

**2007 Project Fiche Kosovo
IPA centralised programme**

1. Basic information

1.1 CRIS Number:

1.2 Title: Developing an enabling economic environment for all of Kosovo's communities

1.3 Sector: 02.20

1.4 Location: Kosovo

Implementing arrangements:

1.5 Contracting Authority: The European Commission Office in Pristina.

1.6 Implementing Agency: The European Commission Office in Pristina.

1.7 Beneficiary Institutions

Project activity	Beneficiary	Contact point responsible for activity coordination
1. Institution building	Ministry of Trade and Industry (MTI) – including the SME Agency; Patents Office; Investment Promotion Agency	Permanent Secretary, MTI
2. Privatisation and liquidation	Successor organisation to the Kosovo Trust Agency; Society of Accountants and Auditors in Kosovo (SCAAK)	
3. Support for business development	Small, medium and large enterprises, including enterprises in the agri-business sector and enterprises operating in disadvantaged areas.	

1.8 Overall cost: €11,5 million.

1.9 EU contribution: €11 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 develop an enabling environment for private sector development and jobs creation for all communities in Kosovo.

2.2 Project purpose:

To enhance Kosovo's trade and investment climate, particularly in the manufacturing, service and in agri-processing sectors, through:

- Institution building assistance to relevant public bodies such as the Ministry of Trade and Industry, and the Patent Office and the Investment Promotion Agency.
- Completion of the on-going privatisation and liquidation of Socially Owned Enterprises through assistance to the successor organisation to the Kosovo Trust Agency and the development of an Insolvency Practitioner Association in Kosovo
- Promotion of enterprise growth, modernisation and employment through support to selected enterprises, including enterprises in the agri-business sector, and enterprises in economically depressed areas.

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:

- Create the conditions for investment, trade and economic growth.
- Finalise the privatisation process in accordance with the Kosovo Trust Agency schedule.
- Continue the development of a legislative and policy framework for trade and trade-related policies, ensuring EU- and WTO-compatibility. Promulgate and implement the Law on External Trade Activity.
- Prepare the necessary legislation and establish the infrastructure as regards standardisation certification, metrology, accreditation and conformity assessment, taking into account complementarities with the region.
- Design and implement legislation on the protection of intellectual, industrial and commercial property rights. Define a medium-term strategy to improve the enforcement of these rights.
- Adopt a medium-term strategy on SME policy, including the establishment of the SME support agency and the investment promotion agency. Continue implementation of the European Charter for Small Enterprises.
- Adopt a general-purpose financial reporting framework appropriate for Kosovo's circumstances, limiting the use of IFRS/IAS to public interest entities and making full use of the exemptions foreseen in the 4th and 7th company law directives.
- Continue gradual alignment of company law, including financial reporting standards.
- Ensure mainstreaming of women's rights in all existing policies and legislations.

The project also responds to some of the key findings of the *Commission's 2006 progress report on Kosovo* including:

- Exports remained extremely low (14 times lower than imports in 2005), mainly due to a lack of exporting capacity and competitiveness.

- Progress regarding standardisation and certification as well as conformity assessment activities has been very limited.
- Overall, very limited progress in the field of protection of intellectual and industrial property rights. Steps need to be taken both in terms of legislation and capacity building as well as in terms of enforcement mechanisms.
- The administrative capacity in the Ministry of Trade and Industry remains limited, including capacity for legal drafting, strategy and policy planning and capacity to promote investments (domestic and foreign) and SMEs in general.
- Lack of sufficient human and physical capital.
- Despite an increase in private investment, half of such investment is allocated to housing.

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’; ‘transparent procedures to settle disputed property claims and for a continued privatization process, both with substantial international involvement..’

2.4 Link with the Multi-Annual Indicative Planning Document (2007-09) for Kosovo (MIPD)

The MIPD states that EC assistance will be used in support of developing Kosovo’s weak economy and enhancing the wider socio-economic environment for all communities. The document points out the need for direct economic development support to economically marginalised groups, including women, youth and minorities and mainstreaming their participation in existing PISG and donor initiatives. The document also identifies that agriculture remains under-exploited.

