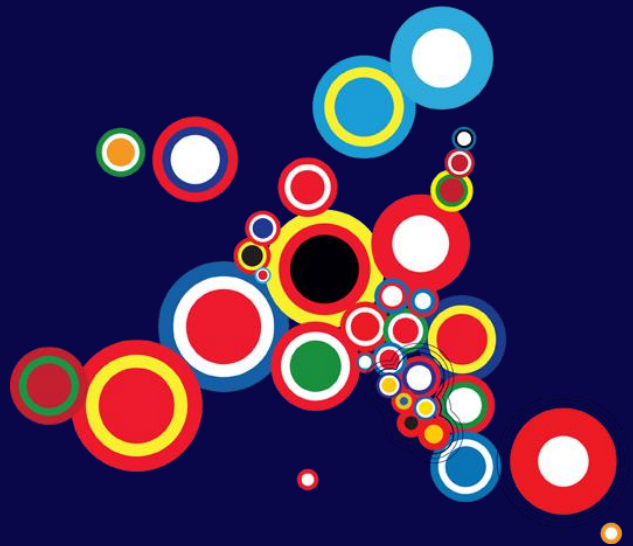




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

KOSOVO* EU Support to Start - ups



Action summary

The main aim of this action is to support Kosovo's **creation** and **growth of start-ups** through improving the entrepreneurship ecosystem. The proposed assistance will enhance the financing opportunities, infrastructural capacities and advisory services dedicated to start-ups by introducing new and innovative forms for start-up finance, setting up more advanced advisory services and better incubation centres to scale-up their business.

*This designation is without prejudice to positions on status, and is in line with UNSCR 1244/1999 and the ICJ Opinion on the Kosovo declaration of independence

Action Identification	
Action Programme Title	Annual Action Programme for Kosovo for the Year 2018
Action Title	Support to creation and growth of start-ups
Action ID	IPA 2018 / 041 246 / 07/ Kosovo/Support to Start-ups
Sector Information	
IPA II Sector	Competitiveness and innovation
DAC Sector	43010
Budget	
Total cost	EUR 3 000 000
EU contribution	EUR 3 000 000
Budget line(s)	22 02 01 02
Management and Implementation	
Management mode	Direct Management
<i>Direct management:</i> EU Delegation	European Union Office in Kosovo
Implementation responsibilities	European Union Office in Kosovo
Location	
Zone benefiting from the action	Kosovo
Specific implementation area(s)	Kosovo
Timeline	
Final date for concluding Financing Agreement(s) with IPA II beneficiary	At the latest by 31 December 2019
Final date for concluding delegation agreements under indirect management	
Final date for concluding procurement and grant contracts	3 years following the date of conclusion of the Financing Agreement, with the exception of cases listed under Article 114(2) of the Financial Regulation
Final date for operational implementation	6 years following the conclusion of the Financing Agreement
Final date for implementing the Financing Agreement (date by which this	12 years following the conclusion of the Financing Agreement

programme should be de-committed and closed)			
Policy objectives / Markers (DAC form)			
General policy objective	Not targeted	Significant objective	Main objective
Participation development/good governance	<input type="checkbox"/>	x	<input type="checkbox"/>
Aid to environment	x	<input type="checkbox"/>	<input type="checkbox"/>
Gender equality (including Women In Development)	<input type="checkbox"/>	x	<input type="checkbox"/>
Business Development	<input type="checkbox"/>	x	x
Reproductive, Maternal, New born and child health	x	<input type="checkbox"/>	<input type="checkbox"/>
RIO Convention markers	Not targeted	Significant objective	Main objective
Biological diversity	x	<input type="checkbox"/>	<input type="checkbox"/>
Combat desertification	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change mitigation	x	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	x	<input type="checkbox"/>	<input type="checkbox"/>

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

The EU will significantly enhance its support to the transformation process in the Western Balkans. The Commission's transformation Action Plan includes six Flagship Initiatives targeting specific areas of interest for both the EU and the Western Balkans. The action is in line in particular with Flagship 3 "Initiative to enhance support for socio-economic development" which includes expanding the Western Balkans Investment Framework, a significant boost in the provision of guarantees to crowd in private investment, *support to start-ups* and SMEs and greater trade facilitation¹.

According to the World Bank Doing Business Report 2018, Kosovo made improvements in regards to starting a business easier by simplifying the process of registering employees². This is also recognised by the Kosovo 2018 Report³, which states that the business environment in Kosovo has been improved, however the informal economy remains widespread and despite strong export growth the high trade deficit reflects a weak production base. In order to support long-term growth, Kosovo should pay particular attention to addressing the underlying legal and institutional factors hampering access to finance for businesses.

The European Investment Bank⁴ through the "Assessment of financing needs of the SMEs in Kosovo" identified that micro businesses face financing gap such as loans and equity finance. Start-up finance is even more limited, with most lenders requiring at least six months of financial statements for loan eligibility. Lacking residential property rights is a major impediment to access finance and SME development in Kosovo, especially for start-ups, women and other enterprises lacking other real estate collateral. Overall there is still a shortage of financial instruments promoting innovation within MSMEs. Innovation voucher schemes, credit guarantee schemes and programmes to promote links between business and academia, broadening of the supply of training and mentoring for youth and women entrepreneurs should be made more widely available throughout Kosovo. In addition to facilitating access to finance and building innovation capacities of MSMEs, there is a need for further improvement of business friendly environment for start-ups.

