

SECTION C - DESCRIPTION/SPECIFICATIONS/STATEMENT OF WORK

I. Project's Overall Goals and Objectives

The Competitive Enterprise Development project (CED) aims to contribute to Albania's sustained, broad-based economic growth. Its objective is to support the sustained growth of Albania's non-agricultural enterprises, increase household income and create gainful employment by developing and strengthening the competitiveness capacity of existing enterprises as well as start-ups in targeted regions of the country. The project objectives will be achieved through:

- (1) Strengthening trade and investment capacity;
- (2) Increasing enterprise productivity; and
- (3) Improving workforce development.

II. Background

1. Albania's Economic Performance

In 2007, continued macroeconomic stability and strong migrant remittances helped Albania maintain healthy economic growth despite the persistent energy crisis. The country's gross domestic product (GDP) grew by 5.5 percent and the GDP per capita increased by 11 percent to \$3,256. Inflation was about 2.5 percent. The budget deficit fell to 3.1 percent of GDP from 3.6 percent in 2005. The number of Albanians living in poverty decreased from 25 percent to 18 percent.

While these accomplishments are impressive, Albania remains one of the poorest countries in Europe and its per capita income is among the lowest in the Balkan region. Worldwide it ranks 68th of 177 countries on the Human Development Index (UNDP's 2007/2008 Human Development Report). The average unemployment rate is 13.8 percent with much higher rates in the rural areas. Foreign direct investment in 2006 was 3.6 percent of the GDP, placing Albania among the lowest recipients in the region. The trade deficit continues to widen, reaching 1,685.4 million Euros in 2006 and exceeding the previous year's deficit by 14 percent.

2. Importance of Private Enterprises to the Economy

Currently the private sector contributes more than 75 percent of the GDP and more than 80.4 percent of all employment. Micro, small and medium enterprises are the driving force for Albania's economic growth and job creation. They account for 99 percent of private enterprises and about 75 percent of total employment in non-agricultural sector. However, the development of micro, small and medium enterprises has been hindered by their weak competitive capacity, their limited access to commercial credit and the unfavorable business environment caused by widespread corruption, unfair competition, high cost of business registration and inconsistent application of fiscal laws and regulations. In addition, poor infrastructure (energy, communication and transportation), disputable property ownership, and weak rule of law discourage domestic and foreign investments. For both the Growth Competitiveness Index and Business Competitiveness Index, Albania ranks behind most other countries in the region. However, substantial improvements on many of the foregoing constraints have made the setting more conducive to greater investments.

III. The Development Challenges

The development of competitive private enterprises, especially the small and medium-sized enterprises (SMEs) is critical for Albania to increase gainful employment and household income and to reduce poverty and unemployment. Furthermore, as the productivity of the agricultural sector improves, the need to create more non-agricultural jobs, especially in the urban areas, to absorb the expected inflow of migrants from the rural areas becomes increasingly urgent.

The greatest challenge is to improve the competitiveness and productivity of the existing enterprises so that they can expand and/or diversify their businesses in the domestic and regional markets thereby increasing revenue and profit and creating more jobs. However, focusing assistance on the existing enterprises is not sufficient, it is also necessary to spur competitive start-up enterprises to meet the changing demands of the open markets and of the Albanian consumers whose incomes have risen in recent years.

Thus, a focus on the development of competitive SMEs would be an appropriate strategy for the Government of Albania (GOA) and donors to promote sustained, broad-based economic growth. Albania must overcome many problems that affect the competitiveness and growth of the existing as well as start-up enterprises. To be competitive, Albanian enterprises should take innovative approaches. Increasing efficiency and competitiveness will require more innovation and less replication or a production based on low labor costs. Thus, these enterprises will need to:

- (1) Respond to end market demands through improved products and process;
- (2) Continuously invest in human and capital resource development;
- (3) Modifying organizational structure within firms and value chains; and
- (4) Improve intra- and inter-sectoral linkages (horizontal and vertical).

