

2009 Project Fiche 7 Kosovo – IPA centralised programmes

1. Basic information

- 1.1 CRIS Number:** 2009/021-145
1.2 Title: Trade and Regional Development
1.3 ELARG Statistical code: 02.22
1.4 Location: Kosovo (UNSCR 1244)

Implementing arrangements:

1.5 Contracting Authority (EC): European Commission Liaison Office in Kosovo

1.6 Implementing Agency: N/A

1.7 Beneficiary (including details of project manager):

Project activity	Beneficiary	Contact point responsible for activity coordination
Technical Assistance to Further Development of Kosovo's trade policy	Ministry of Trade and Industry (MTI)	Sytrime Dervisholli- Trade Department
Support to concrete Regional Development initiatives	Regional Development Agencies – Ministry of Local Government Administration	Permanent Secretary of MLGA- Besnik Osmani

1.8 Overall cost: EUR 8.0 million

1.9 EU contribution: EUR 7.8 million

1.10 Final date for contracting

Three years after the signature of the financing agreement between the European Commission and the Kosovo Authorities

1.11 Final date for execution of contracts

Two years after the final date for contracting

1.12 Final date for disbursements

One year after the final date for the execution of contracts

2. Overall Objective and Project Purpose

2.1 Overall Objective:

To promote Kosovo's integration into the world economy and to develop and create the basis for a sustainable enabling environment for private sector development and job creation for all communities in Kosovo.

2.2 Project purpose:

To enhance Kosovo's trade, investment climate and regional development through,

- assisting Kosovo in the process of aligning its trade policies with international trade rules and practices by supporting the Ministry of Trade and Industry to develop its institutional capacity in formulating and implementing comprehensive trade policy in line with the international trade requirements and EU practices,

- contributing to the creation of economic regions and a regional development framework which is in line with EU practice; by supporting economic regeneration, job creation and human and infrastructural development in different regions, and enhancing the presence of women in businesses.

2.3 Link with: European Partnership; Stabilisation and Association process; Proposal for the Kosovo Status Settlement

The project directly responds to a number of specific priorities identified in the *European Partnership* including:

- Short Term Priority: Strengthen regional cooperation and good neighbourly relations.
- Economic criteria - Enhance the export capacity; further strengthen property rights, rule of law, and accessibility of courts with a view to promoting a business friendly environment.
- Medium-Term Priorities: Design and implement active labour market policies in close cooperation with local business community with view to enhancing the matching process in labour markets, and increase the share of skilled labour in the overall labour force.

The project also responds to some of the key findings of the *Commission's 2008 progress report on Kosovo* including:

- Section 2.2: There is no coordination of the bodies dealing with gender equality officers and no public promotion of gender equality. Equal representation remains a challenge at all levels.
- Section 4.1.8: The registered unemployment accounts for 43%. An area of concern is female employment. Young women experience higher unemployment rates than men and are more often in low quality, part-time and fixed-term jobs.
- Section 4.1.10 WTO issues: The government considers WTO accession a priority. It has yet to submit a formal application.
- Section 4.2.1: The Ministry of Trade and Industry's SME Support Agency is responsible for facilitating SME development. Its administrative capacity remains insufficient. [...] Overall, preparation in the field of industry and SME remain at an early stage. Obstacles to running SMEs remain high and access to finance is difficult. Improved coordination of numerous donors' support to SME should increase AME aid and policy effectiveness.

The project is in line with the recommendations of the *EU Charter for Small Enterprises*, in relation to the need to enhance and improve: education and the availability of skills; the technological capacity of SMEs; trade facilities and trade agreements; and the legislation and regulation of the business environment.

The project aims to support the provisions related to the economy in the *Comprehensive Proposal for the Kosovo Status Settlement*, including: '...to promote and safeguard sustainable economic development'; and in line with the decentralization model proposed in its Annex 3.

2.4 Link with the Multi-Annual Indicative Planning Document (2009-2011) for Kosovo (MIPD)

The *MIPD* mentions the following:

- Executive summary: **Economic criteria:** EC assistance should also be used in support of developing Kosovo's economy and improving the socio-economic environment of all communities in a sustainable way.
- Section 2.1-Kosovo must seize the *opportunities* such as natural resources with a high potential for domestic and foreign direct investment, its young population and the willingness of the European Union and the international donor community to provide financial assistance as well as facilitating regional and cross border co-operation in the context of its European perspective.
- Section.2.2.1-Strategic Objectives for IPA Assistance over the Period 2009-2011: EC assistance should enhance Kosovo's socio-economic development, including regional development in a sustainable way.
- Section 2.2.2-Axis 2 - Economic Criteria. Sustainable stability can only be achieved if Kosovo's economy develops and offers opportunities to all communities. Support to economic growth should be another key objective for EC assistance. [...] The focus under Axis 2 Economic Criteria should be on wider socio-economic issues, including fiscal and financial management, auditing and accounting procedures, improvement of the investment climate, trade opportunities, and development of the energy, environment, transport, agriculture and rural development, education and employment sectors.
- Component I-Section 1-Axis 2-Economic Criteria: unemployment stands at around 40% with limited absorption capacity for job seekers by the labour market [...] Direct support to vulnerable groups such as women, youth and minorities and mainstreaming their participation in Kosovo and donor initiatives is needed.

