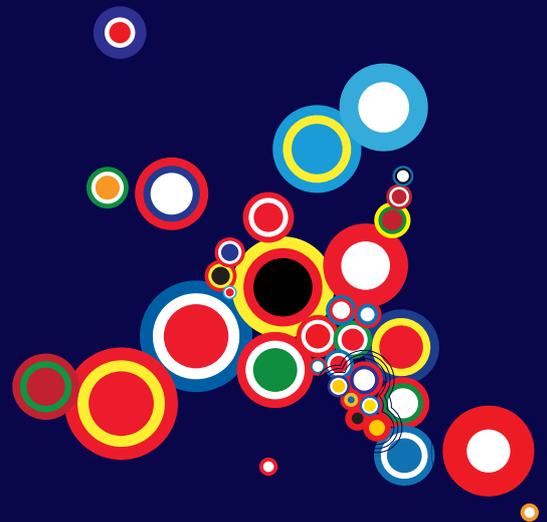




INSTRUMENT FOR PRE-ACCESSION ASSISTANCE (IPA II) 2014-2020

Kosovo*

Support to Regional
Economic
Development



Action Summary

The project will support regional economic development in Kosovo through strengthening the Network of Regional Development Agencies coordinated by ARDA – the Association of Regional Development Agencies. The Network will enable the development of regional socio-economic priorities like the attraction of investment, creating an enabling environment for starting up new businesses and employment, opening regional tourism potential and marketing regional development.

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

Action Identification	
Programme Title	<i>2014 Annual Action Programme for Kosovo</i>
Action Title	<i>Support to Regional Economic Development</i>
Action Reference	<i>IPA 2014 / 032355/ Kosovo/ Support to Regional Economic Development</i>
Sector Information	
IPA Sectors	<i>Competitiveness and Innovation</i>
DAC Sector	<i>43040</i>
Budget	
Total cost (VAT excluded)¹	<i>2.83 million Euro</i>
EU contribution	<i>2.55 million Euro</i>
Management and Implementation	
Method of implementation	<i>Direct management</i>
<i>Direct management:</i> EU Delegation in charge	<i>EU Office in Kosovo</i>
Implementation responsibilities	<i>Ministry of Local Government and Administration</i>
Location	
Zone benefiting from the action	<i>Kosovo</i>
Specific implementation area(s)	<i>Kosovo</i>
Timeline	
Deadline for conclusion of the Financing Agreement	<i>31 December 2015</i>
Contracting deadline	<i>3 years following the date of conclusion of Financing Agreement</i>
End of operational implementation period	<i>6 years following the date of conclusion of Financing Agreement</i>

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

1. RATIONALE

PROBLEM AND STAKEHOLDER ANALYSIS

Kosovo's territory is a little over 10,000 km² and the resident population is 1.73 million (as per the results of the last census).

Kosovo's economy is small and by regional standards relatively poor with an economy mainly based on high level of inflows from the diaspora and donor assistance. Economic growth has been hovering around a moderate 3% over the last two years. Foreign investment is still relatively low and unemployment - at more than 40% of the population - is a severe problem that encourages outward migration.

Kosovo's Medium-Term Expenditure Framework (MTEF) recognises that the current stage of decentralisation imposes considerable responsibility on Kosovo's municipalities. Furthermore, the MTEF foresees considerable funding under specific sector strategies that will benefit citizens of Kosovo's municipalities and will be channelled through central agencies.

The Medium-Term Expenditure Framework acknowledges as a priority that conditions for a "rapid sustainable economic growth for the benefits of all citizens in Kosovo" should be created. Furthermore, the MTEF highlights that the private sector calls 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 to better support business 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 to provide assurance of product quality. Small businesses currently lack easy access to finance at competitive rates, which is as an obstacle both to starting small firms and to the expansion of existing ones.