A. Lack Technological Innovation

The manufacturing industries in other countries in the region have adopted state-of-the-art technologies. Most Albanian enterprises continue to operate with outdated technologies that are inefficient and unreliable for large-scale production of quality products that meet international standards. For various reasons including insufficient financial resources and limited technical knowledge, many firms have imported used machines and equipment from European countries, notably Italy and Germany, which are generally outdated and inefficient. The use of computer technology in the productive sector is very limited. The concepts and application of e-commerce, e-procurement and other internet-based marketing techniques are still new. This problem is compounded by the enterprises' lack of skilled workers capable of adopting and mastering modern technologies and techniques. As a result, their products fail to meet the qualitative and quantitative requirements of the markets. These enterprises generally operate in a "struggle-for-survival" mode and remaining in the factor-dependent stage, unable to compete in the market economy, expand their businesses and generate employment.

B. Poor Organizational and Financial Management

Coming out of fifty years of central command economy under the former communist regime, most Albanian entrepreneurs do not have the total skill package to manage a private enterprise in a market economy environment. It is very rare to find a firm that has a good production or business plan or a financial management system based on sound accounting principles, with a clear vision and goal. The lack of good organizational and financial management capability impedes the efficiency and competitiveness of the Albanian enterprises. The problem has led to the existence of many inward-processing based enterprises, which use inputs provided by the final buyers to assemble final products and then ship them to the final exporter for re-export and final sale. Foreign buyers direct all production in these cases.

C. Lack of Understanding How Markets Function

A major constraint to the SME competitiveness is a general lack of knowledge among firm owners or managers as to how and why markets function. Many of these owners/managers seem to make decisions on manufacturing and selling products based on the presumption that any product, once produced, can be sold. In most cases, they make non-economic decisions on pricing and selling products driven by availability of inputs and manufacturing facility instead of what markets demand. In addition, lack of knowledge encompasses product standards and consumer tastes and preferences in domestic and export markets. They continue to be production-driven and fail to recognize that, for some products, they simply cannot be competitive with foreign imports. This lack of understanding is particularly acute at this time, given the opening of trade and the rigors of consumer product standards imposed by the European Union and the United States.

Producing to meet market demand in Albania remains relatively new, particularly relating to quantity, quality, and timing as influenced by demand. By considering market demand conditions, enterprise owners need to evaluate their options for supplying a product to the market, given their current opportunities and constraints. Usually, market-oriented manufacturers or service providers take the necessary steps to overcome constraints to expand their opportunities. For Albania, the transitional process from a demand economy to market-driven economy based on specialization that requires increasing efficiency, improving quality and adjusting to ever-changing market dynamics.

D. Limited Access to Financial Resources

While commercial credit to the private sector has grown significantly in the past two years, the access to financial resources remains inadequate to support the rapid development of competitive enterprises. Guarantee funds have emerged under several programs to support SMEs, mainly with USAID/Development Credit Authority (DCA) and United Nations Office for Project Services (UNOPS) funding. The guarantee funds, however, covers only certain locations and SME categories. Moreover, SMEs, particularly start-ups, face tremendous obstacles to qualifying for credits from commercial banks, and credit costs are relatively high. Bank requirements are not favorable for businesses. Loan collateral required by banks varies from 120% to 150% of the loan, and interest rates are high even when a loan finances medium-term capital investments. The Albanian-American Enterprise Fund has successfully supported a number of private enterprises. However, the access to this fund is also limited.

E. Lack of Mutual Trust and Motivation for Cooperation

Generally, mutual trust does not exist among firm operators/owners. Currently, there are several business associations. However, very few have achieved financial self-sufficiency and member services. The lack of mutual trust and cooperation, compounded by the weak firm-level capacity, adversely affects the readiness and receptivity to using the conventional cluster development approaches to enhance competitiveness. This building individual firms' capacity occur to survive in an international market-based economy and to grow effective cluster participants. Most Albanian firms have but a few years of operating experience. Most firms find themselves still in an initial "struggle for survival" mode. In reality, few Albanian firms have matured sufficiently to understand the benefits of collaborating with their industry competitors, as is expected by the cluster approach. Experience elsewhere has shown that an effective cluster evolves as businesses grow and begin to accept the need to collaborate with other parties in order for their growth path to continue.