2.5 Link with National Development Plans

The project is in line with the priorities set in the Medium-Term Expenditure Framework 2009-2011. The MTEF acknowledges as a priority that conditions for a "rapid sustainable economic growth for the benefits of all citizens" should be created. Furthermore, the MTEF highlights that private sector claims to face are related to the need for modernizing, completing and enforcing the legal framework for business development in a competitive market economy and the necessity to modernize existing technology. Additional efforts must be provided for better business support services, including the provision of reliable information, market research, start-up support, incubation and product development. Much remains to be done to develop an entrepreneurship culture and provide assurance of product quality. Small businesses currently lack easy access to finance at competitive rates, which acts as an obstacle both to starting small firms and to their expansion.

The membership in the international trade and other international organisations is listed in Medium Term Expenditure Framework for 2009-2011 (MTEF) under the section Implementation of Status Settlement. The MTEF also recognises that acting alone Kosovo can come nowhere near to achieving an economic development that can be sustained.

The current stage of decentralization imposes considerable responsibility on the Kosovo municipalities, in particular in relation to Government priorities in the Education and Health

Sectors. It is expected that status settlement will likely have a substantial impact on further administrative and fiscal decentralization. In particular, the redrawing of the municipal boundaries, establishment of new municipal entities, and revisions in the current assignment of mandates between central and local level of the Government may result in greater municipal responsibility.

2.6 Link with sectoral plans

The Ministry of Local Government Administration has begun discussions on a framework for local and regional development and although not identical to the details listed in this project fiche, they fully support the concept presented here.

The government has also approved the Framework Programme for Gender Equality 2008-2013 which identifies objectives, policies and institutions involved in implementing the Law for Gender Equality.

3.1 Background and justification:

Despite general improvements in the regulatory framework, Kosovo's economy remains weak. GDP grew by about 0.5% in 2007 respective 2006. Kosovo displays a high degree of openness to international trade, but it is characterised by a substantial imbalance with almost negligible export coverage. The low coverage ratio of exported to imported goods reflects the lack of export capacity and competitiveness, despite an increase in the 12-month moving average from 8.5% in 2006 to 10.9% in July 2008. Inflation picked up strongly in the second half of 2007, with year-on-year rates consistently above 10% since October 2007 and rising to 14% between May and July 2008.¹ The poor availability and reliability of official employment data make it difficult to analyse labour market developments, the number of registered unemployed had increased by 2.6% compared with 2006 and 60% of the unemployed are unskilled, 47% are female². Mainstreaming vulnerable groups' participation in the formal economy is particularly problematic and remains a priority.

Private sector development remains a priority in terms of job creation and trade and export development. Support to allow business to utilise provisions in trade agreements is needed along with support programmes in under developed areas of Kosovo. Local authorities also need to enhance their support to the private sector to create jobs and income.

Technical Assistance to Further Development of Kosovo's Trade Policy

Accessing to international trade organisations would inevitably decrease trade barriers and bring new trade opportunities to Kosovo. It would advance Kosovo's integration to the world economy, lead to better trade linkages in general and support economic growth.

Kosovo has already taken its first steps in economic integration and it has been a member of the Central European Free Trade Agreement (CEFTA) since 2006. The agreement was signed by UNMIK on behalf of Kosovo. The Agreement aims at unifying, simplifying and modernising trade relations among the parties, and also at creating new institutions, such as the Joint Committee and the Secretariat, which support the work of the CEFTA. CEFTA complies fully with the international trade requirements for a free trade agreement. In addition, Kosovo benefits of autonomous trade measures of the EU, which permit duty free exports of manufactured products, (including textiles) to the EU.

¹ EC Progress Report 2008, p.29.

² EC Progress report 2008.

Before acceding international trade organisations a country must demonstrate that it can comply with the rules set by the organisation. In order to demonstrate its compliance, Kosovo must show that its trade policies and practices are consistent with commonly agreed international rules for trade and it must be able to prepare an offer that is acceptable for other members in a multitude of areas. The negotiations require both institutional capacity and ability to assess and represent country's economic interest.

The Ministry of Trade and Industry (MTI) is the key ministry for the formulation and implementation of policy areas within trade, industry and private sector development in Kosovo. The Department of Trade is mandated to analyse, formulate and facilitate trade policy in Kosovo. It consists of two parts: internal trade and foreign trade. The internal trade unit has three staff members and the foreign trade unit has five staff members. The foreign trade unit has to handle all potential agreements that Kosovo is signatory to within the regional area, and in the future also negotiations within the international trade law framework and its many sub-agreements.

However, the MTI is not the only Ministry involved in the trade negotiation processes. The Office of the Prime Minister is the main co-ordinator of policy formulation and it has participated in the FTA and CEFTA negotiations. In addition, good co-operation is required also with the Ministry of Agriculture, Forestry and Rural Development (MAFRD). It is responsible for the inspections related to the Sanitary and Phyto-Sanitary (SPS) agreement under international trade rules.

For the moment there is no coherent and comprehensive trade policy formulated. One of the main reasons for this is lack of co-ordination between ministries dealing with trade policy. Additionally, the limited capacity within all trade related ministries and other economic operators to carry out trade analysis, policy formulation and implementation and control of policy hampers the overall development in this field.

Technical assistance to Further Development of Kosovo's Trade Policy provides support to Kosovo institutions in their accession process to international trade organisations through assisting the MTI in formulating and implementing comprehensive trade policy in line with the international trade requirements and EU practices. The project will not only provide technical assistance in the field of trade policy but it will also contribute to sustainable economic growth through better linked economy and increased trade opportunities.

Support to concrete regional development initiatives

Regional Economic Development (RED) has already emerged in Kosovo as an important model for creating sustainable development in regions while, at the same time, helping to mitigate the social costs of transition, particularly by addressing unemployment.