The Economic Reform Programme 2018-2020 states that the difficulty of accessing finance is not seen as a key structural obstacle anymore. While conditions have improved, obtaining finance remains a major constraint, especially for start-ups and microenterprises⁵.

Kosovo should in particular follow up on the recommendations from the EU's 'Small Business Act' assessment and introduce regulatory impact assessments to reduce the administrative burden on SMEs. According to SBA Policy Index 2016, SMEs could benefit from targeted support to help them access finance without distorting the market, especially now that credit availability is so restricted in many economies (Table 1). Kosovo scores lowest in terms of ranking of access to finance for SMEs in the Western Balkans. There is a need for SME support through non-bank financing alternatives by reforming their legal frameworks to reduce legal uncertainty surrounding the use of instruments such as factoring. Introducing assessments of programmes for financial literacy could also help improve access to external funding sources in the medium to long term.

Table 1. Progress in Dimension 6: Access to finance for SMEs

								WBT
Dimension 6	ALB	BIH	KOS	MKD	MNE	SRB	TUR	average
2016 average	3.26	3.25	3.21	3.46	3.25	3.62	3.89	3.42
2012 average	3.04	3.09	2.17	2.96	3.07	3.83	3.72	3.13

Note: Substantial methodological changes to Dimension 6 do not allow for direct comparison between 2016 and 2012 scores.

¹ EU Western Balkans Strategy, February 2018, https://ec.europa.eu/commission/sites/beta-political/files/communication-credible-enlargement-perspective-western-balkans_en.pdf

² Doing Business 2018, Kosovo, World Bank, <http://www.doingbusiness.org/data/exploreeconomies/kosovo>

³ <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-kosovo-report.pdf>

⁴ Assessment of financing needs of SMEs in the Western Balkans countries, August 2016

⁵ ERP 2018-2020, April 2018, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/swd_kosovo.pdf

The development of policy frameworks to place entrepreneurship at the heart of growth and jobs generation could benefit greatly from establishing genuine partnerships between the state and the business community. In line with the EU policies, entrepreneurship could be a key lever to tackling youth unemployment in Kosovo (which stands at 50.9% among 15-24 year-olds of which 60.2% are young women and 47.1% young men) and most specifically female unemployment (36.6%).

Problem description

In general, small firms play a vital role for economic development. Starting a business is a challenging process in any economy and especially in countries that are hit by conflict and delayed transition such as Kosovo. To facilitate new businesses, start-up entrepreneurs must be supported by a dynamic ecosystem that provides adequate resources and support. It is essential to start by the start-up ecosystem, comprised of entrepreneurs, institutions, firms, investors, educators and business service providers, if we want to understand the challenges start-ups are facing in a post-conflict economy like Kosovo.

Building a business friendly environment for start-ups is essential in achieving full potential of small firm for the benefits of the economy such as job creation, income and growth. In Kosovo, the importance of start-ups is even more important as the private sector consists entirely on MSMEs, which provide job growth for the economy.

There is very limited number of the innovative start-ups with potential growth beyond traditional sectors. There are some successful cases of start-ups in ICT and service based sectors which need further support to internationalise and exploit full benefits of their products and services. There are few incubator centres and business angels that operate in Kosovo such as Innovation Center of Kosovo (ICK), Kosovo Association of Information and Communication Technology (STIKK), Gjirafa Lab, Kosovo Business Angel Network-KOSBAN etc. There is a necessity to enhance incubation capacities for new start-ups. Moreover, there is need for accelerating and supporting start-ups through linking with potential local and international venture capitalist and business angel networks. The majority of businesses are family owned with no distinction between ownership and management and very limited involvement of external skilled managers making difficult for start-ups to move into the next stage for scaling-up and growth of their business. Creating corporate governance principle would make it easier for start-ups in the later stage to attract investors and capital as financial information provided by companies is usually not aligned to international standards.

Unfavourable business environment, informal economy and difficult access to finance with high interest rates and high collateral on loans are holding back start-ups from growing their operations. Therefore, it is essential to diversify sources of finance for start-ups such as crowdfunding, business angels, and venture capitalists. In addition to more adequate terms and conditions for loans, these forms of finance could benefit start-ups also in the form of accessing market channels, reputation, knowledge and skills of more experienced domestic and international investors.

There is also a lack of proper physical infrastructure of incubation space for start-ups which will enable the creation and growth of start-ups. Current practices of incubators mostly rely on co-shared spaces, which although very supportive may not be sufficient to support growth-oriented start-ups. The increase of incubation space capacities will enable incubators to support the development of start-ups which in turn will attract both local and foreign investors, leading to jobs creation and economic growth.

Stakeholder analysis

Institutional Stakeholders

There are several programmes/projects that support entrepreneurship and start-ups financed under the Kosovo institutions (under Ministry of Culture, Youth and Sports, KIESA, Ministry of Labour and social Welfare, Ministry of Innovation and Entrepreneurship). These fragmented efforts and initiatives for supporting start-ups in different agencies, ministries and departments as well as donors need better coordination and need to concentrate their efforts to further support entrepreneurship. During the implementation of this action, current available opportunities for start-ups will be identified and better coordination will be ensured with all stakeholders in order to expand the results and impact of the action.