F. Workforce with Low Skill Level

While Albanian labor costs are low, the skill level of Albania workers varies substantially. Workers with medium or higher level skills tend to migrate. Albania has a high adult literacy rate of 97 percent. Drop out rates are also high and a large percentage of school leavers lack skills training, particularly rural areas and girls. Studies indicate that school leavers directly enter the labor market, emigrating or working in Albania's large informal economy. Also, there is a lack of a customer service attitude, an imperfect understanding of the idea of quality standards, limited entrepreneurial skills, and inadequate vocational training. A recent European Union-funded labor market study states: "the lack of a skilled labor force creates a risk that that country will become trapped in subsistence and low-value added economic activities, thus impeding its long term development."¹ The Ministry of Labor, Social Affairs and Equal Opportunities (MoLSAEO) includes vocational education in its 2003 strategy. Nine regional training centers under the MoLSAEO target unemployed people. However, the institutions lack public resources as well as good school curriculum, teaching and learning methods, and learning and teaching materials. In reality, skills upgrading primarily occurs informally on the job through emigration or through apprenticeships with local enterprises.

G. Poor Institutional, Policy and Regulatory Environment

The business enabling environment shows signs of improvement compared to just five years ago, but still has key challenges. Improvements have been reported in the areas of organized and street crime and corruption, macroeconomic instability, fiscal reform, and uncertainty around regulatory policies. However concerns continue or are increasing with regard to unfair competition related to the informal sector, bribe payment, and access to and cost of financing. The texts of Albanian laws are considered to be "good", but failure occurs in their interpretation, application, and enforcement. At the same time policies and regulations which will impact the private sector are not well vetted with the affected businesses.

H. Poor Infrastructure

Poor infrastructure seriously constrains economic growth and poverty reduction throughout Albania. It is a priority concern for all private sector activities in the country. Power shortages produce the most critical constraint facing small and medium enterprise in Albania. The need to assure a steady supply of power is paramount among those interviewed by the Team. Transport is also a key constraint. Although the current transport system was judged to be satisfactory, it may not be adequate for increased traffic as the economy grows, especially if on-going maintenance and upgrading are required. Water, sewage and waste treatment systems are also considered deficient.

IV. Linkage with Current Strategy and Programs in Albania

A. USAID/Albania's Economic Growth Strategy

The Competitive Enterprise Development project will directly support USAID's strategy for supporting sustained, broad-based economic growth and poverty reduction in Albania. This strategy is based on implementing activities designed to address specific issues in the following program areas: (1) trade and investment; (2) financial sector; (3) private sector competitiveness;

¹ Labor Market Review: Albania. European Training Foundation. 2006

(4) agriculture; (5) workforce development; and (6) energy. The CED project will focus primarily on trade and investment, private sector competitiveness, and workforce development.

B. USAID/Albania's Economic Growth Programs

USAID/Albania's Economic Growth portfolio currently includes six major activities that range from private enterprise development, trade capacity building, financial sector improvement, and SME financing, enterprise competitiveness, and energy. Another activity supporting economic growth in select municipalities – the Local Government Program in Albania -- falls under the Democracy and Governance program (bullet number seven below). CED will provide a complementary effort to these on-going programs to enhance the achievement of the objectives and outcomes set for USAID/Albania's economic growth program. A close collaboration and synergy of CED with other projects is expected. Below is a summary of on-going activities of interest.

1. Enterprise Development and Export Market Services Program (EDEM):

Launched in September 2003, this five-year program promotes the competitiveness of Albanian small and medium sized enterprises in domestic and foreign markets and accelerates the entry of Albanian exports into global markets. Development Alternatives, Inc. is the prime contractor. This program aims to reverse the strategic focus from supply potential to market opportunity as the driver of strategy and resource allocation, and to confront corruption as a key to unlocking the Albanian economy's latent potential and competitiveness. EDEM helps develop those industries and services that offer the promise for growth and job creation by working with businesses to develop their competitive potential through: (1) improving the quality of products; (2) enhancing trade promotion and improving Albania's ability to compete in the domestic, regional and European Union markets; (3) increasing the availability of market research; (4) reforming governmental policy; and (5) reducing corruption. The program is scheduled to end September 30, 2008.

2. Albanian Center for International Trade (ACIT) Program: This program started in September 2003 to establish a resource center – The Albania Center for International Trade – that focuses on improving the quality of Albania's trade policies to foster growth and development and increase the public benefit from trade opportunities created by globalization trends and integration processes. Implemented by an Albanian NGO, the Institute for Contemporary Studies, ACIT aims at: 1) strengthening the institutional capacities of the government, private sector, civil society and media in trade-related areas; 2) promoting and facilitating public debate and the participation of all stakeholders in the trade policy-making process; 3) supporting the choice of policy options of stakeholders by providing professional appraisals and analyses; and 4) providing accurate and timely trade information through its Trade Data Base. ACIT's end date is September 30, 2008.