The model of integrated development undertaken involves a process in which all the community stakeholders, both public – especially municipalities - and private, participate in designing and implementing a development strategy for renewing their region, stimulating the growth of enterprises, developing the infrastructure, providing social services and employment generation schemes with special focus of the representation of women in businesses. Following this, five Regional Development Agencies are going to be established to become a vehicle to, among other, elaborate and implement regional development strategies and mobilise both Government and donor funds.

This RED approach has precedents both within the EU, as well as in accession countries. In the EU, Structural Funds are channeled via regional development agencies (RDAs) to support economic regeneration in less developed regions whereas in accession countries, regional

development initiatives have been supported through pre-accession funds (SAPARD & ISPA). Typically, these accession funds have been transferred from the EU to RDAs which were then responsible for managing and mobilising these funds to address specific challenges such as economic regeneration or industrial restructuring.

Not only does RED therefore provide a way of addressing sustainable development, alleviate poverty and enhance the participation of women in businesses but it is also a way to prepare Kosovo in creating a framework for regional development that is in line with the EU guidelines and best practice, thereby facilitating the process of EU integration:

- Area based development provides an effective means for circumventing political boundaries and enhancing economic linkages between different ethnic communities;
- Using a participatory approach permits there to be a consensus around common sets of interest leading to greater commitment, ownership and sustainability;
- Provides an effective framework for translating national policies, such as improving business environment to the local level. Eg. streamlining business registration;
- Development of a comprehensive strategy with clearly defined projects combined with a responsible body such as an RDA to drive the process, provides an effective mechanism to co-ordinate different donors and use scarce resources optimally;
- Through the support to RED approach EU can address regional and locally the low rate of women in business in the regions.

Furthermore, since Kosovo is eligible for IPA Component II but not ready to absorb funds under said component, RED, due to its regional feature, is presented as the best way to address cross border initiatives through enhancing those RDAs established in those regions with borders in which cooperation is more feasible.

3.2 Assessment of project impact, catalytic effect, sustainability and cross border impact.

This project is expected to deliver a positive economic impact, particularly in the form of foreign direct investments and job creation. The project aims to build an improved enabling economic environment that promotes higher levels of foreign direct investments and exports through building the capacities of such institutions as the Ministry of Trade and Industry, Regional Development Agencies and municipalities. The project strengthens the local institutional capabilities in a way that enables the MTI to carry out its responsibilities with regard to trade policy development, trade regulation and trade negotiations after the project comes to its end. Supporting concrete regional initiatives will lead to create specific opportunities for economic regeneration in the regions, providing a greater chance to achieve sustainable impact in terms of jobs and viable SMEs. It will also strengthen the local institutional framework for designing, co-ordinating and implementing projects for regional economic strategies including local municipalities, city administrations, universities and local service providers.

3.3 Results and measurable indicators:

Component 1: Technical Assistance to Further Development of Kosovo's Trade Policy

Results:

1. The MTI is aware of areas which are critical for Kosovo in the trade negotiations and which are the areas with more room for flexibility.

2. The MTI prepared to carry out its responsibilities with regard to trade policy development, trade regulation and negotiation.
3. Wider circle of economic operators informed about the benefits and consequences of trade liberalisation.

Measurable indicators:

1. Comprehensive list of areas which have to be prioritised in the negotiations identified.
2. Training and assistance provided to relevant departments in the MTI.
3. Consultation mechanism between the MTI and economic operators established.

Component 2: Support to concrete regional development initiatives

Results:

1. Regional Development Agencies operational
2. Regional strategies elaborated and relevant project proposals identified
3. Small scale project funds (EU financed) mobilised targeting priority sectors in line with regional development plans

Measurable indicators:

1. Regional Development Agencies are operational and able to draft regional strategies to be endorsed by stakeholders.
2. Comprehensive list of project ideas identified and in line with the regional development plans.
3. The grant component is established and running in all centres.
4. Reduction of unemployment in the region especially among women.

3.4 Activities:

Technical Assistance to Further Development of Kosovo's Trade Policy

- *Identifying the priority areas for Kosovo in trade negotiations:* this activity will firstly conclude a study on the existing trade and legal regimes and find out which are the most critical areas for accessing international trade organisations for Kosovo. The activity will define the needed changes in the legislation in order to be compliant with the international trade rules. The experiences and lessons learnt from the CEFTA negotiations must be taken into consideration. After assessing and analysing the current situation a comprehensive list of areas which have to be prioritised while negotiating international trade agreements will be prepared. Additionally, all the incentives for concluding international trade agreements must be clearly identified. This activity will also analyse the existent human resource potential within the relevant MTI Department, and define staff requirements that are most suitable for Kosovo, having in mind its size, current position in the trade negotiations, as well as long-term needs regarding international trade requirements and EU membership negotiation.

- *Providing capacity building and training for the Ministry of Trade and Industry on trade policy and support in the critical areas necessary for the process of acceding in international trade organisations:* a combination of strong on the job training and formal training is envisaged to provide support to the Ministry of Trade and Industry in their day to day work in analysing impacts of policy changes, preparing negotiation positions and developing institutional framework for trade policy. The capacity building activities shall also support the MTI in monitoring and implementing the CEFTA agreement to further enhance the regional economic integration.

- *Support for the establishment of active network of economic operators:* there exists very limited knowledge about the trade policy issues in Kosovo which is contradicting the fact that the country is dependent on trade. It is necessary to establish a commonly agreed understanding on basic concepts and have a dialogue with private sector and civil society on trade policy issues. The benefits of current trade agreements and the incentives to conclude further international trade agreements must be communicated effectively to all economic operators. This activity builds the consultation mechanisms between the MTI and economic operators and ensures that there is dialogue on the trade policy issues between all stakeholders. Information dissemination and awareness-raising on trade policy issues will take place through seminars, roundtables and campaigns.

