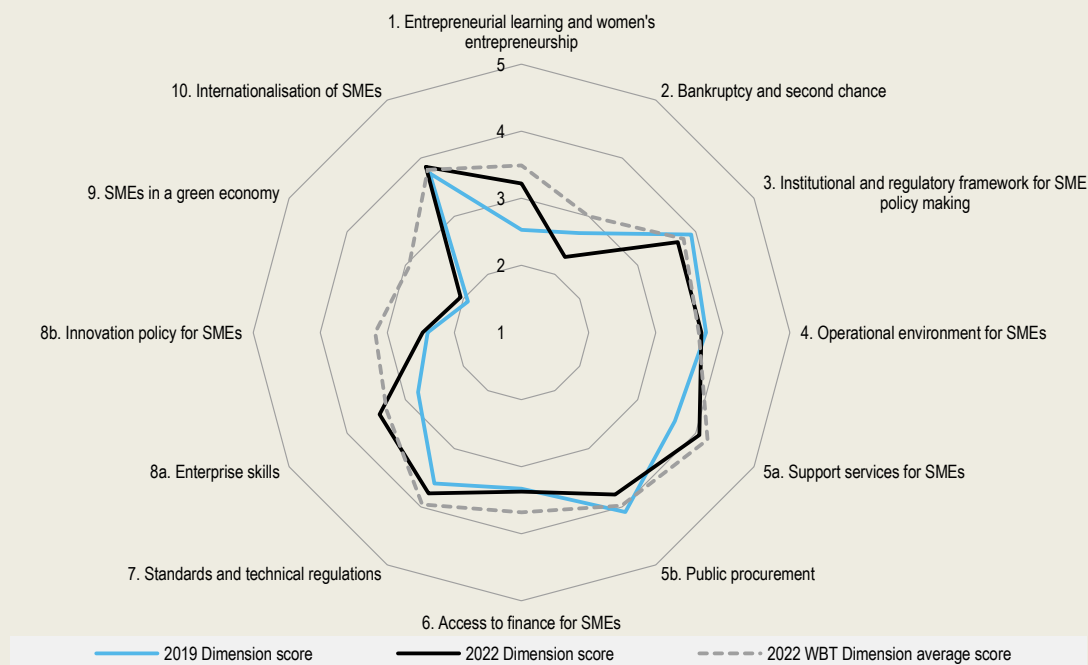


15 Kosovo: Economy Profile

This chapter covers the progress made by Kosovo in implementing the Small Business Act (SBA) for Europe over the period 2019-21. It starts with an overview of Kosovo's economic context, business environment and status of its EU accession process. It then provides key facts about small and medium-sized enterprises (SMEs) in the Kosovar economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period and suggests targeted policy recommendations.

Key findings

Figure 15.1. Small Business Act scores for Kosovo (2019 and 2022)



Note: WBT: Western Balkans and Turkey.

Kosovo* has made progress in implementing the Small Business Act (SBA) since the publication of the previous report – the SME Policy Index: Western Balkans and Turkey 2019 (Figure 15.1). The main achievements that have helped the economy improve its performance in this assessment are as follows: support services for small and medium-sized enterprises (SMEs); internationalisation of SMEs; public procurement; and standards and technical regulations. However, the progress has been rather incremental, and the economy still needs to step up its efforts to build an environment conducive to business across a number of areas, namely bankruptcy and second chance; innovation; and SMEs in a green economy.

Main achievements

- **Education-business co-operation is being boosted through the University of Pristina for Competitiveness/Competencies/Co-operation (UPCO) cluster**, bringing together the University of Pristina, the City of Pristina and the Kosovo Chamber of Commerce (KCC). This structured collaboration based on the triple-helix model has the potential to drive forward development of the entrepreneurial ecosystem to create social, cultural and economic value for the region.
- **The range of publicly provided business support services (BSSs) has expanded since the last assessment cycle.** The government reinforced the Kosovo Investment and Enterprise Support Agency (KIESA)'s institutional capacity, which resulted in improved quality and range of its services. Moreover, due to the introduction of new support schemes, the uptake of BSSs provided by the government increased by 67.7%. In addition, to support services offered by the government, SMEs in Kosovo have access to a wide range of private BSSs. There are currently multiple online portals containing information on private consultants specialising in BSS

provision, further raising awareness and facilitating access to private-sector BSSs among SMEs.

- **Financial intermediation has been increasing, albeit from low levels.** A number of financial schemes (co-financing grant programmes and various financial support schemes) have been introduced recently, including for SMEs. The Kosovo Credit Guarantee Fund (KCGF) remains a key vehicle for the authorities to support access to finance for smaller enterprises, and the fund has increased its capacity significantly since the last assessment, almost doubling the number of guaranteed loans in 2021 compared to 2019.
- **Skills intelligence has been boosted through the development of three statistical barometers,** with the Labour Market Barometer as an online statistics database, a vocational education and training (VET) Barometer providing analysis at the institutional level and the Skills Barometer reporting on current and future skills needs. These have the practical potential to be used as decision-making tools for policy and implementation.
- **Kosovo made considerable advancements in digitalising export promotion services** by enabling SMEs to apply for export support on line, which greatly streamlines the procedures, further reducing the administrative burden. Cumbersome export support procedures were considered one of the main reasons behind weak export growth in the economy; therefore, this development is particularly noteworthy. Through the e-Kosova platform, Kosovo improved the availability of export promotion services for SMEs.

The way forward

- **Embed gender-disaggregated data and improve monitoring and evaluation of women's entrepreneurship actions.** While the policy and practical support for women's entrepreneurship have seen general improvements, there remain severe challenges of data and evaluation to allow for a fuller understanding of the progress and impact of actions taken.
- **Promote second chance to honest entrepreneurs.** Kosovo should promote a second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.
- **Improve digital government services.** A comprehensive policy framework for digital government is needed to ensure the rollout of digital government services and improve their quality in line with users' needs. Such a framework should give a clear mandate to the Agency for Information Society to drive digital government reforms and especially to further develop the e-Kosova online portal into a digital one-stop-shop for government services and improve the quality of digital services through the adoption of common standards across all institutions.
- **Intensify efforts to match supply and demand for business support services among SMEs.** Updating the training needs analysis performed in 2017 and assessing demand for particular support services would contribute to a higher uptake and effectiveness of government-provided BSSs. This is particularly important given the ever-changing SME landscape in Kosovo and across the region, and taking into account the onset of the COVID-19 pandemic, as it is bound to reflect the changes in SMEs' needs in the economy.
- **Enhance the strategic framework for innovation.** Developing a detailed innovation policy framework, designed in consultation with all stakeholders, would enable Kosovo to prioritise innovation activities, identify existing bottlenecks in a targeted and tailored manner, and maximise resources. This should be coupled with an action plan that includes measurable targets as well as a clearly defined mandate for all the public developing the bodies involved to

ensure implementation capacity and accountability. Swift progress in Smart Specialisation Strategy should also be a government priority.

- **Enhance financial support for SME greening.** This can be done through the expansion of the scope of the National Energy Efficiency Fund, established in 2019, which could include specific financial programmes to support SME greening. The Fund could extend loans and loan guarantees to SMEs for energy efficiency measures or subsidise a share of consultancy costs to identify and implement resource efficiency measures. The government might consider facilitating SME access to green finance by connecting greening aspects to existing financial schemes. For instance, the newly introduced financial support to increase export readiness and job creation could include a green criterion, such as the possibility of a grant component if SMEs plan to implement eco-innovative projects or purchase new machinery intended to improve resource efficiency.

* This designation is without prejudice to positions on status and is in line with United Nations Security Council Resolution 1244/1999 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence

Economic context and role of SMEs

Economic overview

Kosovo is an upper-middle-income economy with a population of approximately 1.8 million as of 2021 and a per capita gross domestic product (GDP) by purchasing power parity of 10 707 in 2020 (in constant 2017 international dollars), having shrunk by roughly USD 600 since 2019, and remains the lowest in the region (World Bank, 2022^[1]). Like most economies in the Western Balkans and Turkey (WBT) region, Kosovo is dominated by the services sector, accounting for 54% of GDP and employing approximately 56.6% of the population. However, industry in Kosovo overwhelmingly accounts for the highest share of value added to GDP in the region at 37.3%, nearly 10 percentage points higher than the following highest industry sector of North Macedonia, and employs roughly 24.8% of the labour force. While agriculture accounts for only 6.6% of GDP, albeit an increase of 0.5 percentage points from 2019, it forms 18.7% of Kosovo's workforce, the highest proportion of agricultural employment in the region after Albania (KAS, 2022^[2]).

Among WBT economies, Kosovo was one of the hardest hit by the COVID-19 pandemic, with a 5.3% decrease in GDP, the highest loss in the region after Montenegro and North Macedonia. In 2020, heavy reliance on both domestic and foreign tourism made the economy greatly susceptible to the effects of COVID-19 mitigation measures, such as border closures and mobility restrictions (Box 15.1). Kosovo's lack of an independent monetary policy after unilaterally adopting the euro in 2002, coupled with its strong dependence on capital inflows, makes the economy highly vulnerable to external shocks and business cycle fluctuations. However, the economy rebounded with a 10.5% GDP growth, fuelled by strong diaspora inflows from remittances, tourism, compensation of seasonal migrants, and real estate investments that averaged approximately 43% of GDP and are expected to increase 2.8% in 2022 (IMF, 2022^[3]; 2022^[4]; European Commission, 2022^[5]).

Box 15.1. Kosovo's COVID-19 recovery programme

After several support packages worth over EUR 200 million allocated until May 2020, Kosovo established an all-encompassing Economic Recovery Plan in the amount of EUR 1.1 billion to distribute funds to individuals and firms in the form of loans, grants and subsidies as part of its COVID-19 recovery plan. By the end of the programme in December 2021, 2 015 enterprises benefited from a total of roughly EUR 106 million in loans and EUR 77 million in guarantees, with underrepresented beneficiaries, such as women in business and start-ups, targeted (Table 15.1).

Table 15.1. Kosovo's Economic Recovery Package loan and guarantee results (2021)

| Windows within the Economic Recovery Package | Number | Loan amount (EUR) | Guarantee amount (EUR) | Average loan amount (EUR) | Average guarantee amount (EUR) |
|----------------------------------------------|--------|-------------------|------------------------|---------------------------|--------------------------------|
| Total Economic Recovery Package | 2 015 | 105 555 405 | 76 948 973 | 52 385 | 37 196 |
| Women in Business window | 269 | 11 736 215 | 8 592 222 | 43 629 | 31 941 |
| Agro window | 152 | 6 971 200 | 5 226 910 | 45 863 | 34 388 |
| Manufacturing window | 394 | 28 719 074 | 19 943 859 | 72 891 | 50 619 |
| Service window | 593 | 25 453 740 | 17 956 255 | 42 924 | 30 280 |
| Trade window | 572 | 31 840 876 | 22 572 077 | 55 666 | 39 462 |
| Start-up window | 35 | 834 600 | 657 650 | 23 846 | 18 790 |

The plan also provided professional support for businesses to help them operate effectively during the pandemic, including guidance on moving operations on line, working from home and digitising key business practices. The government also provided specific economic support measures throughout the pandemic:

- **Subsidies:** In order to preserve existing jobs and provide assistance for businesses during COVID-19, the government-provided subsidies in the amount of EUR 130 for those who lost their jobs due to the COVID-19 crisis and allocated EUR 67 million to increase employment, with a specific focus on groups of workers with a lower probability of finding employment during the crisis. Eligible firms received EUR 170 per month for each employee on their payroll and EUR 206 for each new employee hired on a minimum one-year contract during the crisis. The government also subsidised up to 50% of rent costs for SMEs during the crisis and allocated EUR 20 million to public enterprises with access to interest-free loans until December 2020.
- **Tax measures:** The Tax Administration of Kosovo began extending the deadline to file and pay tax liabilities and pension contributions in March 2020 and allowed taxpayers affected by the crisis to apply for an extension of tax payment deadlines for up to three years. The Ministry of Finance and Transfers suspended all interest on unpaid property taxes until 2021. As part of the August 2020 Plan for the Implementation of the Economic Recovery Package, the government allocated EUR 15 million to ease the tax burden on firms to improve enterprises' short-term liquidity. The government also postponed tax obligations for specific firms, covered 5% of pension contributions that firms pay employees, exempted firms from penalties for late tax payments due to the pandemic, and provided tax breaks for firms operating in strategic sectors.
- **Credit:** The KCGF also provided SMEs with one-use guarantees in the amount of EUR 250 000-500 000. Guarantees were provided for up to 50% at the start of the Economic Recovery Package and were later raised to 80% of the principal loan with a one-year inclusion period that expired at the end of 2021.
- **Loans:** At the start of the pandemic, the Central Bank suspended loan repayments for individuals and businesses and began reviewing requests for the suspension of credit repayments and frozen individual credit ratings to assist borrowers during the crisis. Additionally, the interest rate on loans for SMEs operating in the tourism sector was cut by 50%, while the interest rate on loans for large companies was cut by 15%. To ensure financial liquidity and continued access to financing for micro, small and medium-sized enterprises (MSMEs), the KCGF provided loans for long-term investments as well as working capital in the amount of EUR 1 million with a repayment period of up to 84 months.
- **Sector-specific support:** At the start of the COVID-19 pandemic, the Ministry of Agriculture, Forestry and Rural Development allocated EUR 5 million for grants and subsidies to increase agricultural production during the crisis, which was complimented by an additional EUR 26 million in August 2020 to increase domestic agricultural production and rural employment. In the same month, the government allotted EUR 5 million to subsidise wages for new employees hired to work in specific sectors or categories of employment and allocated EUR 10 million to enable the manufacturing and service sectors to access the equipment and machinery needed for automation processes. Publicly owned enterprises were also able to access EUR 14 million to support basic operations as well as EUR 17 million for capital investments.

Although numerous short-term economic support measures helped mitigate immediate economic damage, structural issues primarily with regard to the public health sector, employment, social protection and private-sector support were exacerbated by the pandemic and remain in need of reforms.

Sources: OECD (2021^[6]; 2021^[7]); European Commission (2021^[8]); KCGF (2022^[9]).

Overall investment levels in Kosovo have remained high. However, net foreign direct investment (FDI) flows have reached a plateau since 2016, with marginal increases over time. The majority of FDI comes from the diaspora through the real estate market and has not supported the growth of the domestic production base or the tradable sector (OECD, 2021^[6]). Investment in the construction sector has been stable, particularly in the last three years, occupying 77.25% of investments in 2020 alone. SMEs are the largest recipients of investment at approximately 92.5%, with microenterprises accounting for 15.7%, small enterprises for 35.8% and medium enterprises for 41%. The source of these investments varies, with roughly 57.4% of the value of investments realised from the enterprises' own funds; 22.27% using local bank loans; 11.40% by foreign creditors; 2.64% by local co-investors; and 1.88% by foreign co-investors (KAS, 2021^[10]). Investment domains also vary significantly among enterprise size, with agriculture comprising the highest proportion of investments in companies with 10-49 employees in both 2018 and 2020, while investments in tangible assets make up the largest share in medium-sized enterprises (KAS, 2022^[11]).

Despite the positive effects, the heavy public spending on infrastructural improvements, coupled with unforeseen spending on COVID-19 mitigation measures, burdened the economy's debt which peaked in 2020 at 39.4% of GDP after reaching its lowest point in 2018 at 29.4% of GDP (European Commission, 2021^[8]) (Table 15.2). Nevertheless, Kosovo is beginning to gear its public spending agenda towards energy efficiency projects, with plans to increase renewable energy sources in electricity consumption, which currently stands at around 5-6%, to 25% or 30% by 2031 under the National Energy Strategy (2021-2030), which was under preparation at the time of drafting. Public investments in infrastructure, particularly with regard to the green agenda, are moving forward with three new agreements on renewable energy projects in wind and solar power signed in 2020 (EBRD, 2022^[12]). In addition to introducing a simplified one-stop-shop administrative procedure for renewable energy projects, Kosovo, in partnership with the European Bank for Reconstruction and Development (EBRD) and private investors, completed the Selac Winpark in March 2022, comprising 27 turbines with an installed capacity of 105 megawatts per hour, or 10% of the economy's installed capacity, reducing CO₂ emissions by 247 000 tonnes (OECD, 2021^[6]; Ministry of Economy, 2022^[13]). Further energy efficiency investments included the construction of a substation in Bajgora and an upgrade of the KOSTT substation in Vushtrri, as well as a 19.4 km overhead line network. Kosovo has also largely invested in upgrading public buildings with energy efficiency measures, 87 projects of which have been implemented in the amount of EUR 4.2 million and 15 additional projects that will be funded with another EUR 2.4 million (Ministry of Economy, 2022^[13]). The economy has also contributed EUR 3 million to the World Bank and EU co-financed Kosovo Energy Efficiency Fund, which recently authorised the release of EUR 1 million to improve energy efficiency in primary and secondary schools, family medicine buildings and other municipal facilities (Ministry of Economy, 2021^[14]).

The financial sector in Kosovo was severely affected by the pandemic but sustained a strong recovery throughout 2021. Bank lending saw a 14.7% increase year-on-year driven by household and non-financial corporation lending which grew at 13.2% year-on-year. Due to the cessation of COVID-19 related loan moratoriums in September, the non-performing loan ratio amounted to 2.2% in February 2022, showing a 0.5% decrease since November 2021. Commercial bank deposits decreased by roughly 2.3% in the same period, a 4.1% increase in the loan-to-deposit ratio which stood at 79.1% before returning to 76.5% at the end of 2021. Financial soundness indicators remained stable and satisfactory as the ratio of liquid assets to short-term liabilities for the banking sector decreased by 2.6% from September to November 2021, while the capital adequacy ratio saw a slight decline of 0.6% over the same period, remaining well above the regulatory minimum of 12% (European Commission, 2022^[5]). The annual inflation rate increased by 7.5%

year on year compared to February 2022, primarily due to increases in consumer prices of food products, gas, fuels and electricity, the price of which had decreased in the first half of 2021, in line with the Law on Economic Recovery for COVID-19. Nevertheless, decreases in prices of fruit and clothing were noted during the same period, with a consolidated impact of -0.3% on the Harmonised Index of Consumer Prices (KAS, 2022^[15]). Construction costs, import prices and producer prices also saw notable year-on-year surges in Q4 2021, with increases of 16%, 19.6% and 7.2%, respectively (KAS, 2022^[16]; 2022^[17]; 2022^[18]). Kosovo's interest rate spread remained unchanged at 4.5 percentage points (European Commission, 2022^[5]).

Table 15.2. Kosovo: Main macroeconomic indicators (2016-21)

| Indicator | Unit of measurement | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|----------------------------------------------------------|-----------------------------------------------------------------|-------|-------|-------|-------|-------|---------|
| GDP growth ¹ | % year-on-year | 5.6 | 4.8 | 3.4 | 4.8 | -5.3 | 10.5 |
| National GDP ² | EUR billion | 5.9 | 6.4 | 7.0 | 7.0 | 6.8 | .. |
| GDP per capita growth ² | % year-on-year | 6.2 | 4.0 | 3.1 | 5.2 | -4.6 | .. |
| Inflation ¹ | % average | 0.3 | 1.5 | 1.1 | 2.7 | 0.2 | 3.3 |
| Government balance ¹ | % of GDP | -1.1 | -1.3 | -2.9 | -2.9 | -7.6 | -1.4 |
| Current account balance ¹ | % of GDP | -8 | -5.5 | -7.6 | -5.7 | -7.0 | -9.2 |
| Exports of goods and services ¹ | % of GDP | 23.8 | 27.3 | 29.1 | 29.3 | 21.6 | 33.7* |
| Imports of goods and services ¹ | % of GDP | 51.2 | 53.1 | 57.3 | 56.4 | 53.6 | 63.8* |
| Net FDI ¹ | % of GDP | 2.9 | 3.3 | 3.4 | 2.7 | 4.2 | 5.0* |
| External debt ² | % of gross national income (GNI) | 31.4 | 34.2 | 29.0 | 30.1 | 39.3 | .. |
| International reserves of the National Bank ¹ | EUR million | 895.2 | 939.4 | 933.9 | 937.1 | 969.1 | 1 060.6 |
| Gross international reserves ¹ | Ratio of 12 months imports of goods and services moving average | 3.5 | 3.3 | 2.9 | 2.8 | 3.2 | 3.0* |
| Unemployment ¹ | % of total active population | 27.5 | 30.5 | 29.6 | 25.7 | 25.9 | .. |

Note: *data is only available for Q3 2021.

Sources: 1. European Commission (2022^[19]; 2022^[5]); 2. World Bank (2022^[20]).

While having improved overall in the last two decades, Kosovo's unemployment rate has been highly volatile, reaching an all-time high of 57% in 2001 and a record low of 25.7% in 2019, averaging 33.4% during this period. Despite the notable progress since the millennium, the economy maintained the highest unemployment rate in the WBT region in Q1 of 2021¹ at 25.8% of the total active population. COVID-19 exacerbated underlying structural problems of the Kosovo labour market, such as high informality, with some estimates putting informal employment as high as 33%, and low employment of youth, women and low-skilled workers (World Bank, 2017^[21]). Kosovo's youth unemployment rate of individuals aged 15-24 increased from 16.2% in 2018 to 21.2% in 2020 and remains significantly higher than the EU average of 16.8% (Eurostat, 2021^[22]). High rates of emigration also remain problematic for the region's workforce (OECD, 2022^[23]), to which Kosovo is no exception, holding the highest emigration rate in the Western Balkans at 15%. However, Kosovo's population is among the youngest in Europe, with only 15.8% of its citizens over 65, moderately less than the European Union's population over 65, which stands at 20.8% (World Bank, 2022^[24]).

Business environment trends

Despite the difficult circumstances surrounding the COVID-19 pandemic, reforms have continued to take place, albeit at a slower pace. Kosovo continues to have a well-developed Credit Guarantee Fund (KCGF), which has facilitated the continued expansion of financial intermediation that started at a comparatively low base. In spite of the pandemic, bank lending increased in 2020, rising to 11.2% in 2021 from 7.1% the

previous year (European Commission, 2022^[19]). Loan growth was facilitated decreasing lending rates, albeit remaining significant at 6.2% in 2020, a continued increase of deposits since 2015 to 1.5% in 2020, improved contract enforcement, and increased guarantees extended by the KCGF for lending to MSMEs to cushion the impact of the crisis (Eurostat, 2022^[25]). One of the targets of Kosovo's support measures is its large diaspora, having implemented its first-ever "diaspora bond" issuance during the summer of 2021 through commercial banks in collaboration with the Ministry of Finance.

Privatisation of state-owned enterprises (SOEs) is advancing, albeit slowly. Both governments in the last reporting cycle took decisions to dismiss several boards of publicly owned enterprises due to poor performance and replace them with temporary boards in order to better the efficiency of SOEs. The Ministry of Trade and Industry's Business Registration Agency offers 29 one-stop-shops for registration at the municipal level. Additionally, the Kosovo Investment and Enterprise Support Agency (KIESA) provides the necessary information during the pre-investment phase and facilitates interactions with other government agencies/departments in the process of obtaining all the necessary licences and permits. It also provides assistance for SMEs using one-stop-shop services. This improved the overall regulatory environment in Kosovo, which remains one of the most open economies for investment according to the OECD FDI Regulatory Restrictiveness Index. Its score amounts to 0.05 in 2020, significantly lower than the OECD average of 0.063, indicating that the economy has reduced barriers to trade and maintains only a handful of restrictions, notably in the maritime, TV and radio broadcasting, and legal sectors (OECD, 2020^[26]).

Although improving, Kosovo's business environment still has several key impediments and obstacles to business development, which are acknowledged in the economy's latest Economic Reform Programme (ERP) (Box 15.2). The private sector development remains constrained by widespread informality, slow and inefficient judiciary, high prevalence of corruption and an overall weak rule of law. Due to pandemic-induced challenges, little progress has been achieved in improving the business environment. The general inspection reform aiming to reduce the number of overlapping and parallel inspections from 36 to 15 stalled in 2020, but the new government is committed to completing the process. Within the Administrative Burden Reduction Programme (2020-2027), aiming to achieve a 30% reduction of the administrative burden over the next eight years, Kosovo initiated a baseline measurement identifying all administrative hurdles for businesses. The structural reorganisation of KIESA remains behind schedule. In addition, the lack of a coherent policy for industry development throughout supply chains undermines the competitiveness of SMEs (European Commission, 2021^[27]).

Box 15.2. Economic Reform Programmes

Since 2015, EU accession candidates have been obliged to produce annual ERPs that outline clear policy reform objectives and policies necessary for participation in the economic policy co-ordination procedures of the European Union. The ERPs aim to produce concrete reforms that foster medium and long-term economic growth, achieve macroeconomic and fiscal stability and boost economic competitiveness. Since their initial launch, ERP agendas have been required to include structural reform objectives in key fundamental areas:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets

- social inclusion, poverty reduction and equal opportunities.

In addition to these essential fields, and as the objectives of EU policies continue to evolve to include cross-cutting sustainable sectors, the structural reform agendas of ERPs have embraced new commitments to progressive policy reforms since the last assessment that also cover:

- green transition
- digital transformation
- research, development and innovation
- economic integration reforms
- agriculture, industry and services
- healthcare systems.

Once submitted by the governments, ERPs are assessed by the European Commission and European Central Bank, opening the door for a multilateral policy dialogue with enlargement candidates to gauge their progress and priority areas on their path to accession. Discussions and assistance on policy reforms take place through a high-level meeting between member states, EU institutions and enlargement countries, through which participants adopt joint conclusions that include economy-specific guidance for policy reform agendas.

The findings of the *SME Policy Index 2022* provide an extensive technical understanding of the progress made on business sector-related policy reforms that are key to the ERPs of the EU accession candidates at both the regional and economy-specific levels. The SBA delves into the specific barriers to progress in ten policy areas that are essential to applying the larger objectives of the ERPs, like boosting competitiveness and economic growth to SMEs in the region.

Source: European Commission (2021^[8]).

EU accession process

Kosovo remains one of the WBT economies designated as a potential candidate for EU accession, having been assigned said status in 2008. The Stabilisation and Association Agreement (SAA) between the European Union and Kosovo entered into force in 2016, replacing the Stabilisation Tracking Mechanism enacted by the European Union in 2002 to ensure that the economy could continue to gradually integrate its domestic policies on legal, economic and social matters with the European Union. Kosovo's implementation of the new comprehensive framework aimed at establishing a free trade area and closer political dialogue between the European Union and Kosovo has since been administered through the National Programme for Implementation of the Stabilisation and Association (NPISAA), which was adopted the same year for the period 2017-21 (Government of Kosovo, 2017^[28]). A new NPISAA for the period 2020-24 was adopted in July 2020 and aims to determine further measures and priorities for institutions to implement the SAA and enable the fulfilment of its obligations (Office of the Prime Minister, 2020^[29]). Kosovo has made some progress in general harmonisation with EU standards. In its fourth report on progress on the implementation of the remaining benchmarks of the Visa Liberalisation Roadmap by Kosovo, the Commission confirmed that all benchmarks had been fulfilled, and the Decision on the Commission's proposal remains pending in the European Parliament and the Council (European Commission, 2018^[30]).

According to the European Union's 2021 enlargement report for Kosovo, the economy is moderately prepared on enterprise and industrial policies that help encourage a hospitable environment for SMEs. Kosovo made some progress in aligning its industrial policy by making the National Council for Economy and Investment a more systematic and efficient forum for public-private business dialogue. The economy

also did well to maintain a functioning business environment during the COVID-19 crisis and lockdowns, which was particularly facilitated by Kosovo's well-established Credit Guarantee Fund, which was able to efficiently provide additional financing by increasing its coverage of credit guarantees for loans. Nevertheless, Kosovo needs to reinforce stagnant efforts to remove structural barriers to businesses as attention was focused on mitigating the immediate effects of the pandemic (European Commission, 2021^[27]). In this regard, Kosovo should concentrate on:

- adopting and implementing a strategy to support Kosovo's business environment and industrial development
- reorganising the KIESA to improve its support schemes and provision of advisory services to SMEs and add an investor aftercare unit.