The regional development strategies in the five economic regions of Kosovo have highlighted the need to substantially improve the quality of local infrastructure and the general business environment in order to create the conditions whereby investment can take place that will lead to the creation of new jobs which will in turn contribute to enhanced economic and social cohesion and balanced regional development throughout all of Kosovo. Moreover, the regional analysis also concluded that the lack of capacity of municipalities, in both financial and human resource terms, was a serious barrier to addressing these issues.

EU Regional Economic Development (EURED) is emerging 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. 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. The capacities for designing and developing concepts for regional initiatives to enhance investments and employment are limited in Kosovo.

RELEVANCE WITH THE IPA II STRATEGY PAPER (OR MULTI-COUNTRY STRATEGY PAPER) AND OTHER KEY REFERENCES

The Indicative Strategy Paper for Kosovo defines the sector of competitiveness and innovation that aims to boost the competitiveness of the Kosovo economy, in particular SME and regional development. This action is directly linked to competitiveness and innovation and, in addition,

complements efforts in the fields of economic governance, public administration and public finance management. The action will directly contribute to regional economic and business development.

SECTOR APPROACH ASSESSMENT

The action is following the sector approach principles. The action combines further development of institutional support network with sub-granting to private sector in the regions. The EU projects in this sector have been operational in Kosovo since 2009 and have undergone positive evolution from 5 single support institutions into a coordinated support network for economic development. It is in line with Kosovo's EU accession policy related to EU Regional Policy and Structural Funds; especially regarding building capacities of national human resources and ensuring absorption of future financial support.

LESSONS LEARNED AND LINK TO PREVIOUS FINANCIAL ASSISTANCE

Previous financial assistance to regional development in Kosovo can be concluded with the following lessons learnt:

- Regional development support in Kosovo has proved its success, but much more still needs to be done to improve both the business environment and infrastructure throughout Kosovo. A more comprehensive programme in support of business development is necessary.
- With many small municipalities and thus lacking the resources to undertake proper project development, support to them from the Association of Regional Development Agencies (ARDA) is critical so that they can fully utilise the financial resources available for economic development of municipalities.
- Latest experience with most of municipalities has shown that they have serious problems in managing the projects following EU procedures. More guidance and support from (ARDA) will be instrumental
- Coordination and harmonisation of the activities of ARDA with the central institutions needs to be improved.
- It should be ensured that land ownership issues (including access) shall be fully solved when selecting projects for further support (i.e. land must be the property of the beneficiary).
- The beneficiary's full ownership of the project is a key to the success of initiatives. Therefore, a close and regular involvement of the beneficiary from the very early stages of the project and throughout the entire project cycle is of utmost importance.
- Experience shows that properly assessing the track record of a municipality related to previous EU-funded projects is a criterion that shall be included in the project selection process.
- Collaboration and cooperation at regional level consolidates individual efforts into a more effective tool for development. Cooperation on regional development projects also boosts development at the Kosovo-wide level.

The EU has provided over 14 million EUR under IPA programmes 2007-2013 in order to finance regional development. The previous assistance has targeted regional development instruments (grant schemes) and structures (support network). Based on the above lessons learnt, a more comprehensive programme would be necessary, combining as instruments as well as structures. In addition, more stable support from Kosovo public sector would be necessary. The current action will address both above-mentioned challenges with giving more management responsibilities to Kosovo Government and introducing sub-granting to private sector to the existing regional development support structures.