Support to concrete regional development initiatives

An EU funded survey in 2007 (Regional investment potential) as well as initiatives in disadvantaged areas show that support is needed to both boost overall employment in Kosovo and enhance investments throughout. As well this approach will help to engage communities in economic development, promote cohesion and support reconciliation. The support from EU started under IPA 2008 as the EU is funding the establishment of five Regional Development Agencies and the basis for the Regional Economic Development approach.

This activity will continue the EU activity in the RED approach by supporting the five RDAs through the provision of direct operating grants (if criteria for such have been met) to undertake their core activities. The operating grants will not only support permanent staff but also an internship programme.

In addition, assistance will continue to support to local development in Kosovo by continuing with the scheme that will provide support through small grants to concrete project ideas in line with regional strategies in order to support economic and employment generation opportunities, integration of women in businesses and other development objectives identified in the development strategies elaborated by each of the 5 RDAs together with the identification of projects with cross border elements. Allocation of funding to regions may be done according to quality of project pipelines, population target in region and capacity of RDAs to oversee implementation and coordinate cross border initiatives. The grant scheme will ensure implementation of development projects in line with regional needs and strategies. However, for a successful RED approach and EU support, it is *conditio sine qua non* that the municipalities show a strong commitment by providing some co-financing to the approach.

Full transparency and financial accountability of both the project fund and TA component will be ensured with such measures as steering committees, regular progress reports, audits and monitoring assessments.

Contracting arrangements

Component 1- Technical assistance to further development of Kosovo's trade policy

- The activity will be implemented through a service contract.

Component 2- Support to concrete regional development initiatives

- 5 operating grants to the RDAs and a grant scheme. The operating grants will be provided as direct grant agreements where the conditions for this have been met.

Project management and administration

The European Commission Liaison Office will manage the procurement, implementation, quality control, reporting and coordination with other donors of the development assistance and of the financial and technical cooperation related to the actions described in this project fiche, taking remedial actions if and when needed. The Team Leaders engaged through the contracts for this project will have the authority to run the project activities on a day-to-day basis under the supervision of the Commission Office. His/her primary responsibility shall be to ensure that the project produces the required outputs, to the required standards of quality and within the specified constraints of time and cost. The team leader and other experts will also address cross-cutting issues. A detailed description of the duties of the team leader and key experts will be elaborated in the Terms of Reference, in line with this project fiche.

Project Steering Committees will be responsible for the overall direction of the project and comprise of representatives from the beneficiary institutions and the Commission Office. The project steering committees ensure that activities are undertaken in line with EU rules and regulations. The steering committees discuss the direction of the project as well as external and internal changes to the project environment which may affect the undertaking of project activities. It also undertakes an internal evaluation of ways and methods for ensuring project impact is sustained.

Monitoring will be performed centrally by the Commission. The project may be evaluated at the interim or ex-post stages under the supervision of Commission's Evaluation Unit. The project may be audited by Court of Auditors - in line with the standard European Commission procedures.

3.5 Conditionality and sequencing:

The project includes the following conditions:

1. Necessary resources must be provided from the line ministries not only on the logistic side (working space and facilities) but also by ensuring that appropriate staff is made available for programme activities and consultation.
2. The management level of the Government and line Ministries must be committed and support the implementation of the project by providing input and being willing to follow project activities.
3. Adequate participation of the competent authorities of Kosovo and relevant stakeholders by, among others, providing the required budgetary support.
4. Effective co-ordination with other international organisations active in the line Ministries.

3.6 Linked activities

This project builds-on previous EC assistance in the economic development sector, particularly the following projects funded under the CARDS instrument.

Name of project (Amount EUR million)	Start End	Activities/Results
Development of a measuring, standardisation, testing and quality. (EUR 1.5 million + supply contract)	March 2007 March 2009	Project activities include advisory support to policy and systematic development, institutional building and development support, training and coaching. Besides providing technical assistances to the key participants in the MSTQ Infrastructure, it also supports the MTI through supplies contract in setting up a metrology laboratory in Pristina by supplying equipments.