Although Kosovo has shown a firm commitment to aligning its policies with the European Union, further progress towards opening negotiations will strongly depend on improved bilateral relations and co-operation with neighbouring economies as well as further simplification of the regulatory environment for businesses and enabling better access to finance for SMEs. The findings and recommendations published in the *SME Policy Index 2022* can help provide the monitoring and guidance needed for Kosovo to meet the remaining requirements related to harmonisation of enterprise and industrial policy with the EU *acquis*.

EU financial support

The European Union remains the largest provider of financial assistance to Kosovo, helping the economy realise its reform processes and endeavours, bringing it closer to the *acquis*. The European Union's financial support to the economy and the region has been provided through both temporary support such as COVID-19 assistance packages as well as long-term investment programmes and funds through the Instrument for Pre-accession Assistance (IPA), European Investment Bank loans, Western Balkans Investment Framework grants and more.

In addition to a total of EUR 1.2 billion provided to Kosovo by the European Union between 2007 and 2020 under the IPA I and II, the European Union is providing funds under IPA III for the period 2021-27 to upgrade environmental management systems, improve transport systems by promoting environmentally friendly transport modes, and provide technical assistance for the management, monitoring, evaluation, information and control of IPA-related activities (European Commission, 2021^[31]).

In 2020, the European Union pledged EUR 9 billion for the Western Balkans as part of a new economic and investment plan to support sustainable connectivity, human capital, competitiveness and inclusive growth, and the twin green and digital transition. The European Commission has been integral in providing infrastructural funding for the Peace Highway connecting Kosovo to Nis in Serbia and the upgrading of a railway route connecting Belgrade with Pristina. The European Commission has also been helping the economy move away from coal and transition to renewable energy sources through further preparations for the construction of the Ibër-Lepenc Hydro System Phase II and starting a gas interconnection between Kosovo and North Macedonia. Kosovar SMEs will also be able to benefit from the scheme's increased funding to the Western Balkans Guarantee Facility (European Commission, 2020^[32]).

The European Union has been crucial in financially supporting Kosovo in the wake of COVID-19. The economy received EUR 100 million of the European Commission's EUR 3 billion Macro-Financial Assistance (MFA) package for enlargement and neighbourhood partners that aims to help them limit the economic fallout of the COVID-19 pandemic. Kosovo received the second MFA payment in January 2021 after fulfilling the programme's policy conditions to improve the sustainability of public finances, enhance financial stability, strengthen good governance and the fight against corruption, as well as initiatives to increase youth employment (European Commission, 2020^[33]).

The European Investment Bank (EIB) has also played a key role in financing the business landscape in Kosovo, having invested EUR 280 million to support Kosovo's companies since 1999. The EIB also provided EUR 11 million for the construction of a wastewater plant in the municipality of Gjilan, which will serve more than 90 000 people in Kosovo. The economy also continues to participate in the European Union's Competitiveness of Enterprises and Small and Medium-Sized Enterprises Programme (COSME), under which it benefits from support to entrepreneurship and entrepreneurial culture, access to finance for SMEs and access to markets (European Commission, 2021^[34]). The economy has participated in the European Union's Research and Innovation programmes since 2008 and is part of the Horizon 2020 programme, allowing it access to the project's EUR 95.5 million budget to help develop projects and technologies and conduct research and activities that will contribute to tackling global challenges.

SMEs in the domestic economy

The classification of SMEs in Kosovo remains enshrined in the Law on Foreign Investments adopted in 2014 (Assembly of Kosovo, 2014^[35]), which replaced the 2006 Law on Support to Small and Medium Enterprises and its subsequent amendment in 2008. The only criterion remains employment size, which conforms to the EU standard definition of SMEs (Table 15.3).

Table 15.3. Definition of micro, small and medium-sized enterprises in Kosovo

| | EU definition | Kosovo definition |
|--------------|------------------------------------------------------------------------------|-------------------|
| Micro | < 10 employees = EUR 2 million turnover or balance sheet | ≤ 10 employees |
| Small | < 50 employees = EUR 10 million turnover or balance sheet | < 50 employees |
| Medium-sized | 250 employees = EUR 50 million turnover = EUR 43 million balance sheet | < 250 employees |

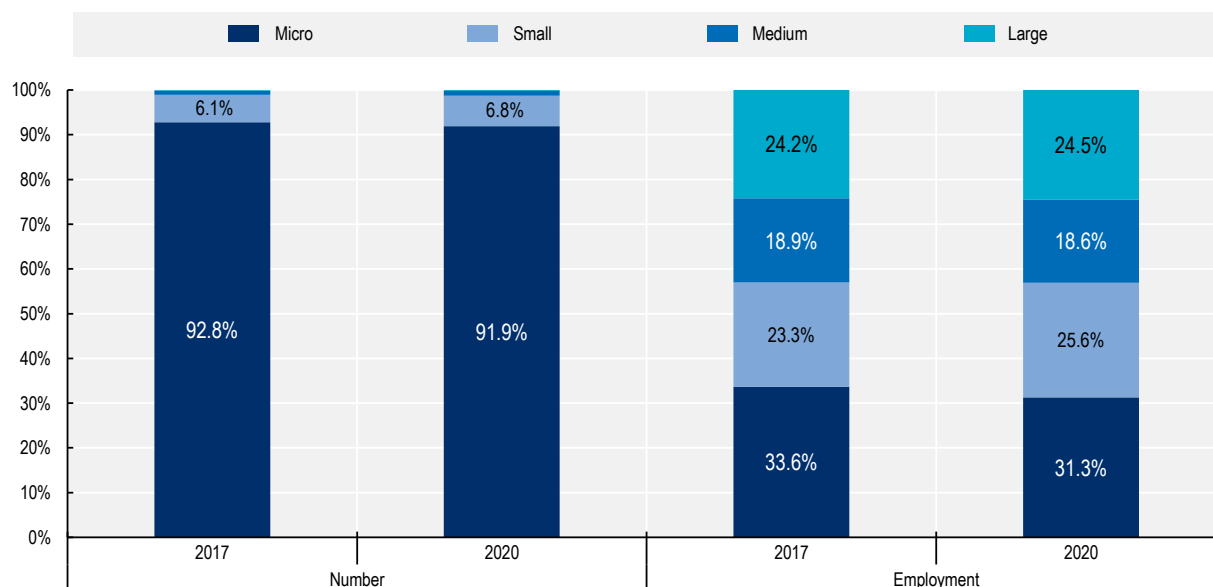
Note: For purposes related to the Law on Bankruptcy, an SME is defined as a business organisation that has an annual turnover of up to EUR 1 million or has up to 25 employees. This definition is only applied in bankruptcy cases.

Source: Assembly of Kosovo (2014^[35]).

In 2020, Kosovo's 42 881 MSMEs accounted for 99.84% of all enterprises in the economy, increasing by about 4 850 since 2017. MSMEs also increased employment by approximately 27 000 people in the same period, accounting for 75.5% of total employment in the economy. The breakdown of enterprises by size in Kosovo was 91.9% microenterprises, 6.8% small, 0.15% medium and only 0.66% large enterprises in 2020. The number of microenterprises decreased by roughly 0.9% since 2017, which was partially absorbed by a 0.63% increase in small enterprises. Employment in SMEs experienced larger fluctuations, with micro, medium and large enterprises witnessing decreases in employment at 2.4%, 0.4% and 1.1%, respectively, while small enterprises noted a 2.3% increase in employees between 2017 and 2020 (Figure 15.2).

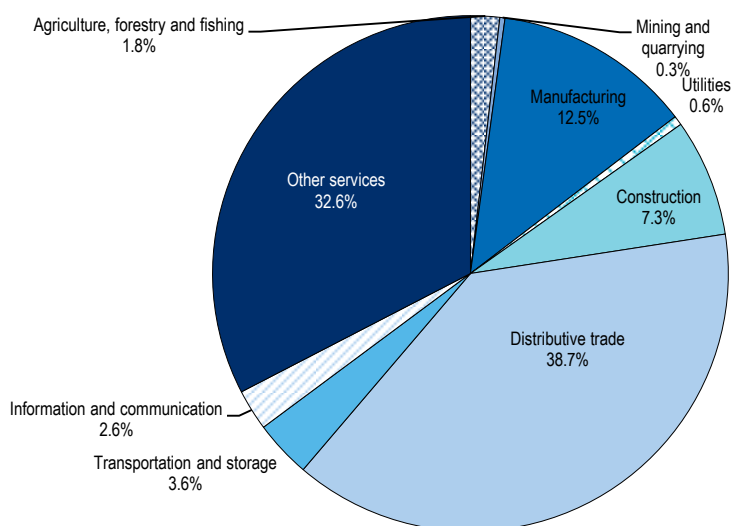
The sectoral distribution of SMEs in Kosovo has experienced slight changes since 2016 (Figure 15.3). The distributive trade sector, which includes wholesale, retail trade, and the repair of motor vehicles and motorcycles, remains the overwhelming industry of SMEs in the economy at 38.68% but saw the greatest decrease in the number of enterprises since 2016, at a 5.4% decline. Other services follows as the second-highest number of SMEs in Kosovo and witnessed the most notable increase in the number of enterprises since 2016, at a 5.5% increase. Slight increases of between 0.2% and 1% were also noted in the agriculture, construction, information and communication, utilities, and transport sectors, while manufacturing remained unchanged. A small decrease of 0.1% was noted for the mining industry.

Figure 15.2. Business demography indicators in Kosovo (2020)



Source: Statistical Office of Kosovo.

Figure 15.3. Sectoral distribution of SMEs in Kosovo (2020)



Note: The sector classification generally follows the Statistical Classification of Economic Activities in the European Community (NACE) Rev.2 classification of productive economic activities with the following exceptions: "Utilities" represents the sum of "Electricity, gas, steam and air conditioning supply" (D) and "Water supply, sewerage, waste management and remediation activities" (E); "Distributive Trade" covers "Wholesale and retail trade; repair of motor vehicles and motorcycles" (F); and Other Services here consists of (I) Accommodation and food service activities, (L) Real estate activities, (M) Professional, scientific and technical activities, (N) Administrative and support service activities as well as (S) Other service activities. For more information, consult NACE Rev. 2 Classification

Source: Statistical Office of Kosovo

Geographically, about 31.7% of enterprises were located in Pristina in 2021, followed by 9.7% in the municipality of Ferizaj and 7% in Prizren (Table 15.4). The number of enterprises in Pristina decreased by only 0.72% from 2019 to 2021, while the municipalities of Prizren, Mitrovicë and Vushtri also saw decreases of approximately 1% during the same period. On the other hand, the municipality of Ferizaj saw a notable 3.1% surge since 2019, while the municipalities of Lipjan, F. Kosovë and Pejë also saw increases of around 1% during the same period.

Table 15.4. Number of registered companies in Kosovo by municipality (2019-21)

| Municipality | Total number of enterprises | | | Share of total number of enterprises | | |
|---------------|-----------------------------|--------------|--------------|--------------------------------------|----------------|----------------|
| | 2019 | 2020 | 2021 | 2019 | 2020 | 2021 |
| Deçan | 31 | 31 | 16 | 1.21% | 1.08% | 0.66% |
| Gjakovë | 75 | 95 | 93 | 2.92% | 3.31% | 3.85% |
| Glllogoc | 53 | 53 | 66 | 2.07% | 1.85% | 2.73% |
| Gjilan | 132 | 161 | 136 | 5.14% | 5.61% | 5.63% |
| Dragash | 13 | 19 | 4 | 0.51% | 0.66% | 0.17% |
| Istog | 41 | 22 | 18 | 1.60% | 0.77% | 0.75% |
| Kaçanik | 37 | 31 | 21 | 1.44% | 1.08% | 0.87% |
| Klinë | 44 | 27 | 35 | 1.71% | 0.94% | 1.45% |
| F. Kosovë | 93 | 126 | 117 | 3.62% | 4.39% | 4.84% |
| Kamenicë | 34 | 30 | 16 | 1.33% | 1.05% | 0.66% |
| Mitrovicë | 91 | 118 | 59 | 3.55% | 4.11% | 2.44% |
| Leposaviq | 9 | 3 | 2 | 0.35% | 0.10% | 0.08% |
| Lipjan | 55 | 63 | 83 | 2.14% | 2.20% | 3.44% |
| Novobërdë | 6 | 8 | 4 | 0.23% | 0.28% | 0.17% |
| Obiliq | 22 | 27 | 41 | 0.86% | 0.94% | 1.70% |
| Rahovec | 39 | 27 | 36 | 1.52% | 0.94% | 1.49% |
| Pejë | 103 | 132 | 125 | 4.01% | 4.60% | 5.17% |
| Podujevë | 119 | 125 | 90 | 4.64% | 4.36% | 3.73% |
| Pristina | 831 | 897 | 765 | 32.39% | 31.28% | 31.66% |
| Prizren | 209 | 200 | 169 | 8.14% | 6.97% | 7.00% |
| Skenderaj | 38 | 52 | 30 | 1.48% | 1.81% | 1.24% |
| Shtime | 27 | 12 | 17 | 1.05% | 0.42% | 0.70% |
| Shtërpce | 7 | 9 | 1 | 0.27% | 0.31% | 0.04% |
| Suharekë | 40 | 52 | 42 | 1.56% | 1.81% | 1.74% |
| Ferizaj | 169 | 254 | 234 | 6.59% | 8.86% | 9.69% |
| Viti | 54 | 35 | 32 | 2.10% | 1.22% | 1.32% |
| Vushtri | 89 | 119 | 60 | 3.47% | 4.15% | 2.48% |
| Zubin Potok | 5 | 1 | 1 | 0.19% | 0.03% | 0.04% |
| Zveçan | 9 | 3 | 3 | 0.35% | 0.10% | 0.12% |
| Malishevë | 42 | 37 | 37 | 1.64% | 1.29% | 1.53% |
| Juniku | 2 | 2 | 1 | 0.08% | 0.07% | 0.04% |
| Mamushë | 1 | 11 | 2 | 0.04% | 0.38% | 0.08% |
| Hani i Elezit | 11 | 22 | 7 | 0.43% | 0.77% | 0.29% |
| Graçanica | 22 | 29 | 31 | 0.86% | 1.01% | 1.28% |
| Ranillug | 1 | 8 | 2 | 0.04% | 0.28% | 0.08% |
| Partesh | 2 | 4 | 11 | 0.08% | 0.14% | 0.46% |
| Klllokot | 0 | 8 | 1 | 0.00% | 0.28% | 0.04% |
| Mitr. Veriore | 10 | 15 | 8 | 0.39% | 0.52% | 0.33% |
| Total | 2 566 | 2 868 | 2 416 | 100.00% | 100.00% | 100.00% |

Note: Data from 2021 Q4 business registrar records.

Source: Kosovo Agency of Statistics (2022^[36]).

Assessment

Description of the assessment process

The SBA assessment cycle was virtually launched on 7 July 2021, when the OECD team shared the electronic assessment material – questionnaires and statistical sheets, accompanied by explanatory documents.

Following the virtual launch, KIESA, which acts as the SBA Co-ordinator nominated by the European Commission, distributed the link to the assessment material to the appropriate ministries and government agencies and the statistical sheets to the Kosovo Agency of Statistics. These institutions compiled the data and documentation between July and September 2021 and completed the questionnaires. Each policy dimension was given a self-assessed score accompanied by a justification. The completed questionnaires and statistical data sheets were received by the OECD team on 22 October 2021, following which the OECD team began an independent review.

The OECD reviewed the inputs and requested additional information on certain elements from KIESA. For several dimensions, virtual consultation meetings with key dimension stakeholders were organised in December. The meetings aimed to close any remaining information gaps in the questionnaires.

A virtual preliminary findings meeting with Kosovo was held on 14 January 2022 with an aim to present and discuss the preliminary *SME Policy Index 2022* assessment findings and initial recommendations for Kosovo. At the same time, it served as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies and to gauge what more can be done across different policy areas to improve SMEs' performance and competitiveness in Kosovo, especially in the post-COVID context.

The meeting allowed the OECD to validate the preliminary assessment findings. The draft SME Policy Index publications and the Economy Profile of Kosovo were made available to the KIESA for their review and feedback during February 2022.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 15.5). For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 15.5. Description of score levels

| | |
|----------------|-----------------------------------------------------------------------------------------------------------------|
| Level 5 | Level 4 plus results of monitoring and evaluation inform policy framework design and implementation. |
| Level 4 | Level 3 plus evidence of a concrete record of effective policy implementation. |
| Level 3 | A solid framework addressing the policy area concerned is in place and officially adopted. |
| Level 2 | A draft or pilot framework exists, with some signs of government activity to address the policy area concerned. |
| Level 1 | No framework (e.g. law, institution) exists to address the policy topic concerned. |

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Introduction

Entrepreneurial learning raises learners' skills and develops the mindsets needed to change their lives and the world around them through entrepreneurial action for social and economic impact. It is the basis for empowering learners to know they can generate the creative ideas needed in the 21st century.

Women's entrepreneurship should be prioritised to support women's economic and social empowerment and drive improved stability and social and economic growth. It can also enable closing gender gaps in the workforce, supported by equality and gender impact analysis of policies affecting family care and social protection.

Education and training quality and relevance are a significant challenge for Kosovo (European Training Foundation, 2020^[37]), and entrepreneurial learning is integral to both. While there has been some improvement during this assessment period, the education and training system is yet to ensure that entrepreneurial learning and the development of entrepreneurial competences is a reality within learning experiences for young people in Kosovo.

The score for women's entrepreneurship has increased during this assessment period (from 2.53 in 2019 to 3.22 in this cycle), driven by the launch of the programme for gender equality, which includes a set of actions for women's entrepreneurship (Table 15.6).

Table 15.6. Kosovo's scores for Dimension 1: Entrepreneurial learning and women's entrepreneurship

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|--------------------------------------------------------------------|---------------------------------------------|---------------------------|--------|-------------|
| Dimension 1: Entrepreneurial learning and women's entrepreneurship | Sub-dimension 1.1: Entrepreneurial learning | Planning and design | 2.75 | 3.43 |
| | | Implementation | 3.67 | 3.51 |
| | | Monitoring and evaluation | 2.34 | 2.73 |
| | | Weighted average | 3.13 | 3.33 |
| | Sub-dimension 1.2: Women's entrepreneurship | Planning and design | 3.40 | 3.97 |
| | | Implementation | 3.49 | 3.83 |
| | | Monitoring and evaluation | 3.00 | 3.11 |
| | | Weighted average | 3.36 | 3.73 |
| Kosovo's overall score for Dimension 1 | | | 3.22 | 3.49 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

For entrepreneurial learning, the challenge remains to co-ordinate policy and actions at the government level and ensure that policy commitments are fully translated into practical implementation through training and guidance for educators and education organisations. The potential for excellence shines through advances in education-business co-operation, opening up the entrepreneurial ecosystem to embrace municipalities, academia and business.

Support for women's entrepreneurship has improved in terms of policy and design, but implementation is reliant on actions funded by international partners. Monitoring and evaluation remain under-developed for both sub-dimensions, resulting in a lack of understanding of the progress and impact of actions and a loss

of qualitative and quantitative data that could feed into skills intelligence to drive system-level change (Table 15.7).

Table 15.7. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 1

| 2019 recommendation | SME Policy Index 2022 | |
|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Strengthen appropriation of entrepreneurship as a cross-cutting competence | There has been limited progress in strengthening the integration of the entrepreneurship key competence across curricula. Teacher professional development training remains limited at pre-service and in-service levels. | Limited |
| Facilitate education-business co-operation for the purposes of entrepreneurial learning | During this assessment period, the new government identified education-business co-operation as a top priority within the Kosovo Government Programme (2021-2025). This has been further developed through new education-business co-operation in UPCO (University of Pristina for Competitiveness/Competencies/Co-operation) – a triple-helix co-operation model confirmed in a recent Memorandum of Understanding between the University of Pristina, the City of Pristina and the Kosovo Chamber of Commerce (KCC). This co-operation will also include a focus on the entrepreneurial ecosystem. The implementation plan is under development. | Moderate |
| Facilitate education-business co-operation through teacher training and reward mechanisms | Progress in this area is linked to the development of the UPCO collaboration between the University of Pristina, the City of Pristina and the KCC, which has the potential to link university educators into this triple-helix co-operation. However, the memorandum of understanding was signed at the end of 2021; practical approaches to how the triple-helix co-operation will be developed are still being planned. | Limited |
| Build up decentralised capacity to connect business and education and training providers | Considerable potential remains to implement this recommendation, but no practical actions appear to have been taken. The recent Economic Reform Programme 2021-2023 identified the Council for Education and Vocational Training (CVETA) as a channel for discussions and consultation between business and ministry representatives on developing professional standards as the basis for drafting new curricula. This co-operation within CVETA could be expanded to identify further opportunities. | No progress |
| Develop a co-ordinated framework for monitoring and evaluation in order to bring about positive change | Monitoring and evaluation have improved during this assessment. However, there continue to be areas of weakness, such as a comprehensive report explaining the progress of specific actions taken and the change created as a result. There is no clearly defined lead body for this work across entrepreneurial learning or women's entrepreneurship, which impacts the ability to implement or collate data and results from monitoring and evaluation. | Limited |
| Renew the National Strategy for Entrepreneurship Education and Training | There has been no progress on renewing the strategy for entrepreneurship education and training, and this is not currently planned in the Kosovo Government Programme (2021-2025) (Government of Kosovo, 2021 ^[38]). | No progress |
| Formalise co-ordination on women's economic empowerment | The launch of the Kosovo Programme for Gender Equality (2020-2024) is now the primary document underpinning the development of women's entrepreneurship. While there is evidence of activities happening in the economy, as yet, there is no multi-stakeholder partnership identified as having lead responsibility for women's economic empowerment to support and co-ordinate this work. | Moderate |

Entrepreneurial learning is highlighted across policy but lacks system-level co-ordination

Entrepreneurial learning can be seen across a number of government strategies and documents. However, it is fragmented with little cross-government co-ordination to support the practical implementation of the vision and commitments. The Kosovo Education Strategic Plan (2017-2021) (Government of Kosovo, 2017^[39]) highlights the importance of entrepreneurial learning without any focus on implementation.² Planning for the new version for 2022-2025 is now underway.

The Kosovo Government Programme (2021-2025) has more explicit commitment actions related to entrepreneurial learning, including exploring the possibility of including entrepreneurship subjects in lower secondary education, building additional laboratories to support student internships, developing a Fund for

Young Entrepreneurs and encouraging entrepreneurial collaborations between young people and diaspora (Government of Kosovo, 2021^[38]).

The National Strategy for Innovation and Entrepreneurship (2019-2023) (Government of Kosovo, 2019^[40]) was adopted during the current assessment cycle, which includes actions to boost innovative spirit and awareness among young people and a commitment to revising the curriculum. However, there is no associated action plan, and the linked Law on Innovation and Entrepreneurship has been delayed.³ Alongside this is the Strategy for Youth (2019-2023) (Government of Kosovo, 2019^[41]), which has a strong focus on entrepreneurship for young people⁴ but no information on the progress of planned actions.

Relevant co-ordination bodies include the Council for Vocational Education and Training and the Digital Coalition (previously called the National Council for Innovation and Entrepreneurship), but there is little recent information on their activity or specific information on their work linked to entrepreneurial learning. There is more information on the Council for Vocational Education and Training,⁵ which appears functional and benefits from the active involvement of representatives from the business community.

The lack of co-ordination and information on practical implementation reflects the ongoing challenge of limited government capacity to fully implement the vision of the above-mentioned strategies (European Training Foundation, 2020^[37]). Data collection on implementing entrepreneurial learning is not widely collected and affects Kosovo's ability to monitor and evaluate impact. Strategy evaluations are undertaken, but conclusions may not be directly used in designing the next steps.

Entrepreneurship is included in Kosovo's key competences framework, but practical implementation is not yet widespread

Pre-university curriculum frameworks⁶ in Kosovo include six key competences, with elements of the entrepreneurship key competence included within the Kosovan key competence for life, work and the environment. Entrepreneurial education is highlighted as a cross-curricular priority.⁷ During this assessment period, a new student assessment framework was created (Government of Kosovo, 2020^[42]) that emphasises the assessment of these key competences. However, there is limited system-level guidance for teachers on teaching, learning and assessment of key competences. Therefore, entrepreneurship as a key competence is not yet translated into practical implementation at the level of learners. Practical entrepreneurial experiences are not widely implemented⁸ and are not a system-level commitment.

To support a wider understanding of the entrepreneurship key competence beyond the traditional economic focus, the EntreComp framework (European Commission, 2016^[43]) has been translated⁹ into Albanian and Serbian. It was also launched at an event with the Minister of Industry, Entrepreneurship, and Trade and the Minister of Education, Science, Technology and Innovation.¹⁰

Driving change in curriculum delivery, a new VET curriculum that includes entrepreneurship as a mandatory module is awaiting formal approval. EntreComp was used to inform the curriculum review process.

Teacher training is not widely available at pre-service or in-service levels

The Kosovo Education Strategic Plan (2017-2021) highlighted the need to harmonise pre-service teacher training with the needs of the Ministry of Education, Science and Technology (MEST) policies, which highlight entrepreneurial education as a cross-curricular requirement. However, there is no available evidence of progress in including entrepreneurial competence development, either as an elective or a compulsory topic for new teachers during pre-service teacher training.

For existing teachers, there is limited access to training. MEST has published a new catalogue of approved teacher training, but few options explicitly address the entrepreneurship key competence. Those included are training offers linked to existing entrepreneurial learning actions, such as the innovative Upshift

“Entrepreneur with Social Impact” teacher training linked to citizenship and democratic education, and Smartbits,¹¹ which includes entrepreneurial competences for career orientation.

Progress has been made in developing education-business co-operation

Structured collaboration using the triple-helix model has been established in Kosovo for the first time, bringing together the University of Pristina, the City of Pristina and the KCC into the UPCO cluster (ALLED2, 2022^[44]). Supported by the ALLED2 (Aligning Education for Employment) project, this work aims to drive forward the development of an entrepreneurial ecosystem linked to creating social, cultural and economic value for the region through structured university-business co-operation. Strengthening co-operation through a formal memorandum of understanding will improve links between higher education and the labour market, the development of entrepreneurship and the promotion of lifelong learning. This is enabled through the legal framework established within the Law on Higher Education¹² (Government of Kosovo, 2011^[45]). The involvement of municipalities, higher education and the private sector, is essential to advance the implementation of education reform, and this development can be a first step toward wider business co-operation for other universities as well at VET.

There is a stronger policy focus on women’s entrepreneurship, but improvement is still needed, including dedicated monitoring and evaluation

The Kosovo Programme for Gender Equality (2020-2024) (Government of Kosovo, 2020^[46]) was launched with an associated action plan that includes specific actions to encourage women’s entrepreneurship and support start-ups by women entrepreneurs. However, there is a lack of cross-linkages between this programme and wider relevant strategies, such as the Private Sector Development Strategy (2018-2022) and the National Strategy for Innovation and Entrepreneurship (2019-2023), where there is little mention of focused actions supporting women’s entrepreneurship.

A challenge remains regarding monitoring and evaluation. As yet, there is no comprehensive economy-level evaluation of actions and impact related to women’s entrepreneurship and little sharing of practice. Compounding this is the low availability of gender-sensitive data on engagement in specific actions, such as training or start-up programmes.

The National Strategy for Innovation and Entrepreneurship (2019-2023) highlights the lack of gender-disaggregated data and commits to providing specific funding programmes. A practical Gender Impact Assessment Manual (Kosovo Agency for Gender Equality, 2019^[47]) was published to support the review of all new legislative initiatives;¹³ however, there is no clear evidence of the adjustments made based on the evaluation results and use of this manual.

Support for women entrepreneurs is not yet well developed

Direct grant support for start-up entrepreneurs is not yet well developed in Kosovo, with support programmes available from the Employment Agency (active labour market measures) that target women participants but are not tailored to them.¹⁴ However, a range of non-government-led programmes supports women’s entrepreneurship, including those financed using government funding, such as the Kosovo Women’s Chamber of Commerce, Women in Business and the EBRD. Private-sector stakeholders also lead programmes, such as Procredit Bank, TEB Bank, and the Institute for International Cooperation of the Deutscher Volkshochschul-Verband eV (DVV). Nevertheless, there is not yet a dedicated online portal for accessing information, funding opportunities and training offers related to women’s entrepreneurship.