3. Albanian Financial Sector Development Program: This program aims to improve the stability and growth of Albania's financial sector. The implementer provides technical assistance and training to the Bank of Albania, the Deposit Insurance Agency and the Financial Supervisory Authority to help improve Albania's financial regulatory environment, strengthen public confidence in the banking system, and provide a more secure, efficient and transparent financial system to meet the credit, savings and insurance needs of businesses and individuals. This program will end in March 2011.

4. Development Credit Authority (DCA) Program: This program started in 2006 under a \$12.0 million Loan Portfolio Guarantee Agreement that USAID and Raiffeisen Bank in Albania

signed. It aims to increase access to financial resources of micro, small and medium-sized enterprises for business expansion and diversification. Currently, the DCA lending is concentrated in major cities and the minimum loan size is set at a high level that does not favor most micro-enterprises and some small-sized enterprises. This program will continue to 2013.

5. Albanian Agriculture Competitiveness Program (AAC): This five-year program started in July 2007 to support the sustained growth of Albania's agricultural sector and increased rural household income by developing and strengthening the competitiveness capacity of the Albanian producers of high-value agricultural products. AAC focuses on productivity improvement, responsiveness to trade conditions and opportunities, and commercial farming development. It works with producers and other economic actors along promising value chains to assess constraints to competitiveness and then brings a mix of long and short-term technical assistance, training, targeted performance grants, and financing to remove these constraints. The program efforts include support to: (a) strengthen producer capacity for commercial farming; (b) strengthen capability for market development; and (c) increase access and utilization of timely and reliable market information. This program will end in July 2012.

6. Electricity Distribution and Privatization Support Program: The Albanian electric power sector has suffered from the lack of investment, poor maintenance, and limited capacity for imports. These problems are exacerbated by the inefficient management of the state-owned power utility (KESH), which is in a desperate financial situation, unable to reduce losses and improve collections. The resulting lack of a reliable and adequate supply of electricity has adversely affected Albania's economic growth. To address this prolonged energy crisis, the Government of Albania (GOA), with strong support from the donors, has decided to move forward with the privatization of KESH's distribution assets. USAID's Distribution and Privatization Support Program assists the GOA, particularly the Ministry of Economy, Trade, and Energy, in this effort by developing the necessary legal, regulatory policy, and market frameworks for privatization and building the capacity of the Electricity Regulatory Entity to serve as a transparent regulatory body independent of state control. Depending on funds availability, this program will end in August 2009.

7. Local Government Program in Albania (LGPA): This activity is implemented under the Democracy and Governance objective, aims to improve governance in 10 selected municipalities and build public-private partnerships to create a "business friendly" environment in which the local private sector can flourish. The selected municipalities are Shkoder, Kukes, Lezhe, Gramsh, Fushe Kruje, Fier, Korce, Librazhd, Pogradec and Himara. The program seeks to increase investment, create jobs, raise incomes, and ultimately, expand municipalities' tax base. The program's foundation is the formation of a Municipal Economic Growth Committee in each of the select cities. With representation from public, private and civil society sectors, these committees will develop a strategic vision of their communities' future economic development and prioritize immediate actions, such as improving public services, tax collection procedures, and asset management systems. Through these plans, LGPA will work with each of the participating municipalities to identify and attract potential investors. This program will end in July 2011.

V. Tasks

A. Principal Tasks

The implementation of the CED project will start in at least five (5) cities/municipalities covered by LGPA as well as in at least five (5) selected cities/municipalities not affected by LGPA. The

project will expand to new cities/municipalities in each of the remaining years. The selected cities/municipalities as well as the number must be approved by USAID. CED project will not cover agriculture-related activities which fall within the scope of the Albanian Agriculture Competitiveness project. Under the CED project specific non-agriculture industries and individual private enterprises will be identified and selected through a rapid appraisal survey to be conducted within three months after the start of the contract.

The contractor will work with entrepreneurs, investors and other economic actors involved in selected industries/enterprises to assess constraints to competitiveness and then bring a mix of long and short-term technical assistance, training, targeted performance grants, and financing to assist local actors in removing these constraints. Depending on the selected industries and enterprises and their respective competitiveness constraints, the contractor's tasks will focus on three principal areas of intervention:

- (1) Strengthening trade and investment capacity;
- (2) Increasing enterprise productivity; and
- (3) Improving workforce development.

