovo. On company level, there are different weaknesses which hinder the development and competitiveness of Kosovo companies, i.e. inadequate management style and skills, lack of management quality systems, out-of-date technologies, low levels of productivity, weak costing skills, slow absorption of international market trends, etc. To overcome these problems and weaknesses, there is a need to create instruments of tailored support to companies in order to close the gap between Kosovo and EU companies, and strengthen the link between local companies and Foreign Direct Investments.

**ACTIVITY 3 – Grants to SMEs**

Despite a well-established financial sector in Kosovo, especially the banking sector; SMEs access to bank loans is limited by the high interest rates and limited or no financing willingness by banks for business expansion and new project undertakings. This situation is aggravated by the fact that the financing options are very limited for Micro and Small Enterprises. A recent study, implemented through an EU funded project in Kosovo, identifies three key constraints to lending experienced by the banking system. Firstly, the majority of SMEs only pass a fraction of their business through the banking system and pay only the minimum salary for their employees into the banks. Secondly, a large portion of SME owners/managers lacks capabilities to run their businesses in a professional manner. Thirdly, there is very little focus on the financial aspects of the business.

It is important that the initiative is targeted on sectors and companies that hold the key to driving forward Kosovo’s economic development. These considerations point to a need to
target the initiative on sectors and SMEs that have the potential to expand with the help of the proposed support measures. While SMEs can apply to take part in the initiatives described below, they will need to make financial and material contributions. Selection of SMEs for grant financing will be based on the following criteria:

- All eligible enterprises will need to demonstrate a track record or a capacity to become involved in exporting or in achieving import-substitution;

- The project will target a number of priority sectors yet to be selected, such as, for example:
  - Food processing, especially with supply links to local agriculture;
  - ICT services, both for internal and external (to Kosovo) clients;
  - Wood processing, including furniture and other skill-based / value added products;
  - Textiles and clothing, especially with links to external investors and markets.

The Grant Financing Facility component will not substitute access to finance from banks, but will make available a facility that is deployed only when a company with an approved strategy and project for expansion is unable to raise any or all of the necessary money from banks. One possibility in the operation of the scheme could be to offer the possibility of a grant to provide “risk reduction” to a bank, and help through such cases to re-build relationships between banks and SME enterprises, potentially through a form of “joint financing” between banks and the Grant Scheme.

Testing that approach through a limited number of cases of grant financing could be useful in achieving both a wider impact from the grant facility than would be possible without bank partnership. The technical assistance provided by the project will explore the feasibility of this idea of joint financing with banks in suitable cases.

### 2.5 LINKED ACTIVITIES AND DONOR COORDINATION

The project aims to complement the following projects, which are foreseen to run up to year 2013 or beyond, coinciding with the planned implementation period of this project (2013 – 2016):

<table>
<thead>
<tr>
<th>Project name</th>
<th>Donor</th>
<th>Period</th>
<th>Objective</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Modernising Municipal Services</td>
<td>GIZ</td>
<td>2006-2013</td>
<td>Improving cooperation between central and local government, civil society and the private sector</td>
</tr>
<tr>
<td>2 Rural Economic Development</td>
<td>GIZ</td>
<td>2010-2018</td>
<td>Improve the competitiveness of rural regions in Kosovo and to bring rural economic development processes into line with EU requirements</td>
</tr>
<tr>
<td>3 The Business Enabling Environment Program</td>
<td>USAID</td>
<td>2010-2014</td>
<td>Promoting free market reforms to remove barriers to business creation and operation</td>
</tr>
<tr>
<td>4 EU Trade Policy</td>
<td>EU</td>
<td>2011-2013</td>
<td>Improving capacities in trade policy and integration into the world economy</td>
</tr>
<tr>
<td>5 KOSME</td>
<td>ADA/SWISS</td>
<td>2013-2015</td>
<td>Improving the competitiveness of SMEs and the SMESA’s capacities</td>
</tr>
</tbody>
</table>
Donor Coordination is the responsibility of the Ministry of European Integration, which hosts regular meetings of thematic sub-working groups, as a means of coordinating donor project planning in various sectors. On the project implementation level, project coordination is taking place through the monthly meetings of donor project managers, exchanging experiences and ideas, in an effort to achieve synergies and avoid over-lapping of activities.