This project responds to the following MIPD Socio-Economic priorities:

- Enhancing Kosovo’s investment climate and supporting small and medium enterprises through a favourable legislative framework, enhancing corporate governance and access to services, including investment and import/export promotion.
- Promoting agriculture and rural development through support to the rural economy and the livelihood of the rural population, in line with priority measures identified in Kosovo’s Agriculture and Rural Development Plan 2007-13.
- Supporting Kosovo's consolidation of the network of bilateral free trade agreements and preparation for its future participation in the Central European Free Trade Agreement (CEFTA).

2.5 Link with Kosovo Development Plan

The project is in line with the Kosovo Development and Strategy Plan - KDSP (draft December 2006) and the priorities set in the Medium-Term Expenditure Framework 2007-2010.

2.6 Link with sectoral plans

The project is based on the Ministry of Trade and Industry's *Private Sector Development Strategy* (2005) which has been incorporated in the KDSP. The programme has also been informed by the Ministry of Agriculture, Forestry and Rural Development's *Agricultural Master Plan* (2006).

3. Description of project

3.1 Background and justification:

Despite general improvements in economic regulatory frameworks, including through past EC assistance, economic performance remains poor.

After a period of relatively high growth fuelled by the post crisis construction boom and donor money influx, Kosovo's economy passed through a period of low growth. In 2006, Kosovo's economy recovered and the GDP grew by about 3%. Nevertheless, the socio-economic needs are substantial and the future challenging. Unemployment stands at around 40%¹ with limited absorption capacity of the labour market for job seekers. Women's unemployment is higher with a large proportion of women unpaid or underpaid for their work and economic activity. Employment prospects for the young are particularly bleak; 37,000 school leavers enter the job market every year and face major difficulties to find employment.

There is not yet an effective and coordinated strategy in Kosovo to alleviate poverty although around 37% of the population live in poverty with around 15% in extreme poverty. Direct economic development support to potentially vulnerable groups such as women, youth and minorities is necessary. Mainstreaming the specific needs/interests of those groups as well as of participation in existing Provisional Institutions of Self Government (PISG) and donor initiatives remains a priority.

Kosovo institutions responsible for promoting investment, trade and property rights

The Ministry of Trade and Industry's (MTI) *private sector development strategy* aims to improve the competitiveness of the Kosovo economy and reduce unemployment through a number of reform measures to attract local and foreign investment, stimulate the small and medium enterprise (SME) sector, to implement the Free Trade Agreements and increase the export base. The MTI has crystallised its development plans into a document entitled "*Partnerships for Economic Growth*", which defines its role and how it interacts with other stakeholders, minority communities and civil society (including employers' organisations, trade unions, professional organisations as well as non-governmental organisations in Kosovo). This paper presents five basic principles for the Ministry's economic development activities, namely:

- non distortion of the market
- demonstration of MTI initiatives
- sustainability of interventions
- outreach capability
- avoidance of bureaucracy

Implementation of a quality assurance infrastructure based on European Standards is essential to ensure the proper development of the Kosovo economy. Currently, support for

¹ There are no reliable unemployment statistics for Kosovo, however the real unemployment rate may be less than if the informal economy is factored in.

a quality assurance, testing and certification infrastructure has been initiated under CARDS 2006. A Patent Office was recently established in the MTI to support Kosovo's participation in international trade agreements and in line with Central European Free Trade Area (CEFTA) and WTO requirements regarding the protection of intellectual property rights. Currently, such legislation and market surveillance practices are not available in Kosovo.

The Investment Promotion Agency of Kosovo (IPAK) is still in its infancy. In addition to investment promotion, IPAK is also charged with the promotion of exports. The Agency is working on establishing priority sectors and markets for investment and exports. However, proper work practices and training of staff in methods and practices for attracting investors remains a priority. The MTI is considering charging IPAK with responsibility for all SME and business support programmes. IPAK is receiving EC funded institution building support (under the CARDS 2006 programme) which will be consolidated and continued under this IPA 2007 project.

Despite its potential, Kosovo's agriculture remains under-exploited and key challenges such as poor infrastructure, unresolved property rights², small farm size, lack of farm competitiveness, poor access to commercial credit, inefficient quality control mechanisms, weak capacity to prepare and enforce environmental and local development plans and low levels of education need to be tackled. A medium-term and integrated *agriculture and rural development plan for 2007-13* has been developed by the Ministry for Agriculture, Forestry and Rural Development. It follows EC Guidelines, and is aligning Kosovo with the current EU agriculture and rural development strategy.