1. Strengthening Trade and Investment Capacity: The contractor shall develop and strengthen the capacity of Albanian enterprises to compete in the domestic and international markets. Selected enterprises will receive technical assistance and training on compliance with international standards for improved trade; use of information and communication technologies (ICTs) for trade-related activities; and improvement of trade knowledge and skills. The contractor shall assist enterprises to improve their organization and management for greater efficiency and competitiveness. The assistance will help the enterprises apply sound principles of personnel and financial management, to develop medium- and long-term business plans, and to create a work environment that enhances employees' professionalism, customer-oriented attitude, and work ethics. The enterprises should reject the "trust-my-relatives-only" mentality and seek beyond the family circle professional employees who have the best knowledge and know-how to help the firm grow and successfully compete in the open market. For example, the contractor will provide training in financial statement preparation, cash flow control, and financial resource mobilization, and human resource development.

The contractor shall facilitate the access of existing enterprises to commercial credit needed for technological innovations, business expansion or product diversification. The contractor shall also provide this service to entrepreneurs who need resources to start new businesses. The credit facilitation will be carried out in linking project clients with commercial banks or non-bank financial institutions, especially with USAID's DCA program at the Raiffeisen Bank and Opportunity Albania. The contractor shall help potential clients mobilize remittances for productive purposes.

Illustrative activities:

- Improve SMEs' knowledge about certification with international quality control, environmental and other process voluntary standards and regulations and assist them in obtaining pertinent certification and complying with the international standards and market requirements.
- Assist SMEs in using ICTs to improve their goods and services, identify commercial opportunities, and establish contacts with potential international business partners.

- Improve SMEs' capability to obtain and use necessary information, data and other inputs to improve understanding of market demand and competitive conditions, and the regulatory standards and other requirements for accessing specific markets.
- Assist in developing business plan and marketing strategies.
- Conduct market studies in Albania and other countries to identify constraints and opportunities and/or constraints which could become business opportunities (e.g., in the areas of ICT, energy, or transport)
- Organize workshops/seminars to disseminate findings of market studies and develop marketing strategies for the sectors.
- Facilitate seller-buyer contacts and networking and introduce appropriate transaction contract mechanisms.
- Assist in preparing commercial loan application.

2. Increasing Enterprise Productivity: Investment in technological innovations is key to productivity improvement at the firm level. The contractor shall work with existing Albanian enterprises of high potential for growth to assess the state of their production technology, process and facilities to identify constraints related to efficiency and product quality and then help them address these constraints through technical assistance and training. The contractor shall also assist entrepreneurs and investors to apply modern technologies to start up new enterprises. Interventions may be designed to strengthen the firm's capabilities for improving production efficiency and product quality in response to market demand and opportunities. Manufacturers or service providers will be able to increase supplies of higher quality products, reduce uncertainty and procurement costs, and enhance marketing efficiency. The cluster approach will link the core industry with supporting industries to increase competitiveness. In addition to improving productivity, the contractor shall help develop new products to expand markets. The expected results will be increased number of enterprises adopting modern technologies, reduced production costs, increased production of quality products and improved sales.

Illustrative Activities:

- Provide training to improve technical knowledge and skills.
- Demonstrate new technologies to promote their adoption.
- Assist in the design and lay-out of manufacturing facilities.
- Assist in selecting, procuring and installing machines and equipment.
- Provide training in production planning and quality control.
- Train enterprise operators/owners how to conduct assessment of their firms' operation and how to undertake appropriate actions for efficiency improvement.
- Train enterprise operators/owners how to develop and market-test new products/services.
- Provide training in business management, marketing and governance practices.
- Provide training to teach entrepreneurs how to identify and respond to market opportunities.

3. Improving Workforce Development: The contractor shall assist participant enterprises to upgrade the technical and managerial skills of their employees through on-the-job training or short-term training in Albania or in other countries. The training will focus on the competencies needed for technological innovations and good business management. The contractor will look for opportunities to collaborate with vocational education institutions and assist them to improve the relevancy of their instructional programs and the quality of instructors. It is important to develop training programs that have the flexibility to adapt to the changing industry needs. Moreover, rather than needing a "training center", there is a need for a "training system",

whereby firms and training providers can be linked. Special attention will be given to the most vulnerable and marginalised people such as victims of human trafficking, who are unemployed or underemployed with little or no access to education, skill training and employment services.