2.6 LESSONS LEARNED

There are at least two lessons learned by MTI as a result of the management and implementation of projects. First, the transfer of know-how and skills from project staff to civil servants is a complex process. The need remains to build practical capacities among MTI staff in order for them to continue where the projects end, taking over full responsibility and ownership for the preparation, implementation and monitoring of activities.

This project should strive to include as many stakeholders in as many activities as possible, as this raises the overall commitment of these stakeholders to successfully implement private-sector-development activities. One area of weaknesses, however, is the ability to achieve the right level of communication, coordination and cooperation (3 Cs) among and between the TA Team and the main beneficiary of the project. Therefore, it is crucially important for both the TA Team and the beneficiary staff to agree at the beginning of the project on the ground rules that ensure proper implementation of the these 3 Cs.

Another lessons learned relates to the importance of improved communication and coordination among projects supporting MTI. Previously, this lack of coordination and communication among previous projects have resulted in overlapping of activities and missed opportunities for synergy effects, and higher impact.

The successful inclusion of vast number of stakeholders in legal reform efforts, development of the SME Strategy, implementation of Small Business Days 2011, numerous studies (“Training Needs Analysis 2012”, “Access to Finance” and “Social Business Incubation”) and various communication/visibility activities – within the on-going EU-funded “SME Support through MTI” project – present positive learned lesson for the SME Support Agency, shaping its future support to the SME sector in Kosovo.

2.7 STAKEHOLDERS

Relevant stakeholders and those consulted are as follows:
- Ministry of Trade and Industry, specifically the Agencies;
- Since the management method is centralized European Union Office in Kosovo will be key to monitoring the implementation of the project;
- Ministry of European Integration;
- Ministry of Education, Science and Technology;
- Ministry of Labour and Social Welfare;
- Ministry of Economic Development;
- Ministry of Agriculture;
- Ministry of Finance;
- Business Support Organizations;
- Business Associations;
- Regional Development Agencies;
- Kosovo Municipalities;
- Kosovo Agency for Statistics;
- SMEs;
- CBK.

3. DESCRIPTION

3.1 OVERALL OBJECTIVE OF THE PROJECT

To increase economic growth and private sector employment in Kosovo, by strengthening the competitiveness of locally operating enterprises and promoting Kosovo’s integration into the world economy.

3.2 SPECIFIC OBJECTIVES

ACTIVITY 1 – Support to trade policies:
To strengthen Kosovo's trade policy by enhancing the trade facilitation and negotiation expertise within MTI, in line with international trade requirements and EU best practices and for the benefit of the private sector.

ACTIVITY 2 – Increase of competitiveness and export promotion:
To support Kosovo companies in improving their performance and overall competitiveness and increase exports of products and services generated in Kosovo, as a means of reducing the trade deficit.

ACTIVITY 3 – Grants to SMEs:
To increase performance, outputs, export capacities, employment of Kosovo's SMEs by providing an alternative access to finance

3.3 RESULTS

ACTIVITY 1 – Support to trade policies:

1.1 MTI is able to carry out its responsibilities with regard to trade policy development, regulation and negotiation, especially in relation to SAA and CEFTA;
1.2 Human resource capacity within MTI on trade policy and process further strengthened;
1.3 Trade statistics further improved;
1.4 Increased awareness about trade policy among public and private sector stakeholders and a structured dialogue in place.
ACTIVITY 2 – Increase of competitiveness and export promotion:

2.1 Increased local and international market share by Kosovo-made products/services, through improved competitiveness;
2.2 Increased number of successful start-ups;
2.3 Increased number of rapid-growth companies;
2.4 Export enabling environment in Kosovo improved;
2.5 Increased number of exporting companies, products, quantity and improved quality of value-added Kosovo products;
2.6 Increased number of locally – and internationally-recognized Kosovo brands.