Ministry of Innovation and Entrepreneurship (MIE) main aim is to stimulate the innovation activities in Kosovo which are closely related to the entrepreneurship and economic development focused on innovative SMEs. In its program, the MIE aims to impact the job generation with targeted youth and women entrepreneurship. On the regulatory environment side, the ministry has established the inter-ministerial working group that will be responsible for drafting the National Strategy for Innovation and Entrepreneurship and will establish the National Council for Innovation and Entrepreneurship. The **Fund for Innovation and Entrepreneurship** will provide pre-incubation, incubation, start-up and early stage growth support. In addition, the MIE will provide technical assistance support for innovative companies and entrepreneurs in order to build capacities for filing documents and preparation of legal aspects to get patent application outside Kosovo.

Kosovo Investment and Enterprise Promotion Agency (KIESA) under the Ministry of Trade and Industry is responsible for coordinating comprehensive SME policy and implementing programmes for MSME's. KIESA is accountable for reviewing and updating SME Policy, growth of the competitive environment and the development of the SME sector in Kosovo. KIESA offers also direct support to start-ups and SMEs through activities such as voucher scheme, training, B2B, linking SMEs with foreign investors etc.

Ministry of Economic Development (MED) drafts and implements policies and strategies on the overall economic development of Kosovo, supports the development of market economy, market liberalization in public services and the introduction of private capital in public endeavours, sectors of energy and mining, postal services, telecommunications, information technology, innovations and oversees of publicly owned enterprises and stimulates the development of information technology training systems. The MED also cooperates with the business community and business associations with the aim of establishing an attractive business environment.

Industrial Property Agency (IPA) – is an administrative central body of the Ministry of Trade and Industry which is responsible for legal protection of the innovation, trade mark, industrial design, and designation of origin, geographic indications and topographies of integrated circuits, and other issues arising from international agreements the signatory of which is Kosovo.

Office of Copyright and Related Rights (OCRR) – is an administrative body within the Ministry of Culture, Youth and Sports (MCYS) which is responsible for the legal protection of copyright and related rights in Kosovo, grant and remove licenses and supervise activities of the Collective Management Organizations (CMOs); monitor of the international legislation and making recommendations regarding the field of copyright and related rights.

Financial Institutions

Kosovo Credit Guarantee Fund (KCGF) has been established in April 2016 and it is fully operational. This marks the establishment of an independent, local, and sustainable institution that will issue portfolio loan guarantees to financial institutions thereby increasing access to finance for the Micro, Small, and Medium Enterprises (MSMEs) in Kosovo. The Kosovo Credit Guarantee Fund (KCGF) provides guarantee for eligible business loans to qualified borrowers, up to 50% of the risk of the loans with the aim to facilitate the private sector development and increase access to finance for SMEs. KCGF guaranteed loans will help especially farmers, entrepreneurs, women-owned businesses, and minority-businesses to expand, increase domestic production, create jobs, and improve the trade balance. The existing structure of KCGF could potentially create a window for start-ups with specifically designed co-sharing schemes. Potentially, matching grants with KCGF loans schemes may be feasible to support start-up finance.

Financial assistance through other sources: Entrepreneurial finance is rapidly evolving all over the world. Entrepreneurs are combining traditional debt and equity start-up finance (e.g., friends, family, angel investors, venture capitalists, and occasionally banks) with alternative ways of financing (Bruton et al. 2015). Kosovo in its initial stage of development still has not fully exploited the benefits of all traditional start-up finance. Finance start-up support has been limited in mainly in provision of grants, equipment and machinery, co-financing grants, and to lesser extent by angel investors and equity financing and venture capitalist funds are non-existent.

Innovation Centre Kosovo (ICK) is an incubation center whose aim is to connect research and development component of scientific field with the business sector, focusing on creating new job opportunities oriented towards the future, based on knowledge and new technology. ICK was founded to support entrepreneurship, innovation and commercially based business development, with a focus on information and communication technology. The centre supports both start-ups and existing companies with the potential for growth. ICK offers incubation space for start-ups, co-working spaces, and tech community centre.

Kosovo Association of Information and Communication Technology (STIKK) established in 2008 is a non-for-profit legal entity, with members paying fees in exchange for services. STIKK is one of the entities that co-developed Kosovo's IT strategy and also develops the annual IT Observatory (financed by GIZ) providing an insight of the IT industry of Kosovo and market trends. STIKK implemented numerous projects aimed to promote the ICT sector of Kosovo, improve its regulatory framework, implement research and industry specific analysis, and facilitate professional development of sector's constituents. STIKK currently accounts for 125 +members, which represents 90% of the whole ICT market of Kosovo.

VentureUP is University of Pristina incubator that gives students the possibility to establish and implement their start-up ideas. Its aim is to foster entrepreneurial mindset and education throughout University of Pristina Faculties with specific focus on Engineering, Medicine, Agriculture and Economy. Venture-UP also gives Researchers at the University of Pristina opportunities to commercialize research products to the market. The VentureUP is supported by USAID Transformational Leadership Program - Citizens Corps. VentureUP offers business support services for start-ups from UP, networking and linking with investors, mentoring and training. In addition VentureUP offers co-shared space for new ventures.

Jakova Innovation Center (JIC) is a non-profit organization which was established by the Ministry of Trade and Industry in cooperation with the municipality of Gjakova. This center serves as a business incubator with a mission of promoting and supporting young entrepreneurs.