Multi-stakeholder co-ordination to support women’s entrepreneurship is being strengthened

Government funds, through grants, have been made available to strengthen the capacity of non-governmental organisations (NGOs) supporting women’s entrepreneurship in Kosovo.¹⁵ There is evidence

of interesting practices from diverse stakeholders, such as women's entrepreneurship support and green transformation¹⁶ (TEB Bank), the COVID-19 response provided by Women in Business and She-Era to support women-owned businesses, and the training offer on digital transformation through the Kosovo Women's Chamber of Commerce.¹⁷ In response to the COVID-19 crisis, resources were put in place targeting women entrepreneurs and working women, linked to the Programme for Economic Recovery and Agency for Gender Equality.¹⁸ Lessons learned show that measures did positively impact women entrepreneurs, despite the added impact of family responsibilities on women; however, there was a negative impact on certain groups of women, including those informally employed, single mothers and informal women farmers.¹⁹

The way forward for Dimension 1

- **Identify new or existing multi-stakeholder policy partnerships to co-ordinate and strengthen efforts across different strategies** for, firstly, entrepreneurial learning and, secondly, women's entrepreneurship. Consider including these as explicit responsibilities of existing multi-stakeholder partnerships. For entrepreneurial learning, this would need to be a multi-stakeholder body linked to the MEST. For women's entrepreneurship, this could be an explicit responsibility of the National Council for Economy and Investment or as a sub-group of this body and with the direct involvement of the Agency for Gender Equality to ensure gender representation within this important economic council. Box 15.3 provides a relevant good practice example from Montenegro.

Box 15.3 Building a national policy partnership in Montenegro

Montenegro has successfully brought together and sustained a multi-stakeholder policy partnership that drives co-ordination and the development of entrepreneurial lifelong learning. The partnership has gradually increased the focus on this policy area, resulting in progress in the practical implementation of entrepreneurial learning at all levels of lifelong learning.

The consistent partnership between government ministries and key national stakeholders was linked to the design and implementation of national strategies. The relevance and importance of participation were clear to each partner organisation and closely aligned to their organisational objectives, with a named representative from each partner. The partnership was initially informal, and organisations worked together to place the focus on increasing the profile of entrepreneurial lifelong learning at the policy level and gaining recognition for their partnership approach. This finally resulted in formal recognition by the government in 2021 as a working group of the National Council for Competitiveness led by the Ministry of Economy.

This is a multi-stakeholder partnership body that is integrated into the equivalent of the National Council for Economy and Investment, allowing for the involvement of a full range of partners. In Kosovo, this could be directly linked to the National Strategy for Innovation and Entrepreneurship (2019-2023). It could be used as a model for both entrepreneurial learning and women's entrepreneurship. Such a partnership approach can bring partners together, link work to the different strategies that focus on actions supporting entrepreneurial lifelong learning, enhance the work of all partners in this field and gain further recognition of a partnership approach at the national and government levels.

Sources: Government of Montenegro (2020^[48]) and McCallum et al. (2018^[49]).

- **Provide accessible training courses and current guidance for educators** on how to integrate entrepreneurship as a cross-curricular key competence in teaching and assessment, including the

“hard to reach” entrepreneurial competences (or “soft skills”) highlighted in the key competences of the Kosovo pre-university curriculum framework.

- **Prioritise the harmonisation of university teacher training programmes** with the needs of the curriculum framework and key competences, including the entrepreneurship competence underpinned by EntreComp. This needs to provide a future-proofed approach to the training of new teachers by learning from cutting-edge practices and ensuring they are trained to be adaptable and resilient to changing contexts and learning environments as they enter a profession undergoing systemic reform.
- **Launch an online portal that provides information and advice for women’s entrepreneurship**, bringing together finance provision and support actions from government and non-government providers. This could be a dedicated portal or a specific section within an existing government entrepreneurship portal such as My Business.²⁰
- **Improve system-level monitoring and evaluation of government-financed programmes related to entrepreneurial learning and women’s entrepreneurship.** This will allow for a fuller understanding of the progress and impact of these actions across policy and implementation.

Bankruptcy and second chance for SMEs (Dimension 2)

Introduction

Firms enter and exit the market as a natural part of the business cycle, and policies can ensure that such transitions occur in a smooth and organised manner. Well-developed insolvency procedures and regimes can protect both debtors and creditors, striking the right balance between both parties, for example. This is particularly relevant for smaller firms as they lack resources compared to bigger firms. Therefore, governments need to ensure that bankruptcy proceedings are efficient, ease reorganisation procedures (instead of bankruptcies) and ensure that those starting again have the same opportunities in the market they had the first time.

In Kosovo, similarly to other Western Balkan economies where SMEs represent a large part of the economy, effective liquidation and discharge procedures can allow entrepreneurs to reintegrate into the market. This was particularly relevant in the context of the COVID-19 pandemic, where a number of firms faced financial difficulties or were at risk of financial distress, particularly in the tourism sector (OECD, 2021^[50]).

Kosovo is one of two WBT economies, alongside Montenegro, that regressed in this dimension during this assessment period mainly due to weaker performance under the bankruptcy procedures sub-dimension and continuously disregarding promotion of second-chance policies in its strategic framework. Its score fell from 2.71 to 2.30 (Table 15.6) and is performing below the regional average of 3.03 (Table 15.8).

Table 15.8. Kosovo's scores for Dimension 2: Bankruptcy and second chance

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------------|--------------------------------------------|----------------------------------------|-------------|-------------|
| Dimension 2: Bankruptcy and second chance | Sub-dimension 2.1: Preventive measures | | 2.20 | 2.74 |
| | Sub-dimension 2.2: Bankruptcy procedures | Design and implementation | 2.70 | 3.47 |
| | | Performance, monitoring and evaluation | 2.30 | 3.23 |
| | | Weighted average | 2.54 | 3.38 |
| | Sub-dimension 2.3: Promoting second chance | | 1.50 | 1.96 |
| Kosovo's overall score for Dimension 2 | | | 2.30 | 3.03 |

Note: WBT: Western Balkans and Turkey

State of play and key developments

During the assessment period, Kosovo implemented the provisional law on the economic recovery, which provides support measures for companies having financial difficulty, in addition to the existing insolvency laws. Kosovo is among the few economies in the region that allows a simplified and expedited reorganisation procedure for SMEs. However, fast-track simplified liquidation proceedings for SMEs, and automatic debt discharge rules are still lacking in Kosovo's legal framework. Moreover, second-chance programmes for SMEs are nascent, limiting the reintegration of honest entrepreneurs into the economy and changing the current perception of a cultural stigma linked to entrepreneurial failure (Table 15.9).

While there are no available data on the number of backlog cases, the number of bankruptcy cases remained very low compared to other WBT economies. Since 2017, the economy has recorded only eight resolved cases.²¹ The insolvency results reflect to a great extent the way the economy is performing and informally resolving its disputes and collective settlements.

Table 15.9. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 2

| 2019 recommendation | SME Policy Index 2022 | |
|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Develop a fully-fledged early warning system | A fully-fledged early warning system is still missing. The existing warning tools used by the Kosovo Tax Administration are based on annual financial statements, which could potentially be too late to prevent bankruptcies, leading to involuntary liquidations. | Limited |
| Further reduce the average cost and duration of bankruptcy proceedings by simplifying parts of the bankruptcy legislation | During the assessment period, no simplification measures have been adopted. The duration of proceedings and associated costs remain high, as in the previous assessment. Furthermore, there are no plans to streamline liquidation processes. | No progress |
| Improve the legal framework and develop initiatives to reduce the cultural stigma attached to entrepreneurial failure | No progress has been recorded in reducing the cultural stigma of entrepreneurial failure. The Insolvency Law provides clear rules for treating cases where the debtor files a petition with intent to deceive, defraud or subvert the creditors. However, no regulation distinguishes fraudulent from honest entrepreneurs. | No progress |
| Make the existing mediator system available before the opening of bankruptcy cases | No progress has been observed in this regard. The mediation system has not been extended to enable mediation to take place immediately upon receiving a signal from the tax administration or a well-designed early warning system before a court case is actually initiated. | No progress |

Little progress has been made regarding Kosovo's insolvency legislative framework

Kosovo's insolvency framework comprises two laws: the Insolvency Law, adopted in 2016, and the Law on Business Organisation, adopted in 2018. The latter includes provisions relating to initiating insolvency proceedings for limited liability companies and joint-stock companies. In 2020, during the COVID-19 pandemic, the government adopted the Provisional Law on Economic Recovery, which provides support measures for companies having financial difficulties.

Overall, the regulatory framework provides a solid basis for insolvency regimes and regulates procedures for expedited SME reorganisation and pre-agreed plans, regular reorganisation of companies, liquidation of companies, discharge of debt and cross-border insolvency. Although the United Nations Commission on International Trade Law (UNCITRAL) Model Law on Cross Border Bankruptcy (CBB) has not been adopted, Chapter IX of the Insolvency Law regulates CBB according to the UNCITRAL Model Law. Furthermore, the Insolvency Law is partially compliant with the EU Regulation 2015/848 on insolvency proceedings (European Parliament and the Council of the European Union, 2015^[51]; EBRD, 2022^[52]).

The expedited SME reorganisation is a voluntary procedure, possible for companies with an annual turnover of up to EUR 1 million or with up to 25 employees. The debtor can submit the reorganisation plan in 30 days upon the initiation of the formal procedure, which needs to be assessed by the insolvency practitioner. There is also a possibility of submitting a pre-agreed plan with the creditors and requesting immediate court confirmation. Furthermore, the court holds an expedited hearing to determine if the debtor's pre-filing solicitation of votes discloses all required information and whether voting conditions were met (EBRD, 2022^[52]).

The debtor who faces imminent insolvency can initiate the regular reorganisation procedure. The debtor is obliged to submit a reorganisation plan in 120 days upon petition filing under the supervision of the court. The procedure provides an automatic stay against the enforcement of creditors' claims until its final completion. However, the court may remove the debtor's management in the case of fraud or if the debtor cannot manage financial affairs in a profitable manner, which could trigger various compensation measures, like the reverse of discharge or the conversion of reorganisation into liquidation.

In addition to the aforementioned laws, the Law on Mediation also tackles potential disputes that might arise in bankruptcy procedures. Although an out-of-court settlement remains non-existent in Kosovo, the legal framework allows creditors and debtors, once the insolvency proceedings are initiated, to go into mediation to resolve disputes under the supervision of a neutral mediator.

Some aspects that could streamline the bankruptcy procedures are yet to be addressed in the legislation, such as fast-track liquidation through digitalisation to shorten proceedings, the need to enhance their effectiveness, the need to ensure the protection of debtors' and creditors' rights and better monitor and evaluate insolvency proceedings. Current liquidation proceedings are burdensome; they involve clearance by a board of creditors, the selection of appraisers and method of assets' sales, and allow for appeals, including on distribution. All of this could be avoided, shortened and improved with the introduction of e-auction sales.

Preventive measures are yet to be implemented

While no major progress regarding the introduction of insolvency preventive measures has been recorded since the last assessment, the Government of Kosovo has made some efforts to prevent insolvency through the enactment of the provisional law on the economic recovery from the COVID-19 crisis in December 2020. The law provided EUR 200 million to support all businesses registered with the tax administration before 29 February 2020 that experienced difficulties functioning during the COVID-19 pandemic (Government of Kosovo, 2020^[53]).

The Kosovo Tax Administration (ATK) monitors the performance of companies and implements basic insolvency preventive measures. It notably runs basic early warning tools based on the companies' annual financial statements. The ATK also provides advisory services to companies with financial difficulties, and it has the right to file a petition for involuntary bankruptcy in court if all of the following conditions are met: 1) a debt has been due for at least 60 days; 2) the tax debtor owes the ATK more than EUR 2 000; and 3) the debt is not conditional or subject to a bona fide dispute. However, this mechanism cannot be qualified as a fully-fledged early warning system, as it bases the warning on annual financial statements, which could potentially be a late signal and thus ineffective in preventing bankruptcy.

Second-chance programmes for failed entrepreneurs are still lacking

Similar to the previous assessment findings, Kosovo did not promote second chance, which would encourage or ensure the possibility of reintegration of honest entrepreneurs into the economy. Neither the previous National Development Strategy (2016-2021) nor the upcoming National Development Strategy includes support measures for SMEs in financial difficulty or second chance, fresh start for honest entrepreneurs. Furthermore, the legal framework does not distinguish honest from fraudulent bankruptcies, nor does it clearly define honest entrepreneurs.

The way forward for Dimension 2

- **Develop insolvency prevention policy measures, including a fully-fledged early warning system**, as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding riskier decisions. If no appropriate corrective actions are taken on time, this may initially lead to financial distress and later to insolvency, particularly in the aftermath of the COVID-19 pandemic. The EU Directive 1023/2019 (European Parliament and the Council of the European Union, 2019^[54]) introduces debtors' access to information on early warning tools (Box 15.4). As discussed above, the ATK currently identifies firms in financial difficulty based on their annual financial statements, which could be too late to raise a signal and might fail to prevent bankruptcy. This could be enhanced by introducing special procedures to screen and monitor early signs to detect SMEs in financial difficulty and identify advisory services to assist with recovery.

Box 15.4. Early warning systems in the European Union

Early warning tools may include different instruments: alert mechanisms when the debtor has not made certain types of payments; advisory services provided by public or private organisations; and incentives under national law for third parties with relevant information about the debtor, such as accountants, tax and social security authorities, to flag to the debtor a negative development.

In the European Union, there are two competing models for early warning systems:

1. **Self-assessment tool:** Creating tools for SMEs and entrepreneurs to anonymously assess their economic situation. The self-test tool can be a simple software application on a public website. SMEs and entrepreneurs have only to enter basic financial data about their business. The application will produce a preliminary diagnostic with recommendations for remediation actions, like searching for a specific business advisory or mentoring support service. The application conducts a financial ratios diagnostic analysis. The quality of the diagnostic analysis depends on the quantity and quality of the data intake by the entrepreneur.
This model is useful as a quick financial health check and should be complemented with a business advisory support service by a public institution or access to a commercial or professional association.
2. **Intervention mechanism:** This includes a series of steps to remedy the distress situation under external supervision. The mechanism is based on an early warning signal triggered for the SME, identification of problematic areas causing financial distress and reporting to company management with recommendations to take remedial measures. The process to remedy the identified issues then follows through a series of interventions by different actors, aiming to avoid company insolvency. The process can include:
 - A company bookkeeper or external auditor spots an observation that may lead to financial distress. The early warning mechanism can be built on an obligation of the bookkeeper or auditor to inform the company's management of the issue.
 - If management does not take action to remedy the situation, there may be subsequent communications with the board or even at the shareholders' meeting.
 - If there is no adequate reaction of the enterprise organs, the mechanism can prompt the intervention of outside bodies, such as special mediation or even trigger a special preventive measure court procedure.
 - Finally, if there is no intervention, the system may provide for creditors' actions related to the use of alternative dispute resolution.

Public creditors can play a significant role in an early warning system as they can identify a delay in tax and social security payments – a warning that enterprises are experiencing financial difficulties. Information on late payments should be carefully used together with diagnostic analysis, as companies tend to pay only public debt to avoid early warning detection mechanisms.

Source: IMF (2021^[55]).

- **Streamline liquidation processes by introducing digital tools.** The effectiveness of a bankruptcy proceeding directly relates to court case duration, which could be reduced with digitalisation. Digitalising the liquidation process would enhance transparency, save time and the costs of currently lengthy liquidations, anticipate potential conflicts between the creditors' committee, and protect creditors' rights as claims are recovered from the best market price reached

at a competitive bidding procedure. Moreover, information about insolvency procedures should be publicly available and contain information such as rules on data protection and privacy. This could be achieved by introducing e-auctions and automatic e-distribution mechanisms, such as in the North Macedonia example (Box 15.5).

Box 15.5. The digitalisation of bankruptcy liquidation procedures in North Macedonia

The 2015 amendment of the Insolvency Act in North Macedonia introduced the option of e-auction sales of assets from bankruptcy estates. Following seven years of implementation of e-auction sales, evidence shows that the amount of time taken by bankruptcy liquidation procedures has decreased, and creditors' claims recovered at the best market rates.¹ The main sale principles are defined in Articles 98-100 and Articles 189-196 as follows:

- The sale of the assets from the bankruptcy is done through e-auctions with public bidding.
- Parties interested in participating in e-auctions are required to pay a 10% bond/deposit of the book value of the asset. They then receive a Participant ID with which to bid. The ID is anonymous.
- The e-auction starts at a previously announced time and finishes in 30 minutes. All participants are automatically and electronically informed of the results of the auction.
- Two additional e-auction rounds can take place for any unsold assets. The process must be completed within 90 days of the decision on the sale of assets from the bankruptcy estate.
- The parties in the e-auctions have the right of appeal, which is resolved by a bankruptcy judge within three days of filing the appeal in court and is final.
- The shares of publicly traded companies from the estate are sold on the stock exchange.
- The initial price of an asset for bidding is not announced, and the auction starts from zero price.
- A proposal for the partial distribution of proceeds from the sale of assets may be submitted within eight days, upon completion of the e-sale, to the Board of Creditors to approve the costs of the procedure and distribution to creditors.
- There is an option for appeal on advance partial e-auctions and on final distribution to a bankruptcy judge, which is resolved by the judge within three days of filing the appeal in court and is final.

1. The time to resolve insolvency decreased from 1.8 years in 2016 to 1.5 years in 2020. The recovery rate increased from 44.6 cents on the dollar in 2016 to 48 cents on the dollar in 2020.

Source: Ministry of Economy of North Macedonia (2022^[56]).

- **Promote second chance to honest entrepreneurs.** Kosovo should promote second chance as an option for honest entrepreneurs to have a fresh start and reduce the cultural stigma related to business failure. The legal framework should provide automatic debt discharge to honest entrepreneurs. The policy should be widely promoted through public awareness campaigns promoting a fresh start following bankruptcy.

Institutional and regulatory framework for SME policy making (Dimension 3)

Introduction

A strong institutional and regulatory framework is the basis for SME policy making. SMEs are often disproportionately affected by regulatory changes and pay a higher price for legislative compliance, given their limited resources compared to larger companies. Policy makers should therefore consider the unique needs of SMEs when designing policies that impact the private sector, especially given the importance of SMEs for the economy in terms of employment, value added and business demographics.

For an economy like Kosovo, where SMEs make up the vast majority of total enterprises (99.8% in 2020) and total employment (80.4% in 2020, significantly above the EU average of 65.2%), designing economic policies around the “think small first” principle is of primary importance. SMEs in Kosovo were hit hard by the COVID-19 pandemic, particularly in the wholesale and retail trade, transportation and storage and accommodation and food services sectors (European Commission, 2021^[57]).

Kosovo’s performance in this dimension has slightly deteriorated since the previous assessment (when it was 3.92) (Table 15.10), chiefly due to challenges in monitoring and evaluation of the SME policy framework, as well as due to the persistence of issues related to quality control of regulatory impact analysis (RIA) and public-private consultations (PPCs).

Table 15.10. Kosovo’s scores for Dimension 3: Institutional and regulatory framework for SME policy making

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|---------------------------------------------------------------------------|------------------------------------------------------------------------------------|------------------------------------|-------------|-------------|
| Dimension 3: Institutional and regulatory framework for SME policy making | Sub-dimension 3.1: Institutional framework | Planning and design | 3.80 | 4.28 |
| | | Implementation | 3.60 | 3.96 |
| | | Monitoring and evaluation | 2.80 | 3.81 |
| | | Weighted average | 3.50 | 4.03 |
| | Sub-dimension 3.2: Legislative simplification and regulatory impact analysis (RIA) | Planning and design | 3.80 | 3.84 |
| | | Implementation | 3.60 | 3.47 |
| | | Monitoring and evaluation | 2.80 | 2.95 |
| | | Weighted average | 3.60 | 3.48 |
| | Sub-dimension 3.3: Public-private consultations (PPCs) | Frequency and transparency of PPCs | 4.30 | 4.00 |
| | | Private sector involvement in PPCs | 4.20 | 3.92 |
| | | Monitoring and evaluation | 3.70 | 3.10 |
| | | Weighted average | 4.14 | 3.79 |
| | Kosovo’s overall score for Dimension 3 | | 3.69 | 3.79 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo is in the process of reworking its SME policy framework by updating the Private Sector Development Strategy (2018-2022), whose implementation has been halted for the time being. There is substantial room to improve the monitoring and evaluation mechanisms of SME policies, and the rework should address this issue. Although the reorganisation of the National Council for Economic Development into the National Economic and Investment Council (NEIC) has given it increased political legitimacy and technical capacity for engaging the business community, this momentum has been lost, especially since 2021. There is still scope to improve the consistency and effectiveness of the quality control of both RIA and PPCs (Table 15.11).

Table 15.11. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 3

| 2019 recommendation | SME Policy Index 2022 | |
|-------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Improve the monitoring of the Private Sector Development Strategy and start evaluating its effectiveness on the ground | Action is being taken to improve monitoring and evaluation mechanisms for the Private Sector Development Strategy (2018-2022) as part of its rework. However, this comes rather late, as the strategy's timeline is nearing its end and will likely only apply to the next iteration of the strategy. | Moderate |
| Ensure full implementation of regulatory impact analysis (RIA) while giving consideration to SME aspects | Actions have been taken to train policy makers to make better use of RIA, in particular in quantifying the costs and benefits of reducing administrative barriers for businesses. However, SME aspects are not yet fully considered in RIA, and there remains scope to improve the quality control of RIA in terms of its effectiveness. | Moderate |
| Ensure effective SME participation in public-private consultations | The National Council for Economic Development was reorganised into the National Economic and Investment Council, giving it broader institutional representation and stronger political leadership. The council has also been equipped with a technical secretariat and was active in engaging the business community in responding to the effects of the COVID-19 pandemic. However, there is room to improve the quality of PPCs for legislation and policies. | Moderate |

The framework for SME policies is being updated, but monitoring and evaluation continues to be insufficient

The Government of Kosovo is currently updating its Private Sector Development Strategy (2018-2022), which is the main sectoral document for SME policies. While it remains unclear to what degree the strategy has been implemented so far, as part of the upcoming rework, the government aims to strengthen the strategy's monitoring and evaluation mechanisms, allowing progress to be better measured in the future.

Kosovo's National Development Strategy (2016-2021) also includes objectives related to the development of SMEs. Namely, the strategy's third pillar, related to the development of competitive industries, has measures to improve SMEs' access to finance, support for SME clustering and support SMEs in exercising higher value-added activities. Implementation was advancing well as of 2018, but no monitoring has been conducted since (Office of the Prime Minister, 2018^[58]).

KIESA is the main implementation body for SME policies, as well as for investment promotion and special economic zones. Given its large spectrum of responsibilities, its current staffing and financial resources may be insufficient. While a structural reorganisation is planned that would allow the agency to refocus its strategic objectives, the reorganisation has not yet been enacted (European Commission, 2021^[27]).

Informality remains a significant challenge, and the implementation of measures to reduce it has suffered delays

Informality, estimated at around 30% of GDP, represents a key challenge for Kosovo (European Commission, 2021^[27]). The government has been implementing the Strategy of Combating Informal Economy, Prevention of Money Laundering and Terrorist Financing (2019-2023), focusing on raising voluntary compliance incentives for businesses and improving the administration's inspection capacities. Some progress has been achieved, namely in strengthening institutional capacity for implementing and co-ordinating policies to reduce informality. However, the implementation of the Strategy was delayed due to the COVID-19 pandemic, and only 52% of planned activities were implemented in 2019 and 2020 (Government of Kosovo, 2021^[59]).

Efforts to improve regulatory policy and reduce administrative burdens on businesses have continued

Kosovo continued implementing its framework for regulatory reform through the Better Regulation Strategy 2.0 (2017-2021), whose main goals centre around increasing the capacity of the public administration to develop policies based on evidence and impact assessment practices. As part of the Better Regulation Strategy 2.0 (2017-2021), since 2018, the government has developed guidelines for RIA, which is conducted in the form of concept documents, aiming to better define the necessary procedures for measuring the impact of strategies and legislation on the society and the economy. While these guidelines also include instructions on how to conduct the SME Test, it has not yet been established in practice.²² To improve administrative capacity for conducting effective impact assessments, the government has been putting a focus on providing training on calculating costs and using RIA to improve the quality of policy proposals (Office of the Prime Minister, 2020^[60]).

As part of the Better Regulation Strategy 2.0 (2017-2021), in 2020, Kosovo adopted the Administrative Burden Reduction Programme (2020-2027) – an inter-institutional initiative which aims to reduce the administrative burden on citizens, businesses and the broader society by 30% by 2027. As part of this programme, Kosovo launched a baseline assessment of all administrative burdens on businesses, identifying 11 laws, 26 bylaws and 2 ministerial decisions that should be amended or repealed to improve the business environment for SMEs (European Commission, 2021^[27]). A large part of the aforementioned trainings on better use of RIA focus on the capacity to calculate costs for measuring the impact of these measures in reducing the administrative burden on businesses. However, these have yet to yield tangible results.

While they are generally conducted for draft laws, RIAs are not conducted for secondary legislation or for strategies, leaving an important part of policy development without an impact assessment (OECD, 2021^[61]). As regards concrete production of RIAs, ministries primarily struggle with identifying alternative options for policies, as well as with quantifying costs and benefits, despite the capacity-building efforts made.

When it comes to monitoring and evaluation, the Government Support Secretariat monitors the use of RIA through internal reports, which it submits to the Government's General Secretariat. These reports measure the overall effective use of RIA and adherence to the regulatory requirements for conducting RIA in policy making. While this is a solid base for monitoring and evaluation of the use of RIA, it is limited to observing respect of the formal requirements, whereas measuring the quality of the RIA process and evaluation of progress in overall quality are rarely conducted.

The government has taken action to enhance its capacity for engaging the business community, but there is room to improve quality control of PPCs

In 2020, the National Council for Economic Development of Kosovo was reorganised into the National Economic and Investment Council, enlarging its institutional representation and political importance.²³ Along with this restructuring, a permanent technical secretariat was established, with support from international partners, increasing its analytical and engagement capacities. Following this reorganisation, the council held several roundtables and consultations with representatives of the private sector and business associations to inform policy making, notably regarding the design of COVID-19 response measures. However, the council has been less active since, as no meetings were held in 2021.

Outside of the council's scope, the framework for conducting PPCs in Kosovo requires all business-related legislation to undergo consultations. The Office for Good Governance within the Office of the Prime Minister monitors and reports on the conduct of PPCs by the various institutions in Kosovo. The latest annual report revealed that in 2020, nearly 36% of documents (or 66 out of 184) submitted for public consultation did not meet the minimum quality standards, with room for improvement in ensuring quality control for PPCs (Office for Good Governance, 2021^[62]; OECD, 2021^[61]).

Kosovo's online portal for PPCs (<https://konsultimet.rks-gov.net>), managed by the Office for Good Governance, is regularly used by line ministries to centralise access to PPCs: in 2020, more than 98% of all primary policy documents and draft laws were published for consultation on the portal (European Commission, 2021^[27]). Moreover, data on the PPCs held by various institutions are collected and accessible via the portal.

The way forward for Dimension 3

- **Ensure coherence in the development of SME policies and ensure they are monitored and evaluated.** Special care should be given to avoid overlap in activities and objectives between the new National Development Strategy and the upcoming Private Sector Development Strategy. Policy objectives in both documents should be hierarchical and complementary and set well-defined responsibilities as well as indicators that allow progress to be measured.
- **Strengthen quality control and improve monitoring and evaluation of regulatory impact analysis.** Quality control functions for RIAs could be further centralised and better defined to ensure consistent and effective control of these documents prepared by line ministries. Implementing the SME Test as a separate procedure could arm the government with a strong tool to measure the SME-specific impacts of policies and increase room for the engagement of SMEs in the policy-making process. The reports prepared by the Government Support Secretariat could be more analytical to encompass an evaluation of the quality of the RIA process, identify the main areas in which line ministries are struggling and prioritise capacity-building efforts. Montenegro can provide an example of good practice in this regard (Box 15.6).

Box 15.6. Montenegro's reports on the quality application of RIA

Conducting regular aggregate reporting on the RIA process with a focus on qualitative indicators is key to measuring progress in building institutions' capacities for conducting useful and evidence-based analysis.

Making full use of its quality control function, the Ministry of Finance and Social Welfare of Montenegro publishes regular reports on the state of the RIA process in Montenegro and the evolution of its quality.