Progress has been made in establishing a conducive environment for private sector development, including a proper legislative environment for attracting investment. However, further support is needed to enhance Kosovo's trade and investment climate particularly in manufacturing, services industry and agri-processing through institution building assistance to relevant public and private bodies including the Ministry of Trade and Industry and the recently established Patent Office.

Privatisation and Liquidation

The Kosovo Trust Agency (KTA) – part of UNMIK Pillar IV – is currently responsible for the privatisation and liquidation of Socially Owned Enterprises (SOEs). As of June 2007, some 300 out of an estimated 600 SOEs have been privatised. These include what the KTA considers to be the most commercially viable SOEs. Some €310 million from privatisation have been paid into escrow accounts. Of this €2m is scheduled for distribution to SOE workers with a total of €12 million having been already paid. Approximately, 80 liquidations have been launched so far. A substantial amount of work must still be done to privatise the remaining SOEs and liquidate all 600 SOEs (including the residual assets of privatised SOEs).

Each SOE liquidation involves the establishment of a liquidation committee to oversee the sale of any residual SOE assets, and the processing, adjudication and settling/payment of creditor claims against the SOE. Aggrieved claimants can subsequently appeal the decision of the liquidation committee to the Special Chamber for Claims. 80% of the sale proceeds from the privatisation transaction are controlled by the liquidation process (i.e. reserved to pay claimants), while the remaining 20% is paid to the workers. Because of pending claims and other unresolved reasons (e.g. lack of agreement on workers lists) up to

² A specific Kosovo feature is that there is virtually no tradition for women to inherit land, housing, livestock or equipment in agriculture, hence drastically limiting their ability to play a role in decision-making

May 2007, no payments of privatisation proceeds have yet been made to any class of creditors, and only in 43 cases have the funds been distributed to former workers of SOEs.

The future role and responsibilities of the KTA and the specific plans for a successor organisation are currently being defined. The successor organisation of the KTA will be financed by the Kosovo budget while the cost of a small number of international experts will be covered by the International Civilian Office. However, despite still pending issues regarding the future organisational set-up of Kosovo (i.e. the status question), UNMIK and the government agree that the privatisation and liquidation process for SOEs must continue and be concluded for the benefit of the economy. The principles of the current legal framework for liquidation/privatisation and the role of Special Chamber are expected to continue after status-settlement.

The conclusion of the privatisation and liquidation process in Kosovo, combined with the increasing number of private enterprises – some of which will go bankrupt - underlines the need for an internationally recognised and certified Insolvency Practitioner Association to assist in preparing the necessary bankruptcy and insolvency legislation and deal with issues such as:

- administer and investigate the affairs of bankrupts, of companies and partnerships wound up by the court, and establish why they became insolvent;
- act as trustee/liquidator where no private sector insolvency practitioner is appointed;
- act as nominee and supervisor in fast-track individual voluntary arrangements;
- take forward reports of bankrupts' and directors' misconduct;
- deal with the disqualification of unfit directors in all corporate failures;
- deal with bankruptcy restrictions orders and undertakings;
- authorise and regulate the insolvency profession;
- assess and pay statutory entitlement to redundancy payments when an employer cannot or will not pay its employees;
- provide banking and investment services for bankruptcy and liquidation estate funds;
- advise ministers and other government departments and agencies on insolvency, redundancy and related issues

EC assistance (under CARDS 2006) is providing support to the Society for Certified Accountants and Auditors in Kosovo (SCAAK) to develop an education programme (including specialised and general training modules) for the accounting profession. SCAAK is a private membership NGO, funded through membership contributions. To ensure that Kosovo insolvency procedures are EU compliance, further assistance is required to enable SCAAK to achieve affiliation with and certification by the International Insolvency Practitioners' Association (INSOL)

Enterprise development

Assistance for small, medium and larger enterprises, including in the agri-processing sector and in economically depressed areas, remains a critical strategy to creating sustainable jobs, including for economically marginalised groups.

Small and medium-sized enterprises (SMEs) require assistance to acquire and productively use new technologies and to link with EU business support institutions, including those developed with previous EC assistance to Kosovo (e.g. Slovenia Chamber of Commerce, INFOMEST – Italy, German Chamber of Commerce covering the Balkans). Centres of excellence, including Universities and technical training centres, need to be further developed to build systems and application in response to industrial and business demand. Kosovo is lagging behind the region in this field. There is a need to ensure that advisory

and testing services are available for the business community to upgrade the utilisation of both innovative production processes and the manufacturing of innovative products.