ACTIVITY 3 – Grants to SME’s:

3.1 Increased performance, outputs and export capacities among enterprises awarded with grant;
3.2 Increased employment in awarded companies.
3.3 Enable SME’s to expand and become more sustainable.
3.4 New and sustainable financial products developed in partnership with banks, using grants to SMEs along with bank loans to pilot innovative new approaches.

3.4 MAIN ACTIVITIES

ACTIVITY 1 – Support to trade policies:

1.1 Capacity building in analysing the impacts of policy changes, evidence based trade policy making and preparing negotiation positions;
1.2 Further strengthening of the trade negotiation team and supporting the enforcement of all trade policy coordinating mechanisms.

ACTIVITY 2 – Increase of competitiveness and export promotion:

2.1 Training Needs Analysis designed and completed on a regular basis;
2.2 Kosovo Competitiveness Programme (KCP) designed and implemented;
2.3 KCP Monitoring and Evaluation activities implemented;
2.4 Comprehensive market/sector/value-chain/enterprise research completed and results disseminated;
2.5 Internationalisation and performance boosting training and consulting programme designed and implemented in a number of pre-selected Kosovo enterprises; and
2.6 Revised and tailored export promotion policy designed, adopted and implementation of activities commenced.

ACTIVITY 3 – Grants to SME’s:

3.1 Three priority sectors identified and selected;
3.2 Needs assessment for SMEs in selected three sectors identified;
3.3 Guidelines and procedures for Grant Scheme elaborated and approved;
3.4 Selection Committee established and functioning properly;
3.5 Information disseminated to applicants on Calls for Proposals;
3.6 At least 30 SMEs supported through the grants
3.7 Grant scheme Monitoring and Evaluation system designed and implemented. Set up a post-grant oversight and control mechanism that will ensure that the objectives of the grant are met. It is important also to continuously follow the evolution of the SMEs pre and post grant support and communicate success stories widely.
3.5 ASSESSMENT OF PROJECT IMPACT, CATALYTIC EFFECT AND CROSS BORDER IMPACT

ACTIVITY 1 – Support to trade policies:
The expected impact of this component would be an improvement in trade policy-making through the inclusion of evidence-based data. An improvement in the quality of trade statistics and data will support the analytical work completed by the trade department within MTI, and in turn strengthen the negotiation position of Kosovo in future trade negotiations. This will also positively affect Kosovo’s trade with the countries in the region.

ACTIVITY 2 and 3 – Increase of competitiveness and export promotion / Grants to SMEs:
The expected impact of this component refers to a better performing private sector in Kosovo, which will illustrate itself through an increase in market share held by Kosovo companies on the local as well as international markets. A continuous improvement in the performance of the private sector will have a direct positive effect on employment and the GDP in Kosovo.

3.6 SUSTAINABILITY

The proposed project activities are well integrated into the government’s Vision for the economic development of Kosovo, and corresponding strategic documents related to trade policy and SME development. The Ministry of Trade and Industry is the main government body responsible for the implementation of strategies related to private sector development in Kosovo, and it is under its ownership that the implementation processes will be sustainable and viable.

On a project level, the degree of sustainability will also depend on the project’s ability to adequately service the needs of the ultimate beneficiary of the interventions – the SMEs in Kosovo.

3.8 ASSUMPTIONS AND PRECONDITIONS

Among the risks that may arise during the implementation of the project is non-coordination of activities between stakeholders participating in the project. Since the expertise is requested for a very specific field it may also be hard to find experts to provide the specific expertise which may come to either the contracting phase lasting longer or experts being not well related to the requested needs.

The project success depends also on the commitment of MTI staff and other civil servants, and their capacity to manage the project implementation as well as monitoring and evaluation phases in a professional manner. A high turn-over of MTI staff would have a negative effect on the institution-building parts of the project.