As in some other WBT economies, including Kosovo, these reports contain a statistical aggregation of all RIAs conducted as a share of all primary and secondary legislation adopted and the degree to which they meet the requirements for conducting RIA by line ministries. However, what makes Montenegro's reports stand out is that the RIAs conducted are then divided into categories, showing what share of RIAs conducted was satisfactory in terms of quality in the areas of problem definition, goal definition, options definition, impact assessment, fiscal impact assessment, consultation with stakeholders and monitoring and evaluation. This kind of analysis allows the Ministry of Finance to measure the progress made compared to previous years in these different areas.

In the latest report, the ministry identified that 68% of RIA conducted in 2020 was noted as "done with quality" versus 61% in 2019, showing a slight improvement in overall quality. More specifically, the areas with the greatest room for improvement were options definition, impact assessment, fiscal impact assessment, consultations with stakeholders and monitoring and evaluation. This allows the government to focus its efforts on building capacity for conducting useful and effective RIA on these areas.

For Kosovo, supplementing the existing aggregate reports conducted by the Government Support Secretariat with indicators measuring the progress in quality in RIA across different areas would significantly improve the government's ability to identify and prioritise capacity-building efforts.

Source: Montenegrin Ministry of Finance, (2021^[63]).

- **Further improve monitoring and evaluation of public-private consultations.** The Office for Good Governance's reports on PPCs are a strong starting point for comprehensive monitoring and evaluation of the use of PPCs in Kosovo's institutions. Expanding the range of indicators in these reports to include monitoring of the types of stakeholders engaged would allow the government to better measure the engagement of the business community, and more specifically of SMEs. Albania's recently introduced six-month aggregate reports on PPCs can serve as an example of good practice (Box 15.7).

Box 15.7. Albania's reporting on public-private consultations

As part of its new regulatory framework for conducting PPCs, introduced in January 2021, Albania strengthened the guidelines for monitoring and evaluation of PPCs conducted by all line ministries, as well as of the overall PPC process, monitored and evaluated by the Council of Ministers.

Starting in 2021, every six months, line ministries publish reports summarising the PPCs that they have held. The reports are available on the online PPC portal (<https://konsultimipublik.gov.al>) and contain an exhaustive summary of all the PPCs conducted by the relevant institution.

The Council of Ministers prepares another report, summarising the content of the line ministries' reports and analysing the adherence of consultations to quality standards (based on the respect of the requirement to conduct PPCs, the duration of PPCs and accessibility to the public). Indicators measuring public participation and the share of comments accepted or rejected allow the government to assess overall stakeholder engagement in PPCs conducted by the government across various line ministries. The report also provides recommendations to improve the PPC process.

Kosovo could take inspiration from this system, as it would allow the government to supplement its current reporting system with strong indicators, allowing it to measure the engagement of different categories of stakeholders.

Source: Reports available on Albania's online portal for PPCs: <https://konsultimipublik.gov.al>; Council of Ministers of Albania, (2021^[64]).

- **Further enhance public-private dialogue by utilising the full potential of the National Economic and Investment Council.** While the NEIC has all of the important factors to succeed as a major platform for public-private dialogue in Kosovo, namely political legitimacy and technical capacity through its permanent secretariat, its potential has been largely underutilised and could be further improved. Montenegro's Council for Competitiveness can serve as an example of good practice from the region, as it meets regularly to discuss key topics such as combating the informal economy or stimulating innovation and is organised into several working groups, some of which play a key role in policy making.

Operational environment for SMEs (Dimension 4)

Introduction

From registering a company and obtaining a business licence to filing and paying taxes, SMEs interact with public institutions, physically or digitally, at all stages of their development. The operational environment in which SMEs must navigate is determined by the ease of using digital services, the number of procedures and the costs associated with their interactions with the government. Complex requirements imposed on businesses have adverse impacts on SMEs' ability to operate, take advantage of market opportunities efficiently and grow.

Kosovo's performance in this dimension has slightly decreased since the previous assessment (when it was 3.75), mainly due to the expiration of important policy documents and the lack of a comprehensive framework for digital service delivery, as well as the early stage of the rollout of digital government services compared to the other regional economies. No significant developments can be noted with regard to company registration and business licensing, for which Kosovo's performance remains high (Table 15.12).

Table 15.12. Kosovo's scores for Dimension 4: Operational environment for SMEs

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------------|---------------------------------------------------------|--------------------------------------------------------|-----------|-------------|
| Dimension 4: Operational environment for SMEs | Sub-dimension 4.1: Digital government services for SMEs | Planning and design | 3.78 | 4.28 |
| | | Implementation | 3.27 | 3.33 |
| | | Monitoring and evaluation | 2.60 | 2.48 |
| | | Weighted average | 3.26 | 3.40 |
| | Sub-dimension 4.2: Company registration | Planning and design | 4.60 | 4.42 |
| | | Performance | 4.80 | 3.93 |
| | | Monitoring and evaluation | 5.00 | 4.06 |
| | | Weighted average | 4.80 | 4.18 |
| | Sub-dimension 4.3: Business licensing | License procedures | 3.75 | 3.88 |
| | | Monitoring and streamlining of license system | 3.90 | 3.73 |
| | | Weighted average | 3.83 | 3.80 |
| | Sub-dimension 4.4: Tax compliance procedures for SMEs | SME tax compliance and simplification procedures | No scores | |
| | | Monitoring and evaluation of SME-specific tax measures | | |
| Kosovo's overall score for Dimension 4 | | | 3.68 | 3.64 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has made progress in increasing the availability of digital services for businesses, primarily through the establishment of an online portal whose purpose is to serve as a one-stop-shop. However, the momentum of the rollout of digital services could be further accelerated, and the quality of digital services increased through the adoption of a comprehensive framework for digital transformation. Key enablers for digital government services have been strengthened, namely through the adoption of a legal framework for electronic signatures and the gradual advancement of government data interoperability and open government data. The process of starting a business, in terms of the number of days and procedures required, remains straightforward in Kosovo. While the company registration framework is well designed, online registration is not fully operational because the electronic signature mechanism is not yet in place. Business licensing procedures are clear, centralised and overseen by the Legal Department of the Prime

Minister's Office. Kosovo is undertaking reforms to review and simplify the current procedures to reduce administrative burdens on businesses. Self-employed workers face a low tax burden, and incorporated SMEs can benefit from corporate income tax (CIT) incentives. SMEs are subject to a presumptive tax regime that takes horizontal equity concerns into account. Tax administration simplification measures and the development of digital services have considerably decreased tax compliance costs for SMEs (Table 15.13).

Table 15.13. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 4

| 2019 recommendation | SME Policy Index 2022 | |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Establish a digital authentication system or e-signature to widen the range of e-services | In December 2021, Kosovo adopted the Law on Electronic Identification and Trust Services in Electronic Transactions. With this, the legal framework for the use of electronic signatures is partially in place, but secondary legislation still needs to be adopted, and implementation and promotion of e-signature use are yet to follow. | Moderate |
| Continue efforts to improve open government data based on the result of the Open Data Readiness Assessment that is currently in progress | The number of datasets on the open data portal is gradually increasing. However, there have not been any monumental shifts in terms of open data culture in the public administration, nor have there been any initiatives to promote the reuse of open data by SMEs. | Limited |
| Streamline business licences and permits by integrating the authority to issue them | The Legal Department of the Prime Minister's Office is in the process of regrouping and streamlining all licences and permits on the e-Kosova government digital services portal. However, there is no plan to extend the Kosovo Business Registration Agency's mandate to centralise the licensing application processes within one-stop shops. | Moderate |

A comprehensive policy framework to ensure the co-ordination of digital government reforms and accelerate the rollout of digital services is lacking

Kosovo lacks an overall policy framework for ensuring the delivery of digital government services. The Public Administration Modernisation Strategy (2015-2020) has expired, and although its validity has been extended with a new action plan until 2022, it does not focus on developing digital government services. The COVID-19 pandemic affected the implementation of the strategy, but it also revealed the potential benefits of digitalisation of the public administration (Ministry of Internal Affairs, 2021^[65]). While the government recognises the importance of digital government and has shown political direction for advancing it through its programme, which includes objectives such as the development of digital services and interoperability, a more concrete road map or action plan has not yet been adopted (Open Data Kosovo, 2021^[66]).

The Agency for Information Society within the Ministry of the Interior is responsible for co-ordinating the delivery of digital government services and related initiatives, such as efforts to simplify administrative procedures. However, due to the lack of a comprehensive policy framework²⁴ giving it the necessary authority and legitimacy, its capacity to effectively steer Kosovo's digital transformation and ensure inter-institutional co-ordination for the delivery of digital services is limited. There are no standards for service quality and delivery, which negatively impacts the delivery of services across various institutions (OECD, 2021^[61]).

Data are collected on the use of digital services available on the e-Kosova platform but are limited to basic data on the number of users and the use of a given service. There is, therefore, room for improving the measurement of the types of users (citizens vs businesses and, more specifically, SMEs vs larger companies) and their experience with using digital services.

The rollout of digital government services is at an early stage and translates into a low level of business satisfaction

One of the main achievements of the Public Administration Modernisation Strategy (2015-2020) was the launch of the e-Kosova online portal for digital services (<https://ekosova.rks-gov.net>) in early 2021. The portal aims to serve as a one-stop-shop for digital services for businesses and citizens, therefore saving considerable time and resources when it comes to administrative procedures. However, the portal is still in the early stages of its development towards reaching this goal, as it currently provides only 36 digital services, the majority of which are oriented toward citizens, not businesses. Moreover, many services remain purely informational or are still only provided through the websites of their respective institutions and are not yet accessible through e-Kosova. Tax-related services are available through the website of the Tax Administration and are generally well developed. Based on research conducted by the Agency for Information Society, 168 out of 603 services offered by public institutions can be completed fully on line. An e-payment system for digital services is under development but has not yet been released, limiting the extent to which procedures can be conducted digitally end-to-end (OECD, 2021^[61]).²⁵

The lack of standards for service delivery across institutions and the low level of availability of digital government services compared to Kosovo's regional peers has led to a declining level of business satisfaction. According to the most recent Balkan Business Barometer survey, the share of surveyed businesses satisfied with the available digital government services dropped from 59% in 2019 to 34% in 2021, which is lower than the regional average (39% in 2021)²⁶ (Regional Cooperation Council, 2021^[67]).

Key enablers for digital services, such as data interoperability, e-signature and open data, have been strengthened

The interoperability of government data has advanced with the further development of the Government Gateway platform for data exchange. In 2021, the platform had 28 interoperable information systems, compared to 12 in 2019. However, no quality assurance is performed, as each institution is responsible for managing its own respective systems, leading to gaps in the quality and completeness of registers (OECD, 2021^[61]). Currently, the Kosovo Business Registration Agency, Civil Registration Agency, Tax Administration of Kosovo, Customs and Kosovo Cadastral Agency, among others, are connected to the Government Gateway, whose further development should allow for the progressive implementation of the once-only principle²⁷ (Open Data Kosovo, 2021^[66]).

In December 2021, Kosovo adopted the Law on Electronic Identification and Trust Services in Electronic Transactions, harmonising the legal framework for e-signature with the eIDAS Regulation.²⁸ Now that the primary legislation is in place, efforts should be made to adopt the outstanding secondary legislation and ensure its implementation, as well as to promote the use of e-signatures among businesses. Full implementation of electronic signature and its adoption by businesses should allow the rollout of digital services accessible through the e-Kosova portal to be accelerated, particularly those requiring a high level of security.

Kosovo has an open data portal (<https://opendata.rks-gov.net>), managed by the Agency for Information Society, which contains 205 datasets as of 2022 (compared to 195 in 2019). The number of datasets has not increased since mid-2020, showing a slowdown in the publishing of open data on the portal. Datasets provided through the portal are machine-readable, and each institution has someone in charge of ensuring the publication of open data. However, as mentioned earlier, the lack of quality assurance of government data is hindering the overall quality of the data available, and guidelines to ensure the reusability of datasets are not in place (Open Data Kosovo, 2021^[66]). So far, the government has not organised any initiatives to promote and stimulate the reuse of available open data by SMEs for the purpose of developing innovative products and services.

The company registration process remains well designed with no substantial changes since the last assessment

Company registration is undertaken at a single-window through one of the Kosovo Business Registration Agency's (KBRA) 29 municipal one-stop-shops, according to the "silent-is-consent" principle.²⁹ When registering at the KBRA, entrepreneurs receive a Unified ID number, which is a business registration, fiscal and value-added tax (VAT) number. While entrepreneurs have had the option to electronically register their companies since 2017 (<https://rbk.rks-gov.net>), they still need to submit a hard copy of the signed documents, as the e-signature mechanism is not yet in place. Efficient implementation of the Law on Electronic Identification and Trust Services in Electronic Transactions, expected in 2023, should make online registration fully operational. The process of starting a business remains very easy in Kosovo, with 4.5 days and 3 procedures required overall. The cost of starting a business is also low, at 1.4% of income per capita (World Bank, 2020^[68]).

Monitoring and evaluation mechanisms are in place for company registration in Kosovo. The KBRA produces quarterly reports, which analyse the average duration to register different types of businesses and the number of businesses registered in terms of geographic location, gender and foreign/local ownership. The KBRA also monitors satisfaction with online registration procedures, and based on these results, a number of administrative instructions (foreseen by the Law on Business Organisations) are adopted to ease registration processes in Kosovo.

Licensing information is clear and centralised, and processes are being streamlined

Based on the Law on Permit and Licence System (2013), Kosovo offers information on the licensing process on a centralised e-licence portal (<https://lejelicenca.rks-gov.net>) with guidelines that specify the fees to be paid and the necessary procedures to follow. Licences are granted by different public institutions, which are responsible for issuing licences according to their competences, and each regulates its own procedures. The dedicated inter-institutional body, the Central Registry of Permits and Licences, ensures the oversight and co-ordination of licensing processes between competent institutions and the Legal Department of the Prime Minister's Office, which supervises its work. The Kosovar Institute for Public Administration regularly trains the staff in charge of issuing licences. Moreover, the Law on Inspections, approved in December 2021, will establish a dedicated office to monitor the inspection of the licencing process and evaluate officials' compliance with their mandates.

The number of procedures, requirements, paperwork and cost for obtaining business licences are considered a moderate obstacle for the majority (62%) of businesses in Kosovo (Regional Cooperation Council, 2021^[67]). According to the latest available data, 13 days were required to obtain an import licence, 19 for an operating licence and 54 for a construction permit, the first being slightly higher than the WBT average (11, 24 and 72 days, respectively) (World Bank, 2019^[69]).

Kosovo has undertaken positive developments to review and simplify its current licensing processes, in line with the Concept Document on Reducing Administrative Burden, approved in 2020. The document specifies the concrete activities and measures that need to be developed to reduce the administrative burden for businesses by 30% over an eight-year period through the lens of unnecessary licences and permits that could be abolished. As of 2021, five ministries have identified laws that need to be changed to eliminate unnecessary licences and permits, altogether touching upon 82 such requirements. The first few ministries have drafted the necessary legal amendments (OECD, 2021^[61]).

Moreover, the Legal Department of the Prime Minister's Office is currently in the process of regrouping all licences and permits on the e-Kosova portal with other digital services (<https://ekosova.rks-gov.net/Services>). This should increase the availability and accessibility of relevant information for businesses, the majority of which (56%) consider it to be a moderate obstacle in obtaining a licence (Regional Cooperation Council, 2021^[67]).

Kosovo introduced a set of tax measures to mitigate the impact of the COVID-19 crisis and support the economic recovery

The measures introduced to mitigate the impact of the COVID-19 crisis and support the economic recovery were available to all businesses, including SMEs. The filing and payment of the personal income tax (PIT), CIT, social security contributions (SSCs) and VAT were deferred, and no interest was charged on the deferred tax liabilities (Assembly of the Republic of Kosovo, 2020^[70]). Moreover, Kosovo subsidised part of the wage bill to support businesses during the pandemic for a duration of two months. These tax measures aimed at supporting business cash flow; they were targeted at all businesses, including SMEs. In addition, Kosovo introduced a VAT exemption for some services related to agriculture and raw materials used by Kosovan businesses and a reduced rate of 8% applied to suppliers from hotels, restaurants and food services (Assembly of the Republic of Kosovo, 2020^[70]).

Self-employed workers face a low tax burden, and incorporated SMEs can benefit from CIT incentives

Self-employed workers face a low tax burden because of low PIT and SSC rates. In 2021, self-employed entrepreneurs with an annual turnover exceeding EUR 50 000 were subject to a progressive PIT rate schedule with a rate ranging from 0% to 10%. The top PIT rate starts being levied on income slightly below the average wage (OECD, 2021^[6]). In addition, self-employed workers pay a 10% SSC rate levied on their gross income and self-employed SSCs cannot be less than 30% of the average wage. Self-employed workers can complement their pension with voluntary private savings to the Kosovo Pension Savings Trust up to a maximum of 20% of their gross income (IBFD, 2021^[71]). No special rules apply to gig workers. They are taxed under the same rules that apply to employees, i.e. the progressive PIT rate schedule applies, and employer and employee SSCs are levied at a rate of 5% on gross income. CIT incentives are available to SMEs and large businesses. The standard CIT rate in 2021 was 10%. Businesses in specific sectors can deduct from their CIT base 10% of the cost of their newly acquired asset on top of the regular tax depreciation allowances (IBFD, 2021^[72]).

SMEs are subject to a presumptive tax regime that takes horizontal equity concerns into account

Self-employed workers with an annual turnover of less than EUR 50 000 and corporations with an annual turnover of less than EUR 30 000 are subject to a presumptive tax regime. The regime is automatically assigned to SMEs that qualify, but businesses can voluntarily register for the standard PIT and CIT regimes. SMEs that operate in trade, transport, agricultural and commercial activities pay a turnover tax at a rate of 3%. SMEs that operate in services and professional activities, which are sectors that, on average, have a higher profit margin, pay a turnover tax at a rate of 9% (Assembly of Republic of Kosovo, 2015^[73]). As a result, the presumptive tax regime takes, to some extent, the average level of profitability across business sectors into account. PIT and CIT liabilities cannot be less than EUR 37.5 per quarter, regardless of the business sector. In addition, SSCs for self-employed entrepreneurs under the presumptive tax regime cannot be less than one-third of the turnover tax liability, and they cannot exceed three times the turnover tax liability.

The tax system creates incentives and disincentives for SMEs to incorporate

Low taxes on capital income create a tax-induced incentive to incorporate for all businesses. In Kosovo, there is no withholding tax on dividends and no dividend tax levied at the personal shareholder level, which significantly reduces the tax burden for owner-managers of closely held corporations compared to self-employed workers who are subject to the PIT and SSCs.

On the other hand, young and innovative SMEs are incentivised not to incorporate to benefit from a longer period to carry forward losses. In Kosovo, while unincorporated businesses can carry forward losses for up to six years, corporations can only carry forward losses for four years. As young and innovative SMEs might have low profits and high investments, they may prefer to remain unincorporated rather than incorporating to be able to carry forward losses for a longer period of time. Kosovo could consider whether to align the carry-forward period across taxes.

There are no VAT simplification measures targeted at SMEs, but new rules are being considered to enhance the VAT refund system

Businesses with an annual turnover exceeding EUR 30 000 must register for VAT, and voluntary registration is allowed for businesses with a lower turnover. In 2021, the standard VAT rate was 18%, and there was a reduced VAT rate of 8%. There are VAT simplification schemes for business sectors; these schemes are not specifically targeted at SMEs (Assembly of the Republic of Kosovo, 2015^[74]). Kosovo is considering lowering the minimum amount of VAT credit for businesses to obtain a VAT refund. A business would be eligible for a VAT refund if the refund exceeds EUR 1 000 rather than the previous threshold of EUR 3 000. This reform is welcomed, as it strengthens the functioning of the VAT system and reduces the instances when VAT becomes a cost for businesses, which is the case when firms cannot receive a refund when the VAT paid on their inputs exceeds the VAT collected on their sales.

Tax administration simplification measures and the development of digital services have considerably decreased tax compliance costs for SMEs

SMEs subject to the presumptive tax regime benefit from simplified tax administration procedures, which significantly decreases their tax compliance costs. Self-employed entrepreneurs or corporations subject to the presumptive tax regime benefit from simplified bookkeeping rules, and unincorporated businesses are allowed to use cash accounting for PIT purposes if their annual turnover does not exceed EUR 50 000. Overall, Kosovo has implemented a comprehensive package of simplified tax administration procedures inspired by regular evaluations of the taxpayer service and meetings between the tax administration and business stakeholders.

Digital services are widely used and contribute to reducing tax compliance costs for SMEs. E-filing is mandatory for SSCs and the VAT, and it is also allowed for other taxes. Overall, 95% of tax returns are filed electronically. Online tax payments are possible but not mandatory. All the digital services related to taxation are available on a one-stop-shop and are free of charge, which constitutes good practice.

The way forward for Dimension 4

- **Adopt a comprehensive policy framework for digital transformation, which can ensure the horizontal co-ordination of digital service delivery.** Kosovo should develop its new Digital Agenda taking into account the importance of having an institution capable of steering the horizontal digital transformation of the government and the economy. The Agency for Information Society could take on this role but would need to be equipped with the necessary legitimacy, authority and resources to ensure inter-institutional co-ordination for the digitalisation of services and the transformation of the e-Kosova portal into an effective one-stop-shop. The National Agency for Information Society of Albania could be used as a good practice example of an institution in the region which has shown good results in this regard (OECD, 2021^[75]).³⁰
- **Develop a culture of user-centred service delivery and adopt standards for service design and delivery.** Special attention should be paid to ensuring the user-centric development of services, especially when they are being digitalised. Kosovo's institutions should avoid simply digitalising services without considering the underlying utility of the process for the user and the end-user experience for businesses. A set of unified standards for service quality and delivery

should help institutions measure and improve the level of their digital services. Box 15.8 provides guidance on how to develop services around the end needs of users.

Box 15.8. Keys to successful user-oriented service delivery

Successfully designing public services that are tailored to and responsive to users' needs is a process that depends on several key factors, according to the OECD's Conceptual Framework for Analysing the Design and Delivery of Services:

- Firstly, **governments must consider contextual factors**, such as the political and administrative culture of a country, the technological context (availability of and widespread use of tools such as internet and information and communication technology (ICT) or electronic signatures in businesses), socio-economic and cultural factors. Embracing a digital by default approach risks excluding users who may be unable to complete services on line and need in-person support. Therefore, governments should understand how existing service delivery channels (websites, call centres, networks of service provision) can work together to provide inclusive access to services for all. Information shared through different channels (on line, in person, telephone) should be integrated to allow users to complete services end-to-end even if they change channels in the middle of the process.
- Secondly, **public sector service design should be guided by a philosophy that is based on inclusiveness of stakeholders, agile design and iteration**. In the case of digital services for businesses, this means that businesses, including SMEs, should be consulted proactively when designing services or adapting them to digital models. User feedback can also be collected ex post through monitoring and evaluation. An agile design philosophy allows governments to iterate on services and integrate user feedback throughout the service design and delivery process, as opposed to collecting feedback as a separate process.
- Lastly, **governments should enable the delivery of services based on a user-centric approach by taking a government as a platform approach, giving civil servants the resources and tools necessary to drive this transformation**. Concretely, this refers to establishing common standards for service delivery, empowering administrations with the ability and resources to explore, test and propose new services, developing reusable technical components (such as payments or identity), and establishing appropriate guidelines for public procurement to ensure the reflection of these principles when outsourcing.

Source: OECD (2020^[76]).

- **Introduce standards for open data publishing.** A set of guidelines for the publishing and licensing of datasets on the government open data portal should help ensure that datasets are reusable by businesses and other interested stakeholders, by ensuring that they are consistently formatted, organised and annotated.
- **Develop technical solutions for the use of e-signature.** Once the legal framework is fully established (with the adoption of secondary legislation), Kosovo should look to facilitate the use of e-signature by businesses, in particular for company registration and electronic payments for digital services. A frequent obstacle to increasing its use encountered by other regional economies are the requirements in terms of technical equipment (card readers and related software for electronic ID cards) and costs (for certificates offered by private providers). To remedy this, the government could look to develop a cloud-based system of e-signature accessible through mobile devices or a

federated digital identity system³¹ that is based on authentication through several information systems.

- **Evaluate the tax burden on SMEs**, for instance, by using business tax returns to ensure that the design of the presumptive tax regime incentivises businesses to grow into the regular tax regime. An evaluation of the tax burden is also required to assess whether there is a tax-induced incentive for SMEs to incorporate and what drives this incentive.
- **Develop a strategy to ease tax administration procedures further for SMEs by assessing their remaining hurdles**, including for VAT, for instance, through business surveys. Kosovo could evaluate whether to introduce additional measures to facilitate VAT compliance for SMEs, such as simplified input tax credit calculation schemes or cash accounting for VAT purposes.

Support services for SMEs (Dimension 5a)

Introduction

SMEs are more prone than larger companies to suffer from a lack of managerial and technical skills, suboptimal technology, limited access to markets and information, and a lacking entrepreneurial skillset, which can hinder their growth. Business support services (BSSs) provided or supported by the government – ranging from general information and advice to training, mentoring and technical services – seek to address these challenges, thus providing a tool to boost SME productivity. While the COVID-19 pandemic had negative effects on the provision of BSSs across the globe, particularly those involving direct contact with SMEs, it also provided an opportunity to reduce the cost of participation for SMEs by moving part of the activities on line.

In a small, open economy like Kosovo, SMEs often struggle with boosting their productivity and competitiveness. While adequately designed and reliable BSSs can be challenging for SMEs to access, they are vital components in stimulating SME growth and development, therefore contributing to a productive, knowledge-based and export-oriented economy. Combining financial support for SMEs with technical assistance could prove the most effective strategy for Kosovo, where SMEs still face challenges accessing funding and non-financial support.

Kosovo has improved its score (4.06) in this dimension since the last assessment (3.64) (Table 15.14). Its current score demonstrates advancements, particularly in programme implementation under the two sub-dimensions. Due to the revision of key strategic documents, scores for planning and design were moderately revised down in this assessment cycle. Nevertheless, the economy saw overall improvements in the provision of both public and private BSSs.

Table 15.14. Kosovo's scores for Dimension 5a: Support services for SMEs

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------|----------------------------------------------------------------------|---------------------------|--------|-------------|
| Dimension 5a: Support services for SMEs | Sub-dimension 5a.1: BSSs provided by the government | Planning and design | 3.86 | 4.17 |
| | | Implementation | 4.28 | 4.24 |
| | | Monitoring and evaluation | 3.56 | 3.88 |
| | | Weighted average | 4.01 | 4.15 |
| | Sub-dimension 5a.2: Government initiatives to stimulate private BSSs | Planning and design | 4.00 | 4.63 |
| | | Implementation | 4.30 | 4.21 |
| | | Monitoring and evaluation | 3.80 | 3.84 |
| | | Weighted average | 4.11 | 4.26 |
| Kosovo's overall score for Dimension 5a | | | 4.06 | 4.20 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has advanced somewhat in implementing the last assessment cycle's recommendations (Table 15.15). The strongest progress can be observed in expanding the range of publicly provided BSSs and reinforcing KIESA's institutional capacity to improve the quality of its services. The agency's budget increased, in line with the OECD's 2019 recommendations. Limited advancements are noted, however, in the area of conducting regular training needs analysis. The last assessment of the SME landscape and SMEs' BSS demand was conducted in 2017; therefore, the results are no longer relevant, particularly in light of the changes brought by the COVID-19 pandemic. While the uptake of government-provided BSSs

increased, it was not due to a redesigning of support schemes; thus, Kosovo has not advanced on this recommendation. Nevertheless, the government is in the process of reviewing strategic documents to amplify public support for SMEs. Privately provided BSSs are mainly contracted by international financial institutions (EBRD and World Bank) or development agencies that ensure quality checks of private-sector consultants, who are not subject to government-imposed quality assurance mechanisms.