With the introduction of legislation for Intellectual property rights in Kosovo, it is important to ensure that businesses utilise incentives to invest in research and innovation, while at the same time ensuring that the diffusion and further development of research results are not stifled. In addition, special emphasis needs to be placed on specific issues relevant to R&D collaborations and technology transfer between public research organisations and industry, as “university-industry relations” are an increasingly important way of enhancing the impact of scientific achievements on European competitiveness.

Particular consideration will be devoted to prepare and implement special incentives schemes to avert and reduce gender and diversity gaps in business and trade opportunities. This can take the form of supporting women and/or minorities’ entrepreneurship in specific sectors through training, learning about the market economy, skill development marketing and use of credit, special programmes for lending to increase women’s and/or minorities access to resources (e.g. credit).

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, the Patent Office and Investment Promotion Agency to fulfil their mandates and to come closer to EU standards and best practices. Viable privatised socially owned enterprises (SOEs) are expected to obtain fresh investments and hire staff as a result of the privatisation process to be supported by this project. Support for the liquidation of SOEs and the establishment of the Insolvency Practitioner Association will put in place an appropriate and sustainable mechanism for redistributing the assets of bankrupt enterprises to more productive purposes. Assistance to enterprises to modernise and become more competitive is expected to create sustainable jobs, including in the rural economy sector and in economically disadvantaged areas. It is also expected that universities and technical training centres will support private sector development.

3.3 Results and measurable indicators:

1. Institution building to develop an enabling environment for trade, investment and job creation

Expected Results:

- a. Upgraded investment services available, including by the Investment Promotion Agency, for potential investors and exporters, and Kosovo marketed as an attractive destination for investors.
- b. Ministry of Trade and Industry and the Patent Office have a legal and operational framework for the enforcement of Intellectual Property Rights, in line with WTO/CEFTA requirements.
- c. Universities and technical training centres have established links with the Kosovo business community and the Ministry of Trade and Industry’s departments for Intellectual and Industrial Property Rights and the Agency for Standardisation.

Measurable indicators:

- a. At least 10 investors and exporters access government services for investment and trade promotion services each month.
- b. The Patents Office is operational. Legal and operational framework for Intellectual and Industrial Property Rights is positively evaluated (e.g. WTO and CEFTA.)
- c. At least one agreement (e.g. MoU) between the ministry and universities for directing university activities to support business development.

2. Privatisation and Liquidation

Results:

- a. Continuation of the privatisation and liquidation process following the handover of responsibilities from the Kosovo Trust Agency to successor organisation.
- b. A competent Insolvency Practitioner Association is established in Kosovo

Measurable indicators:

- a. At least 300 Kosovo SOEs privatised or liquidated; amount of privatisation; liquidation proceeds ring-fenced in a 'Trust Fund' and amounts distributed.
- b. Insolvency Practitioner Association is in place and functioning with an internationally recognised certification.

3. Support for business development

Results:

- a. New jobs created in the enterprises selected by the project for support

Measurable indicators:

- a. At least 200 jobs created in the selected enterprises; including in the rural economy sector; and in economically disadvantaged areas; and at least 20 women entrepreneurs (or new entrepreneurs) supported

3.4 Activities:

Activity 1: Institution building to develop an enabling environment for trade, investment and job creation

This activity will particularly involve improvements in the business environment for small companies, in line with priorities actions of Kosovo's commitment to implement the ten guidelines of the European Charter for Small Enterprises. This activity involves capacity building support to the following institutions:

Ministry of Trade and Industry (including the SME Agency)

The technical assistance will focus on providing further institution building support to the MTI, in line with the EU Charter for SMEs, to promote private sector development, particularly SMEs and local initiatives, throughout Kosovo. The project activities will focus on the following indicative areas:

- Continuation of previous EC funded work with business incubators, as well as collaboration with local programmes and organisations in order to assist enterprise growth and the establishment of new businesses.
- Assisting the MTI's Trade Department in identifying ways and means for the MTI to utilise resources provided for the Patent Office and the Agency for Standardisation in promoting trade agreements and enhancing Kosovo exports.