2. INTERVENTION LOGIC

LOGICAL FRAMEWORK MATRIX

OVERALL OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	
Support to Regional Economic Development in Kosovo	GDP per capita in 2017 has increased 1% compared to 2013	National statistics	
SPECIFIC OBJECTIVE	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<ul style="list-style-type: none"> • To make Kosovo regions more attractive to domestic and external investment • To enhance capacities of Regional Development Agencies to provide services and grant support to municipalities, non-profit organisations and businesses 	<p>The number of registered businesses in 2017 has increased by 1000 compared to 2014.</p> <p>Tax revenues from business operations have increased in 2017 by 2% compared to 2013.</p>	<p>MTI administrative data on business registration and investment</p> <p>Reports of Tax Administration of Kosovo</p>	<p>National data available on regional level</p> <p>Government prepares and implements business support programmes</p>
RESULTS	OBJECTIVELY VERIFIABLE INDICATORS (OVI)	SOURCES OF VERIFICATION	ASSUMPTIONS
<p>Result 1: Kosovo regions more attractive to domestic and external investment</p>	At least 10 million EUR investments attracted during the period of the project	MTI administrative information about investment	<p>The baseline for measuring the planned amount of investments should be clarified and the target figures revised after the first reporting period of ARDA. The business zones/parks will be ready and properly equipped to foster new green and brownfield investments</p>

<p>Result 2: Increased entrepreneurship and job creation in Kosovo regions</p> <p>Result 3: Marketing of regional economic development activities in Kosovo</p>	<p>At least 100 new businesses established which create at least 200 new jobs created during the period of the project, from which 100 for women</p> <p>Number of projects involving businesses, NGO's and municipalities prepared and supported by ARDA network.</p>	<p>Impact survey - to be carried out by ARDA at least on an annual basis</p> <p>ARDA and RDA's records on annual basis</p>	<p>To ensure adequacy of ARDA / RDA commitment, a reasonable collaboration and competition between the RDAs should be encouraged and rewarded</p>
ACTIVITIES	MEANS	OVERALL COST	ASSUMPTIONS
<p>1 Investment support</p> <p>1.1 Regional economic development grant scheme implemented</p> <p>1.2 Finalised description of business support services for investors to the regions</p> <p>1.3 Finalised and implemented plan for regional investment events</p> <p>1.4 Regular review of investment support measures</p> <p>2 New business establishment and existing business growth support</p> <p>2.1 Finalised description of services in collaboration with the Employment Agency, and providing those services for new and existing businesses in regions</p> <p>2.2 Finalised and actively delivering training programme either through Employment Agency or other business operators for supporting new and existing businesses in regions</p> <p>2.3 Regular review of business support measures</p> <p>2.4 Sub-granting to start-up businesses</p> <p>2.5 Monitoring and assessment of trainees</p> <p>2.6 Monitoring the sustainability of businesses through coaching and mentoring programmes</p>	<p>An action grant with ARDA for 2 years period</p>	<p>EUR 2.55 million EU financing for action grant to ARDA</p> <p>EUR 280,000 co-financing by municipalities</p> <p>TOTAL IPA EUR 2.83 million</p>	<p>Readiness of the Employment Agency (to be operational on Jan 2015) designed to deliver entrepreneurship training for start-ups</p> <p>Collaboration with SME support mechanisms</p> <p>Readiness to start with new businesses</p> <p>Wider public receptive to economic development support to Kosovo</p>

<p>3 Marketing and communication</p> <p>3.1 Revised marketing and communication plan for the revised services</p> <p>3.2 Revised the ARDA / RDA marketing and communication materials and websites to reflect upon revised services</p> <p>3.3 Ongoing collaboration with Kosovo government, municipalities, non-governmental organisations and other stakeholders to achieve the aims of the ARDA network</p>			
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ADDITIONAL DESCRIPTION

Following is a more detailed description of ARDA activities

1. Investment Support:

- ARDA network has described business support services for the external and internal investors and is actively providing those services to the investors
- ARDA network organises regular regional investment promotion events, preferably in collaboration with e.g. Ministry of Trade and Industry, Investment Promotion Agency of Kosovo, economic and industrial zones and others
- The individual RDAs compete for an annual award based on the results of their work in the respective regions
- The ARDA analyses and reviews the existing investment support measures to constantly improve them