Table 15.15. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 5a

| 2019 recommendation | SME Policy Index 2022 | |
|------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Tailor business support services more closely to SMEs' needs by using the training needs analysis results | Kosovo conducted a training needs analysis in 2017 and plans to repeat the assessment for 2022-24. However, given the ever-changing SME landscape in the region, and particularly following the onset of the COVID-19 pandemic, there is a clear need for an updated training needs analysis, as it is bound to reflect the changes in SME needs in the economy. | Limited |
| Improve SMEs' uptake of BSSs by redesigning existing schemes | Limited progress has been made in redesigning existing schemes, though there have been efforts to revise the strategic framework for public BSS provision. The current strategic documents were being revised at the time of assessment. | Limited |
| Offer a wider range of free-of-charge BSSs | Kosovo boosted its range of publicly offered BSSs. KIESA included support for women-owned companies and grants and training to improve the digitalisation of operations for SMEs. Within the framework of the Digital Empowerment Initiative, SMEs are obligated to make a contribution equal to 10% of the total amount of support received. | Strong |
| Introduce a quality assurance mechanism for private-sector consultants and trainers | There is currently no control mechanism for private-sector consultants supported by the government. The Kosovo Business Consultants Council offers the services of accredited consultants; however, it is limited to the Market Access and Digitalisation Services for Kosovo Businesses (ACCESS) project. | Limited |
| Ensure that KIESA possesses the human resources necessary to increase quality BSS provision | There has been an increase in KIESA's personnel and a considerable boost in the budget since the last assessment. KIESA's staff increased to 28 in 2020, with 4 employees dedicated to SME support. The agency's budget increased from EUR 510 000 in 2016 to EUR 3.1 million in 2020 (OECD, 2021 ^[6]). | Strong |

The main strategic document guiding support services for SMEs has expired, and lack of communication among state institutions hinders SME access to services

BSS provision in Kosovo is governed by the National Development Strategy (2016-2021) (Government of Kosovo, 2016^[77]), though there is no dedicated strategy prioritising support services for SMEs. BSSs are at the centre of the Private Sector Development Strategy (2018-2022), which, at the time of assessment, was being revised by the government and is due to be merged with the continuation of the upcoming National Development Strategy. As the new strategy is yet to be adopted, the National Development Strategy (2016-2021) still prevails as the governing document.

KIESA is responsible for supporting SMEs in accessing BSSs, with a special unit dedicated to SME support with an allocated staff of four.

Despite a large number of general public services³² provided by the government, one of the main remaining challenges is a fragmented and inefficient flow of information between state institutions, which in turn presents obstacles for SMEs to access the available services. While applying for government support, state institutions require SMEs to submit excessive paperwork and information already known to the government, extending the application time and bureaucracy required.

The range and uptake of BSSs in Kosovo have increased, but outdated training needs analysis warrant intensified efforts

Despite the aforementioned challenges, the uptake of BSSs in Kosovo has increased by 67.7% since the previous assessment. This increase is largely due to the introduction of new schemes. In 2020, KIESA

introduced direct assistance to women-owned SMEs and digitalisation training,³³ supporting 29 women-owned SMEs and 28 SMEs that benefited from digitalisation training (KIESA, 2020^[78]). In addition, 24 SMEs used available subsidies to purchase tangible assets, and 28 SMEs benefited from the product certification reimbursement scheme, managing to certify 11 products.

Moreover, the implementation of KIESA's annual work plan for 2019 and 2020 was relatively successful. This resulted in the implementation of a wide range of support, such as a grants scheme, support for trade fair participation, the organisation of information sessions and the introduction of economic zones and business incubators (KIESA, 2020^[78]).

While the uptake of government-provided BSSs increased, this increase was due to the introduction of new programmes rather than the use of already existing support, which can be partially explained by a lack of awareness of available programmes or can be due to their ineffectiveness, thus reducing the interest of SMEs to participate. Since the last assessment cycle, there have been no programmes implemented by KIESA to raise awareness or promote government-provided BSSs. In addition, KIESA's strategic orientation focuses more on financial support for SMEs rather than technical assistance, which is provided mostly by international development co-operation partners.

The last training needs analysis was conducted in 2017, which indicated strong demand for more educational support services, especially in management, financial planning, market access and marketing. However, with the dynamic business environment in the region, as well as the onset of the COVID-19 pandemic, SMEs' needs are bound to change and evolve. Therefore, the 2017 analysis might no longer be relevant, suggesting a need for a new assessment of the SME landscape in Kosovo.

Information on private BSSs is comprehensive, but sources remain fragmented

Private BSS provision is governed by the National Development Strategy (2016-2021) as part of the key target of improving the business environment in the economy. Kosovo's efforts to support private BSSs are noteworthy. There are currently multiple online portals³⁴ containing information on private consultants specialising in BSS provision. Despite strong efforts to provide information on available services and consultants, sources remain fragmented, without a centralised one-stop-shop website. Currently, the information is available on several portals and varies in clarity.

The monitoring of government-provided BSSs has improved, while private BSSs are not subject to government quality assurance mechanisms

Kosovo has strong monitoring mechanisms in place for the provision of BSSs. The government has introduced a monitoring committee to evaluate the public BSS programmes. In addition, the General Auditing Body, together with the auditor from the Ministry of Trade and Industry, are responsible for an independent review of public BSS provision, on top of a monitoring committee established directly by KIESA. The evaluation results are taken into account while considering the impact and delivery of BSSs.

For privately provided BSSs, each programme undergoes an independent review of its co-financing mechanisms annually. The beneficiaries of the funds are made public and are obliged to evaluate the support provided through a satisfaction survey. Satisfaction surveys are helpful feedback collection tools; however, their ability to provide information on the programmes' impact and effectiveness is limited (Lopez Acevedo and Tan, 2011^[79]).

There has been no progress in implementing a government quality assurance system for private BSSs. While the use of co-financing schemes available to SMEs is contingent on hiring accredited consultants, it only applies to a limited number of projects, such as the ACCESS project, conducted by the Austrian Development Agency. The consultants are recognised by the Kosovo Business Consultants Council (BCC), as there are no government-imposed quality control mechanisms for private-sector consultants. The BCC's website contains a list of accredited private-sector consultants available to SMEs. However,

private consultants are included in the database upon paying an annual fee, which can be prohibitive for some. Otherwise, there are no government quality assurance mechanisms for private BSS providers.

The way forward for Dimension 5a

- **Increase efforts to match supply and demand for business support services (BSSs).** In line with OECD best practices, the government should aim to match the supply of BSSs available to the needs of SMEs. To this end, BSSs should be evaluated regularly from the angle of their expertise, stage of development and experience. In order to maximise the utility of BSSs and ensure their uptake, BSSs need to be tailored to the specific characteristics of local SMEs. Subsequently, filling the supply-demand gap for BSSs would require applying the findings of a needs assessment to create better-targeted measures. Kosovo should develop regular assessments of training needs and SME demand for specific BSSs. The government plans to repeat the analysis conducted in 2017, covering 2022-24. As the SME landscape is dynamic, particularly in the post-COVID-19 recovery period, SME needs will change faster. Therefore, the government should consider developing a systematic, annual assessment of training and BSS requirements.
- **Extend the Kosovo Investment and Enterprise Support Agency's activities to further include the organisation of informational and educational trainings for SMEs.** Currently, the agency focuses on co-financing and voucher schemes. However comprehensive the schemes, SMEs have expressed the need for more educational programmes, which would help develop new sets of skills. Austria has introduced programmes that can serve as an example for Kosovo (Box 15.9).

Box 15.9. Flexibility coaching for companies in Austria

The Public Employment Service in Austria (AMS) introduced an initiative to intensify mentoring for SMEs with the goal of increasing their flexibility. The practice took place between 2005 and 2019. The project targeted all companies with 50 employees and over, but SMEs were the main beneficiaries of the initiative. The main goal of the Flexibility Coaching project was to establish flexible management practices in companies, including human resources practices and then strengthen their adaptability to upcoming challenges they may face, including job creation. The programme was divided into three phases: AMS would probe the SMEs' needs and circumstances, then the organisation would analyse the beneficiary's economic situation and identify challenges and obstacles and develop a flexibility strategy. Upon granting of the funding, the flexibility strategy was implemented, including training, coaching and mentoring.

Throughout the duration of the project, 6 714 companies were supported by different modules of the Flexibility Coaching programme, the majority of which were SMEs. Some 72% of the companies implemented the project's recommendations, which included coaching on HR organisation, working hours and qualification and training. Some 89% of the participants expressed satisfaction with the initiative's results. The project was mostly successful in creating and maintaining employment for its beneficiaries, as well as increasing their capacity and adaptability.

In the latest training needs assessment in 2017, SMEs in Kosovo expressed the need for more educational activities combined with coaching. While the analysis is yet to be repeated, it can be anticipated that this specific need of SMEs has not changed, as KIESA did not introduce many trainings or informational projects. By drawing from Austria's example, KIESA could start providing more wide-ranging training modules for SMEs, covering aspects in which SMEs need more informational and educational support.

Source: AMS Austria (2022^[80]).

- **Centralise the information sources on private BSS providers and initiatives.** The fragmentation of information sources may also contribute to the lower uptake of BSSs. Lack of

co-ordination and clarity of services available causes poor communication of available resources and thus limits access. The government should create a dedicated portal through which SMEs can learn about private-sector support. It should be widely accessible and available free of charge. Similarly, private consultants advertising their services on the website should be allowed to do so for free, as imposing a fee could be cost-prohibitive for some providers.

- **Intensify efforts to introduce a government-imposed quality assurance mechanism for private BSSs.** A good first step towards ensuring high-quality private BSSs could be a collaboration with the non-profit Kosovo BCC, as it manages its in-house accreditation system for consultants, and its support is contingent on using BCC-accredited providers. This strengthened collaboration could build the foundation for KIESA to later transition into its own accreditation system established with stronger institutional capacity. The government should have a certification or accreditation system in place for private-sector consultants in order to ensure high-quality services and enhance transparency. This would translate into SME growth and development and stimulate fair competition in the private sector.

Public procurement (Dimension 5b)

Introduction

Easy access to public procurement markets for SMEs and increasing their participation can boost competition by ensuring equal treatment and open access, thus promoting inclusive growth. Policy makers should therefore take into account the unique needs of SMEs, as they are disproportionately affected by complex procedures and often discouraged by the effort needed to take part in these procedures, all for an outcome which is unsure.

In response to the COVID-19 pandemic, the Government of Kosovo declared a public health emergency and some notices were published, dealing with issues such as the use of the negotiated procedures without prior publication (direct award of contracts), evidence of the fulfilment of qualification criteria remote communication, accelerated payments, tender securities required from bidders, non-penalisation of contract performance delays and the extension of time limit for execution of the contract for contracts that were already in force (OECD, 2021^[61]). COVID-19 had some impact on the public procurement market in Kosovo, including an increase in the price of various items purchased under negotiated procedures without a previous call for competition (OECD, 2021^[61]).

As of June 2020, all procurement activities had to be carried out in full compliance with the Public Procurement Law (PPL). Due to the worsening of the pandemic in September 2020, the Public Procurement Regulatory Commission (PPRC) issued advice on the use of the *force majeure* provisions in case of difficulties in contract implementation (OECD, 2021^[61]).

For this dimension, Kosovo obtained the average score of 3.86, which is slightly lower than the regional average (Table 15.16). The decrease in score compared to 2019 (4.09) is mainly due to limited improvements in the electronic procurement tools (that lack more sophisticated solutions).

Table 15.16. Kosovo's scores for Dimension 5b: Public procurement

| Dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------|---------------------------|-------------|-------------|
| Dimension 5b: Public procurement | Planning and design | 3.94 | 4.16 |
| | Implementation | 4.00 | 4.15 |
| | Monitoring and evaluation | 3.40 | 3.27 |
| Kosovo's overall score for Dimension 5b | | 3.86 | 3.98 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The PPL, in its current version from 2016, is the basic legal act regulating public procurement in Kosovo (PPRC, 2016^[81]). The last change to the PPL, an amendment adopted in December 2020 and valid until 31 December 2021, introduced preferential treatment of tenders submitted by domestic bidders containing domestic products or services, which affected the principles of equal treatment and non-discrimination of economic operators. However, according to information provided by the government, this measure was not applied in practice (there was no public procurement procedure in which this preference was used). Consultations on the new draft of the PPL have begun with the Ministry of Finance and other stakeholders as part of the policy-making procedure and are part of an ongoing EU project in Kosovo on public financial reforms and the procurement sector. The aim of the new PPL is the transposition of and harmonisation with the 2014 EU Procurement Directives. The government also launched the preparation of the new Public Procurement Strategy, which will no longer be a separate strategy but rather a sectoral public financial management strategy. Although Kosovo's overall score in 2022 is lower than in 2019, there have been some improvements in public procurement, as presented below. The 2019 recommendations have been

partly implemented, in particular as regards to implementation and monitoring of rules (Table 15.17). New functionalities have been added to electronic procurement, and the scope of information collected and processed by authorities has been extended.

Table 15.17. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 5b

| 2019 recommendation | SME Policy Index 2022 | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Further align the national legislation with EU rules and international good practice | Work on new provisions to transpose the remaining provisions of the 2014 EU Public Procurement Directives has begun, but no significant progress has been made. Provisions on domestic preferences were adopted in response to the COVID-19 pandemic, in violation of the EU fundamental principles as well as commitments to the European Union. Their application was, however, temporary and expired at the end of 2021. | Limited |
| Further reduce the administrative burden involved in participating in public procurements | Use of the e-procurement system has been obligatory for all contracting authorities and for all types of procurements since 2017 (when electronic bid submission was allowed or was optional for some types of procurements), while starting from 1 January 2019, submission of electronic bids was made obligatory for all types of procurements. Two new modules on e-procurement have also been introduced. | Moderate |
| Increase the use of non-price criteria for awarding contracts to enable public buyers to receive the best value for money | The most economically advantageous tender criterion is hardly ever applied in public procurement, even though the Public Procurement Law or implementing provisions do not have any limitations or restrictions on its use. To date, the Public Procurement Regulatory Commission (PPRC) has not strongly promoted the use of this criterion. | Limited |
| Improve the monitoring of the public procurement system, and place a special focus on collecting data, evaluating SMEs' participation in public procurement and analysing the obstacles faced by SMEs in accessing public procurement markets | According to information provided by Kosovar authorities, the PPRC regularly collects and analyses information on the obstacles faced by SMEs – especially if these obstacles are related to access to public procurement and to public procurement principles. In most cases, these obstacles are addressed directly by contracting authorities (in particular, if the requirements of contracting authorities limit the participation and competition of SMEs) and through the legislative framework as well. There is no specific data or information on SMEs in the e-procurement system. A wide array of information is, however, made available through the e-procurement system, for example, the share of number and value of contracts awarded to groups of economic operators. All the information collected by the PPRC is shared with the public in the form of open data and can then be used for analysis and the production of statistical reports. | Moderate |

The public procurement market represents a significant part of the economy

Kosovo's public procurement market was estimated at 7.5% of GDP in 2020, compared to 10.7% in 2019 (European Commission, 2021^[27]). At the end of 2020, approximately 9 576 economic operators (compared to 6 000 in 2019) and around 25 000 active users were registered in the e-procurement system (compared to 10 000 in 2019) (European Commission, 2021^[27]). In 2020, 10 935 public contracts were signed, compared to 12 412 in 2019 (European Commission, 2021^[27]). Due to the COVID-19 pandemic, a significant amount of public procurement activities (10.4%) were carried out via a negotiated procedure in 2020 (European Commission, 2021^[27]). The total value of signed contracts in 2020 was EUR 499 million, compared to EUR 781.4 million in 2019 (OECD, 2021^[61]). In 2020, contracting authorities initiated 5 900 competitive procurement procedures with a value above the national thresholds, which represented 87.3% of the total value of procurement procedures (OECD, 2021^[61]). The most often used procedure was the open procedure, covering 86.94% of the total value of the contracts (OECD, 2021^[61]). The average number of tenders submitted per competitive procedure in 2020 was 4.8, which was similar to previous years (OECD, 2021^[61]).

The regulatory framework, although compliant with basic EU standards, needs to be further harmonised with the EU 2014 Procurement Directives

In general, the regulatory framework reflects the fundamental EU principles of transparency, equal treatment and non-discrimination but is not fully in line with the 2014 EU Procurement Directives. The most recent change to the PPL, adopted in December 2020, introduced, until 31 December 2021, preferential treatment for tenders submitted by producers of domestic products and services (Government of Kosovo, 2020^[53]).³⁵

Kosovo has already implemented some initiatives to support SMEs provided for in the 2014 EU Procurement Directives. Public contracts may be divided into homogenous or heterogeneous lots. Operational guidelines suggest that, to encourage SMEs to participate in public procurement, limiting the number of lots which may be applied for should be a preferred option if there are many SMEs potentially interested in a given procurement.³⁶ Provisions also require that selection criteria should be limited to those which ensure that the concerned economic operator, first, is not subject to exclusion from the procedure and, second, if applicable, satisfies the minimum selection criteria specified in the contract notice and the tender dossier. All selection criteria and documentary and information requirements must be both directly relevant and in proportion to the subject matter of the concerned contract. For example, economic operators' minimum annual turnover should not exceed twice the estimated contract value. Financial requirements must be expressed in figures and should refer at most to the last three financial years. In exceptional cases when a minimum turnover is required in a specific field covered by the contract, this turnover should not exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy such a requirement by submitting, as may be relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason the economic operator is unable to provide the references requested by the contracting authority, the operator may be allowed to demonstrate its economic and financial standing using any other document that the contracting authority deems appropriate.

The PPL also regulates subcontracting. Economic operators must indicate in their tender any part of the contract that they intend to subcontract to a third party and each proposed subcontractor. Each proposed subcontractor must meet eligibility requirements and submit evidence of meeting the eligibility requirements. The PPL does not limit the share of subcontracting allowed, but according to the operational guidelines, subcontracting cannot exceed 40% of the contract value.³⁷ Contracting authorities may provide direct payments to subcontractors. The PPL states that the award criteria can be either the lowest price only or the economically most advantageous tender.³⁸ However, in practice, contracts are predominantly awarded based on the lowest price criterion, not taking into consideration the quality award criteria. In 2020, this criterion was applied in 99.63% of contracts, by value (OECD, 2021^[61]). There are various reasons for the very limited use of non-price criteria, such as a preference for sticking with well-understood, routine procedures and a lack of the practical training, examples and guidance needed to increase knowledge, understanding and confidence on the part of contracting authorities to apply quality criteria (OECD, 2021^[61]).

The institutional set-up supports contracting authorities and economic operators

The PPRC (PPRC, n.d.^[82]) is the central public procurement body responsible for the development, functioning and oversight of the public procurement system in Kosovo. Its competencies³⁹ include monitoring procurement, developing and disseminating procurement manuals, guidelines and standard templates, providing support and advice, and supervising the functioning of the procurement system. The PPRC, in co-operation with the Kosovo Institute for Public Administration (KIPA, n.d.^[83]), regularly offers training for contracting authorities and economic operators.

The most significant improvement has been made in relation to e-procurement (PPRC, n.d.^[84]). All procedures are published on the e-procurement platform, and tender documents can be downloaded. The

platform ensures the transparency of procurement opportunities and equal access of economic operators to public procurement. Since January 2019, bids are prepared and submitted through the e-procurement platform, which is obligatory for all contracting authorities and for all types of procurement. In January 2021, new modules on contract management and performance evaluation were introduced to the e-procurement platform. It also includes performance evaluation elements to be carried out by contracting authorities and economic operators. Its application should help to mitigate the significant weaknesses that have been identified in contract management and execution, and systematically monitor them. Also, applying previously acquired experience in contract management to future transactions is becoming more widespread among the contracting authorities, which is a major step towards increased transparency and effective management and evaluation of contracts.

The legal provisions allow economic operators to seek justice with an independent review body

The PPL's provisions on the scope of the review and remedies system, the time limits for challenging decisions, the effects of filing a complaint, and the mechanism for ensuring the effectiveness of contracts are, to a large extent, consistent with the *acquis*, although some inconsistencies remain, such as those related to alternative penalties, for example. The Procurement Review Body (PRB) is the second-instance review body for complaints concerning public procurement (in the first instance, appeals are reviewed by the contracting authorities concerned). PRB's authority to impose a fine of EUR 5 000 on a complainant if the complaint is deemed frivolous may be considered a limitation on the complainant's access to justice. Apparently, however, the PRB has not used this option in practice so far.

The way forward for Dimension 5b

- **Prepare and adopt provisions to harmonise the Public Procurement Law with the EU 2014 Procurement Directives.** Kosovo should amend and modify its public procurement provisions to make them compatible with the 2014 EU Procurement Directives. New rules should, in particular, provide the possibility of using preliminary market consultations and prior involvement of candidates or bidders and regulate innovation partnerships and competitive dialogue procedures. They should also implement other solutions that are beneficial from the perspective of economic operators, such as the possibility of using self-declarations as preliminary proof that they fulfil the selection criteria and there are no grounds for exclusion and the so-called self-cleaning (Box 15.10), as well as provisions concerning sustainable procurement.

Box 15.10. Self-cleaning of economic operators

Article 57 (6) of the 2014 EU Public Procurement Directive introduced provisions concerning “self-cleaning” measures. Accordingly, economic operators finding themselves subject to exclusion from a procurement procedure can prove they are reliable by providing evidence of measures it has taken to remedy any past criminal offences or misconduct.

In accordance with EU requirements, the economic operator concerned may provide evidence that the measures it has taken are sufficient to demonstrate its reliability despite the existence of relevant grounds for exclusion.

For example, in **Slovenia**, the economic operator should prove that it has paid or undertaken to pay compensation in respect of any damage caused by the criminal offence; it has fully clarified the facts and circumstances by actively collaborating with the investigating authorities; and it has taken concrete technical, organisational and personnel measures to prevent further criminal offences. If the contracting authority considers those self-cleaning measures to be insufficient to prove the reliability of the concerned economic operator, it should inform the economic operator why it believes those measures insufficient to not exclude the economic operator.

Kosovo's current PPL does not contain any equivalent provisions. To complete the harmonisation, provisions should be prepared and adopted to allow bidders to prove their reliability to a contracting authority despite grounds for exclusion, as presented above.

Source: Slovenian Public Procurement Directorate (2016^[85]).

- **Provide materials to help contracting authorities apply the most economically advantageous tender criteria.** To increase its use, the PPRC should promote the practical application of the most economically advantageous tender criterion. Box 15.11 presents an example of how this could be done.

Box 15.11. Support to contracting authorities for applying non-price criteria

The EU Public Procurement Directive requires that contracts be awarded to the most economically advantageous tender from the point of view of the contracting authority.¹ The most economically advantageous tender can be chosen based on price or cost alone or on the basis of the price-quality ratio when non-price criteria are also taken into account. According to EU rules, preference between these two options is left to the discretion of the contracting authority. EU member states may, however, decide that contracting authorities may not use solely price (cost) or restrict it to certain categories of contracting authorities or certain types of contracts.² Indeed, some countries use this option by introducing, for example, the maximum weight the price factor can have among the evaluation criteria.³ Other countries recommend a plurality of criteria to assess other elements of the offer than just the price (OEAP, 2019^[86]).

Application of the price-quality criterion enables contracting authorities to obtain customised, innovative goods or services that perform better in terms of quality, with broader economic, social and environmental impacts (de Bas et al., 2019^[87]). Although more expensive when simply comparing the purchase price, procurement based on price-quality criteria may be more cost-effective in the longer term, when the full life-cycle cost is considered. The use of the best price-quality criteria instead of the

lowest price is often recommended as a tool to help SMEs gain an equal footing to public contracts (de Bas et al., 2019^[87]). It is assumed that while SMEs may be at a disadvantage in delivering off-the-shelf mass products, they may be able to offer higher quality products or services or better adjust to the needs of contracting authorities. However, the application of non-price criteria is not simple. Contracting authorities often have difficulty formulating proper and meaningful quality criteria, including those involving strategic public procurement (green, socially responsible and innovative) and establishing a relevant link with the subject matter of the procurement (European Commission, 2021^[88]). Central procurement institutions should help contracting authorities apply price-quality criteria by training them and providing examples of good practice or models.

In the **Slovak Republic**, the Public Procurement Office (PPO) is aware that non-price criteria are rarely used by contracting authorities due to a lack of knowledge for correctly applying them and for setting this type of award criteria. The Slovak PPO (Slovak Public Procurement Office, n.d.^[89]) therefore established a Responsible Public Procurement project, financed by the European Economic Area and Norway Funds. The project's main goal is to increase awareness of price-quality criteria through methodologies and training to help contracting authorities set conditions correctly and thus increase value for money.

In **Poland**, the PPO's website contains a section dedicated to disseminating good practices in the field of public procurement (Polish Public Procurement Office, n.d.^[90]). Contracting authorities that are more experienced in applying quality criteria may share their experience with other procurement practitioners by participating in a contest organised by the PPO on the best examples of quality criteria. Winning submissions chosen by the PPO are published on the PPO's website with practical comments.

To increase the application of price-quality criteria, the Kosovar authorities, and in particular the PPRC, should provide more support to contracting authorities. This support should include informing them about the shortcomings and limitations of applying price as the only award criterion; presenting the advantages of quality criteria; and providing practical advice through best practice examples, standard models and evaluation formulas. Finally, the application of quality criteria should be a prominent topic of training for procurement officers.

1. Article 67 of Directive 2014/24/EU of the European Parliament and of the Council of 26 February 2014 on public procurement and repealing Directive 2004/18.

2. *ibid*, Article 67 (2).

3. For example, Croatia, Lithuania and Poland.

Access to finance for SMEs (Dimension 6)

Introduction

Access to finance remains critical for economic growth and inclusive development, allowing companies to expand their operations and invest to gain in efficiency and productivity. However, the availability and affordability of credit are typically strongly correlated with firm size, meaning that the smaller the company, the more difficult it is to access funding. Targeted policy measures are therefore required to encourage and complement the private-sector provision of financing, without crowding it out.

In Kosovo, like elsewhere, the COVID-19 further exacerbated credit constraints for SMEs, which, compared to larger companies, often do not have significant financial buffers. This required a swift short-term targeted policy response to shore up firm finances without, however, losing sight of more long-term measures to provide sustainable financing opportunities for small businesses.

Against this unprecedented background, Kosovo has made certain progress in areas critical for facilitating access to finance for SMEs, resulting in an incremental increase in the economy's overall score, from 3.33 in 2019 to 3.37 in 2022 (Table 15.18). Some progress has been made in relation to the credit guarantee scheme, which has scaled up its operations since the last assessment. Overall, however, Kosovo remains positioned in the lower half of the region in this dimension.

Table 15.18. Kosovo's scores for Dimension 6: Access to finance

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------|---------------------------------------------------|----------------------------------------------------|--------|-------------|
| Dimension 6: Access to finance for SMEs | Sub-dimension 6.1: Legal and regulatory framework | Creditor rights | 4.00 | 4.27 |
| | | Registers | 4.80 | 4.63 |
| | | Credit information bureaux | 3.30 | 4.37 |
| | | Banking regulations | 3.60 | 4.09 |
| | | Stock market | 2.00 | 3.23 |
| | | Weighted average | 3.68 | 4.20 |
| | Sub-dimension 6.2: Bank financing | Bank lending practices and conditions | 3.20 | 3.23 |
| | | Credit guarantee schemes | 3.10 | 2.61 |
| | | Weighted average | 3.12 | 2.98 |
| | Sub-dimension 6.3: Non-bank financing | Microfinance institutions | 4.00 | 3.37 |
| | | Leasing | 3.00 | 3.24 |
| | | Factoring | 2.00 | 2.71 |
| | | Weighted average | 2.98 | 3.09 |
| | Sub-dimension 6.4: Venture capital ecosystem | Legal framework | 2.10 | 2.73 |
| | | Design and implementation of government activities | 2.30 | 2.57 |
| | | Monitoring and evaluation | 1.00 | 1.47 |
| | | Weighted average | 1.97 | 2.40 |
| | Sub-dimension 6.5: Financial literacy | Planning, design and implementation | 3.00 | 2.83 |
| | | Monitoring and evaluation | 1.00 | 1.19 |
| | | Weighted average | 2.61 | 2.50 |
| Kosovo's overall score for Dimension 6 | | | 3.37 | 3.68 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

In Kosovo, access to finance for SMEs is embedded in a solid legal and regulatory framework, and steps have been taken to address existing shortcomings in banking supervision. Notwithstanding, limited reliability of credit information impedes lending, and the cost of credit remains high, especially for smaller

businesses. The KCGF remains a key vehicle for the authorities to support access to finance for smaller enterprises, and the fund has increased its capacity significantly since the last assessment, including from the state budget. However, it continues to be overly reliant on support from international co-operation development partners, thereby somewhat risking long-term sustainability. Alternative sources of finance remain subdued. Even though microfinance has gained momentum in recent years, shortcomings in the legal framework regulating microfinance institutions impose severe risks to the industry's long-term growth and sustainability. A draft Law on Microfinance Institutions falls short of comprehensively addressing all the bottlenecks. Factoring, despite a new legal framework, remains non-existent, as do equity-based finance opportunities. Efforts by the Central Bank of Kosovo (CBK) to raise financial literacy levels have somewhat stagnated.