Gjirafa Lab is another private run angel investor scheme. Gjirafa Lab is a start-up factory, made for e-entrepreneurs who lack access to resources and market. As a start-up factory, the Lab provides the space, mentoring, networking, technology, talent visibility, and funding to competent e-entrepreneurs, creating solutions for the Kosovo, Albania, and FYR Macedonia market. Gjirafa Lab is built by Gjirafa, Inc., assisted by the United States Agency for International Development (USAID), with the goal of building the Internet Economy in Kosovo and the region. Entrepreneurs will have an opportunity to transform their technology ideas/products into successful online businesses and solve real problems for society. Gjirafa provides financial support for start-ups in the ICT sector, in the form of Angel investors, in exchange for equity stake. Gjirafa is focused on the ICT sectors mostly and connects start-ups with the incubator hub and seed funding with additional support. It has built an online platform for application and screening process of innovative ideas through open calls.

OUTLINE OF IPA II ASSISTANCE

The proposed assistance will enhance the **startup finance, advisory services and incubation centres for start-ups** to scale-up their business. The implementation of activities foreseen in this document will produce immediate as well as long-term sustainable results such as proper incubation centres for start-ups, better support services for start-ups and overall increase of number of growth-oriented start-ups leading to more jobs and economic growth.

RELEVANCE WITH THE IPA II STRATEGY PAPER AND OTHER KEY REFERENCES

The relevance of proposed interventions is closely linked to the objectives and results foreseen in the IPA Indicative Strategy Paper (ISP) 2014-2020 for Kosovo. IPA II will continue to provide grant support for micro-enterprises and start-up businesses with a special focus on innovative business models, export-oriented services and female entrepreneurs. In particular, IPA II aims to support and encourage the use of other financing opportunities.

Proposed intervention is in line with Ministry of Innovation and Entrepreneurship strategic directions to support innovative start-ups. MIE is planning to include financial and non-financial support schemes such as promoting introduction of new products, new manufacturing technologies, supply chain support, and other types of organisational innovation with special focus on start-ups. The Fund for Innovation and Entrepreneurship will provide pre-incubation, incubation, start-up and early stage growth support.

The proposed intervention will moreover contribute to the implementation of the EU Gender Action Plan II 2016 – 2020, particularly Objective 15: ‘Equal access by women to financial services, productive resources including land, trade and entrepreneurship’. Progress on the following EU Gender Action Plan II indicators will be tracked and reported annually, as relevant; 15.8. N# of women accessing EU supported community level, (micro-) financial services (EURF).

EU programmes developed to promote entrepreneurial learning and entrepreneurship

In December 2017, an agreement was signed on Kosovo’s participation in the EU programme-COSME. COSME –is the EU programme for the Competitiveness of Enterprises and SMEs, running from 2014 to 2020, with a budget of €2.3billion. COSME will support SMEs in the following areas: facilitating access to finance, supporting internationalisation and access to markets, creating an environment favourable to competitiveness, encouraging an entrepreneurial culture. Kosovo will be able to access COSME funding once internal procedures for the approval of the agreement are complete. Kosovo should start developing measures to raise awareness among business stakeholders and ensure their active participation in the programme.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

The European Union (EU) aims to promote entrepreneurship and support the start-up ecosystem in Kosovo. Prior to the development of multi annual action under IPA Programme, the EU Office in Kosovo carried out a pre-assessment of the needs and current opportunities for start-ups. More specifically, the purpose of the assessment was to identify the current support packages available to start-ups in Kosovo (at various stages of business development, from the pre-incubation, incubation seed to expansion phase), to identify barriers and obstacles to their growth, to identify potential needs (infrastructure, services and access to finance). The assessment also provided recommendations which are the basis for designing a specific multi-annual action under the IPA programme with the aim of removing barriers and supporting the development of start-ups.

During the implementation of this action, close coordination with the other start-up supporting schemes/programmes will be ensured, such as:

Promoting women entrepreneurs: the Women in Business Programme in Kosovo could serve as a successful lesson for designing specific programs for start-ups. This programme is funded by the EBRD, Luxembourg, Sweden and the EBRD Shareholder Special Fund. It has dedicated credit lines of €8 million which has first and second loss risk cover and technical assistance to partner banks. EBRD has designed a loan scheme for supporting female entrepreneurs as a part of their pilot project in region.

Women in Online Work (WOW) is another successful project that was led by the Ministry of Economic Development, and due to its success in the first two phases, MED has managed to gather the support by World Bank, Swiss Embassy, USAID and Swiss Cooperation by extending the project in another two phases in different municipalities in Kosovo. The aim of the project is to carry out training programme for IT related job, investing in and scoping technical assistance to mobilize and skill a significant number of women to work online using internet labour marketplaces. The project targeted generation of income for the beneficiaries through online work, while testing how the global economy could assist in creating inclusive and better employment opportunities for unemployed and underemployed women.