Illustrative Activities:

- Support pre-employment and employability programs in formal and non-formal settings (curriculum design or revision, instructional material development, training of instructors and administrative staff).
- Support technical/vocational training for employment (curriculum design or revision, instructional material development, training of teachers and administrative staff).
- Conduct training of trainers.
- Promote linkages of training programs/institutions with private businesses.
- Conduct assessment of workforce needs.
- Design vocational programs with special focus on the socially and economically disadvantaged.
- Develop mode for on-going dialogue between the private sector and vocational education providers, in order to ensure up-dated

B. Overarching Principles of the Technical Approach

(1) **Primary Customers and Gender Emphasis:** The primary customers of this program are Albanian entrepreneurs. Strong emphasis shall be placed on women, as they play a crucial role in enterprise development. The issue of gender in development which has been one of the major foci of the USAID's economic growth program in Albania will continue to receive special attention under this program and will be integrated into the design, implementation and evaluation of the activities.

(2) **Participatory Approach, Incentive-Based Strategy and Demand-Driven Services:** These are the keys to the achievement of the project objective. Efforts will be made to ensure the active and genuine participation of entrepreneurs and the satisfaction of their needs, with special attention to gender issues. The contractor will conduct surveys of targeted entrepreneurs to assess their needs and priorities. The design of specific interventions for the program will be based on the findings of these customer surveys and consultations with partners and stakeholders. Surveys will adopt the rapid appraisal methodology when appropriate.

(3) **Market-Led, Private Sector-Owned Approach:** Most enterprise development programs that have failed have done so because their interventions have not been driven by the market requirements and have depended too much on public institutions with little participation of the private sector in decision making. The contractor shall undertake compelling approaches and interventions based on market demands and private sector involvement. To the extent possible, the contractor shall focus on markets and value chains that have the potential to create relatively large impacts in employment and incomes. While the focus should be primarily on private actors and market dynamics, the contractor shall also demonstrate a clear understanding of how public and quasi-public actors can complement the market-oriented actions of those private actors.

(4) **Identifying Potential for Competitiveness:** The contractor shall deliver assistance to enterprises that have considerable potential to be competitive in the domestic and export markets. The contractor shall not support the production of the products or services of little potential to be competitive. To identify potentially competitive products or services worthy of assistance, the contractor shall conduct rigorous and rapid assessments of possible products or services and select those with potential. i.e., strong end market demand and Albanian competitive advantage. While strengthening the market competitiveness of enterprises will require some measure of analytical work to determine which products or services can be competitive, the contractor shall not engage in overly analytical approaches at the expense of approaches that lead to some quick results. The contractor shall not spend a significant amount of time after contract initiation in analytical exercises without parallel efforts to continue strengthening sales and revenues.

(5) **Delivering Economic Incentives:** Economic incentives are important motivating forces for the clients' participation. In general, clients will participate and continue participating in activities enhancing efficiency and competitiveness only if they perceive at first and receive later tangible benefits from such an action. It is therefore important to increase their awareness of the economic benefits resulting from the program activities and to ensure that they actually obtain these benefits.

(6) **Enabling Competitiveness:** In addition to strengthening the competitiveness of the clients, the contractor shall also define and advance an agenda for strengthening the legal, regulatory, and policy framework for competitiveness. The contractor will be tasked to strengthen this environment in specific and concrete ways that focus on well-identified policy and regulatory constraints. The contractor shall avoid conducting policy analysis and development approach that would take the focus of their attention off the immediate competitiveness needs.

(7) **Building Local Capacity and Ownership for Sustainability:** The contractor's work shall lead directly to stronger local ownership of competitiveness improvement by Albanian actors so that these local actors increasingly drive the process of competitive enterprise development beyond the period of the contract and USAID support. The contractor will be responsible for establishing local ownership by Albanian private and public organizations, including approaches to increase the financial, technical and institutional capacity of local entities to become fully empowered to further the program objectives beyond the termination of USAID assistance. A critical part of this will be approaches to increasing firms', and even local governments' participation in identifying and resolving constraints to competitiveness. It is anticipated that greater participation will lead to greater ownership and less rejection of these efforts.