Trade Assessment (Framework contract)	May 2007	Study assessed the current situation in Kosovo with respect to International Trade, trade constraints and current legal and organizational set up. Study was concluded before the status settlement and the recommendations given were very cautious indicating that an approach to WTO should not take place before the status issue is solved.
Developing an enabling economic environment for all of Kosovo's communities (EUR 11.0 million)	June 2008 June 2010	Improving the management and operational capacity of the Ministry of Trade and Industry, the Investment Promotion Agency and the new Patent Office; Supporting the successor of the Kosovo Trust Agency to continue the privatisation and liquidation process; Supporting enterprise growth and job creation through technical and advisory support for SMEs.
Investment Promotion Agency (EUR 1.5 million)	May 2007- Nov 2008	Project activities include: development of investment promotion material; identification of potential investors; and development of mechanisms to provide direct tailored support to potential investors. The IPA 2007 project will consolidate and build-on the results of these activities.
Ministry of Trade and Industry (EUR 2.5million)	May 2006 - May 2008	Assisting the MTI to formulate and implement sound SME policy and strategy – in line with the EU Charter for Small Businesses, and developing effective business services to support the successful growth of SMEs.
Job creation in Kosovo's northern municipalities (EUR 10.5 million)	Feb 2007- Feb 2009	The programme consists of three components: (i) a EUR 3.5 million matching grants facility (with accompanying technical assistance) for private businesses in the manufacturing and service industries to promote investments in technological in the region (e.g. purchase of specialised machinery); (ii) Development of municipal infrastructure to support enterprise growth, such as the construction and upgrading of business parks; (iii) bringing some viable parts of the Trepça/Trepča mining complex back to full operation, including refurbishment of the lead processing plant, improvements to the chemical handling in the ore treatment process and works to fill closed mines with fly-ash from the power station at Obiliq/Obilič.
Poverty alleviation in marginalised municipalities (EUR 3 million)	Dec-2006 Dec -2008	To create income generating and employment opportunities among vulnerable groups in the targeted municipalities. To contribute to alleviating poverty, stabilising socio-economic conditions and stimulating the economic development of marginalised groups in Kosovo's economy - to foment the growth of entrepreneurial spirit -to contribute to the growth of positive community development - to increase local entrepreneurs' capacities to establish or expand businesses - to contribute to the improvement of the marketability of locally produced goods
Promoting local enterprise development and employment creation in the Mitrovicë/Mitrovica/Zveçan/Zveç municipalities FAIR Grant programme (EUR 3.5 million)	Dec 2006 – Dec 2008	This project is instrumented as a grant. Its main objective is to support the establishment/expansion of growth oriented enterprises in the agro-processing, industry manufacturing and service sectors, with the employment creation and export potential in the north region of Kosovo. The project activities are, assess current market needs and priorities, identify points of synergi and prevent duplications, publize project and upcoming calls for proposals for the SME-DF, evaluate business profiles submitted and award grants to the strongest ones, conduct monitoring and inspection visits, promote dialogue between the PISG and the business community, conduct final evaluation and audit of supported enterprises, analyse monitoring and inspection visits' results, conduct SME development workshops.
Targeted economic and community development actions in disadvantaged minority areas (EUR 11.5 million)	2002 - Nov 2008	At the end of 2006, over 1,300 projects targeting ethnic minority communities had been implemented, mainly projects focusing on grants for small business start-ups and expansion, including in areas where minority returns have taken place. In addition, seven Business Support Centres provide direct economic development support services to minority areas. The programme has organised some 200 training sessions for some 1,900 participants in support of micro-enterprise development.

The project has been designed and will be implemented in coordination with the government and other donors. This includes the World Bank which is providing institution building to

MTI and direct technical assistance to business. Also USAID, DANIDA, GTZ, UNDP, EBRD, SIDA, Norwegian Aid area actively involved in this field by implementing projects that provide technical assistance, establishment of Trust Fund for support of poverty alleviation, removing administrative barriers to investment.

The project will also link to activities in Justice and Home Affairs and Public Sector Reform, as economic development is affected by the availability of a proper and functioning legal framework for conducting business.

3.7 Lessons learned

Although impact realised through the previous assistance overall is satisfactory, a number of challenges remain:

- *Local capability development:* Working with local organisations, public and private, has demonstrated the need for firm local anchoring of activities and capacity development. As local resources are scarce, the understanding of ways to improve local economic conditions and to assess the impacts of changes in trade policy are limited, project must take these considerations into account when designing assistance. As the resources in local authorities and the experience with trade policy programmes are both limited, professional technical assistance with experience from the EU way of implementing and doing trade policy must be made available for longer periods of time to ensure a tangible demonstration effect of the assistance provided.
- *Direct support available to the private sector:* The nature of the economy of Kosovo, where the majority of business are very small, underlines the need for appropriate support services, in particular for technology transfer, enhancing the utilisation of technology and research.
- *Enforcement:* There has been large focus on establishing the legal frameworks in Kosovo. The capacity to enforce the law, however, has received insufficient attention. While legal reform has been advanced, law enforcement and implementation has not followed. This creates a widening gap between the formal legal situation and ‘on-the-ground’ practice.
- *Conditionalities:* Often project implementation is hampered by either insufficient staff and resources allocated to (newly established) institutions or insufficient operating funds available in the government budget to allow for appropriate implementation of the mandate of the concerned department.
- *Balance between different measures:* The provision of technical assistance for capacity building remains a very high priority. However, TA will not be effective if the working environment of the counterparts is not up to standards. Therefore a balanced approach with both technical advisory support and material support is essential to realise the expected impact of the project.
- *The need to make provisions to include economically vulnerable groups in mainstream economic life.* Programmes and projects need to be inclusive, geographically as well as socially, to maximise both social and economic impact of activities. Information dissemination and awareness raising campaigns must reach all geographical and social layers of the society.
- Furthermore when *treatment of cross-cutting* issues has remained weak in economic development projects, experience shows that those projects “missed” out some

important beneficiaries and/or reinforced current (gender/ethnic) discriminations/inequalities. Gender and minority issues are very important in this sector since women and minorities face distinct disadvantages/constraints on the labour market. The prevailing considerable economic disparities between communities and the shortage of employment opportunities for women represent a major obstacle to both the economic and political stability of Kosovo. These cross-cutting issues must therefore be actively mainstreamed within project design and implementation.