- Assisting the MTI’s Tourism Department to develop and implement a tourism strategy and to ensure that investment, regional development and trade initiatives also reflect the tourism potential of Kosovo.
- Establishing links with universities and technical training centres in collaboration with the Patens Office to promote and enhance the use of technology and research in the Kosovo business community.

Patents Office

The technical assistance will support the development (including its gradual transformation into an independent public body) and capacity building of a Patent Office to implement Intellectual and Industrial Property Rights (IIPR) and identify the opportunities for businesses to exploiting IIPR. Such assistance will aim to support Kosovo’s participation in international trade development activities and trade agreements, including ensuring Kosovo’s compliance with CEFTA and WTO requirements.

The Investment Promotion Agency for Kosovo (IPAK)

Technical assistance and training will be provided to IPAK, across the following indicative areas:

- Development of direct links with EU development agencies and potential investors.
- Development and promotion of Kosovo exports and investment policies.
- Provision of direct assistance to existing and potential investors in order to facilitate their investing in Kosovo.
- Provision of training and consultancy assistance to the emerging export oriented business sector in Kosovo.
- Development of promotional material and other investment promotion services for the private sector.
- Maintaining and updating MTI databases and information on support facilities for SMEs

Support to IPAK will be coordinated with private sector organisations like the Chamber of Commerce and the Alliance of Kosovo Businesses.

Activity 2: Further technical assistance for Privatisation and Liquidation

Training and capacity building will be provided for the successor organisation of the UNMIK Kosovo Trust Agency to ensure the completion of the privatisation and liquidation of Socially Owned Enterprises (SOEs) in Kosovo in full compliance with the provisions of the status settlement and the revised KTA Regulation. Such assistance will be provided through on-the-job training as well as through training and study tours overseas.

The project will simultaneously work with the Society of Certified Accountants and Auditors in Kosovo (SCAAK) as well as with the Kosovo Government in establishing an appropriate legal framework for bankruptcy and liquidation as well as ensuring a sufficient number of Kosovar professionals are trained and certified as Insolvency Practitioners according to recognised EU standards. This will allow the programme full sustainability and Kosovo to assume responsibility for such issues after completion of the programme.

Activity 3: Support for business development

Support for business development and job creation will be provided through the supply of advice and technical assistance to selected enterprises throughout Kosovo. Special provisions will be made to also support enterprises in economically depressed regions; in

the rural economy sector; and in ethnic minority communities. Specifically, this assistance is likely to include:

- Supporting local small and medium scale manufacturing, including the craft industry, agri-processing and technology based enterprises, through upgrading the quality and marketability of local products and upgrading manufacturing facilities.
- Providing technical assistance to entrepreneurs with productive and innovative ideas. This will include preparing potential entrepreneurs to effectively access financial markets (micro credits and bank loans),
- Assisting micro and small enterprises in urban and rural areas enterprises to access finance through the European Fund for South East Europe (EFSE)³, which provides development finance through qualified financial institutions.
- Support and training, as appropriate, for technological investments in private enterprises as well as new productive investments, capable of generating self-sustainable jobs.
- Developing manufacturing and technology based industry in Kosovo with particular emphasis on development in economically depressed regions.
- Support for the development and enhanced performance of Business Incubators and other Business Support Organisations such as the Kosovo Chamber of Commerce and the Alliance of Kosovo Businesses.

Contracting arrangements

Activity 1: Institution building

- Two service contracts are envisaged to implement the actions described under this Activity.

Activity 2: Privatisation and Liquidation

- Two service contracts are envisaged to implement the actions described under this Activity.

Activity 3: Support for business development

- One service contract and/or a grant agreement is envisaged to implement this activity.

Project management and administration

The Commission 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 European Agency for Reconstruction's operational centre in Pristina will assist the Commission Office in preparing for the initial implementation phase of this project through such actions as the drafting of project Terms of References and helping to prepare the IPA tender dossiers.

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.

³ <http://www.efse.lu/>

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 conditionalities:

- The beneficiary institutions appoint appropriate counterpart personnel and define their competencies before the launch of the tender process. The beneficiary agencies are functioning.
- The establishment of a successor organisation to take over responsibilities from the Kosovo Trust Agency (KTA); and in line with relevant provisions for the status settlement.
- Endorsement by all key stakeholders of the Terms of Reference and Call for Proposals, as well as the individual contracts to be engaged.
- Participation by the beneficiary in the tender process as per EU regulations.
- Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars and study visits by the beneficiaries as per the project workplan.
- Appointing the relevant staff by the beneficiaries to participate in training activities as per workplan.