Table 15.19 provides an overview of the key actions undertaken in response to the recommendations made in the previous assessment.

Table 15.19. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 6

| 2019 recommendation | SME Policy Index 2022 | |
|-----------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Scaling up and reviewing the Kosovo Credit Guarantee Fund (KCGF) | The KCGF has expanded its reach and has become an important tool in the authorities' response to the crisis. Output more than doubled between 2019 and 2021, from EUR 75 million in guaranteed loans to EUR 190 million (Q3 2021), respectively, including with budget support under the Economic Recovery Programme. However, structural problems remain unaddressed. | Moderate |
| Introducing planned factoring and reverse factoring legislation and considering a venture capital review | Despite the adoption of the Factoring Law, this type of service is still not in demand, suggesting limited understanding and awareness of its benefits. While other non-bank financial instruments have gained momentum, significant shortcomings in the legal framework regulation on microfinance impede the development of these kinds of services. A draft Microfinance Institution Law only addresses some of these bottlenecks. No progress has been made to enable the uptake of equity-based finance options. | Moderate |
| Formalising financial literacy support | No progress has been made in systematising efforts to increase financial literacy amid limited resources. The recent introduction of a more formalised approach to introduce financial education into the early-year school curriculum on a voluntary basis is an important step but should be linked to a broader and more comprehensive assessment of financial understanding and include clear key performance indicators. | Limited |

The legal and regulatory framework supporting access to finance has been strengthened, but further steps are needed to boost financial sector supervision

Kosovo has made some progress in further strengthening its already well-developed legal and regulatory framework in support of access to finance. Basel alignment is gradually progressing, with Basel-mandated capital adequacy and leverage ratio requirements now defined and implemented and further legislation planned for 2022. Some steps have been taken to enhance financial sector supervision, and amendments to the Banking Law, expected to be adopted in 2022, aim to further enhance the authority of the CBK, thereby addressing existing gaps in its governance and decision-making authority.

Access to reliable information to build and improve credit-rating performance remains limited. A cadastre is in place and fully digitalised; however, in practice, access is limited and restricted to authorised personnel, such as lawyers. Amid continuous undocumented construction and missing documents from the 1990s, coupled with a lack of formal dispute processes and limited enforcement capacity of collateral execution, use is restricted. In addition, where immovable assets are accepted as collateral, the value used by banks is often significantly below the actual value, thereby significantly increasing the cost of finance. While a registration system for securities rights over movable assets is also on line and publicly accessible, it requires a personal log-in to use. Legislation was adopted in early 2020 to strengthen the credit registry, which covers around 41% of the adult population but does not include data from retailers or utility providers

(World Bank, 2020^[91]). Under the new guidelines, loan providers must use the system, and the CBK has introduced a clear reporting procedure aimed at improving the credit-rating process and strengthening the CBK's supervision. This is an important step which, in combination with continuous efforts to improve the reliability and scope of available data, may better support lenders in assessing the creditworthiness of clients and reduce the cost of finance.

Capital markets remain in their infancy. There is no active stock market operative in Kosovo, though a government bond market is available to commercial lenders. Notwithstanding, a first-ever "diaspora bond" issuance was made in 2021 through commercial banks in collaboration with the Ministry of Finance. Targeting the Kosovo diaspora, this issuance managed to raise EUR 10 million of the EUR 20 million initially offered, which partially financed the authorities' Economic Recovery Programme.

Financial intermediation is increasing, although from low levels

Conventional bank lending dominates Kosovo's financial sector, which has remained stable throughout the economic shock of the COVID-19 pandemic. Lending was supported by forbearance measures introduced by the CBK, and credit grew by over 7% in 2020, though somewhat slowing compared to previous years. Non-performing loans remained stable. However, overall credit penetration remains modest at around 40% of GDP (European Commission, 2021^[27]), and lending remains disproportionately more expensive for smaller businesses.

In response to these ongoing challenges, a number of financial schemes have been introduced recently, including for SMEs. Under the umbrella of the World Bank-supported Competitiveness and Export Readiness Project (CERP), a co-financing grant programme was launched in 2021 to increase the export readiness of local enterprises for a total amount of EUR 10 million, awarding grants capped at EUR 100 000 to 142 firms within its first year. In addition, the government announced a new financial support scheme in the amount of EUR 3.65 million in late 2021. The schemes will be implemented by KIESA, which is currently being restructured. Kosovo is one of the few Western Balkan economies with a Credit Guarantee Fund in place pre-COVID. The KCGF, established in 2016, offers 50% guarantees for SMEs, capped at EUR 250 000. It also offers guarantees available under the EU COSME Programme, and its capacity has increased significantly amid the COVID-19 pandemic, becoming a key vehicle for the authorities to soften the economic impact of the pandemic. Between 2019 and 2021, the KCGF nearly doubled the number of guaranteed loans, cumulatively reaching over 10 000 SMEs with a guaranteed volume of EUR 220 million in 2021, although the trend has somewhat shifted towards guaranteeing working capital (KCGF, 2021^[92]). Despite the increase in loans guaranteed, the full potential of the KCGF has not yet been unlocked. It continues to be heavily dependent on international development co-operation partners (the United States Agency for International Development and KfW Development Bank) that appoint four of the KCGF's seven-member board of directors. Moreover, financial institutions participating in the regular guarantee scheme continue to pay a 2% flat fee, while the fees under COSME have been reduced. In addition, for guarantees under the Economic Recovery Programme, under which the KCGF has received an additional EUR 26.4 million, fees have effectively been abolished.

Lastly, Kosovo has received four investments under the Western Balkans Enterprise Development and Innovation Facility since 2013, amounting to nearly EUR 9 million (WBEDIF, 2022^[93]).

Alternative sources of finance remain below potential while the legal framework requires continuous upgrades

Non-bank finance remains marginal, accounting for around 4% of financial sector assets (CBK, 2020^[94]). Microfinance has gained further momentum. Between 2018 and 2020, assets increased by more than 25%, reaching EUR 315 million, suggesting increasing sustainability of this type of finance, especially for households (CBK, 2020^[94]). However, for legacy reasons, most microfinance institutions continue to be registered as NGOs, thereby severely limiting their operations and long-term growth strategy, which

imposes significant uncertainty for the industry. Even though the CBK, international development co-operation partners and the microfinance institutions sector advocate for a transfer of the legal status of microfinance institutions to become joint-stock companies, Kosovo's Constitutional Court has ruled that this step would be incompatible with the Constitution. A draft law, prepared in 2017 with support from the World Bank, falls short of addressing this issue, although it provides more clarity on the services that microfinance institutions can provide. Leasing volumes have also increased since the last assessment, although from low levels, while factoring, despite a new law developed with the support of the EBRD in 2018, remains unavailable.

No progress has been made to encourage equity-based finance. Venture capital is regulated in principle, though no meaningful venture capital activities have been registered to date, and no review has been conducted to identify the existing bottlenecks. Equally, there are no plans to develop dedicated legislation for crowdfunding, which would encourage start-up finance. Kosovo benefits from an active diaspora supporting business development, investing almost EUR 1 million between 2017 and 2018 (EBAN, 2020^[95]). However, more recently, amid COVID-19, no business angel activities have been recorded. Kosovo is investing significantly in creating an ecosystem conducive to start-ups. Once the first results become tangible, the focus may shift towards developing more finance opportunities to complement existing measures.

Efforts to promote financial literacy have somewhat stagnated

Little progress is evident with regard to enhancing financial literacy levels. In 2017, the CBK adopted a five-year financial literacy programme aimed at raising awareness on the importance of personal finance and saving. The plan is comprised of training and awareness-raising, collaboration with the financial industry, and the setting up of a Money Museum at the CBK. Progress on implementation has, however, been limited amid restricted resources and diverging priorities due to COVID-19. There have also not been any activities to assess levels of financial awareness and understanding among the population, though preliminary plans exist to conduct such an analysis in 2022. In contrast, some progress has been made to introduce financial education into the curriculum. In 2020, the CBK signed a memorandum of understanding with the Ministry of Education to develop a more targeted approach. With support from the European Fund for South-East Europe, materials were prepared for primary school children, while the approach to financial literacy in secondary schools is also planned. To date, however, financial literacy has not been introduced into the curriculum as a mandatory topic.

The way forward for Dimension 6

- **Improve the reliability of the cadastre.** Upgrading the cadastre by completing historic registration, increasing accessibility and introducing an effective dispute mechanism to ensure property is accurately registered and verified independently would greatly increase the use of the cadastre by lenders and support credit applications.
- **Increase the sustainability of the Kosovo Credit Guarantee Fund.** In close co-ordination with the international development co-operation partners and the private sector, a review of the fund's governance and income model, as well as an independent evaluation of its existing performance, would help to build a more sustainable business model attractive to the private sector and reduce dependency from international partners.
- **Revamp efforts to enhance financial literacy.** As the economy emerges from the COVID-19 pandemic, efforts should be undertaken to relaunch the CBK's financial literacy programme. A comprehensive assessment of the level of financial awareness and understanding of both Kosovo's broader population and its entrepreneurs would provide an important baseline and identify priority areas for support. Steps should further include a review and impact of existing support measures.

Standards and technical regulations (Dimension 7)

Introduction

Access to the European Single Market is conditional upon compliance with EU regulations and directives, which, due to the New Approach Directives, also increasingly rely on conformity to European standards. While standards and technical regulations can enable trade by defining (minimum) criteria for products and processes, they may also represent a barrier to trade, particularly for SMEs. To lower these barriers, WBT economies need to have a national quality infrastructure (QI) system that is accessible and supportive of SMEs. At the same time, the recognition of an economy's procedures and institutions by the relevant EU QI bodies and associations requires a high level of alignment with the *acquis*.

For a small open economy like Kosovo, creating an enabling policy environment that facilitates imports and exports is key for economic development. While only 34.4% of exports are to the EU-27, which is the lowest share in the region, the European Union is still Kosovo's largest trading partner (European Commission, 2021^[96]). Furthermore, as European standards are also recognised in trade with other Western Balkan economies, having legislation and QI systems in place that are aligned with the European standards is of utmost importance to Kosovo's economy.

Kosovo's overall score under Dimension 7 has slightly improved, from 3.60 in 2019 to 3.77 in the current assessment (Table 15.20). Kosovo now ranks fifth out of the seven economies assessed in the SME Policy Index. The improvements stem primarily from progress in the first sub-dimension ("Overall co-ordination and general measures") and in the third ("SME access to standardisation"). However, there has been limited progress in harmonisation with the *acquis* and in the technical implementation in the six QI pillars.

Table 15.20. Kosovo's scores for Dimension 7: Standards and technical regulation

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|--------------------------------------------------|---------------------------------------------------------------|-------------------------------------------|-------------|-------------|
| Dimension 7: Standards and technical regulations | Sub-dimension 7.1: Overall co-ordination and general measures | – | 4.00 | 3.90 |
| | Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i> | Technical regulations | 4.27 | 4.38 |
| | | Standards | 3.53 | 3.77 |
| | | Accreditation | 2.78 | 3.89 |
| | | Conformity assessment | 4.71 | 4.22 |
| | | Metrology | 3.62 | 4.13 |
| | | Market surveillance | 3.67 | 3.96 |
| | | Weighted average | 3.76 | 4.06 |
| | Sub-dimension 7.3: SME access to standardisation | Awareness-raising and information | 3.80 | 3.88 |
| | | SME participation in developing standards | 3.50 | 3.21 |
| | | Financial support to SMEs | 3.40 | 3.57 |
| | | Weighted average | 3.57 | 3.55 |
| Kosovo's overall score for Dimension 7 | | | 3.77 | 3.96 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo's overall progress in the area of standards and technical regulations can be regarded as satisfactory, as the economy continued to align its legislation with the *acquis* and also started to implement a new project that supports standard-related costs for SMEs that want to export.

The previous assessment's recommendation for improving capacity at the Kosovo Standardisation Agency (KSA) was only marginally addressed (Table 15.21), as the institution continues to be understaffed, with only nine employees, and the adoption rate of European Standardisation remains at around 50%. In fact, human resource constraints are present in all three major QI institutions (standardisation, accreditation and metrology). This needs to be addressed to assure further progression in QI.

There was, however, considerable improvement with respect to SMEs' access to support for standards implementation, as the CERP, funded by the World Bank, supported a total of 31 SMEs in 2018-19. While this may appear small, it is a considerable improvement, as in 2017, only one firm was supported for product certification through a voucher programme offered by the KIESA.

Table 15.21. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 7

| 2019 recommendation | SME Policy Index 2022 | |
|------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Enhance the capacity of the Kosovo Standardization Agency (KSA) | The KSA slightly increased its staff size from seven to nine full-time equivalents, but with approx. 12 000 European and international standards adopted, the adoption rate of European standards remains low, at around 50%. | Limited |
| Improve support to SMEs to implement standards | Thirty-one SMEs have now benefited from the Competitiveness and Export Readiness Project (CERP) (during the previous assessment, only one firm received support for standards implementation, under another programme), and regular information is provided via a newsletter from the KSA. | Strong |

Quality infrastructure is well incorporated in updated strategy documents, but there is still no central contact point for standards and regulatory information for exporters

Improving QI is a specific objective (2.8.6) in the Kosovo Government Programme (2021-2025) (Government of Kosovo, 2021^[38]). While recognition of QI as a key pillar of economic development is a positive sign, the strategy does not detail specific activities that will be implemented during the four-year period. In this context, it is important to draft a QI-specific action plan that breaks down broad objectives, such as the strengthening of the metrology, accreditation and standardisation capacities. While there is a separate strategy for standardisation (Kosovo Standardization Agency, 2020^[97]) with concrete actions (see Sub-dimension 7.2 for more details), there are no strategic plans for accreditation, metrology or market surveillance.

Information about technical regulations and standards for firms that are interested in certification (i.e. for exporting to the EU Single Market) is scattered and hard to access on line. While the Ministry of Industry, Entrepreneurship and Trade's (MIET) QI Division has a separate sub-section on its website, it only displays the division's duties and links to other QI bodies and business associations. While the MIET's website displays legislation, the legislation could be categorised (e.g. horizontal and vertical legislation) or organised by sector. KIESA also provides some useful information for exporters, including a step-by-step export guide, but it lacks QI-specific information on standards or accreditation procedures. Combining both the legislative information from the MIET and more practical resources from KIESA on a single website in the form of a single contact point, which may also answer any questions that firms might have, would greatly improve access to information for SMEs and other firms interested in exporting.

Harmonisation with the acquis is slowly progressing, and membership processes of national QI institutions in international associations ongoing

In the area of technical regulation, the transposition of the EU Product Safety Directive into national law represents one of the key pieces of legislation. The draft of this law has been fully prepared and is currently awaiting ministerial approval. Its adoption is foreseen during the third quarter of 2022. All adopted technical regulations are published on the MIET's website, and since 2019, seven new technical regulations in areas such as personal protective equipment, safety of machinery, prepacked products and gas appliances have been adopted (Ministry of Industry, Entrepreneurship and Trade, 2021^[98]).

In 2019 and 2020, Kosovo also adopted two new regulations to further align its standardisation legislation with the *acquis* and with CEN-CENELEC (European Committee for Standardization/European Committee for Electrotechnical Standardization) procedures. In addition, the KSA adopted a new five-year strategy (2020-25) with six main objectives, including faster adoption of European and international standards as well as improving awareness-raising and educational activities around standards. Despite these new strategic objectives, the actual adoption of CEN-CENELEC standards remains low. KSA reports that it has so far adopted around 12 000 international and European standards. As the current portfolio of CEN-CENELEC totals 23 919 standards, this represents around 50% of European standards (not counting other international standards). As the KSA is not an affiliate member of CEN-CENELEC, there are no detailed statistics available, but having at least 80% of CEN-CENELEC standards adopted is one of the membership criteria (Coordination Body for Market Surveillance, 2021^[99]), so increasing the adoption rate is important for both the KSA and for firms seeking certification for standards in Kosovo.

The General Directorate for Accreditation (DAK) has applied to sign a multilateral agreement (MLA) in the area of testing laboratories, which was rejected in 2019 by the European Co-operation for Accreditation (EA) based on deficiencies in the internal management system. As a response to the EA's assessment, DAK has revised its management system to conform to ISO/IEC 17011:2017, which is the latest standard on the requirements for accreditation bodies. Due to organisational instabilities, DAK has postponed the re-application and intends to reapply for EA-MLA status only in 2025. Completing this recognition process and becoming an EA multilateral agreement signatory in a first field is a very important step for Kosovo, as it means that certifications provided by DAK-accredited conformity assessment bodies will be recognised in all 49 EA members. This would lower the barriers for local firms seeking to export their products to these markets, as they would no longer need to seek certification abroad. As of December 2021, there were 56 accredited conformity assessment bodies in Kosovo (37 testing laboratories and 19 inspection bodies). This is a 47% increase compared to 2018, the greatest increase in the region. The opportunities for firms to be assessed and certified for international and European standards in Kosovo are continuously improving, and international recognition of these accreditation services is, therefore, an important next step.

Kosovo adopted a Metrology Law in 2018 and nine additional pieces of implementing legislation to align its metrology system with the *acquis* (European Commission, 2021^[27]). Important European directives such as the Measurement Instrument Directive, the Non-automated Weighing directive as well as Directives on Pre-packaging and Bottles have been approximated with domestic legislation. On the operational side, three calibration laboratories have been assessed by the Turkish accreditation body, TURKAK, according to international standards, and it is expected that certification will be provided in the coming months. However, the Kosovo Metrology Agency (KMA) has difficulties obtaining qualified staff and currently has only 14 employees, compared to 17 in 2018, as it was unable to replace retiring staff. To remedy this, the recruitment of four metrology officials is planned for 2022. Furthermore, the formation of the Metrology Council, a supervisory body stipulated in the Metrology Law, is expected to be completed within 2022 as well. Already being a full member of WELMEC, KMA applied for associate membership to the European Metrology Association (EURAMET) and at the International Bureau of Weights and Measures (BIPM) in 2021. While not having any voting rights, being an associate member would allow the KMA to participate

in all EURAMET activities, such as technical committee work, specific projects and work on the Committee of Weights and Measures' Mutual Recognition Arrangement, thereby giving the KMA access to a wide range of information, activities and exchanges on metrology, which should in turn also improve its capacities.

There has been moderate progress in market surveillance. The Law on Technical Requirements for Products and Conformity Assessment (Ministry of Industry, Entrepreneurship and Trade, 2018^[100]), which also regulates market surveillance activities, is aligned with the old *acquis* (EC 2008/768) but not with the more recent Market Surveillance Regulation (EC 2019/1020). Kosovo did, however, adopt legislation on groups of products that were subject to inspection surveillance in October 2020, which unifies the rules on competencies of various inspectorates for groups of non-food products (European Commission, 2021^[27]). The transparency of surveillance activities has also improved, as dangerous products, both identified by the European Union's Rapid Exchange of Information System (RAPEX) system as well as by the national authorities, are published on the Coordination Body for Market Surveillance's website (RAPEX Kosovo) (Coordination Body for Market Surveillance, 2021^[101]). The number of inspections slightly decreased, from 1 255 in 2019 to 1 124 in 2020 (Coordination Body for Market Surveillance, 2021^[99]).

Access to standards has improved, and a financial support programme for exporters is in place

Kosovo has made considerable progress in this dimension compared to the previous assessment, particularly in the areas of participation and support.

The KSA has basic awareness-raising measures such as a regularly updated news section on its website, a Facebook page and regular information sharing via email. Moreover, the KSA realised nine awareness-raising activities per year between 2018 and 2020, compared to five in 2017, as reported in the previous assessment. While offering a standards catalogue on line, only the titles of the standards are translated into the local language, and there is no guiding material on the standardisation process for companies. Describing the certification process from start to finish, as is done, for example, in the European Union's Blue Guide (Box 15.12), helps SMEs to better understand what is required of them to get their product, service or process certified according to a specific standard. Finally, the KSA plans to set up an information centre to promote and advise firms and the general public on standards. Having such a physical information point is a good tool to complement the online awareness-raising activities.

Kosovo is not yet developing its own national standards, but this is a specific objective in the current Standardisation Strategy (Kosovo Standardization Agency, 2020^[97]). Therefore, technical committees currently only analyse the priorities for adopting European and international standards in their respective sectors. Participation in those committees is currently incentivised by providing technical committee members with discounts for purchasing standards. To incentivise more companies to participate in the development of national standards, the KSA plans to offer non-monetary benefits to committee members by listing them as authors on the standard and making their participation public on their website (Kosovo Standardization Agency, 2020^[97]). Furthermore, technical committee members will receive a 50% discount on purchases of standards.

As briefly described above, the main vehicle providing financial support to firms seeking to implement standards is the World Bank's CERP (World Bank, 2021^[102]). The programme provides matching grants that cover up to 90% of the activity costs or up to EUR 40 000 per firm. These grants can be used to cover inspection-related costs that may arise in the certification process and to buy small equipment. In the first round of applications (2018-20), 28 SMEs received financial support. A second round of applications was held in mid-2021, and 139 firms were selected for funding (World Bank, 2021^[102]). While the programme's original target of reaching 420 firms will not be reached, due to an increase in the amount spent per firm, CERP remains a large support programme for Kosovo and may have a substantial impact on the export readiness of SMEs.

The way forward for Dimension 7

- **Increase human and financial capacities in quality infrastructure bodies to meet membership criteria in key European associations.** Given the short period of time, Kosovo has done a remarkable job of aligning key horizontal legislation with the *acquis* and building up institutions in the area of standardisation, accreditation and metrology. The next key step in all three areas is for the national institutions to be recognised, either as a full or associate member, by the relevant European associations (European Co-operation for Accreditation, EURAMET and CEN-CENELEC). To fulfil at least the technical requirements for membership, it is necessary to improve management systems and increase staff capacities. While this is partially recognised in the Standardisation Strategy, the required resources need to be availed. In particular, the recognition of accreditation services is very important for firms, as this will lower the barriers to certification, which are particularly high for SMEs.
- **Produce guides and information materials about standardisation in the local language.** Improving SMEs' knowledge about how to certify their products, services or processes is important to lower information barriers about the conformity assessment process. While basic awareness-raising mechanisms are in place, more concrete materials that show firms the different steps required for conformity assessment in European or international standards are not available on the KSA's website. As the KSA now plans to open an information centre, this might be a good time to produce such material in the local language. The information on conformity assessment provided in the European Union's Blue Guide is a good example of what such a step-by-step guide may look like (Box 15.12).

Box 15.12. Providing concise and clear information about product regulations and conformity assessment procedures: The European Union's Blue Guide

To create a better understanding of its product rules and their application, the European Union created the so-called Blue Guide. This comprehensive guidebook is structured along actors and the different QI pillars (e.g. conformity assessment, market surveillance), which allows the reader to quickly find the required information. A chapter on conformity assessment describes the certification process in a user-friendly way using a flowchart depicting the different steps required, from the technical documentation to the market placement of the product.

Through graphical means, the rather complex process of conformity assessment is explained and depicted in a clear and concise manner, which is particularly useful for SMEs that, contrary to large firms, may not have specialised staff familiar with QI processes.

Kosovo and other economies in the WBT region often lack such information materials, and firms are hence left with the pure legislative text or other material in complex, technical language, which may represent an information barrier for SMEs. Having process flowcharts and guides like the one described above available in the local language is one way to overcome such barriers for SMEs aiming to get their products or processes assessed and certified.

Source: European Commission (2016^[103]).

Enterprise skills (Dimension 8a)

Introduction

SMEs, the cornerstone of job creation, provide a significant share of employment, with two out of three employed people working for an SME, acting as an engine for social development and economic growth. Yet to drive growth and reduce the tendency for start-ups to result in lower-paying jobs, SMEs need to invest in skills, digitalisation and innovation to boost productivity and higher-paid employment. However, they lack the capacity of larger enterprises to invest in training for founders and the workforce. They can be supported by relevant government-financed training, however, to close skills gaps and upskill the workforce. This is emphasised when it comes to greening businesses, for example, where environmental sustainability cannot be achieved within SMEs, as the potential is limited by lack of awareness and skills as well as the additional costs involved. Supporting SMEs through developing enterprise skills can create far-reaching impacts for families, local communities and countries.

The COVID-19 pandemic badly affected Kosovo's economy. In 2020, Kosovo's GDP, total employment and value added dropped sharply. The focus of institutions has been on the actions needed to mitigate these challenges to existing businesses, and as a result, less progress has been made at the institutional level (European Commission, 2021^[27]).

Kosovo scored 3.44 in this dimension, slightly over the regional average (Table 15.22). The score for this dimension has risen slightly since the previous cycle when it was 2.78 with the contribution of practical implementation and skills intelligence actions through collaborations between government and international partners. Nevertheless, the performance in planning and design has dropped since 2019 due to the ongoing lack of concrete actions to drive forward enterprise skills across government policy.

Table 15.22. Kosovo's scores for Dimension 8a: Enterprise skills

| Dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------|---------------------------|-------------|-------------|
| Dimension 8a: Enterprise skills | Planning and design | 3.58 | 2.86 |
| | Implementation | 3.53 | 3.85 |
| | Monitoring and evaluation | 3.00 | 2.67 |
| Kosovo's overall score for Dimension 8a | | 3.44 | 3.32 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

The most significant step forward during this assessment has been made in skills intelligence, with the launch of the Labour Market, VET, and Skills Barometers. These are innovative in approach and form a strong evidence base for policy makers and stakeholders. There are concerns about the lack of gender-disaggregated data within this, which should be rectified moving forward. SME support and training are patchy, with a continued lack of support for start-ups from the government. An increasing offer is being delivered by international co-operation development partners and NGOs, often in collaboration with the government. Monitoring and evaluation remain a challenging area, both when considering monitoring of strategy implementation and the practical implementation of government-financed actions (

Table 15.23).

Table 15.23. Implementation of the SME Policy Index 2019 recommendations for Dimension 8a

| 2019 recommendation | SME Policy Index 2022 | |
|---------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Ensure better skills intelligence for more meaningful monitoring and evaluation | Development of a Kosovo skills intelligence framework has been strong, with the launch of an online portal with access to a national Labour Market Barometer, VET Barometer, and a Skills Barometer collating statistics from a range of economy-level sources. However, monitoring and evaluation of actions on enterprise skills remain weak. | Strong |
| Strengthen co-ordination mechanisms | Co-ordination has improved, as evidenced through the creation of the Kosovo Skills, VET and Labour Market Barometers, which draw information and statistics from across an abroad array of actors. However, ongoing challenges persist around the co-ordination of government- and international partners-financed actions supporting enterprise skills and associated monitoring and evaluation. | Limited |
| Strengthen start-up training and accessibility through a searchable web platform | There is no provision of a government website providing these services. StartUpKosovo was launched during this assessment period, supported by Innovation Centre Kosovo alongside international development co-operation partners funding. This is a starting point toward understanding more about the entrepreneurial ecosystem in Kosovo, but it is still under development. | Moderate |
| Review key policy documents that steer education and training provision to strengthen women's entrepreneurial skills and competences | The Kosovo Programme for Gender Equality (2020-2024) and action plan prioritises and identifies actions for women's entrepreneurship. The National Strategy for Innovation and Entrepreneurship (2019-2023) highlights women and youth as one of the thematic pillars, but there is no current action plan for this strategy. The Private Sector Development Strategy (2018-2022) mentions the importance of women entrepreneurs and business owners but does not include specific actions or targets. There is a continued need to enhance practical implementation and ensure cross-linkages between relevant strategies and action plans. | Moderate |
| Build SME skills into smart specialisation strategies | Work is ongoing to develop the smart specialisation process. | Limited |

There is a lack of system-level co-ordination of policy related to enterprise skills

While policy commitments to support SME skills can be seen across government strategies, these remain relatively limited in scope, with limited support for start-up skills or SME skills in specific areas, such as green economy or sustainability. Actions funded by the international co-operation development partners can be seen addressing these gaps, but these are not well-coordinated at the system level, resulting in a potential risk of duplication of effort across partners.