4. Indicative Budget (amounts in EUR million)

			SOURCES OF FUNDING									
			TOTAL EXP.RE	IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB (1)	INV (1)	EUR (a)=(b)+(c)+(d)	EUR (b)	%(2)	Total EUR (c)=(x)+(y)+(z)	% (2)	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	% (2)
ComponenTA Trade Policy	X											
Contract 1.1 (Service contract)	X		1.5	1.5	100							
Support to concrete regional development initiatives	X											
Contract 2.1 (Grant Agreements Operating Fund)	X		1.6	1.4	87	0.2	13		0.2			
Contract 2.2 (Grant Scheme/s)	X		4.9	4.9	100							
TOTAL IB			8.0	7.8	98	0.2	2					
TOTAL INV												
TOTAL PROJECT			8.0	7.8	98	0.2	2		0.2			

Note:

Amounts net of VAT

- (1) In the Activity row "X" is used to identify whether IB or INV
- (2) Expressed in % of the **Total** Expenditure (column (a))

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
TA Trade Policy (Service contract)	Q2 2010	Q4 2010	Q4 2012
Support to concrete regional development initiatives (Operating Grants)	Q1 2010	Q1 2010	Q4 2012
Support to concrete regional development initiatives (Grant scheme(s))	Q1 2010	Q2 2010	Q2 2012

6. Mainstreaming Cross cutting issues

- **Civil society** (including employers' organisations, trade unions, professional organisations as well a non-governmental organisations, etc) plays a major role in transition societies. Therefore, both components should ensure effective dialogue between the ministries and relevant civil society groups. Specially in the RED approach (see component 2), it should be ensured that civil society groups are inform on the developments achieve and are fully aware of the Grant scheme that will be designed.
- **Environmental considerations** will be duly reflected in all IPA financed activities. However, first component is not expected to have a relevant environmental impact. Component two should take into consideration environmental issues and introduced it as required criteria when designing the Grant Scheme.
- **Equal opportunities and non discrimination of women, minority and vulnerable groups** (including children, disabled and elderly people) will find considerations in all aspects of the activities described in this fiche. Both components would promote them during their implementation phase and so it will be reflected in the contract arrangements.
- **Good governance** will be fostered through the introduction of monitoring, evaluation and control mechanisms, through awareness campaigns involving wider public as a way to contribute to the fight against corruption and to enhance civic responsibility in respect of payment for public services.

ANNEXES

- Annex 1** **Log frame in Standard Format**
- Annex 2** **Amounts contracted and Disbursed per Quarter over the full duration of Programme**
- Annex 3** **Description of Institutional Framework**
- Annex 4** **Reference to laws, regulations and strategic documents**
- Annex 5** **Details per EU funded contract**

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX For Project fiche		Trade and Regional Development	
		Contracting period expires three years after the date of conclusion of the Financing Agreement between the European Commission and the Kosovo Authorities	Disbursement period expires one year after the final date for the execution of contracts
		Total budget : EUR 8.0 million	IPA budget: EUR 7.8 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
- To promote Kosovo's integration into the world economy and to develop and create the basis for a sustainable enabling environment for private sector development and job creation for all communities in Kosovo.	<ul style="list-style-type: none"> -Increase in Kosovo's international trade, specially in export -Reduction of unemployment 	Reports from Statistics Office of Kosovo, IMF, World Bank.	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
<p>To enhance Kosovo's trade, investment climate and regional development through;</p> <ul style="list-style-type: none"> • Assisting Kosovo in the process of aligning its trade policies with international trade rules and practices; by providing support to the Ministry of Trade and Industry to develop its institutional capacity in formulating and implementing comprehensive trade policy in line with the international trade requirements and EU practices. • Contributing to the creation of economic regions and a regional development framework which is in line with EU practice; by support economic regeneration, job creation and human and infrastructural development in different regions, and enhance the presence of women in businesses 	<ul style="list-style-type: none"> -Substantial progress in the alignment process of Kosovo's trade policy in the international fora. - Priority areas in trade negotiations identified -Regional Development Agencies operational -Comprehensive list of project ideas identified and in line with regional strategy plans. 	<ul style="list-style-type: none"> -Project progress reports EC documents and MTI reports - Trade Statistics -Trade balance -Project contracts in line with the Regional Economic Strategy -Unemployment statistics -Number and quality of applications. 	<ul style="list-style-type: none"> - Commitment of the Government and relevant authorities (i.e. municipalities) - Sufficient absorption capacity in line Ministries - Regional strategies drafted and agreed between stakeholders together with a system in place for their revision -The grant component is established and running in all 5 centers and centers are semi-autonomously

Results	Objectively verifiable indicators	Sources of Verification	Assumptions
<p><u>Technical Assistance to Further Development of Kosovo's Trade Policy</u></p> <p>> The MTI is aware of areas which are critical for Kosovo in the trade negotiations and which are the areas with more room for flexibility;</p> <p>> The MTI prepared to carry out its responsibilities with regard to trade policy development, trade regulation and negotiation;</p> <p>> Wider circle of economic operators informed about the benefits and consequences of trade liberalisation.</p> <p><u>Support to concrete Regional development initiatives</u></p> <p>> Regional Development Agencies operational</p> <p>> Regional strategies elaborated and relevant project proposals identified</p> <p>> Small scale project funds (EU financed) mobilised targeting priority sectors in line with regional development plans</p>	<p><u>Technical Assistance to Further Development of Kosovo's Trade Policy</u></p> <p>> Comprehensive list of areas which have to be prioritised in the negotiations identified;</p> <p>> Training and assistance provided to relevant departments in the MTI;</p> <p>> Consultation mechanism between the MTI and economic operators established.</p> <p><u>Support to concrete Regional development initiatives</u></p> <p>> Regional Development Agencies are operational and able to draft Regional strategies to be endorsed by stakeholders</p> <p>> Comprehensive list of project ideas identified and in line with the regional development plans</p> <p>> The grant component is established and running in all centres</p> <p>> Reduction of unemployment in the region</p>	<ul style="list-style-type: none"> - MTI's strategy documents for trade policy reform - Attendance to trade policy related activities - Project progress reports - Project funds account - No. of jobs created and start-up businesses - No. People assisted in develop their skills 	<ul style="list-style-type: none"> -Commitment of the Government and relevant authorities (i.e. municipalities) -Sufficient absorption capacity in line Ministries -The RDAs capacity to work with stakeholders in order to translate national and regional demands into local actions -Regional strategies drafted and investment priorities identified and agreed between stakeholders together with a system in place for their revision.