In the event that conditionalities are not met, suspension or cancellation of the project or specific activities will be considered.

3.6 Linked activities

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 support to the IPAK and the MTI. Austria is planning to fund a voucher counselling scheme for Austrian investors. GTZ is working in the area of tourism development with MTI and local businesses in a number of regions in Kosovo. USAID is running a programme to support entrepreneurial organisations in three sectors. A Danida funded economic development programme focussing mainly on rural and regional development.

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 €million)	Start End	Activities/Results
<i>Institutional Building</i>		
Investment Promotion Agency (€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.
Kosovo Standardisation Agency (€1.5 million)	March 2007- October 2008	Assisting the Standardisation Agency to develop a quality infrastructure in line with the <i>acquis</i> in the areas of measuring, standardisation, testing and quality. The IPA 2007 project phase will also consolidate and build-on the results of this project.
Implementation of the Corporate Financial Reporting Law (€1.5 million)	Jan 2007- Dec 2008	Technical assistance and training is provided to the Society of Certified Accountants and Auditors of Kosovo in ensuring that implementation arrangements are available for enacting of the Corporate Financial Reporting Law, particularly with respect to regulatory function, compliance monitoring and supervision.
Ministry of Trade and Industry (€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.
Kosovo Property Agency (€3.0 million)	July 2006- July 2007	Support for the KPA to resolve legal issues/claims arising from the unlawful use of land and private commercial properties.
Kosovo Development Strategy and Plan (€2.1million)	May 2007- Nov 2008	Technical Assistance to Ministry of Economy and Finance and line ministries institutions to support the institutionalisation of the Kosovo Development Strategy and Plan (KDSP) process.
<i>Privatisation and Liquidation</i>		
Support to Kosovo Trust Agency (€3.6 million)	Nov 2005 July 2007	Specialised technical assistance to KTA for the transformation, privatisation and liquidation of Socially Owned Enterprises.
<i>Direct support to business development</i>		
Job creation in Kosovo's northern municipalities (€10.5 million)	Feb 2007- Feb 2009	The programme consists of three components: (i) a €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 Trepca 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 Obilic/q.
Targeted economic and community development actions in disadvantaged minority areas (€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.
Turn Around Management (TAM) & Business Advisory Services (BAS) (€2 million)	Oct 2004- Sept 2007	Supporting small, medium and large enterprises to restructure, improve competitiveness, attract investors, and increase employment. The programme is implemented by the European Bank for Reconstruction and Development (EBRD). More than 60 projects have initiated through the BAS programme in Kosovo since March 2005, while 25 large enterprises have been assisted through the TAM programme.
European Fund South East Europe	Aug 2006-	Loan finance from various EC funded credit schemes in Kosovo (now all closed) have been transferred for use by the EFSE. The EFSE is a

(€ million)	Aug 2008	public/private investment fund that provides financing for private sector development through financial intermediaries in Southeast Europe, including Kosovo.
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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:

- *The importance of a well functioning Investment Promotion Agency:* Lessons learned from the CARDS programme show that the availability of a well functioning support system, and in particular a well functioning Investment Promotion Agency, is crucial to attract private and notably private foreign investments and to promote exports. Such a support system goes beyond the provision of information and services to investors, and conveys the positive image of a country which takes investment and investors seriously.
- *The need to make provisions for including economically vulnerable groups in mainstream economic life.* Experience, in particular with networking among SMEs and local development initiatives in Kosovo, underlines the need to be gender and minority aware and well informed when designing programmes. Programmes and projects need to be inclusive, geographically as well as socially, to maximise both social and economic impact of activities. Furthermore when treatment of cross-cutting issues has remained weak in economic development projects, experience shows that those projects “missed” on some important beneficiaries and/or reinforced current (gender/ethnic) discriminations/inequalities. As indicated in the present Project Fiche, gender and minority issues are of high relevance within this sector since women and minorities face distinct disadvantages/constraints on the labour market. The very low labour market and enterprise participation rates of women as well as the prevailing considerable economic disparities among communities, constitute a major obstacle for both the economic and political stability of Kosovo. Those cross-cutting issues must therefore be actively mainstreamed within project design and implementation.
- *Local capability development:* Working with local organisations, public as well as private, has demonstrated the need for firm local anchoring of activities and capacity development.
- *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 operational funds available in the government budget to allow for appropriate implementation of

the mandate of the concerned department. The project aims to address this issue through the conditionalities for this project, as outlined in section

- *Coordination within the government:* Further improvements – in line with the spirit of EU accession– could be realised with a stronger government leadership in the coordination efforts among the ministries and departments and a stronger focus on operational coordination and harmonisation of policies.
- *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 projects.