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2 Assumptions are external factors that have the potential to influence (or even determine) the success of a project but lie outside the control of the implementation managers. Such factors are sometimes referred to as risks or assumptions but the Commission requires that all risks shall be expressed as assumptions. Pre-conditions are requirements that must be met before the sector support can start.
4. IMPLEMENTATION ISSUES

Activity 1 will be implemented through 1 service contract of € 1.5 million.

Activity 2 will be implemented through 1 service contract of € 2.0 million.

Activity 3 – will be implemented in Joint management with the International Organisation of Migration (IOM) in accordance with Article 53d of the Financial Regulation. To this end, EUO will sign a Contribution Agreement with IOM (€ 3.0 million).

IOM has signed the Financial and Administrative Framework Agreement (FAFA agreement) with the EU in 2011. IOM has been chosen as the implementing partner for this project because the EU Office in Kosovo has a long-standing cooperation practice with IOM in the implementation of grant schemes for SMEs. For example, the FAIR and PAMM projects financed from CARDS programme have resulted in many sustainable SMEs and increased employment in disadvantaged areas throughout Kosovo. IOM has been involved in the design of the SME Grant Scheme that will be implemented under the current fiche.

4.1 INDICATIVE BUDGET
### Indicative Project budget (amounts in EUR)

<table>
<thead>
<tr>
<th>PROJECT TITLE</th>
<th>IPA CONTRIBUTION</th>
<th>BENEFICIARY CONTRIBUTION</th>
<th>PRIVATE CONTRIBUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IB (1)</td>
<td>INV (1)</td>
<td>EUR (a)=(b)+(c)+(d)</td>
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<td>Activity 1 – Support to Trade policies</td>
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<td>1.5</td>
<td>100</td>
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<tr>
<td>Contract 1.1 (service)</td>
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<tr>
<td>Activity 2 – Increase of competitiveness and export promotion</td>
<td></td>
<td>2.0</td>
<td>2.0</td>
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<tr>
<td>Contract 2.1 (service)</td>
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<tr>
<td>Activity 3 – SMEs Grant scheme</td>
<td></td>
<td>X</td>
<td>4.0</td>
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<tr>
<td>Contract 3.1 (Contribution Agreement with IOM)</td>
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<tr>
<td>Parallel co-financing</td>
<td></td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>TOTAL IB</td>
<td></td>
<td></td>
<td>3.5</td>
</tr>
<tr>
<td>TOTAL INV</td>
<td></td>
<td></td>
<td>4.0</td>
</tr>
<tr>
<td>TOTAL PROJECT</td>
<td></td>
<td></td>
<td>7.5</td>
</tr>
</tbody>
</table>

**NOTE: DO NOT MIX IB AND INV IN THE SAME ACTIVITY ROW. USE SEPARATE ROW**

Amounts net of VAT

1. In the Activity row, use "X" to identify whether IB or INV
2. Expressed in % of the Total Expenditure (column (a))
4.2 INDICATIVE IMPLEMENTATION SCHEDULE (PERIODS BROKEN DOWN BY QUARTER)

<table>
<thead>
<tr>
<th>Contracts</th>
<th>Start of Tendering/Call for proposals</th>
<th>Signature of contract</th>
<th>Project Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract 1</td>
<td>Q2 2013</td>
<td>Q4 2013</td>
<td>Q4 2015</td>
</tr>
<tr>
<td>Contract 2</td>
<td>Q4 2013</td>
<td>Q2 2014</td>
<td>Q2 2017</td>
</tr>
<tr>
<td>Contract 3</td>
<td>n/a</td>
<td>Q2 2013</td>
<td>Q2 2016</td>
</tr>
</tbody>
</table>

4.2 CROSS CUTTING ISSUES

4.2.1 Equal Opportunities and non discrimination

The project will take a pro-active approach to facilitating for the participation of women working in MTI, women entrepreneurs and SME managers in the planning and implementation of project activities, through close collaboration with established Kosovo Women Entrepreneurship Organisations and Women Business Associations.