2. INTERVENTION LOGIC - LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	
To boost the competitiveness of Kosovo's economy and support SME-development.	<ul style="list-style-type: none"> ▪ Doing Business - Distance to frontier (score) ▪ Small Business Act (score) Dimensions 3 Regulatory framework for SME policy making, 8b Innovation and 6 Access to finance for start-ups 	<ul style="list-style-type: none"> ▪ World Bank – Doing Business ▪ Small Business Act ▪ Kosovo Progress Report 	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
To improve business environment and entrepreneurship capacities through the enhancement of start-ups and innovation	<ul style="list-style-type: none"> ▪ Number of innovative start-ups created ▪ Number of incubators supported ▪ Number of start-ups receiving support services, disaggregated by sex of business owner ▪ Number of successful loans/grants/investor matches through alternative financing instruments, disaggregated by sex of business owner 	<ul style="list-style-type: none"> ▪ Periodic reports of KIESA, ARBK ▪ Periodic reports of incubators ▪ Periodic reports of MIE, MED, MTI ▪ Kosovo Statistics Agency periodic reports 	<ul style="list-style-type: none"> • Efficient institutional capacities for business advisory and support services • Effective measures for improvement of business environment in Kosovo
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (*)	SOURCES OF VERIFICATION	ASSUMPTIONS
Result 1: Improved incubator services and improved access to finance for innovative start-ups	<ul style="list-style-type: none"> ▪ Number of business incubators enhanced ▪ Number of new start-ups incubated, disaggregated by sex of business owner ▪ Number of eligible start-ups supported by alternative forms of financing and services, disaggregated by sex of 	<ul style="list-style-type: none"> <input type="checkbox"/> Periodic reports of incubators <input type="checkbox"/> Periodic reports of KIESA, ARBK <input type="checkbox"/> Periodic reports of MIE, MED, MTI 	<ul style="list-style-type: none"> ▪ Sufficient capacities of start-ups and incubators to absorb assistance ▪ Start-up failure

	<p>business owner</p> <ul style="list-style-type: none"> ▪ Number of innovative products/services developed 		
Result 2. Enhanced infrastructure capacities of incubation centres	<ul style="list-style-type: none"> ▪ Number of incubators built /refurbished ▪ Number of incubators supported ▪ Incubator space increased 	<ul style="list-style-type: none"> <input type="checkbox"/> Periodic reports of incubators <input type="checkbox"/> Periodic reports of KIESA, ARBK <input type="checkbox"/> Periodic reports of MIE, MED, MTI 	<ul style="list-style-type: none"> ▪ Sufficient capacities of incubators to absorb the assistance ▪ Sufficient start-up absorption capacities;

DESCRIPTION OF ACTIVITIES

Specific Objective of the action is to improve business environment and entrepreneurship capacities through the enhancement of start-ups and innovation

Result 1: Improved incubator services and improved access to finance for innovative start-ups

Planned Indicative activities to be implemented through an open call for proposals that will carry out the following:

1. Support start-up service providers (incubators, accelerators, hubs, innovation labs) by means of technical support services (such as filing innovation patents, legal aspects of innovation, contracting, commercialisation, linking ambitious and promising start-ups with potential foreign investors etc.) in order to encourage creation and growth of start-ups;
2. To promote better links between academia, industry, public-private institutions, potential investors, to upscale resource utilisation dedicated to start-ups;
3. To design and implement financing instruments/programmes/schemes developed to support creation and early stage growth of start-ups, with a special focus on women-led businesses;

Result 2: Enhanced infrastructure capacities of incubation centres

Planned Indicative activities:

1. Support building/refurbishment of two incubation facilities/centres in order to enable early stage innovative start-ups to have access to better incubation space.

RISKS

The potential risks that may arise are the following:

- Limited capacities of incubators;
- Possible limited start-up absorption capacities;
- Start-up failure.

In order to limit the above mentioned risks, incubators will make sure to engage adequate staff, work closely with all stakeholders and make the best available use of the space/technical resources for start-ups. The incubators have to make sure to have secured capacities for new space development for incubators. In addition the incubators will closely monitor, train and mentor the supported start-ups.

In regard to possible overlapping of the activities with those implemented by other donors and institutions such as MIE will have regular meetings with the relevant donors and MIE regarding their projects in order to make sure that activities are well coordinated between projects.

CONDITIONS FOR IMPLEMENTATION

For the implementation of the action the following main assumption is made: Absorption capacity of the both start-ups and start-up support organisations.

Below are presented the preconditions that will assure a proper implementation of proposed action:

- Coordination and cooperation between the involved parties in the launching and implementation of the Action;

- Ensure the coordination of activities between stakeholders involved in the action;
- Full commitment and support of start-ups organisations;
- Commitment by the international and local partners and sufficient funding ensured to allow continuation of similar schemes;
- Development of attractive start-up funding and business support services entirely dedicated to facilitate start-up growth.

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The role of EUOK will be to manage the Call for Proposal and other relevant implementation modalities under this action. The role of the beneficiaries (incubators) will be to ensure conducive environment for the growth of the start-ups.

IMPLEMENTATION METHOD(S) AND TYPE(S) OF FINANCING

The activities under this action will be implemented under direct management via open call for proposals, service contracts and works.

For Result 1 an open call for proposal will be launched and managed by the EU Office in Kosovo that will provide business support services and financial support to third parties to encourage creation and growth of start-ups to the established and existing incubators/start-up support organisations for further development.

For Result 2 the service modality will be used to carry out the detailed design, the tender dossier and the supervision of the works for the infrastructure investment. In addition this modality will be used in developing and monitoring of the implementation of the financial support to third parties component of the call under result 1.

In parallel under this result the works modality will be used for building/refurbishment of two incubation facilities/centres which will enable early stage innovate e start-ups have access to better incubation space.