4. Indicative Budget (amounts in €million)

Activities	TOTAL COST	SOURCES OF FUNDING										
		EU CONTRIBUTION				NATIONAL PUBLIC CONTRIBUTION					PRIVATE	
		Total	% *	IB	INV	Total	% *	Central	Regional	IFIs	Total	% *
1. Institution building	4.0	4.0	100	4.0								
2. Privatisation and Liquidation	4.5	4.5	100	4.5								
3. Support for business development	3.0	2.5	83	2.5						0.5	17	
TOTAL	11.5	11	96%	11						0.5	4%	

* expressed in % of the Total Cost

Activity 3 includes €0.5 million in parallel contributions from the enterprises selected for direct EC assistance

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

Contracts	Start of Tendering	Signature of contract	Project Completion
Economic development	Q4 2007	Q3 2008	Q3 2010
Liquidation/Privatisation	Q4 2007	Q3 2008	Q3 2010
Support for business development	Q1 2008	Q3 2008	Q3 2010

6. Mainstreaming Cross cutting issues

6.1 Equal Opportunity (gender mainstreaming)

The activities will ensure the participation of women and youth and minorities in activities 1 and 3. Activities and support programmes for business development will mainstream issues related to the participation of women, youth and minorities in all relevant programmes and ensure that their specific needs/interests/constraints are fully considered when working on establishing legal frameworks and public regulation of business activities. Opportunities for gender and minority balancing will be addressed in the liquidation project (Activity 2) by ensuring availability of training and certification for vulnerable groups.

Attention will be paid to the acquis in social and labour law, and notably the necessity to ensure enforcement of European standards in terms of wage equity, non-discrimination in employment, and equal opportunities.

6.2 Environment

Environmental issues will be addressed in all activities, and in particular when preparing the direct support to business development (Activity 3). For example, special consideration will be given to introducing environmentally friendly manufacturing processes and technologies. All support provided will be subject, when necessary as required by the legislation in force in Kosovo of by EU Directives and standards, to an Environmental Impact Assessment of the proposed activity and investment, along with scrutiny of issues related to health and safety at work. Priority may – as in the 2006 CARDS programme – be given to support investments that will further a cleaner environment in Kosovo. It may be considered under Economic development (Activity 1) to initiate discussion with Ministry of Environment and Spatial Planning for initiatives to improve the industrial/business contribution to a cleaner environment in Kosovo.

6.3 Minorities

As described above, the activities will ensure the participation of women and youth and minorities in activities 1 and 3. Activities and support programmes for business development will mainstream issues related to the participation of women, youth and minorities in all relevant programmes and ensure that such issues are considered when working on establishing legal frameworks and regulations for business activities. Opportunities for gender and minority balancing will be address in the liquidation project (Activity 2) by ensuring availability for training and certifying liquidators from marginalised groups.

ANNEXES

ANNEX I: Log frame in Standard Format

ANNEX II: Amounts contracted and Disbursed per Quarter over the full duration of Programme