2. New business establishment and business growth support

- ARDA network has described business support services and is actively delivering them for new and existing companies, tailored for two primary target groups:
 - Micro entrepreneurs, new start-ups and
 - SMEs above micro companies aiming to grow
- ARDA network organises regular training events on establishing new businesses and growing existing businesses, preferably in collaboration with e.g. Investment Promotion Agency of Kosovo, local employment centres, business support centres, one-stop-shops and others
- The individual RDAs compete for most jobs created for an annual award
- The ARDA analyses and reviews the business support measures to constantly improve them
- ARDA network implements small scale sub-granting to start-up businesses with the following three modules:
 - Module 1 - Strengthen capacity of ARDA and RDAs to support entrepreneurship in regions
 - Module 2 - Facilitation of the entrepreneurship education in the region
 - Module 3 - Improve access to finance for start-up businesses

Indicative Evaluation Criteria of Start-up Business Plans:

- Products and services (description, features, and benefits, pricing, current stage of development, proprietary position)
- Market and marketing strategy (description of market, competitive analysis, needs identification, unique capabilities, sales/promotion)
- Management (backgrounds of key individuals, ability to execute strategy, personnel needs, organization structure)
- Financial projections (presented in an easy to read and understandable format)
- Number of new jobs created
- Import substitution

The indicative size of sub-grants could fall between the following minimum and maximum amounts:

- minimum amount: EUR 5,000;
- maximum amount: EUR 25,000.

4. Marketing and communication

- ARDA network has revised its marketing and communications plan to match the revised services to best serve the interests of the key stakeholders: investors, businesses, tourists, municipalities and non-governmental organisations
- ARDA network has revised its marketing and communications materials

- ARDA network, collaborates on a regular basis with Kosovo governmental institutions, with municipalities, non-governmental organisations and other stakeholders

3. IMPLEMENTATION ARRANGEMENTS

ROLES AND RESPONSIBILITIES

The Contracting Authority of the action is the EU Office in Kosovo.

The Ministry of Local Government and Administration will be responsible for the implementation of the action. Employment Agency as an independent and delivery mechanism is designed to deliver Active Labour Market Measures including the Entrepreneurship Training to Start-ups. They form a Steering Committee of the project and participate in Evaluation Committees of the tenders and calls for proposals. The EU will be an observer in the committee. In addition, the Ministry and the EU will be part of Evaluation Panel for the recruitment of staff in ARDA and RDAs.

The five Regional Development Agencies (RDAs) have been established in December 2008 for designing projects, and to provide a vehicle for effectively implementing the economic development strategies in the regions.

In December 2011, the five RDAs signed a cooperation agreement that will increase joint activities of different RDAs and municipalities. The agreement advises projects between the municipalities and other actors coming from different economic regions. It also advises joint actions of all five regions in support to Kosovo's socio-economic development.

As a result of the above-mentioned cooperation agreement, the Association of the Regional Development Agencies (ARDA) was established on 11 January 2013 through an agreement between the five existing RDAs (Centre, North, West, South and East).

The objectives of ARDA are as follows:

- To coordinate the cooperation between the economic regions in Kosovo and respective Agencies;
- To represent common and specific issues on the national level;
- To attract financial resources on a national level in implementing the Regional Economic Development Strategies;
- To promote Regional and Rural Development;
- To consolidate the Regional Economic Development Strategies and priority projects thus participating in the development of Regional Development Plan and other strategic documents on the national level;
- To manage knowledge and the skills in RDAs for implementing the common activities.

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

The project will be implemented by a direct action grant to ARDA Network and the implementation of the action is expected to be 24 months.

4. PERFORMANCE MEASUREMENT

Performance will be measured by the indicators as provided in the Logframe and in the below table of indicator measurement. Based on the results of the first year of the project the indicators may be adjusted. There will be a certain competition between the 5 Regional Development Agencies. Additional resources could be allocated to the RDA(s) that have shown the best performance indicators in the first year of the project.

METHODOLOGY FOR MONITORING (AND EVALUATION)

The project will be monitored by the Ministry of Local Government and Administration supported by the EU Office in Kosovo. The EU Office in Kosovo will use Result Oriented Monitoring method.