The Kosovo National Development Strategy (2016-2021), the primary planning document, expired in 2021. The upcoming National Development Strategy is not yet adopted, but the concept note has been shared (Government of Kosovo, 2021^[104]). Actions will be included in it to support SME development and to link education and training to the needs of the labour market. Supporting this document are the National Strategy for Innovation and Entrepreneurship (2019-2023) (Government of Kosovo, 2019^[40]) and the

Private Sector Development Strategy (2018-2022) (Government of Kosovo, 2018^[105]), both of which emphasise the importance of SME support and enterprise skills programmes. The first strategy has no attached action plan. However, the Private Sector Development Strategy (2018-2022) provides a framework of interventions and an allocated budget, including specific commitments to increase SME business advisory services, access to finance through the KCGF loans and training modules on financial literacy and intellectual property.

Overall, co-ordination across this area of work is lacking, and there is limited evidence of monitoring and evaluation of the practical implementation of strategy actions. During this assessment period, there has been limited visibility of the Kosovo National Council for Economy and Investment (NCEI) (European Commission, 2021^[27]) with no evidence of meetings since 2021.⁴⁰ When active, this was as a multi-stakeholder forum with a remit⁴¹ to support public-private business dialogue toward strengthening the private sector and the business environment in Kosovo, supported by EBRD. Post-pandemic, a reactivated NCEI or a similar high-level partnership body can be an effective channel in which this policy area can be addressed through dialogue within, and recommendations from, a multi-stakeholder business partnership forum.

System-level skills intelligence has been significantly improved with strong effort to ensure sustainability of the approach

Since the last assessment, the provision of economy-level skills intelligence has significantly improved through the support of actions funded by international development partners in collaboration with government ministries and non-government partners. This has built on previous work by the Ministry of Trade and Industry, through KIESA.⁴² Working with a range of government and non-government partners and supported by the ALLED2⁴³ project, Kosovo has launched a set of three statistical barometers that strengthen the skills agenda and establish a Kosovo framework approach to skills intelligence.

The Kosovo Labour Market Barometer⁴⁴ was launched in 2020 and collates real-time data from 12 institutional data sources through a searchable database, bringing together demographic, employment, business, education and training statistical information. Most sources of data can be filtered by at least year, age, sector and municipality, with gender-disaggregated data included where available across employment and demographic statistics. While it was developed through international partners' funding,⁴⁵ the long-term focus has been to ensure its sustainability. It is now owned by the Government of Kosovo and managed by the Employment Agency.

The VET Barometer,⁴⁶ an online database of information and analysis of 200+ variables from 20 VET schools, is based on the ALLED2 school surveys carried out annually⁴⁷ and provides fully gender-disaggregated data. The barometer provides a valuable overview of the VET system in Kosovo across the schools surveyed, identifying the potential to improve the alignment of these schools with labour markets. The reports and online database include insights on management, teachers, curricula, infrastructure, technology and business co-operation. This latter section includes valuable insights, such as the percentage of practical learning and signed memorandums of understanding with businesses, alongside details of the main business-cooperation challenges faced and the improvements needed at the centre level. The VET Barometer grew from pilot research into the provision across VET schools in the economy and now offers online information and analysis based on systematic data collection that can be transferred to relevant government agencies.

The Skills Barometer, launched in 2021, is a report on Kosovo's current and future skills needs, offering an in-depth analysis of the causes and impact on businesses across different sectors. This five-year forecast into the skills and occupations demanded by different sectors and economic activities in Kosovo offers an important tool for evidence-based policy making in education, training and SME policy, particularly in terms of VET planning and identifying priority sectors across specific regions (European Commission, 2021^[27]). The Skills Barometer currently addresses only the demand side because supply-

side information on those leaving education and training institutions is unavailable, highlighting the ongoing challenge of data availability. ALLED2 developed the Skills Barometer in co-operation with the KCC. Commitment is now finalised between KCC, the MEST and the National Council for VET to conduct the Skills Barometer every three years.

Development of the Smart Specialisation Strategy is evidenced, but institutional challenges remain

The development of the Smart Specialisation Strategy is moving forward, with current activity focused on the quantitative and qualitative mapping of Kosovo's economic, scientific, and innovative potential. This is accompanied by a range of workshops and the recently launched government e-platform⁴⁸ to support awareness and engagement across relevant stakeholders in collaboration with Heras+.⁴⁹ The mapping is now being finalised, and the first draft strategy is planned for publication in 2022. Challenges to this work include the availability of sufficiently detailed statistical data to fully inform quantitative mapping and the lack of an innovation agency within the Kosovo institutional landscape to support innovation policy and its implementation.⁵⁰

The provision of SME support and skills training is not well developed at the government level, though international partners-funded initiatives provide a broader offer

While national policy recognises the importance of SME skills and training, practical implementation relies significantly on external funding from international development partners. As yet, there is only limited training provision featured through the KIESA website,⁵¹ centred on start-up business plan competition, a women's business fair and basic training for business and entrepreneurs on marketing and legal aspects. More broadly, different offers are provided in collaboration with the government, such as the innovative Kosovo Digital Economy (KODE) Project⁵² initiated by the Government of Kosovo and which aims to enhance access and use of ICT, including through strengthening human capital and supporting digital businesses and digitalisation. Another digital business project is ACCESS, which invites SMEs to become part of the Initiative for Digital Empowerment⁵³ to access digitalisation services. This is led by the MIET through KIESA and in co-operation with the Austrian Development Cooperation. Wider providers include the Innovation Centre Kosovo, which leads the StartUpKosovo⁵⁴ action to build a network of founders, entrepreneurs and other actors from across the entrepreneurial ecosystem in Kosovo. The website offers an important channel for collated information and advice on SME support and skills training available nationally.

Despite a range of providers, there remains no visible support or training focused on sustainable business practices, social economy, greening and the circular economy, and it is not possible to view the depth of provision, either government- or international partners-funded, available across all regions. There is also a significant lack of economy-level monitoring and evaluation of SME skills development actions. While there is a requirement for funded initiatives to monitor and evaluate training, there is no information on the results, and it is not collated at the system level. This means that existing provision does not underpin evidence-based decisions to refine future provision, with no mapping or sharing of proven good practices.

The way forward for Dimension 8a

- **Improve the co-ordination of SME support and skills across government and non-government strategies and implementation.** Skills mismatches and the need for upskilling are significant barriers to doing business in Kosovo. There is an opportunity to include enterprise skills as an over-arching policy area to be addressed within key areas of development such as the Smart Specialisation Strategy and supported by a national-level partnership body, such as a reactivated NCEI.

- **Broaden the training offer for SMEs and include a stronger focus on training supporting more green and sustainable business practices.** A need remains to provide a transparent and well-publicised training programme for SME skills, including skills for green and sustainable business development (Box 15.13). This should be the basis of a government commitment in the upcoming National Development Strategy.

Box 15.13. The MicroPitch Business Plan Competition: An example from the Caribbean

The MicroPitch Business Plan Competition is part of the Boost Your Business programme held in the Caribbean. MicroPitch brings together entrepreneurship training and a business competition that gives founders and SMEs the opportunity to build their capacity across specific themes and enter a competition to present their ideas and progress to a jury of business experts.

MicroPitch is about supporting existing businesses to improve through a format that highlights specific priorities aligned to regional policy priorities. In 2021, these included: 1) digitalisation and e-commerce; 2) green and sustainable business practices; and 3) business management and financial planning. By offering training as the lead-in to the competition, there is an added incentive to engage and increased visibility of successful SMEs and the priority themes that can come with the promotion of both the competition and the winners.

KIESA already runs a number of business competitions, and these themes could be integrated into these competitions or fairs, alongside capacity building through practical training for entrants. This would offer a potentially simple route to creating practical training with active promotion of key policy priorities, such as greening, sustainability and the circular economy to the business community.

Source: MicroPitch Caribbean (2021^[106]).

- **Further strengthen the provision of skills intelligence** at the national level with continual improvement of the barometers, including the systematic provision of gender-disaggregation across all areas of data collection, in line with requirements for harmonisation with Eurostat.
- **Implement comprehensive monitoring and evaluation** of all government-financed enterprise skills programmes to better understand the impact of policy actions on SMEs' performance and growth and provide additional data to feed into the Kosovo skills intelligence barometers.

Innovation policy for SMEs (Dimension 8b)

Introduction

Supporting innovation and building a knowledge economy is increasingly becoming a priority for the WBT region, and globally. Recognising the link between innovation and productivity and its contribution to higher value-added economic output and competitiveness, many governments have started to emphasise the creation of an environment conducive to innovation and knowledge development. However, equal attention must be given to enhancing innovation capacity at the firm level.

The economy of Kosovo, in its early stages of building an innovation ecosystem, can further leverage interregional and international co-operation in progressing its innovation agenda, creating regional innovation systems and encouraging cross-border co-operation to boost research and development (R&D).

Kosovo's progress in fostering innovation in SMEs has been limited since the last assessment and the economy only marginally increased its score from 2.40 in 2019 to 2.47 in 2022, owing to some progress in strengthening an ecosystem conducive to innovation and start-ups. As a result, Kosovo continues to be among the lowest-ranked economies in this dimension (Table 15.24).

Table 15.24. Kosovo's scores for Dimension 8b: Innovation for SMEs

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|-----------------------------------------|-----------------------------------------------------------------------------------------|-----------------------------------------------------------------|--------|-------------|
| Dimension 8b: Innovation for SMEs | Sub-dimension 8b.1: Policy framework for innovation | Strategic approach | 3.20 | 3.81 |
| | | Implementation of innovation policy | 2.52 | 3.31 |
| | | Co-ordination of innovation policy | 2.52 | 3.30 |
| | | Weighted average | 2.72 | 3.46 |
| | Sub-dimension 8b.2: Government institutional support services for innovative SMEs | Incubators and accelerators | 2.71 | 3.27 |
| | | Technology extension services for established SMEs | 1.40 | 2.14 |
| | | Weighted average | 2.19 | 2.82 |
| | Sub-dimension 8b.3: Government financial support services for innovative SMEs | Direct financial support | 3.26 | 3.81 |
| | | Indirect financial support | 1.20 | 2.26 |
| | | Weighted average | 2.44 | 3.19 |
| | Sub-dimension 8b.4: SMEs and research institution collaboration and technology transfer | Innovation voucher schemes and co-operative grants | 2.00 | 2.85 |
| | | Institutional infrastructure for business-academia co-operation | 2.48 | 2.99 |
| | | Intellectual property rights | 2.52 | 3.05 |
| | | Weighted average | 2.30 | 2.95 |
| Kosovo's overall score for Dimension 8b | | | 2.47 | 3.18 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo's capacity to build a knowledge economy and implement innovation-supporting policies remains limited. Despite some progress in developing a framework for SME innovation, policies remain high level without clear targets or an implementation plan. Plans to establish a Fund for Innovation and Entrepreneurship have not yet materialised, impeding the economy's implementation capacity for innovation. Some progress has been made to create an ecosystem. The authorities have supported the development of a number of regional innovation centres and the Innovation and Training Park in Prizren, which aims to provide incubation services and assistance for R&D activities, has launched its operations.

Financial support remains highly limited. In late 2021, the authorities announced a new SME support package which foresees EUR 1.15 million in grants for start-ups and innovation projects. Overall, investments in R&D remain marginal, though a full picture is not available in the absence of reliable statistical data. The authorities operated a voucher scheme in 2018 and 2019, but it has been paused as government funding was repurposed towards Kosovo's response to COVID-19. Lastly, some progress has been made to strengthen intellectual property protection.

Table 15.25 provides an overview of the specific actions undertaken in response to the recommendations for this dimension made in the previous assessment.

Table 15.25. Kosovo's implementation of the SME Policy Index's 2019 recommendations for Dimension 8b

| 2019 recommendation | SME Policy Index 2022 | |
|------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Adopt an innovation strategy and carefully monitor its implementation | Even though a new National Strategy for Innovation and Entrepreneurship (2019-2023) was adopted in 2019, it lacks a strategic focus and an action plan. The development of a Smart Specialisation Strategy, which started in 2019, is still ongoing. | Limited |
| Invest more in R&D and use competitive project-based funding | Public investments in research remain marginal at 0.1% of GDP, and despite high-level plans to establish an Innovation and Entrepreneurship Fund, no concrete actions have been taken to date. In addition, while the adoption of the Law on Innovation and Entrepreneurship is still pending, there is no legal basis to establish such a fund. The availability of financial support schemes remains highly limited, though a small-scale programme in support of SMEs more generally was announced in late 2021. | Limited |
| Improve the design of support instruments | No progress has been made. The voucher scheme, which was available in 2018 and 2019, has not undergone any evaluation or impact assessment, and there is no indication that the small-scale new, generic SME programme has been designed in line with best practices and in co-ordination with stakeholders. | Limited |

The policy framework for SME innovation needs to be further enhanced

Kosovo has only made little progress in strengthening the policy framework in support of innovation, as the existing strategic approach lacks clear policy priorities, targets and implementation mechanisms. Even though a new Strategy for Supporting Innovation and Entrepreneurship (2019-2023) was adopted in 2019, it only provides high-level guidance on developing a knowledge-based economy, as the framework does not entail any action plan for concrete implementation measures. Work on preparing a Smart Specialisation Strategy commenced in 2019 in line with the European Commission's Joint Research Centre's methodology. While an analysis identifying scientific priorities has been completed and a communication mechanism to enable stakeholder consultation has been put in place, progress remains slow.

Co-ordination of the policy framework remains highly fragmented across various ministries and advisory bodies following a government reshuffle in 2020. The MIET manages a dedicated budget for innovation activities, while aspects of innovation, science and technology transfer have been reallocated to the Ministry of Education, Science, Technology and Innovation. There is no clear co-ordination body in place, further underlining Kosovo's lack of a strategic approach to innovation and limited track record in implementing relevant policies. The National Council for Innovation and Entrepreneurship's mandate, established in 2017, has expired, while a new Scientific Innovation Council, under the auspices of the Ministry of Education, Science, Technology and Innovation, was in the process of being established as its successor at the time of writing.

Lastly, Kosovo's implementation capacity remains limited amid a lack of a dedicated implementation agency, but the Kosovo Government Programme (2021-2025) envisages the creation of an Innovation and Entrepreneurship Fund. There is no evidence of concrete actions to pursue this ambition; however, a draft

Law on Innovation and Entrepreneurship, initiated in 2018, would form the legal basis for establishing such an agency. The Kosovo Government Programme (2021-2025) also envisages improvements in the collection of innovation-related statistical data, and there are plans to apply for participation in the European Innovation Scoreboard⁵⁵ during the next assessment period.

The innovation ecosystem, albeit growing, is limited to start-up support

Multiple incubators exist throughout Kosovo, with the most prominent ones being the Innovation Centre Kosovo and Gjirafa Lab, which, however, continue to be dependent on international partners. The Innovation Centre Kosovo, founded in 2012, offers training, mentoring and other support services, with a specific focus on ICT development, and incorporates a matchmaking business angel club. In addition, the government has provided financial support to a number of innovation centres, including VentureUP at the University of Pristina and the Djakova Innovation Center, both of which offer incubation services. A third innovation centre in Ferizah has been established since the last assessment but remains largely non-operational.

One main development since the last assessment is the creation of the Innovation and Training Park in Prizren, which was formalised in May 2020 when Kosovo signed an agreement with the German Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ) to establish the new business park on the premises of the former Kosovo Force (KFOR) military camp area. Both governments committed a total of EUR 12.5 million to develop the park in the first few years. The Innovation and Training Park's vision is to offer a range of services, particularly for enterprises operating in ICT, agro-business and creative industries, and to provide co-working and office space, coupled with vocational training opportunities and support for R&D. By the end of 2021, the Innovation and Training Park was hosting eight tenants, including the Makerspace Innovation Center Prizren, a vocational training provider, and a centre of excellence.

Support for more mature enterprises seeking innovation, such as technology extension services, remains largely unavailable.

Financial support for innovation remains highly limited

Little progress has been made in offering financial support to foster innovation. Financial assistance schemes remain largely absent, and the aforementioned vision to establish a dedicated Innovation Fund is yet to materialise. In the autumn of 2021, the authorities announced a new financial support scheme to increase export readiness and job creation. Out of a total of EUR 3.65 million, EUR 1.15 million is envisaged to support start-ups, spin-offs and innovative projects. While this is a welcome and important step toward introducing tailored financial support for innovation activities, the exact mechanism, scope and objective of this pilot remain somewhat unclear. Results will be evaluated during the next assessment period.

Furthermore, no progress has been made to introduce indirect financial support for innovation. Some tax incentives exist for purchasing ICT equipment since 2018; however, there are no targeted measures to encourage investment in R&D or other innovation-related activities.

Small-scale support exists to encourage linkages between academia and businesses, but further efforts are needed to encourage more investment in R&D

Kosovo currently does not collect data on investment in R&D, but public funding for scientific research remains chronically low at around 0.1% of GDP (European Commission, 2021^[27]), significantly below the 0.7% target mandated by law. The Ministry of Education, Science, Technology and Innovation offered small-scale innovation vouchers in 2018 and 2019, both fully and co-funded of up to EUR 5 000, aimed at supporting small-scale business projects to engage expertise, among others, from scientific research institutions. In total, EUR 1.6 million have been allocated to this initiative, but funding was repurposed in 2020 to support the COVID-19 response, and the programme has not been revived since. In total, over

130 enterprises benefited, but interest decreased substantially in the second year, suggesting limited awareness and absorption capacity of enterprises. There are no co-operation grants or equivalent available.

Kosovo's institutional infrastructure to encourage engagement between businesses and research facilities remains limited. However, the innovation centre at the University of Pristina, as well as the operationalisation of the Innovation and Training Park in Prizren, both of which have some focus on research, are important steps to provide space for exchange and to increase collaboration in the medium term.

Lastly, in 2019, Kosovo adopted amendments to the Law on Patents, which brought the economy's framework for intellectual property protection somewhat closer to European standards. In addition, legislation on patents, trademarks, industrial design and others is currently under preparation, but has not yet been adopted, nor has legislation to address the restructuring and staffing needs of the Industrial Property Agency, which would significantly increase its enforcement capacity. The Industrial Property Agency carries out some limited awareness-raising activities; however, overall understanding of the importance and benefits of intellectual property protection among businesses remains low.

The way forward for Dimension 8b

- **Enhance the strategic framework for innovation.** Developing a detailed innovation policy framework, designed in consultation with all stakeholders, would enable Kosovo to prioritise innovation activities, identify existing bottlenecks in a targeted and tailored manner, and maximise resources. This should be coupled with an action plan with measurable targets as well as a clearly defined mandate for all the public bodies involved to ensure implementation capacity and accountability. Swift progress in developing the Smart Specialisation Strategy should be a government priority.
- **Further expand the collection of innovation-relevant statistical information.** Further efforts should be made to deliver on the ambition to join the European Innovation Scoreboard, as outlined in the Kosovo Government Programme (2021-2025). In particular, efforts should be made to report on gross domestic expenditure on research and development (GERD), which will be critical to monitoring both public and private spending on innovation and help the economy to improve in this area. Continuous participation in the EC-OECD's *STIP Compass Database*,⁵⁶ for instance, could help to develop statistical data collection in line with international best practice methodology, and with expert guidance.
- **Increase financial support for innovation and research to boost research and development investments.** Timely adoption of the draft Law on Innovation and Entrepreneurship would provide the legal foundation for operating an Innovation and Entrepreneurship Fund. Such a fund could be designed as the main vehicle to implement the authorities' innovation policy framework (see the first recommendation), subject to sufficient funding allocation to ensure operational capacity and security for the coming years. The fund should be designed in close consultation with stakeholders and build on lessons learned from existing financial support schemes. External advice and capacity building, like elsewhere in the region, could further help to ensure that the new fund serves its purpose in an effective, efficient and well-governed manner.

SMEs in a green economy (Dimension 9)

Introduction

Since SMEs, on aggregate, have a significant environmental footprint (small firms account for 50% of greenhouse gas [GHG] emissions in the world (ITC, 2021^[107])), it is essential that the governments of the WBT region include them in their environmental considerations to achieve the net-zero goal for GHG emissions. On the one hand, like any other economic entity, SMEs face the consequences of environmental degradation, which can generate specific challenges for their survival and growth. On the other hand, and more importantly, SMEs can be a source of innovation and solutions to develop the technologies needed to address environmental challenges. New green markets, such as the circular economy, can also create new business opportunities for SMEs. Even without moving into new markets, SMEs can potentially improve the performance of their business by realising efficiency gains and cost reductions by greening their products, services, and processes. In this regard, tailored policies, incentives and instruments are necessary to enable them to participate in the green transition, as SMEs face a number of barriers (financial, informational, etc.) in their greening efforts, and more so than large firms (OECD, 2021^[108]).

For a small and landlocked economy like Kosovo, boosting economic growth that would not come at an environmental cost is particularly pertinent, particularly in the post-COVID-19 context. The pandemic has put additional pressure on Kosovar SMEs and their greening efforts, primarily due to issues with liquidity maintenance and access to finance. Well-coordinated and targeted financial and technical support will be required to overcome challenges in adopting sustainable practices.

While Kosovo's performance in SME greening has slightly improved since the last assessment (when it was 1.92), it remains quite low (2.05), below the WBT average (Table 15.26).

Table 15.26. Kosovo's scores for Dimension 9: SMEs in a green economy

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|----------------------------------------|------------------------------------------------------------------------|---------------------------|--------|-------------|
| Dimension 9: SMEs in a green economy | Sub-dimension 9.1: Framework for environmental policies targeting SMEs | Planning and design | 2.70 | 3.87 |
| | | Implementation | 2.55 | 2.81 |
| | | Monitoring and evaluation | 1.58 | 2.47 |
| | | Weighted average | 2.40 | 3.06 |
| | Sub-dimension 9.2: Incentives and instruments for SME greening | Planning and design | 1.90 | 3.06 |
| | | Implementation | 2.00 | 3.02 |
| | | Monitoring and evaluation | 1.00 | 2.12 |
| | | Weighted average | 1.77 | 2.85 |
| Kosovo's overall score for Dimension 9 | | | 2.05 | 2.94 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Environmental policies that target SMEs are not included in Kosovo's Private Sector Development Strategy (2018-2022) but should be covered in the upcoming National Development Strategy. The circular economy should also be boosted with the new Integrated Waste Management Strategy. Nevertheless, only limited progress has been achieved in implementing greening measures since the last assessment due to poor co-ordination between relevant stakeholders and insufficient funds. Access to green finance has been recently enhanced thanks to international partners' programmes. Other incentives and instruments to encourage SMEs to engage in greener practices remain scarce in Kosovo (Table 15.27).

Table 15.27. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 9

| 2019 recommendation | SME Policy Index 2022 | |
|-------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Introduce SME greening measures in the strategic documents and related action plans | The soon-to-be-adopted National Development Strategy should have a specific focus on environmental policy and include elements from the United Nations (UN) Sustainable Development Goals and the European Commission's Green Deal in this regard. Some SME greening measures were also introduced in the Integrated Waste Management Strategy. The SME Development Strategy does not include SME greening measures. | Limited |
| Focus on raising awareness and providing advice and guidance to SMEs on adopting environmentally sound practices | No actions have been taken in this regard. | No progress |
| Enhance financial support for SME greening | Some financial support programmes funded by international partners are available to SMEs, such as through the recently established Kosovo Credit Guarantee Fund (KCGF). However, the government has not established other financial incentives to encourage SME greening. | Limited |

Incremental progress has been achieved in including environmental policies targeting SMEs in Kosovo's strategic framework

While Kosovo's Private Sector Development Strategy (2018-2022) does not include any greening objectives, environmental policies relevant to SMEs are covered in some strategic documents. Namely, sustainable and green economic development is one of the pillars of the National Development Strategy (2016-2021). The revised strategy for the upcoming period is under preparation in accordance with the Kosovo Government Programme (2021-2025), which has a special focus on environmental policy, in particular air quality, waste and water management and biodiversity protection. The new strategy should also include elements of the UN Sustainable Development Goals and the European Commission's Green Deal.

Moreover, the Strategy for Environmental Protection (2013-2022) and the Strategy for the Development of the Energy Sector by 2030 both envisage energy efficiency improvements in the Kosovar private sector. The recently adopted Integrated Waste Management Strategy (2020-2029) should also accelerate the green and circular transition (Box 15.14).

Box 15.14. SMEs and the circular economy in Kosovo

SMEs are important for achieving objectives regarding the circular economy, both by making their business operations more circular and by contributing to the innovation that can strengthen circularity across economies. As the circular economy is gaining momentum in Kosovo, SMEs, which represent the largest share of enterprises in the economy, should lead the way in the transition from a linear to a circular economy.

While there is no specific policy framework for the circular economy in Kosovo, the Integrated Waste Management Strategy (2020-2029) and its Action Plan (2020-2022) indirectly cover the circular transition. The strategy outlines three main objectives: 1) raising awareness of the importance and benefits of managing and recycling waste; 2) encouraging innovation to prevent waste generation; and 3) creating reuse and recycle systems based on extended producer responsibility schemes.

So far, the circular economy has not been the focus of financial and non-financial incentives to support SMEs in their greening efforts. Promotion of circular economy concepts has remained limited during the assessment period.

Sources: OECD (2021^[108]; 2021^[6]).

While the private sector is involved in the development of green policies, limited co-ordination of measures hampers proper implementation

The Ministry of Environment, Spatial Planning and Infrastructure, the Agency for Energy Efficiency and the Kosovo Environmental Protection Agency (KEPA) are responsible for developing and implementing SME greening policies. Although there is no specific body in charge of the co-ordination between different institutions and stakeholders in this area, the Ministry appoints working groups for the drafting and planning of strategic documents. Municipalities, the private sector and NGOs are regularly consulted in this regard.

Implementation of green policies during the assessment period has remained limited overall. Although a yearly budget of EUR 400 000 is dedicated to projects in relation to the green economy, mainly for awareness-raising activities, it has not materialised in any concrete activities during the assessment period.

On a positive note, some projects funded by the international development co-operation partners, such as the United Nations Development Programme's Ecotourism project (2020-2022), aim to build back better following the COVID-19 pandemic through greener recovery. The project focuses on greening Kosovo's tourism sector through public-private partnerships, coherent policy, a sustainable tourism strategy and a green accelerator programme for MSMEs in the tourism sector.

No significant measures have, however, been implemented to encourage energy efficiency improvements in the private sector. While the Agency for Energy Efficiency has a yearly budget (EUR 6.9 million), it is mainly targeted at large-scale projects, in particular in public buildings. Other measures included in the National Development Strategy (2016-2021), such as fostering the development of energy service companies (ESCOs) markets,⁵⁷ have not been translated into concrete actions. Monitoring and evaluation mechanisms for environmental policies targeted at SMEs also remain non-existent.

Some financial incentives are available for SME greening, whereas non-financial tools to encourage this transition remain scarce

Since the last assessment, Kosovo has not established mechanisms to provide financial incentives and instruments to encourage SME greening. While the National Energy Efficiency Fund was established in 2019, it does not cover SMEs.

Some financial support programmes supported by international partners are nevertheless available to SMEs. The recently established KCGF signed an agreement in November 2021 with the KfW to support MSMEs for green investments (EUR 6 million grant), in particular energy efficiency, resource efficiency and investments in renewable energy. In 2021, the EBRD, co-financed by the European Union and bilateral international partners through the Western Balkans Investment Framework, launched a EUR 2 million loan to Kreditimi Rural i Kosovës (KRRK), a microfinance institution focusing on rural areas, to boost energy efficiency investments. Moreover, the Millennium Foundation Kosovo launched in 2020 the Women Energy Entrepreneurs Programme, with the amount of EUR 1 million. The programme combines technical assistance with investment grants to support the growth of women-owned businesses in Kosovo through efficient energy use. While these new support programmes should boost energy efficiency and eco-innovation among SMEs, there is no available data on their uptake.

Information-based instruments, such as awareness-raising campaigns or capacity-building workshops to address the barriers related to the lack of awareness by SMEs on green opportunities, have not been

conducted. As in the previous assessment, regulatory instruments, environmental certification and green public procurement policies, which would incentivise SMEs to adopt greener practices, remain non-existent in Kosovo.