ANNEX 1: Logical framework matrix in standard format

Project Title: Developing an enabling economic environment for all of Kosovo's communities		Programme name and number:	
Sector: Economic Development		Contracting period: (see section 1.10)	Disbursement period : (see section 1.12)
		Total budget : €1.5 million	IPA budget: €1 million
Overall objective	Objectively verifiable indicators	Sources of Verification	
To develop an enabling environment for private sector development and job creation for all communities in Kosovo.	Levels of FDI in Kosovo invested in the private sector including agricultural Annual increase in exports by value	Reports from Statistics Office of Kosovo; IMF; World Bank	
Project purpose	Objectively verifiable indicators	Sources of Verification	Assumptions
To enhance Kosovo's trade and investment climate, particularly in the manufacturing, service and in agri-processing sectors, through: 1. Institution building assistance to relevant public bodies such as the Ministry of Trade and Industry, and the Patent Office and the Investment Promotion Agency. 2. Completion of the on-going privatisation and liquidation of Socially Owned Enterprises through assistance to the successor organisation to the Kosovo Trust Agency and the development of an Insolvency Practitioner Association in Kosovo 3. Promotion of enterprise growth, modernisation and employment through support to selected enterprises, including enterprises in the agri-business sector, and enterprises in economically depressed areas.	Investment in the private sector in Kosovo Foreign Direct Investment (FDI) Exports from Kosovo Regional economic development initiatives	Statistics Office of Kosovo Central Bank of Kosovo Investment promotion Agency statistics Chamber of Commerce statistics	Status settlement will attract investment into Kosovo Sufficient interest and capability in Kosovo to utilise the opportunities offered
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
Institution Building to develop and enabling environment for trade, investment and job creation: The overall results of this activity will be institutional building to develop and enabling environment for trade, investment and job creation. The results will comprise ➢ Upgraded investment services available for potential investors and exporters, and Kosovo marketed as an attractive destination for investors. ➢ Ministry of Trade and Industry and the Patent Office have a legal and operational framework for the enforcement of Intellectual Property Rights, in line with WTO/CEFTA requirements. ➢ Universities and technical training centres have established links with the Kosovo business community and the Ministry of Trade and Industry's departments for Intellectual and Industrial Property Rights and the Agency for Standardisation. Support to Privatisation and Liquidation: • Continuation of the privatisation and liquidation process following the handover of responsibilities from the Kosovo Trust Agency to successor organisation. • A competent Insolvency Practitioner Association is established in Kosovo Support for Business Development: ➢ New jobs created in the enterprises selected by the project for direct support	At least 10 investors and exporters who access government services for investment and trade promotion services each month. The Patents Office is operational. Legal and operational framework for Intellectual and Industrial Property Rights is positively evaluated (e.g. WTO and CEFTA.) At least one agreements (e.g. MoUs) between the ministry and universities for directing university activities to support business development. At least 300 SOEs privatised or liquidated; liquidation proceeds ring-fenced in a 'Trust Fund' and amounts distributed. Insolvency Practitioner Association is in place and functioning with an internationally recognised certification. At least 200 jobs created in the selected enterprises; including in the rural economy sector; and in jobs in economically disadvantaged areas. at least 20 women entrepreneurs (or new entrepreneurs) supported	Kosovo company register Survey of programme impact Project reports Statistics from KTA and successor organisation Reports from projects Project statistics	Ministry of Trade and Industry will continue investment and business conducive approach International partners of the Investment Promotion Agency, established under CARDS 2006, will support and initiate activities for technology transfer. SCAAK or similar organisation able and willing to establish Insolvency Practitioner Association.
Activities	Means	Costs	Assumptions
Institutional building to develop and enabling environment for trade, investment and job creation	The project will be organised through two service contracts with a number of experts to accommodate the	€4 million	Ministry of Trade and Industry will establish

of advice and technical assistance for business development	one service contract and/or a grant agreement		
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Pre conditions:

- The beneficiary institutions appointment appropriate counterpart personnel and definition of competencies by before the launch of the tender process.
- The establishment of a successor organisation to take over responsibilities from the Kosovo Trust Agency (KTA); and in line with relevant provisions for the status settlement.
- Endorsement by all key stakeholders of the Terms or Reference and Call for Proposals, as well as the individual contracts to be engaged.
- Participation by the beneficiary in the tender process as per EU regulations.
- Organisation, selection and appointment of members of working groups, steering and coordination committees, seminars and study visits by the beneficiaries as per the project workplan.
- Appointing the relevant staff by the beneficiaries to participate in training activities as per workplan.

ANNEX II: Indicative planning of the amounts (in EUR million) contracted and disbursed by quarter for the project (cumulated)

	2007	2008				2009				2010				2011			
Contracted	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Institution building				4.0													
Privatisation and Liquidation				4.5													
Support for business development				2.5													
Cumulated Total				11.0													
Disbursed																	
Institution building				1.5				1.0				1.5					
Privatisation and Liquidation				1.5				1.5				1.5					
Support for business development				2.0								0.5					
Cumulated Total				5.0	5.0	5.0	5.0	7.5	7.5	7.5	7.5	11.0					