4.2.2 Environment and climate change

Environmental considerations will be duly reflected in all IPA financed activities. The first component is not expected to have a relevant environmental impact. In Component 3 all business plans submitted for financing from SME Grant Scheme need to be screened against environmental sustainability.

Disaster resilience and risk prevention and management should be integrated in the planning, preparation and implementation of projects.

4.2.3 Minorities and vulnerable groups

The project will take a pro-active approach to facilitating participation of minority entrepreneurs and SME managers in the planning and implementation of project activities, through close collaboration with minority owned/manages businesses, and with representatives of Minority-run municipalities. Special efforts will be made to include Roma enterprises in project activities, through close communication with local and international organisations already active in the area of entrepreneurship promotion and support among the Roma minority.

4.2.4 Civil Society/Stakeholders involvement

To improve the public-private dialogue (PPD) on private sector development policy and activities is an integrate part of the SME strategy, and in other strategic documents pertaining to the economic development of Kosovo. MTI is hosting two different bodies in support of the PPD in Kosovo – the National Council for Economic Development (NCED) and the SME Consultative Council (SCC). Both for a include the membership of a mix of public and private sector actors, including ministries and business associations, chamber of commerce, etc. This project will directly and indirectly support the continuous policy dialogue that takes place in these two PPD.
ANNEXES

1. Log frame
2. Description of Institutional Framework
3. Reference list of relevant laws and regulations only where relevant
4. Details per EU funded contract(*) where applicable:
5. Project visibility activities
6. Unity of Purpose of the Three Activities
**LOGFRAME PLANNING MATRIX FOR Project Fiche**

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Objectively verifiable indicators (OVI)</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td>To increase economic growth and private sector employment in Kosovo, by strengthening the competitiveness of locally operating enterprises, and promoting Kosovo’s integration into the world economy.</td>
<td>▪ Growth in GDP (per capita); ▪ Increase in employment in private sector; ▪ Increase in domestic and foreign investments; ▪ Improvement of World Bank Doing Business Report score; ▪ Improvement of World Economic Forum Competitive Index; ▪ Improvement in EU Small Business Act Improvement in EU Progress Report</td>
<td>▪ Ministry of Trade and Industry; ▪ Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Kosovo; ▪ European Commission Kosovo Progress Report; ▪ OECD Small Business Act for Europe (SBA) Index; ▪ Kosovo National SME Development Strategy; ▪ World Bank 2011 Doing Business Report; ▪ Ministry of Finance; ▪ Conclusions of Stabilization and Association Process Dialogue (SAPD) meetings</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specific objectives</th>
<th>Objectively verifiable indicators (OVI)</th>
<th>Sources of Verification</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ACTIVITY 1:</strong> To strengthen Kosovo's trade policy by enhancing the trade facilitation and negotiation expertise within MTI, in line with international trade requirements and EU best practices and for the benefit of the private sector</td>
<td>▪ Size of export of Kosovo products and services, and size of imports ▪ Number of local market share held by Kosovo companies ▪ FTA negotiations with the EU completed ▪ Agreed trade policy initiatives implemented ▪ Fulfilment of the European Integration Priorities ▪ Fulfilment of the follow-up actions identified in the SAPD meetings</td>
<td>▪ Ministry of Trade and Industry; ▪ Multi-annual Indicative Planning Document (MIPD) 2011-2013 for Kosovo; ▪ European Commission Kosovo Progress Report; ▪ OECD Small Business Act for Europe (SBA) Index; ▪ Kosovo National SME Development Strategy; ▪ World Bank 2011 Doing Business Report; ▪ Ministry of Finance; ▪ Agency annual report ▪ Customs data; ▪ Conclusions of Stabilization and Association Process Dialogue (SAPD) meetings</td>
</tr>
</tbody>
</table>