Activities	Means	Costs	Assumptions
<p><u>Technical Assistance to Further Development of Kosovo's Trade Policy</u></p> <p>> Assessing and analysing the current situation and identifying the areas which are critical for Kosovo in the trade negotiations and which are the areas which allow more room for flexibility;</p> <p>> Providing capacity building and training for the Ministry of Trade and Industry on trade policy and support in the specific areas necessary for enhancing Kosovo's alignment to international trade organisations;</p> <p>> Providing support for the establishment of active network of economic operators.</p> <p><u>Support to concrete Regional development initiatives</u></p> <p>> RDAs capable of drafting regional development strategies and getting them endorsed by all relevant stakeholders</p> <p>> A grant scheme will be established and administered directly by the ECLO. This fund will be utilised for funding specific small scale local development projects, based on applications.</p> <p>Seek and create long lasting partnerships with stakeholders.</p>	<p><u>Technical Assistance to Further Development of Kosovo's Trade Policy</u></p> <p>> Service contract</p> <p><u>Support to concrete Regional development initiatives</u></p> <p>–Operating grant</p> <p>–A grant component, to be administered directly by the ECLO, will provide funding for small scale local development projects to enhance the competitiveness of private sector in Kosovo.</p>	<p><u>Technical Assistance to Further Development of Kosovo's Trade Policy</u></p> <p>EUR 1.5 million</p> <p>24 months</p> <p><u>Support to concrete Regional development initiatives</u></p> <p>EUR 6.5 million (0.2 co-funding from municipalities)</p> <p>24 months</p>	<p>–Commitment of Kosovo Government and relevant stakeholders.</p> <p>–Sufficient absorption capacity in line Ministries</p> <p>- Reliable statistical data available</p> <p>–Local interest in applying for the grant programme.</p>

Pre conditions:

- Relevant institutions properly staffed and operational
- Regional strategies drafted and endorsed by stakeholders
- Kosovo government's firm commitment
- Co-ordinating the assistance with other relevant institutions in order to avoid overlapping
- Lessons learnt from neighbouring countries'

ANNEX 2: amounts (in EUR million) Contracted and disbursed by quarter for the project

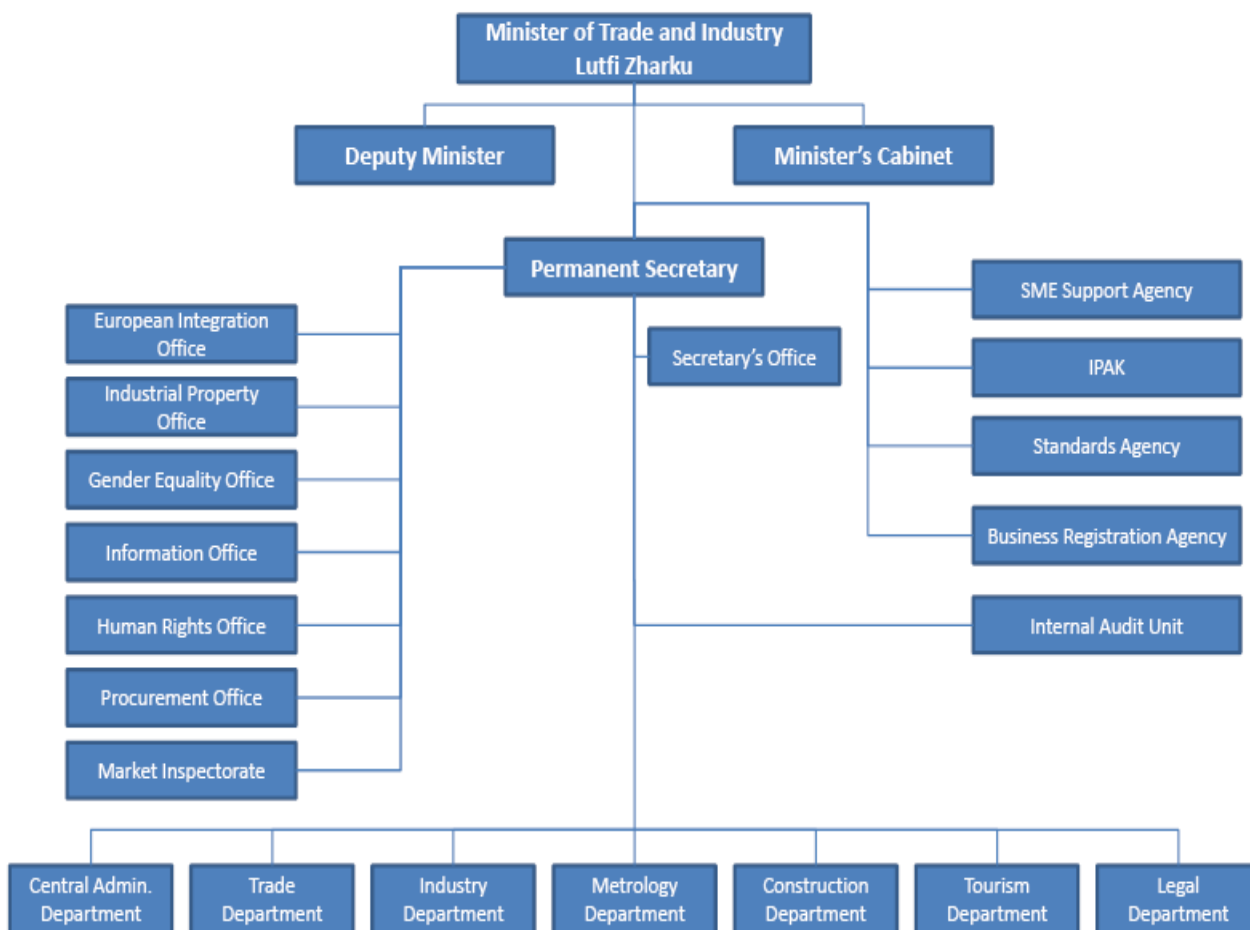
	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contracted																
TA Trade Policy Service contract								1.5								
Support for Regional Development Initiatives (operating grant)					0.7				0.7							
Support for Regional Development Initiatives (grant scheme)						2.45				2.45						
Cumulated Total					0.7	3.15		4.65	5.35	7.8						
Disbursed																
TA Trade Policy Service contract								0.3		0.3		0.3		0.3		0.3
Support for Regional Development Initiatives (operating grants)									0.7				0.7			
Support for Regional Development Initiatives (grant scheme)									2.45				2.45			
Cumulated Total								0.30	3.45	3.75		4.05	7.2	7.5		7.8