Given the complexities of the activity, the contractor shall require a flexible approach that responds and/or adjusts to evolving political, economic and social conditions. While avoiding any substantial departure from the overarching technical principles mentioned above, the contractor shall have built-in mechanisms to detect risks in advance, react quickly to changing circumstances, and make adjustments in implementation priorities, tasks or arrangements that USAID deems critical for the success of the activity. The contractor will also be expected to work collaboratively and build partnerships with a broad range of stakeholders, including U.S. Government (USG) officials and government partners, private sector actors, civil society organizations, local government officials, and other USG agencies in Albania.

The contractor shall also foster a synergistic and complementary relationship between CED and other activities that are being or will be funded by USAID in Albania, particularly the Local

Government Program in Albania, the Albanian Agriculture Competitiveness program, the Development Credit Authority (DCA) program, and the anti-trafficking program.

C. Small Grants Program

A total of \$500,000 will be set aside for a small grants component for a five-year period to be used to overcome constraints in achieving project objectives. Cost-sharing, performance-based grants will be provided to selected entrepreneurs to demonstrate new technologies and machinery that address a specific constraint to productivity and quality or that facilitate the development of new products. These entrepreneurs will receive grants only for technologies new to their area, and only if they agree to then receive visits from other entrepreneurs for training purpose. The grants program will include streamlined initial environmental examination and environmental due-diligence procedures for grantees. Every grant will be selected with an eye to how it links to competitiveness-related results, and each grant rationale will outline its expected result. Each grant will have specific milestones, with grantees required to meet and demonstrate progress in order to receive the entire grant amount. Grantees are also required to report on periodic and final results of each grant dollar spent. With USAID concurrence, the small grants program may also be extended to non-governmental organizations, such as trade associations or groups, if such actions are deemed critical for achieving the program objectives. The grants will be made through an open and competitive process, also, may be through the review and approval of unsolicited proposals. The grants are intended primarily for non-U.S. entities and a minimum of 50 grants are expected to be made during the life of the project.

Within the timeframe approved in the Contractor's first annual work plan, the Contractor shall prepare and deliver to USAID for its review and approval a Small Grants Program Plan and an accompanying manual describing the program guidelines, limitations, criteria, review, selection and other administrative terms and conditions consistent with the development objectives of the Project and the guidance provided above and such additional guidance as USAID may provide.

The Contractor shall provide as part of its monthly and annual reports a year-to-date Small Grants Program Report categorizing and summarizing the salient features of all grants made pursuant to the Contractor's approved Small Grants Program and highlighting the results and development achieved, quantitatively and qualitatively.

VI. Performance Objectives, Results and Indicators

USAID requires a very clear, results-based focus. The contractor will be held accountable for achieving results described below. Ideally, the contractor should be able to tell USAID that for every dollar in contract funds, the contractor will produce \$X in sales of targeted products or services. If incentive performance-based grants and similar approaches are proposed as a tactic, the contractor will need to clearly link these to well-defined competitiveness-related outcomes and results. USAID and the contractor will use objectively verifiable indicators with periodic data collection to measure performance and adjust approaches.

The contractor will be responsible for achieving the following results as measured by the performance indicators below. The contractor will report on results on a quarterly and USG fiscal year basis depending on the frequency established in the indicators below.

The results and indicators shown below could be complemented by other level indicators agreed to by USAID and the contractor which will serve as the basis to monitor contractor performance

and shall be described in detail as part of the Performance-Based Monitoring Plan (P-BMP). The targets set for the indicators included in the tables below could change as well. USAID may modify or change the already approved results and indicators during the course of project implementation after discussion with the contractor, and will be incorporated in the P-BMP and subsequently the work plans.

During the first three months of contract implementation, the contractor shall conduct rapid assessments to establish baselines and targets for the indicators in the tables shown below. The baselines and targets proposed by the contractor must be approved by USAID. The contractor shall achieve the targets set for all the indicators.

1. Program Area: Economic Growth

The contractor's support is expected to enable Albanian private enterprises in selected regions to expand their business and improve their competitiveness. The success of this project shall lead to a sustained SME growth, increased sales, improved household income, and reduced unemployment. The indicators in the table below will be used to measure the achievement of the program-area-level results.

- **Program-Area Results:**

- (1) Sustained SME growth;
- (2) Increased sales;
- (3) Improved household incomes; and
- (4) Reduced unemployment, in target cities/municipalities.