<p>| <strong>ACTIVITY 2:</strong> To support Kosovo companies in improving their performance and overall competitiveness and increase exports of products and services generated in Kosovo, as a means of | ▪ Increase of employment ▪ Increase Kosovo SMEs export capacities | ▪ Effective government measures for improvement of business environment in Kosovo; ▪ Kosovo continues its open policy and move to integration; ▪ Kosovo makes steady progress with the SAPD; ▪ MTI participates actively as a partner to the project and interlocutor with other trade institutions; ▪ Management and staff of ministries and agencies dedicated to the project objectives, willing to cooperate and strengthen links among institutions; ▪ Capacity building relevant to enterprise needs; ▪ SME Grant Scheme documentation prepared and approved in time; |</p>
<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
<th>Objectively verifiable indicators (OVI)</th>
<th>Sources of Verification</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Activity 1 – Support to trade policies:</strong> 1.1</td>
<td>MTI is able to carry out its responsibilities with regard to trade policy development, regulation and negotiation, especially in relation to SAA and CEFTA; 1.2 Human resource capacity within MTI on trade policy and process further strengthened; 1.3 Trade statistics further improved; 1.4 Increased awareness about trade policy among public and private sector stakeholders and a structured dialogue in place.</td>
<td>• Size of export of Kosovo products and services, and size of imports  • Number of local market share held by Kosovo companies</td>
<td>MTI annual report; Kosovo Customs; Business registry; SMESA annual report; Business Associations</td>
<td>Stakeholders and beneficiaries involved during implementation of the project to be fully committed; GoK takes into account lessons learned from past; Experience in addressing the problems</td>
</tr>
<tr>
<td><strong>Activity 2 – Increase of competitiveness and export promotion:</strong> 2.1</td>
<td>Increased local and international market share by Kosovo-made products/services, through improved competitiveness; 2.2 Increased number of successful start-ups; 2.3 Increased number of rapid-growth companies; 2.4 Export enabling environment in Kosovo improved; 2.5 Increased number of exporting companies, products, quantity and improved quality of value-added Kosovo products; 2.6 Increased number of locally- and internationally-recognized Kosovo brands.</td>
<td>• Training Needs Analysis designed and completed (bi-annual basis);  • Kosovo Competitiveness Programme designed to address identified needs of Kosovo enterprises and implemented;  • SME programme designed (training, in-company consulting) and implemented  • Training-of-Trainers Programme (ToT) designed (training, on-the-job coaching) and implemented;  • Monitoring and Evaluation activities implemented.  • Number of geographical markets, sectors/sub-sectors/value-chains researched and key enterprises selected and profiles prepared;  • Performance boosting services supplied to a number of Kosovo exporters/potential exporters;  • Increased international sales among participating enterprises;</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
### Activity 3 – Grants to SMEs:
- Increased performance, outputs and export capacities among enterprises awarded with grant;
- Increased employment in awarded companies.
- Enable SMEs to expand and become more sustainable.
- New and sustainable financial products developed in partnership with banks, using grants to SMEs along with bank loans to pilot innovative new approaches.

### Activities to achieve results

<table>
<thead>
<tr>
<th>Activities</th>
<th>Means / contracts</th>
<th>Costs</th>
<th>Assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Activity 1 – Support to trade policies:</td>
<td>Activity 1: € 1.5 million - Service contract Activity 2: € 2.0 million - Service contract Activity 3: € 3.0 million - Contribution agreement with International Organisation of Migration (IOM)</td>
<td>The total project cost is € 7.50 million € 6.5 million IPA contribution €1.0 million will be covered from the Kosovo’s Consolidated Budget.</td>
<td></td>
</tr>
<tr>
<td>1.1 Capacity building in analysing the impacts of policy changes, evidence based trade policy making and preparing negotiation positions;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.2 Further strengthening of the trade negotiation team and supporting the enforcement of all trade policy coordinating mechanisms;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.3 Improve further the quality and distribution of trade statistical publications;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.4 Improve further collaboration and dialogue with other ministries, public organisations and private sector representatives on trade policy issues.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Activity 2 – Increase of competitiveness and export promotion:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.1 Training Needs Analysis designed and completed on a regular basis;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.2 Kosovo Competitiveness Programme (KCP) designed and completed;</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Improved performance and outputs among enterprises that receive financial support through the SME grant scheme.
### 2. KCP Monitoring and Evaluation activities implemented;