Annex 3: Description of Institutional Framework

The Ministry of Trade and Industry (MTI)

The Ministry of Trade and Industry was established in January 2000 with UNMIK regulation on the establishment of the administrative department of Trade and Industry. The EU Pillar, or Pillar IV of the four UNMIK pillars had the responsibility of economic reconstruction and development including trade. Pillar IV concentrated on institutions building within the economic sphere and assisted in the creation of the department of Trade and Industry which then later became the Ministry of Trade and Industry. It is the key ministry to formulate and implement policies within the areas of trade, industry and private sector. To implement its responsibilities the Ministry has 4 agencies, 7 departments and several offices (please see the organogram below).

MINISTRY OF TRADE AND INDUSTRY ORGANOGRAM - 2008



The Ministry of Local Government Administration (MLGA)

The Ministry of Local Government Administration was established with UNMIK Regulation 2004/50 of 04 December 2004. The responsibilities of MLGA are determined with the UNMIK Regulation 2001/9 on the Constitutional Framework for Provisional Self-Government in Kosova, Chapter 5, item 2 and UNMIK Regulation 2005/15 of 16 March 2005 amending UNMIK Regulation 2001/19 on the Executive Branch of PISG in Kosova.

➤ Mission of MLGA

To promote local government through coordination, empowerment, supporting of municipalities for the purpose of ensuring efficient services as well as bringing services closer to citizens.

➤ Relevant MLGA aims,

- Inter-ministerial coordination to ensure sufficient resources for realization of municipal competences;
- Supporting, monitoring and supervising the competences of municipalities to ensure implementation of legality;
- Coordination of activities with donors' community and non-governmental organizations;
- Continual improvement of the quality of municipal services, through professional capacity building of human resources

➤ Relevant MLGA responsibilities

- Supporting inter-municipal co-operation;
- Assisting the municipalities in the development of their own budgets and financial management systems;
- Monitoring the quality of municipal services,
- Identifying the ways and means for training activities for the municipalities;
- Assisting the municipalities in making their activities transparent to the public;
- Coordinating the activities of international agencies and non-governmental organizations pertaining to the municipalities;
- Overseeing compliance of municipalities with responsibilities and powers delegated to the municipalities;
- Coordinate with other ministries to meet the needs for and ensure the access of all communities to essential basic goods and services;
- Coordinate with the Ministry of Finance to ensure that municipal administrations receive the financial allocations to exercise their own responsibilities, including public investment.
- Allocates adequate financial and human resources for supporting Municipal Gender Officers, address gender inequalities and integrate a gender perspective in local governance policy-making and delivery of services.

➤ Organizational structure of MLGA

At the political level the Ministry is headed by a Minister assisted by two Deputy Ministers (one D/minister belongs to minority community) as well as advisors. The civil staff is headed by the Permanent Secretary. In the hierarchy structure, following Permanent Secretary the ministry is composed of departments (divisions and sectors) and Offices.

Departments and Offices

Legal Department - Department for Planning of Resources - Department for Monitoring, Efficiency and Reform of Municipalities - Department for Administration and Finances - Department of Procurement - Office for European Integrations - Office for Planning and Development - Office for Information

Annex 4: Reference to laws, regulations and strategic documents:

Reference List of Laws and Regulations

- European Partnership
- Commission's 2008 progress report on Kosovo
- EU Charter for Small Enterprises
- Comprehensive Proposal for the Kosovo Status Settlement
- Multi-Annual Indicative Planning Document (2009-2011) for Kosovo (MIPD)
- Medium Term Expenditure Framework for 2009-2011
- Framework Programme for Gender Equality 2008-2013

Annex 5: Details per EU funded contract

Technical assistance to further development of Kosovo's trade policy

The contractor will be expected to:

- Assess and analyse the current trade policy situation;
- Identify the areas which are critical for Kosovo in the trade negotiations and which are the areas which allow more room for flexibility;
- Provide support in the critical areas necessary for enhancing Kosovo's alignment to international trade organisations;
- Provide capacity building and training for the Ministry of Trade and Industry on trade policy issues;
- Provide support for the establishment of active network of economic operators.

Support to concrete regional development initiatives

The operating grants are expected to cover the permanent running staff costs and a small internship programme.

The grant scheme will be implemented through two calls for proposals that will contribute to:

- create the economic conditions for competitive SMEs and businesses;
- development/enhancement of export related opportunities;
- mobilisation of Labour Supply and Skills training;
- Enhance the role of women in businesses.