4. PERFORMANCE MEASUREMENT

METHODOLOGY FOR MONITORING (AND EVALUATION)

The European Commission may carry out a mid-term, a final or an ex-post evaluation for this Action or its components via independent consultants, through a joint mission or via an implementing partner. In case a mid-term or final evaluation is not foreseen, the European Commission may, during implementation, decide to undertake such an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The evaluations will be carried out as prescribed by the DG NEAR guidelines for evaluations. In addition, the Action might be subject to external monitoring in line with the European Commission rules and procedures set in the Financing Agreement.

During the implementation of the Contracting Authority will monitor the implementation of the entire action. Further to this the contractors will monitor the projects implemented by final beneficiaries (start-ups) as per the contract agreement. As per the EU Gender Action Plan, monitoring and evaluation will include gender analysis, including assessment of the impact on women and girls (indicator 4.1.2).

INDICATOR MEASUREMENT

Indicator	Baseline (value + year) (2)	Target 2021 (3)	Final Target (2022) (4)	Source of information
Doing Business - Distance to frontier (score)	95.54 (2017)	100		Doing Business Report OECD
Small Business Act Progress in Dimension 3: Regulatory framework for SME policy making	1.01 (2016)	1.2	1.5	SBA assessment SME Policy Index
Progress in Dimension 8b: Innovation	1.86 (2016)	2.1	2.4	
Progress in Dimension 6: Access to finance for start-ups	3.21 (2016)	3.5	3.8	
Improved start-up business environment	Doing Business 2018 Kosovo Rank 10	Business environment for start-ups improved comparable to region		WB Doing Business Report SBA SME Policy Index

Number of start-ups receiving support services, disaggregated by sex of business owner	(2019) 0	100	200	Incubators and business service providers periodical reports
Number of successful loans/grants/investor matches through alternative financing instruments, disaggregated by sex of business owner	(2019) 0	50	100	
Number of incubators built/refurbished	2019 (0)	2	4	EUO in Kosovo MIE Ministry of Economic Development Incubators and other business support providers
Number of new start-ups, incubated, disaggregated by sex of business owner	2019 (0)	30	50	
Number of innovative products/services developed	2019 (0)	10	15	
Number of start-ups served by incubators, disaggregated by sex of business owner	(2019) 0	200	300	
Number of start-ups served by start-up service providers, disaggregated	(2019) 0	500	800	

5. SECTOR APPROACH ASSESSMENT

Sector policy(ies) /strategy(ies)

The third pillar of the National Development Strategy (2016 – 2021) relates to competitive industries. This pillar of the NDS is specifically aimed at private sector development, namely to increase growth, boost manufacturing and exports. The key intervention areas of the NDS pillar on competitive industries include: increased access to finance for Kosovo SMEs; supporting and fostering the emergence of SME clusters; increasing the value added of SME activities through improving quality standards; promoting foreign direct investment; improving agricultural land use; utilizing Kosovo's considerable mineral resources; investing in strategic economic assets through the use of privatization funds; and increased effectiveness of public companies.

The Economic and Reform Program (ERP) 2018 – 2020 is another central-level medium-term strategic document that deals inter alia with issues of competitiveness in general, and growth, trade, and industry in particular. The ERP identifies that Kosovo has made good progress on improving the business environment, but some important structural challenges remain. Unfair competition from the informal sector, weak rule of law, corruption and access to finance continue to be among the main challenges to private sector development and to competitiveness. In 2017, several important regulatory reforms improved the business environment (notably to start a business, get credit and resolve insolvency), making Kosovo jump from 60th to 40th place in the World Bank's Doing Business report. Indeed, access to finance has improved, but SMEs still face obstacles linked to asset register-related issues and the lack of alternative sources of funding. Also, micro enterprises and start-ups continue to face serious difficulties accessing finance.

A sector level strategy has been approved related to private sector development. The Private Sector Development Strategy 2017 – 2021 was approved in March 2017 by the Ministry of Trade and Industry but has yet to be adopted by Kosovo institutions. The Strategy supports the implementation of the National Development Strategy, in particular the pillar related to competitive industries' policies and incorporates other actions planned within the other pillars of NDS, necessary to support business growth, such as improved regulatory environment, improved skills training and increased employment opportunities, improved legislation, improved rule of law and improved infrastructure to be supported through other ministries.

An industrial policy concept exists with key priority sectors. These sectors include textile, ICT, wood, metals, minerals and agri-business. The focus of the Kosovo institutions is to support cluster development and fostering deeper ties between businesses, education institutions and the public sector.

There are a set of other documents which are relevant for the growth and competitiveness sector (which includes trade and industry). These include: the Stabilization and Association Agreement (SAA), an EU-only agreement, which deals inter alia with the free movement of goods and services; meeting EU quality standards; aid at Kosovo level and intellectual property; upgrading of the ICT sector; and promotion of research and innovation. Competitiveness and investment climate are also part of the European Reform Agenda (ERA), which was adopted by the Kosovo institutions. Since innovation issues are not treated in a separate innovation strategy, the Kosovo Education Strategic Plan 2017 – 2021 is a relevant document that deals inter alia with insufficient scientific research as a vehicle for deepening innovation.

Institutional setting, leadership and capacity

Kosovo institutions are responsible for the development of policies, strategies and action plans which aim at strengthening economic development through ministries, agencies and institutions working under ministerial supervision, as well as non-governmental organisations. These entities cooperate in order to implement necessary measures so that competitiveness and innovation challenges in different sectors in Kosovo are addressed.