- Comprehensive market/sector/value-chain/enterprise research completed and results disseminated;
- Internationalisation and performance boosting training and consulting programme designed and implemented in a number of pre-selected Kosovo enterprises; and
- Revised and tailored export promotion policy designed, adopted and implementation of activities commenced.

### 3. Activity 3 – Grants to SMEs:

- 3.1 Three priority sectors identified and selected;
- 3.2 Needs assessment for SMEs in selected three sectors identified;
- 3.3 Guidelines and procedures for Grant Scheme elaborated and approved;
- 3.4 Selection Committee established and functioning properly;
- 3.5 Information disseminated to applicants on Calls for Proposals;
- 3.6 At least 30 SMEs supported through the grants;
- 3.7 Grant scheme Monitoring and Evaluation system designed and implemented.
ANNEX 2: Description of Institutional Framework

Ministry of Trade and Industry – New Organisational Structure:

ANNEX 3: Reference list of relevant laws and regulations only where relevant

- Trade Policy – issued by the Ministry of Trade and Industry in 2009
ANNEX 4: Details per EU funded contract (*) where applicable:

Activity 1: will be implemented through 1 service contract of € 1.5 million.

The ToRs will be prepared by the Contracting Authority.

Activity 2: will be implemented through 1 service contract of € 2.0 million.

ToRs will be prepared by the Contracting Authority

Activity 3: will be implemented in Joint management with International Organisation of Migration (IOM). To this end, EUO will sign a Contribution Agreement with IOM (€3.0 million).

IOM has signed the Financial and Administrative Framework Agreement (FAFA agreement) with the EU in 2011. The EU Office in Kosovo has long term cooperation practice with IOM in the implementation of Grant Schemes for SMEs. The EU projects FAIR and PAMM financed from CARDS programme have resulted in many sustainable SMEs and increased employment in disadvantaged areas throughout Kosovo. IOM has been involved in the design of the SME Grant Scheme that will be implemented under the current fiche.

The contribution agreement will be negotiated between the contracting Authority and IOM.

ANNEX 5: Project visibility activities

The European Union Office in Kosovo has developed clear visibility guidelines and ensures that all projects which are implemented in Kosovo are fully in line with these guidelines. Project visibility is also clearly stipulated in all contractual documents whereby the contractors/implementers are obliged to adhere to all EU visibility requirements.
ANNEX 6

Unity of Purpose of the Three Activities

EXHIBIT 1

Trade and Private Sector Development Project Outline

The proposed project for business and economic development consists of three components, which are mutually supportive:

1. Support to trade policies to create market opportunities for private sector
   - Better access to external markets
   - Strengthen internal capabilities to manage trade relations

2. Generation of new, specific market opportunities for enterprises along with a mechanism to link Kosovo enterprise capabilities with potential markets and customers

3. New demands for targeted financial support

This outline of the Project and its three components stresses their inter-dependence, to result in:

- Greater business competencies of SME enterprises, especially those that are capable of competing in external markets (and including with items imported into Kosovo);
- A sharp "external" focus, reflecting the critical need for Kosovo to radically improve its trade balance;
- The generation of more business opportunities in export markets for Kosovo companies;
- New instruments to aid the process of improving business competence, accessing financial resources (especially through better relationships between banks and innovative SMEs), and a supportive institutional environment with the mission of driving and facilitating beneficial change, driven by both government and business representative organisations.

Overall, the three “components” describe one unifying strategy, which is to achieve a sustained and continuously improving “breakthrough” in the business performance of Kosovo companies in local and, especially, external markets.