INDICATOR MEASUREMENT

Indicator	Description	Baseline (2014)	Last available (2014)	Milestone 2017	Target 2020	Source of information
<i>CSP indicator</i>	Kosovo's ranking in the WB Doing Business report	86	86	70		WB Doing Business report
<i>Action outcome indicator1</i>	<i>GDP per capita</i>	€2,773 (2013)	€2,773 (2013)	+1% in 2017		Ministry of Economic Development http://mzhe.rks-gov.net/?page=1,216
<i>Action outcome indicator2</i>	<i>New investments attracted in Kosovo regions</i>	€ 259 mil (2013)	€ 259 mil (2013)	+10 million EUR in 2017		Central Bank of Kosovo http://www.bqk-kos.org/?cid=1,124
<i>Action outcome indicator3</i>	<i>businesses supported in Kosovo regions</i>	0	0	+100 in 2017		ARDA network records
<i>Action outcome indicator4</i>	<i>New jobs created in Kosovo regions</i>	0	0	+200 in 2017, from which 100 for women		ARDA network records
<i>Action outcome indicator5</i>	<i>Number of projects involving businesses, NGO's and municipalities prepared and supported by ARDA network</i>	93 (2013)	93 (2013)	+50% in 2017		ARDA network records

5. CROSS-CUTTING ISSUES

ENVIRONMENT AND CLIMATE CHANGE (AND IF RELEVANT DISASTER RESILIENCE)

The investments and grant projects related to infrastructure need to take into account energy efficiency principles. Environmental impact assessment is a compulsory selection criterion for small scale projects under the sub-granting facility.

ENGAGEMENT WITH CIVIL SOCIETY (AND IF RELEVANT OTHER NON-STATE STAKEHOLDERS)

ARDA and RDAs represent a network of non-governmental institutions involved in regional economic development in Kosovo. ARDA Network provides services and in lesser extent grants to the interested civil society institutions in case they would like to be involved in regional economic development with their concrete actions.

EQUAL OPPORTUNITIES AND GENDER MAINSTREAMING

Equal opportunities and gender mainstreaming will be taken into account in staffing of ARDA Network. Under Start-up Business Grant Scheme, gender balance will be taken into account in award decisions.

MINORITIES AND VULNERABLE GROUPS

Minorities and vulnerable groups will be considered while staffing of ARDA Network. Under EURED Grant Scheme, the projects involving minorities and vulnerable groups are highly relevant. In addition, the Regional Development Agency in the North Kosovo has been given extra resources for intensifying their work in the North.

6. SUSTAINABILITY

Sustainability of the action is dependent on Kosovo's plans related to EU Regional Policy and Structural Funds. During 2015-2016, Kosovo will elaborate institutional models for the EU Accession and reception of the EU Structural Funds. The first Kosovo National Development Plan drafted by the Prime Minister's Office in Kosovo will define sector and horizontal priorities for development. ARDA Network could be one of the support institutions instrumental for ensuring absorption of the EU Structural Funds' support to Kosovo.

7. COMMUNICATION AND VISIBILITY

Communication and visibility will be given high importance during the implementation of the Action.

The implementation of the communication activities shall be the responsibility of the beneficiary, and shall be funded from the amounts allocated to the Action.

The EU Office in Kosovo has developed clear visibility guidelines and ensures that all projects which are implemented in Kosovo are fully in line with these guidelines. Project visibility is also clearly stipulated in all contractual documents whereby the contractors/implementers are obliged to adhere to all EU visibility requirements, as stipulated in the Communication and Visibility Manual for EU External Actions.

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

interventions. Visibility actions should also promote transparency and accountability on the use of funds.

It is the responsibility of the beneficiary to keep the EU Office fully informed of the planning and implementation of the specific visibility and communication activities.

The beneficiary shall report on its visibility and communication actions in the report submitted to the IPA monitoring committee and the sectoral monitoring committees.

It is expected that ARDA network collaborates on a regular basis with the EU Office in Kosovo, the Kosovo governmental institutions, with municipalities, non-governmental organisations and other stakeholders.