The **Ministry of Trade and Industry (MTI)** and the **Ministry of Education, Science and Technology (MEST)** are the leading institutions responsible for creating a policy framework and environment conducive to competitiveness and innovation, while the **Ministry of Economic Development (MED)** is gradually increasing its role in this sector as is the newly established **Ministry of Innovation and Entrepreneurship**.

The **Ministry of Trade and Industry (MTI)** aims to promote domestic industry and overall economic growth. It consists of 11 departments, of which the Department of Industry has the most significant role in

Kosovo's science, technology and innovation system. The Industry Department's work includes co-ordinating industrial policy, ownership and privatisation, and the introduction of standards. Its Industrial Production Development Division is responsible for facilitating industrial development and assists in the preparation of the domestic development strategy for the industrial sector and provides measures and instruments to facilitate technology transfer and the application of innovation.

The **Ministry of Economic Development (MED)** drafts and implements policies and strategies on the overall economic development of Kosovo, supports the development of market economy, market liberalization in public services and the introduction of private capital in public endeavours, sectors of energy and mining, postal services, telecommunications, information technology, innovations and oversees of publicly owned enterprises and stimulates the development of information technology training systems. The MED also cooperates with the business community and business associations with the aim of establishing an attractive business environment.

The **Ministry of Education, Science and Technology (MEST)** is responsible for the formulation of the science, education and technology development strategy in Kosovo and, consequently, the development of the scientific research and higher education system and the promotion of innovation and technological development. Within the MEST, the **Department for Science and Technology (DST)** is responsible for the creation of infrastructure, the institutional and financial foundation for development of science and research, and the promotion of technological development.

The **Ministry of Innovation and Entrepreneurship** has been established in the new governing mandate 2017-2021. The Ministry of Innovation and Entrepreneurship has the mission to stimulate innovative activities in Kosovo, in order to increase economic and institutional productivity. Develop entrepreneurship and private initiative through innovation and with the focus on the development of manufacturing and service SMEs as a premise for increasing employment, increasing competitiveness and hence increasing private sector, especially young people and women. The Ministry of Innovation and Entrepreneurship will be conducted by economic policies that will guide and support enterprises to combine knowledge, skills, capabilities and resources (knowledge of production, skills and space, market knowledge, efficient system of distribution, sufficient financial resources etc.) to develop the concept of innovation within the enterprise.

Kosovo Business Registration Agency (KBRA) operates within the Ministry of Trade and Industry and is the only responsible institution for registration of businesses in Kosovo. KBRA operates based on an electronic database, as a simpler and faster process for free registration of new businesses which is realized through the connection with 29 municipal registration centres known as "one-stop-shop" solution with the main KBRA office. KBRA focuses on creating an assisting image for administrative procedures of registration to help businesses and improve business environment in Kosovo.

The Quality Infrastructure System consists of the **Quality Infrastructure Division** which is part of the Industry Department of MTI, the **Kosovo Standardization Agency (AKS)**, which is Kosovo's standards body operating under the MTI, the **Directorate for Accreditation of Kosovo (DAK)** which is the authority to perform accreditation activities as the sole accreditation body in Kosovo, and the **Kosovo Metrology Agency (KMA)**, which is the basic entity of the metrological system in Kosovo.

Industrial Property Agency (IPA) – is an administrative central body of the Ministry of Trade and Industry which is responsible for legal protection of the innovation, trade mark, industrial design, and designation of origin, geographic indications and topographies of integrated circuits, and other issues arising from international agreements the signatory of which is Kosovo.

The **Office of Copyright and Related Rights (OCR)** – is an administrative body within the Ministry of Culture, Youth and Sports (MCYS) which is responsible for the legal protection of copyright and related rights in Kosovo, grant and remove licenses and supervise activities of the Collective Management Organizations (CMOs); monitor of the international legislation and making recommendations regarding the field of copyright and related rights.

Kosovo Competition Authority (KCA) has been reorganized and now includes a decision-making body -the **Kosovo Competition Commission (KCC)**, with its Secretariat and its administrative and investigation body. The KCC was established by the Assembly of Kosovo on 7 November 2008 based on the Competition Law no. 2004/36. It is an independent body and is responsibility for law enforcement and the promotion of competition among undertakers as well as the protection of consumers in Kosovo. The KCA, as a constitutional, lawfully assigned institution, should operate as an independent public institution, free of any political and economic or financial influence. It should aim at gaining confidence among the Kosovo business community and at consolidating its public profile.

Further to the new Law on State Aid Control adopted by the Parliament of Kosovo on 23 December 2016, The **State Aid Department (SAD)** is being established within the Ministry of Finance and will be responsible for assessing and monitoring aid at Kosovo level, for collecting data on provided aid at Kosovo level, maintaining the aid register at Kosovo level, cooperating with local aid providers and preparing the annual report.. Members of the **State Aid Commission (SAC)** should be appointed by the Parliament for three years for the period 2018-2021, including a balance of women and men.

Other non-governmental entities involved are (local and international) Chambers of Commerce, professional associations and business associations which aim at increasing market competitiveness by serving as advocates from the private sector end, the Regional Development Agencies (ARDA) and the regional and local authorities, including the municipalities.