Indicator	2008 (Baseline)	2009	2010	2011	2012	2013
1. Number SMEs in targeted cities/municipalities, which have increased profits as a result of USG assistance.	0	70	95	170	200	200
2. Increase in annual total sales by assisted SMEs in targeted cities/ municipalities.	TBD	+5%	+10%	+15%	+20%	+20%
3. Change in average household income in targeted cities/municipalities	TBD	+5%	+5%	+8%	+10%	+10%
4. Unemployment rate in targeted cities/ municipalities.	TBD	-0.5%	-0.5%	-0.5%	-0.5%	-0.5%

2. Program Elements

To achieve the program area-level results, the contractor shall focus on three program elements:

- (1) Trade and Investment Capacity;
- (2) Private Sector Productivity; and
- (3) Workforce Development.

Through a combination of technical assistance and training, the contractor shall implement the activities that will develop or enhance the trade and investment capacity of assisted enterprises, increase the efficiency and competitiveness of private enterprises, and improve the development of skilled workforce. The achievement of the expected results at the element level will be measured by the indicators included in the tables below.

2.1. Trade and Investment Capacity Element

- ***Element-Level Result: Trade and investment capacity strengthened:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
1. Number of assisted firms that obtain certification with international quality control, environmental and other process voluntary standards or regulations.	0	5	10	20	30
2. Number of firms employed ICT to improve goods and services, to identify commercial opportunities and establish contacts with potential international business partners.	0	10	20	30	30
3. Number of firms able to use necessary information, data and other inputs to improve understanding of international market demand and competitive conditions, and the regulatory standards and other requirements for accessing specific markets	0	20	30	40	40

- ***Expected Results for Activities Related to Trade and Investment Capacity:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
1. Number of trainings offered in certification with international quality control, environmental and other process voluntary standards and regulations.	0	5	10	10	10
2. Number of persons trained in certification with international quality control, environmental and other process voluntary standards and regulations.	0	60	100	150	150
3. Number of USG-supported training events related to trade communication and technologies.	0	5	5	10	10
4. Number of persons trained in trade communication and technologies.	0	100	100	200	250
5. Number of USG-supported training events related to trade knowledge and skills.	0	5	10	20	20
6. Number of persons trained in trade knowledge and skills.	0	100	200	300	300

2.2. Private Sector Productivity Element

- ***Element-Level Result: Private sector productivity increased:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
1. Number of firms implementing technological innovations as a result of USG assistance.	0	70	90	150	180
2. Number of assisted firms implementing good business management, marketing and governance practices.	0	70	90	150	180
3. Number of firms able to reduce production costs as a result of USG assistance.	0	70	90	150	180
4. Number of firms able to expand existing or penetrate new markets as a result of USG assistance.	0	70	90	150	180
5. Number of participants in USG-supported technological	0	100	200	300	350

innovations trainings.					
6. Number of participants in USG-supported training in business management, marketing and governance.	0	100	200	300	350
7. Number of firms that successfully accessed bank loans as a result of USG assistance.	0	5	10	20	20

- ***Expected Results for Activities Related to Private Sector Productivity:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
1. Number of trainings in technological innovation.	0	5	10	15	15
2. Number of persons trained in technological innovation.	0	100	200	300	300
3. Number of training events in business management, marketing and governance practices.	0	5	10	10	10
4. Number of persons trained in business management, marketing and governance practices.	0	50	150	200	250
5. Number of training events in identification of and response to market opportunities.	0	5	8	10	10
6. Number of persons trained in identification of and response to market opportunities.	0	50	100	200	200

2.3. Workforce Development Element

- ***Element-Level Result: Workforce development improved:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
Number of people gaining employment or better employment as a result of participation in USG-supported workforce development programs.	0	50	80	100	100
Number of persons completing USG-supported workforce development programs.	0	80	100	150	150
Number of persons participating in USG-supported workforce development programs.	0	100	300	300	300

- ***Expected Results for Activities Related to Workforce Development:***

Indicator	2008 (Baseline)	2009	2010	2011	2012
1. Number of pre-employment and employability programs supported.	0	2	5	5	5
2. Number of persons participating in USG-supported pre-employment and employability programs.	0	50	100	100	100
3. Number of technical/vocational training programs supported.	0	5	10	20	20
4. Number of persons participating in USG-supported technical/vocational training programs.	0	50	100	200	200

END of Section C