Although significant progress has been made in developing the institutional framework to support competitiveness and innovation, especially in relation to policy advice, such as the establishment of the National Economic Development Council, there is still room for improvement. The priority must focus on the improvement of capacity to overcome the system deficiencies which have been identified: lack of experienced personnel, lack of implementation and monitoring mechanisms, as well as limited data available. The areas of inter-institutional co-operation and policy design need to be improved, especially in relation to public debate.

6. CROSS-CUTTING ISSUES

GENDER MAINSTREAMING

Even though the gender gaps remain in many areas and in the labour market, women will be supported through different projects and programs and encouraged to participate in activities of EU funded projects. Their equal rights in Kosovo are guaranteed with the Law No. 05/L -020 on gender equality. Start-up businesses owned by women will be prioritised in getting the benefits from this project. More specifically, training and other capacity building activities in this action (timing and schedule) will be fully adjusted to the needs of women with children. Moreover, the facilities shall be fully adapted with the necessary requirements to the needs of women entrepreneurs with children.

This Action will contribute to the implementation of EU Gender Action Plan II, particularly Objective 15: 'Equal access by women to financial services, productive resources including land, trade and entrepreneurship'. Progress on the following EU Gender Action Plan II indicators will be tracked and reported annually, as relevant; 15.8. N# of women accessing EU supported community level, (micro-) financial services (EURF).

EQUAL OPPORTUNITIES

Based on the fundamental principles of promoting equality and combating discrimination, participation in the project will be guaranteed on the basis of equal access regardless of sex, racial or ethnic origin, religion or belief, disability, age or sexual orientation. Equal access to all benefits of the Action will be promoted. More specifically, training and premises will be fully adapted to the needs of persons with disabilities, equal opportunities principles and concrete measures will be embedded in all strategic documents that will be produced under this Action.

Equal opportunity will also be taken into account in the preparation of all tender documents and in the recruitment of personnel through the placement of appropriate wording.

MINORITIES AND VULNERABLE GROUPS

During the implementation of the activities under this action, a special focus will be given to offering equal opportunities for everyone, including minority groups involved in the private service sector. The aim will be to contribute to multi-ethnic representation in the institutions benefiting from this projects, which will address the ethnic groups fairly and equitably in accordance with the law, along with other marginalised groups. Special attention will be paid to ensuring involvement of women from diverse minority groups, many of whom are particularly marginalized from decision-making processes.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER STAKEHOLDERS)

The engagement of civil society organisations and stakeholders from the private sector will be taken into consideration in all aspects of the action by strengthening their capacities, allowing them to engage in an

effective dialogue with public and private actors.

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The environment will be highly considered within this project, in addition to specific actions dedicated to environment, in particular as concerns environment impact assessments. Disaster resilience and risk prevention and management should be integrated in the planning, preparation and implementation of projects. In addition, the action will aim to support green investments (energy saving equipment, energy efficiency measures and investment in renewables).

The action will have indirect environmental impact as the final beneficiaries will have to include elements related to environment protection and energy efficiency when implementing the projects. The budgeting at the current moment is not possible as the action will not support specifically environment and climate change.

7. SUSTAINABILITY

The main challenge of exiting incubators in Kosovo is the dependence on donors. Almost all initiatives promoting incubator practices were donor driven. This raises the issue of sustainability after donors pull-out from Kosovo. Their incubator space is limited and usually they are rented. Increase of incubation space and overall increase of their capacities will enable them to support the development of start-ups which in turn will attract both local and foreign investors, leading to jobs creation and economic growth.

There is a need for better coordination between the relevant institutions/donors/academia/private initiatives who offer the assistance to incubators and start-ups. The institutional stakeholders such as public bodies can play a critical role in providing land, unused buildings to long-term use by incubators.

The study on Assessment of Start-up Environment commissioned by EU Office in Kosovo also showed that there is a need for further support to start-ups to move into next stage of growth. The combination of the two will increase financial and professional capacities for business development and increase entrepreneurship. The action will also complement the activities of the MTI, such as credit guarantee facility which basically does not support early stage start-ups. The financial support through sub-granting, business advisory services and increase of incubation space capacities will assist in ensuring sustainability of the action as it will provide to the aspiring entrepreneurs better opportunities, knowledge, services and incubation space for conducting their business. Finally, once created and operational incubators and accelerators and other efforts of support will become attractive for private sector and are likely to encourage other similar initiative with sustainable effect.

8. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action. The implementation of the communication activities shall be the responsibility of the IPA II beneficiary, and shall be funded from the amounts allocated to the Action.

All necessary measures will be taken to publicise the fact that the Action has received funding from the EU in line with the Communication and Visibility Manual for EU External Actions. Additional Visibility Guidelines developed by the European Commission (DG NEAR) will have to be followed.

Visibility and communication actions shall demonstrate how the intervention contributes to the agreed programme objectives. Actions shall be aimed at strengthening general public awareness and support of interventions financed and the objectives pursued. The actions shall aim at highlighting to the relevant target audiences the added value and impact of the EU's interventions and will promote transparency and accountability on the use of funds.

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. Awareness campaigns are included within the project activities with clear information for the public and for the final recipients that the financing is EU support. The EU Office will be present in opening events and inaugurations and will publish successful stories in social media. Activities will be tailored to diverse women and men, as relevant.

It is the responsibility of the beneficiary to keep the European Union Office fully informed of the planning and implementation of the specific visibility and communication activities. The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.