The way forward for Dimension 9

- **Step up the implementation of SME greening measures.** Green policies are included in different strategic documents, but they have rarely been translated into concrete actions and activities. Given the cross-cutting nature of SME greening policies, effective co-ordination among the relevant stakeholders is essential for successful implementation. While Kosovo ideally should have a co-ordination body for SME greening, this does not need to be created from scratch; it could easily be a body already in charge of SME policy implementation. The government should also ensure that sufficient resources are allocated to implement activities on green practices.
- **Introduce awareness-raising activities and provide advice and guidance to SMEs on adopting environmentally sound practices.** Activities to disseminate guidance on good practices and outreach programmes should be undertaken to promote eco-friendly practices. Workshops, training, industry fairs, distributing successful case studies and fostering co-operation over environmental issues could be particularly successful in disseminating information and generic advice on applying green practices. Targeted advisory services could also be provided directly to SMEs by a relevant public agency, such as KIESA or KEPA, or in collaboration with business associations for more direct outreach to help them identify greening possibilities and access resources. The Irish Green for Micro programme provides an example of such policies (Box 15.15).

Box 15.15. Climate advice to SMEs in Ireland

The Irish Green for Micro programme was rolled out nationwide in March 2021 to help prepare small businesses for the low carbon, more resource-efficient economy of the future. It is an initiative run by government-business support agencies (Local Enterprise Offices with support from Enterprise Ireland).

With the help of a Green Consultant, small businesses with up to ten employees can get free advice and technical support on resource efficiency, how to better understand their carbon footprint and how to implement an environmental management system to reduce costs and lower greenhouse gas emissions.

The programme, launched amid the COVID-19 pandemic, aims at a green recovery for small businesses. It is particularly suited for small businesses in construction, retail, manufacturing, textiles, food, electronics, plastics and packaging. It raises awareness of the many benefits developing a “greener” policy can offer businesses (increased cost savings, improved resource efficiency, reduced environmental footprint, opportunities for higher and additional value on products and services, increased access to customers, improved corporate image). The programme also shares best practices among small businesses in the economy.

Sources: Local Enterprise Office (2022^[109]) and OECD (2021^[108]).

- **Enhance financial support for SME greening.** First, the National Energy Efficiency Fund, established in 2019, could expand its scope and include specific financial programmes to support SME greening. The Fund could extend loans and loan guarantees to SMEs for energy efficiency measures or subsidise a share of consultancy costs to identify and implement resource efficiency measures. Second, the government might consider facilitating SME access to green finance by

connecting greening aspects to existing financial schemes. For instance, the government introduced a new financial support scheme in 2021 to increase export readiness and job creation.⁵⁸ This scheme could include a green criterion, such as the possibility of a grant component if SMEs plan to implement eco-innovative projects or purchase new machinery intended to improve resource efficiency.

Internationalisation of SMEs (Dimension 10)

Introduction

Expansion into foreign markets and SME internationalisation are key factors in boosting SME productivity and competitiveness on a global scale. Smaller economies in the region often struggle with competing internationally or even accessing foreign markets, often due to a lack of technical assistance or resources. Supporting export promotion, sustainable integration into global value chains (GVCs) and opening digital sales channels need to be supported through concrete policy actions and enhanced governmental support. With such support, SMEs can broaden their reach, improve productivity, and introduce innovative practices.

A small, import-dependent economy such as Kosovo needs to strengthen its exports by improving the quality and complexity of its export base. As one of the least restrictive investment destinations, Kosovo can leverage its position to foment FDI-SME linkages while supporting SMEs in their integration into multinational enterprise (MNE) supplier networks. Government support in capacity building and increasing absorption capacity is particularly important in boosting SMEs' productivity and, thus, their competitiveness, both domestically and internationally.

Kosovo has improved in this dimension, scoring 3.85, compared to 3.74 in the last assessment cycle (Table 15.28). The most significant advancements could be observed under the e-commerce sub-dimension, as the government implemented the Digital Empowerment Initiative and supported SMEs through the ACCESS project, both aimed at enhancing digitalisation processes. The government is in the process of reviewing key strategic documents for export promotion and SME development, which contributed to a minor decrease in the scores under the export promotion sub-dimension. Nevertheless, Kosovo performed above the regional average under most sub-dimensions.

Table 15.28. Kosovo's scores for Dimension 10: Internationalisation of SMEs

| Dimension | Sub-dimension | Thematic block | Kosovo | WBT average |
|--------------------------------------------|------------------------------------------------------------------|---------------------------|--------|-------------|
| Dimension 10: Internationalisation of SMEs | Sub-dimension 10.1: Export promotion | Planning and design | 3.95 | 4.61 |
| | | Implementation | 3.95 | 4.24 |
| | | Monitoring and evaluation | 3.67 | 3.65 |
| | | Weighted average | 3.89 | 4.23 |
| | Sub-dimension 10.2: Integration of SMEs into global value chains | Planning and design | 3.89 | 3.88 |
| | | Implementation | 3.97 | 3.57 |
| | | Monitoring and evaluation | 3.00 | 2.70 |
| | | Weighted average | 3.75 | 3.49 |
| | Sub-dimension 10.3: Promoting the use of e-commerce | Planning and design | 3.67 | 3.62 |
| | | Implementation | 4.00 | 3.15 |
| | | Monitoring and evaluation | 4.33 | 3.29 |
| | | Weighted average | 3.97 | 3.32 |
| Kosovo's overall score for Dimension 10 | | | 3.85 | 3.80 |

Note: WBT: Western Balkans and Turkey.

State of play and key developments

Kosovo has advanced on the previous assessment cycle's recommendations (Table 15.29), particularly in establishing cluster support programmes, which led to the formation of two clusters in the wood and metal processing industries. The economy also intensified its efforts in programme implementation to boost SMEs' export readiness and increase SME integration into GVCs. However, room for improvement in data collection remains. While Kosovo has a legal framework for the promotion of e-commerce and has enhanced its strategic orientation on digitalisation and e-commerce adoption, the programmes vary in effectiveness. There has been considerable progress in the overall digitalisation of the economy and access to online government services, including export promotion support. Nevertheless, e-commerce uptake remains low.

Table 15.29. Kosovo's implementation of the SME Policy Index 2019 recommendations for Dimension 10

| 2019 recommendation | SME Policy Index 2022 | |
|-------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| | Main developments during the assessment period | Progress status |
| Focus on strong programme implementation and follow up through robust monitoring and evaluation | Kosovo advanced in the area of programme implementation. The government implemented the World Bank-supported Matching Grants Programme and the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS). Both programmes aim to further SME integration into GVCs and improve the quality of the export base by providing financial support and technical assistance. Further digitalising access to export promotion support could contribute to increased uptake and hence improved export capacity of Kosovar SMEs. There are monitoring and evaluation mechanisms in place for GVC programmes; however, the utilisation of the results remains limited. Data collection in the area of GVCs is non-existent. | Moderate |
| Increase efforts to develop programmes to support clusters of chosen sectors | The government identified three priority sectors: wood and metal processing; plastic; and furniture. It conducted sectoral studies on the possibilities of clustering. Kosovo formed clusters in the wood and metal processing sectors, and further analysis is planned for 2022-24. | Strong |
| Establish an operational and legal environment that can support the use of e-commerce | Kosovo has an EU-harmonised legal framework in place for the promotion of e-commerce. The Kosovo Digital Economy programme, introduced in 2018, aimed to improve digital connectivity within the economy. However, its implementation has been progressing slowly. The project will last until 2023, but Kosovo will miss key targets (World Bank, 2022 ^[110]). | Limited |

Kosovo strengthened its commitment to export promotion support by expanding KIESA's budget and its portfolio of services

Export promotion in Kosovo was governed by the National Development Strategy (2016-2021) (Government of Kosovo, 2016^[77]). Upon its completion, the government started drafting a continuation of the strategy, due for adoption in the second half of 2022. In the meantime, the 2016-21 Strategy serves as the guiding document. Kosovo prepared a roadmap for the upcoming National Development Strategy, outlining key priorities, which include enhanced internationalisation. The strategy will also serve as the main strategic document governing the COVID-19 recovery, especially in boosting exports and supporting SMEs in their foreign expansion.

The agency responsible for SME internationalisation is KIESA. KIESA has a dedicated, autonomous Export Promotion Sector that deals with projects supporting SMEs. The government increased KIESA's budget allocation for export promotion: in 2019, EUR 585 000 of KIESA's operational budget was allocated to export promotion activities, while in 2020, the total amount allocated rose to EUR 600 000. An almost two-fold increase since 2018 (when the budget allocation was EUR 351 000) represents Kosovo's increasing commitment to the internationalisation of SMEs. This, in turn, allowed KIESA to expand its portfolio of available services. Apart from the continuous provision of services related to trade policy

information and commercial intelligence, economy representation at major trade fairs, export promotion, marketing, product development and training, KIESA offers services pertaining to networking platforms and product certification. Nevertheless, its human resources capacity remains low, with a modest increase from three to four employees working on export promotion. This can lead to a hindered execution of KIESA's broad mandate pertaining to overall SME support and subpar quality of services rendered.

Export promotion services are increasingly digitalised, reducing some of the administrative barriers to exports for SMEs

Since the last assessment cycle, the Government of Kosovo has made considerable progress in further digitalising the economy's export promotion services. SMEs can now apply for grants and export subsidies on line, as well as apply to participate in national and international trade fairs on line. Moreover, the availability of export promotion services for SMEs through the e-Kosova platform improved. This significantly reduces the administrative burden for SMEs, which is considered a significant obstacle to further export growth in Kosovo (Ministry of Trade and Industry, 2020^[111]). The platform increases the government's transparency and inclusivity efforts, further facilitating monitoring and evaluation efforts. It does not, however, solve another major barrier to exporting, which is a lack of both capacities and interest in export, quoted by 79% and 61% of SMEs, respectively (Regional Cooperation Council, 2021^[67]). At the time of assessment, Kosovar SMEs do not have access to online training on internationalisation, counselling or advisory services through the e-Kosova platform.

Kosovo developed new programmes to support SME-MNE linkages through cluster development and improving the supplier base

While Kosovo's foreign investment framework is conducive to stimulating FDI-SME linkages, as foreign firms are not subject to screening and are free to operate on equal grounds with local enterprises, the economy is still struggling to attract a quality export-oriented FDI. The FDI stock per capita and net in FDI inflows⁵⁹ are among the lowest in the Western Balkan region (EBRD, 2022^[112]; OECD, 2021^[6]), and export-led FDI has remained scarce (European Commission, 2021^[113]). Rather than a legal framework, other impediments, such as electricity supplies, informality and weak contract enforcement, might be the reasons behind low FDI in Kosovo (European Commission, 2021^[113]), further hindering SMEs' indirect participation in GVCs through FDI-SME linkages.

The FDI attraction in the economy falls under KIESA's responsibility. The government included the attraction of quality FDI as one of the key priorities in several strategic documents. With a shared goal of increasing SMEs' capacities to collaborate with potential investors and MNEs, the National Development Strategy (2016-2021), which, despite its expiration, still governs SMEs' internationalisation efforts, and the Kosovo Government Programme (2021-2025)⁶⁰ (Government of Kosovo, 2021^[38]) both include provisions on expediting standards and certification development, identifying sectors for smart specialisation and creating linkages between the education system and the labour market. The legal framework for investment activities is to be governed by the Law on Sustainable Investments,⁶¹ which, at the time of assessment, was being reviewed by the government.

Cluster formation and development are key elements of Kosovo's strategy to integrate SMEs into GVCs. Kosovo plans to do so by establishing an institutional framework in support of industrial cluster development and facilitating SME involvement with larger enterprises. The adopted approach first consists of identifying and then supporting seven functional clusters through grants and subsidies. Since the last assessment cycle, Kosovo has conducted sectoral studies on the value chains in the wood-processing industry, plastics and furniture sectors to explore industrial clustering opportunities. The government's goal is to stimulate the creation of new enterprises, supported by existing ones, and to encourage technology and knowledge transfer within the industrial cluster. To date, Kosovo has formed industrial clusters in the wood and metal processing sector, with 28 and 47 SME members, respectively.

Kosovo also made notable advancements in implementing new programmes to enable interconnectedness between SMEs and larger enterprises through both financial and non-financial support. The Matching Grants Programme,⁶² a grants and co-financing initiative of the Ministry of Industry and Trade and KIESA, aims to increase the export readiness of SMEs and the supplier quality of local SMEs. The programme can cover up to 90% of the project activity, up to EUR 10 000 for MSMEs. In 2019, the focus of the programme was expanded to include standardisation, certification and accreditation to comply with international standards. More recently, the programme has been restructured to more aptly respond to SME needs in light of the COVID-19 pandemic, including support for procuring production equipment and machinery and tools for digital enhancement.

In addition, in collaboration with the Austrian Development Cooperation, the Government of Kosovo is implementing the Market Access and Business Digitalisation Services for Kosovo Companies (ACCESS). It aims to facilitate SME internationalisation through export promotion activities and assistance in adhering to international standards. The project will support KIESA in enriching and further developing its database of export-oriented ICT service providers by capacitating the companies to access new markets and creating networking opportunities between Kosovar SMEs and Austrian partners. The project will also focus on SME certification, particularly relating to meeting international digital standards for ICT service providers domestically.

Both programmes strive to create linkages between SMEs and MNEs, enhancing industrial clustering or strengthening business-to-business (B2B) matchmaking.⁶³ However, KIESA's focus on international trade fair participation as the main channel to create opportunities for SMEs risks to limit to have limited impact on fomenting of effective MNE-SME linkages.

Kosovar SMEs have made progress in digitalising operations, but the uptake of e-commerce has decreased

Kosovo has a regulatory framework that governs e-payments and e-commerce, which is aligned with EU standards. The current regulation was adopted in 2012 and 2013. The Law 04/L-094 on Information Society Services and the Law 04/L-155 on Payment Systems make electronic documentation legally equivalent to traditional physical documents and electronic signatures. No changes in the legal framework have been observed in this cycle. Since the previous assessment, the strategic framework was expanded and now includes the Programme of the Government of Kosovo, adopted in 2021, which confirms support for advancing the focus to further development of foreign trade and e-commerce. As an indication of increased commitment, KIESA revised its targets to include intensified digitalisation and e-commerce promotion. The agency implemented Digital Empowerment Initiative to further help SMEs in their digitalisation efforts by providing financial support. (KIESA, 2020^[78]); (KIESA, 2021^[114]) MSMEs in Kosovo are eligible for grants to assist them in digitalising operations, with special emphasis on enterprises run by women, underrepresented minorities and individuals from disadvantaged areas. The level of subsidies depends on the company's turnover and can range from a 50% subsidy to up to 90% (KIESA, 2021^[114]) The aforementioned ACCESS project also serves as a vessel to promote digitalisation initiatives, including e-commerce.

Considerable improvements in the economy's digital connectivity were brought by the World Bank's KODE initiative, which directly contributed to an increase in the number of people with access to high-speed Internet⁶⁴ and the number of public institutions connected to the Internet.⁶⁵ While digitalising the economy has gained momentum since the last assessment cycle, the adoption of e-commerce has decreased. According to Balkan Barometer, 17% of surveyed companies used the Internet to sell their goods and services in 2021 (Regional Cooperation Council, 2021^[67]) compared to 30% in 2019 (Regional Cooperation Council, 2019^[115]). Similarly, in 2019, in the case of 43% of surveyed Kosovar's companies' sales, less than 5% was generated through an online channel (Regional Cooperation Council, 2019^[115]), while in 2021, that percentage increased to 62% (Regional Cooperation Council, 2021^[67]).

Thus, despite some improvements in implementing e-commerce programmes, there seems to be little progress in increasing the adoption of e-commerce practices among SMEs. Little change can also be observed in the information accessibility in the area of e-commerce since the last assessment cycle. The e-Kosova platform, though a comprehensive portal facilitating access to numerous government services, does not have a dedicated e-commerce segment to apply for digitalisation and e-commerce-related support. A dedicated platform where SMEs could learn about e-payment and e-commerce opportunities could contribute to increasing the uptake and adoption of e-commerce practices.

The way forward for Dimension 10

- **Continue and expand the digitalisation of export promotion activities.** Kosovo has already made important advances in digitalising export promotion support, allowing SMEs to apply for grants and programmes on line, which significantly streamlined the previously cumbersome procedures. Nevertheless, in light of the COVID-19 pandemic, the majority of export promotion activities in Kosovo had to be cancelled, as the infrastructure to conduct them on line was lacking. This points to a pressing need to develop a digital environment for SMEs to improve their capacity remotely. Therefore, expanding digitalisation efforts to online training, virtual counselling and online export support for SMEs would further reduce the administrative burden, streamline the process and reduce the cost for enterprises (Box 15.16).

Box 15.16. Digitalising export promotion support: Lessons from Costa Rica

ProComer is a trade promotion agency in Costa Rica, often ranked as the best export promotion agency in the world. Apart from containing a broad array of information on trade facilitation, export statistics and market studies, it also offers various digital tools at SMEs' disposal. The digital tools include training on export readiness, one-stop shops for customs facilitation, as well as company registration. The online training and capacity building aims to assist SMEs in their export capacity, inform them about relevant regulations and policies domestically and internationally, and help them increase the value added of their export offer. Digitalising the entire export promotion system in Costa Rica significantly streamlines the process while also reducing the cost by up to 90% (ProComer, 2021^[116]).

By digitalising a large majority of export promotion activities, especially capacity building and support services for SMEs, ProComer facilitated access to available programmes and became more inclusive to microenterprises and SMEs with limited resources, as all of ProComer's digital tools are provided free of charge. As Costa Rica enjoys a high level of digital connectivity, digitalising export promotion services increased the outreach of ProComer, which can now cater to a higher number of SMEs located across the economy. Furthermore, when the COVID-19 pandemic halted or moved all commercial activity on line, Costa Rican SMEs were not left without export support during such challenging times. On the contrary, they had access to a variety of support programmes and information available through the ProComer portal.

Kosovo is on the right track to streamlining and digitalising its export promotion support. The recent digitalisation of the grant application process allowed SMEs to apply for funding and support programmes on line and was a noteworthy first step toward a more inclusive and streamlined export service. Extending this practice to other types of export promotion support, especially training and capacity building, would provide a greater outreach for KIESA's programmes, thus also potentially increasing their uptake. Moreover, digitalising export promotion programmes by including online mentoring and training further reduces the administrative burden of organising in-person advisory services for KIESA while also cutting participation costs for SMEs.

Source: ProComer (2021^[116]).

- **Collect the relevant data on the integration of SMEs into global value chains.** Consistent data collection would strengthen the monitoring mechanisms in place and provide a measure of progress for the government. A transparent and public database of SME activities and the government support received in GVC activities is vital to building the government's accountability and public trust.
- **Create a dedicated segment on e-commerce opportunities and support programmes.** Kosovo could leverage its e-Kosova platform, which has already digitalised many government services, to allow SMEs to apply for digitalisation and e-commerce support and inform SMEs about programmes promoting e-commerce practices and relevant policies and developments. Having a dedicated online platform solely for e-commerce would boost the government's transparency efforts and contribute to enhancing SMEs' trust in e-payments and online sales channels.

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Notes

1. Publication of Labour Force Survey Results for Q4 2021 cannot be published according to the Calendar of KAS Publications 2022 due to delays in data collection in the field. The latest available data are from Q1 2021. There is no indication as to when the updated data will become available.
2. The midterm evaluation of the Kosovo Education Strategic Plan (2017-2021) does not include any information on the implementation of key competences or entrepreneurial learning (Mehmeti, Boshtrakaj and Mehmeti, 2019^[119]).
3. This law was originally scheduled for 2018 and was rescheduled for 2021 as evidenced in the most recent Economic Reform Programme 2021-2023. No update is yet available on the progress of adoption.
4. The Strategy for Youth (2019-2023) advocates start-up support and setting up a Co-ordination Body for Supporting Entrepreneurship among Young People. As yet, there is no further information on this proposed body.
5. See information contained in the European Training Foundation publication on quality assurance in Kosovo at https://www.etf.europa.eu/sites/default/files/2021-04/quality_assurance_in_vet_kosovo.pdf.
6. For more information on the pre-university curriculum frameworks, see <https://masht.rks-gov.net/en/korniza-e-kurrikules-e-arsimit-parauniversitar>.

7. It is interesting to note that in the 2011 curriculum framework, the Life and Work curriculum area is allocated around 7% of curriculum time across primary and secondary education, while in vocational education, this increases to 47% of the time because technical subject allocation is included. See p. 40 of http://www.ibe.unesco.org/fileadmin/user_upload/archive/curricula/kosovo/kv_alfw_2011_eng.pdf
8. Examples of practical entrepreneurial experience include the Upshift programme (see <https://www.unicef.org/kosovoprogramme/upshift>) and activities such as makerspaces and careers activities delivered through the After School Support for Teens Program (ASSET) (see <http://asset-ks.org/index.html>). VET apprenticeships are also available, but it is not clear whether they explicitly develop entrepreneurial competences.
9. See <http://alled.eu/en/category/resources-en/> to access translations in Serbian and Albanian.
10. For more information, see <http://alled.eu/en/alled2-officially-launched-entrecomp-in-albanian-and-serbian-language/>.
11. Smartbits is included in the teacher training catalogue and is now part of the Busulla platform at <https://busulla.com/>.
12. For more information on how the legal framework established through the Law on Higher Education supports university collaboration, see p.41 in the ALLED2 report, *Towards Industry 4.0 in Kosovo* which explains the development process for this triple helix cluster model (ALLED2, 2022^[44]).
13. This was introduced as part of the implementation framework of the Kosovo Strategy for Better Regulation.
14. For more information, see <https://mpms.rks-gov.net/recica-mori-pjese-ne-takimin-e-komisionit-per-ekonomi-punesim-tregti-industri-ndermarresi-dhe-investime-strategjike/>.
15. This was a commitment of the Kosovo Government Programme (2021-2025); see p. 24 of Government of Kosovo (2021^[38]).
16. For more information, see <https://balkangreenenergynews.com/procredit-bank-in-kosovo-rolls-out-certified-green-building-finance/>.
17. This is led by Kosovo Women's Chamber of Commerce, linked to the G7 Training on Women Empowerment through the Digital Transformation Business Consultant Council in Kosovo, "Women Go Digital"; see <https://www.facebook.com/bcckosovo>.
18. For more information, see https://abgj.rks-gov.net/al/lajmi_single/904.
19. The government is seeking to learn lessons through the experiences of the pandemic through a study commissioned and supported by the Friedrich Ebert Stiftung, *Inclusiveness of the Government Response to the COVID-19 Crisis: Who Was Left Behind?*. This showed that the government response negatively impacted some groups of women, including informally employed women, single mothers and informal women farmers. On the other hand, women entrepreneurs in the formal economy experienced a positive impact (Gashi and Gashi, 2022^[118]).

20. For more information, see <https://biznesi.rks-gov.net/>
21. According to the assessment inputs one bankruptcy case was recorded for 2017; three were recorded in 2018; two in 2019; one in 2020; and one in 2021.
22. The SME Test is a policy tool promoted by the European Commission as a means to fully examine and respond to potential impacts of a regulation on SMEs. Examination of SME aspects in RIA is the starting point of the SME Test methodology, and acts as a filter for policies which could have an important impact on SMEs. If the regulation is considered to have a high enough impact on SMEs, the process moves towards extensive consultation with stakeholders, assessment of impacts and preparation of mitigation measures. For more information, see: https://ec.europa.eu/info/sites/default/files/br_toolbox-nov_2021_en_0.pdf.
23. The previous council was housed and co-ordinated by the Ministry of Trade and Industry. The Decision on the Reorganisation of the Council places it under the chairmanship of the prime minister, and enlarges its membership to all relevant line ministries, international partners institutions (the European Bank for Reconstruction and Development, the United States Agency for International Development, etc.) and business associations.
24. The Agency for Information Society had prepared a draft Strategy for Digital Governance for 2016-2020, but the Office for Strategic Planning of the Prime Minister's Office judged that such a strategy should be considered complementary towards the Strategy for the Modernization of Public Administration, and thus the strategy was not adopted, leading to a lack of co-ordination between different government bodies in conducting digital government reforms (Open Data Kosovo, 2021^[66]).
25. Having a functional e-payment system is a necessary precondition to being able to complete procedures which require the payment of administrative taxes and fees fully on line. It allows the development of services from a maximum sophistication of Level 3, to Level 4 (transactional services), according to the following categorisation:
 - 1) Information: Web pages provide the user with informative material for the transaction of a demand.
 - 2) One-way interaction: Web pages provide the applications in electronic form and the user has the ability to download, fill and deposit them to the public sector.
 - 3) Two-way interaction: Apart from the informative material, the user has the ability to fill an electronic form and submit their data electronically.
 - 4) Transaction: At this stage, the electronic gate provides the user with the possibility to fulfil demands, complete transactions.
 - 5) Personalisation: In the fifth stage, the supplier of services takes actions with the fundamental objective to make the electronic platform friendlier to the user. In addition, the supplier of services can upgrade the services or provide the services automatically without the citizen needing to take any action (European Commission, 2006^[117]).

26. Based on the combined share of “completely satisfied” and “tend to be satisfied” responses to the Balkan Business Barometer survey’s question: Could you please tell me how satisfied are you with each of the following in your place of living – Digital services currently provided to business by public administration?
27. The once-only principle aims to ensure that users of digital services only need to provide certain information to the government once, which is then shared by various administrations through the government’s interoperable data exchange network.
28. Regulation (EU) No. 910/2014 on electronic identification and trust services for electronic transactions in the internal market, or the eIDAS regulation, establishes the European framework for electronic trust services and the use of e-ID. For more information, see: <https://digital-strategy.ec.europa.eu/en/policies/eidas-regulation>.
29. If the KBRA fails to answer a request within a prescribed time frame as detailed in the relevant legislation, consent to the request is automatically conferred.
30. For more information on the National Agency for Information Society of Albania, see the Digital Society policy dimension of OECD (2021^[75]).
31. A federated digital identity system allows users to connect to different platforms using different digital identity management systems, thanks to attributes that are scattered across these systems.
32. In the National Development Strategy (2016-2021), the government identified 575 public services provided to businesses, a relatively high number compared to other WBT economies.
33. Through the Initiative for Digital Empowerment, 28 SMEs took advantage of training in the areas of e-commerce, digital marketing and software.
34. The government list seven portals containing information on privately provided BSSs.
35. Accordingly, in procurement procedures covered by the PPL, tenders submitted by domestic bidders which contained solely domestic products and services were given preference over bids submitted by bidders with foreign products and services if the difference in prices of those tenders was not greater than 10%. Second, if the criterion for the award of the contract was the lowest price, the advantage was given to the domestic bidder with domestic products and services over the tender submitted by a foreign bidder if the price proposed by the domestic bidder was not more than 15% higher than the bid submitted by the foreign bidder.
36. Rules and Operational Guidelines for Public Procurement, Article 19.
37. Rules and Operational Guidelines for Public Procurement, Article 18.1.
38. PPL, Article 52 (1).
39. PPL, Article 87.
40. For more information, see <https://nced-ks.com/meetings/council-meetings>.

41. For information on the government regulation outlining the responsibilities of the National Council for Economy and Investment, see <https://nced-ks.com/storage/app/media/uploaded-files/Regulation%20on%20the%20work%20of%20National%20Council%20for%20Economic%20Development.pdf>.
42. For more information, see <https://kiesa.rks-gov.net/>.
43. See ALLED2 project information at <http://alled.eu/en/>.
44. See <https://sitp.rks-gov.net/>. The Labour Market Barometer automatically collates real-time data from the following statistical sources: Employment Agency of the Republic of Kosovo; Kosovo Agency of Statistics; Tax Administration of Kosovo; Civil Registration Agency; Ministry of Education and Science; Ministry of Labour and Social Welfare; Ministry of Internal Affairs; Business Registration Agency; Agency for Vocational Education and Training and Adult Education; University of Pristina; Kosovo Accreditation Agency; and the National Qualification Authority.
45. The first phase of development was supported by the United Nations Development Programme (UNDP) Kosovo and the Helvetas-EYE Project, while subsequent transformation into the Kosovo Labour Market Barometer has been supported by the ALLED2 project, which is funded by the European Union with co-funding from the Austrian Development Cooperation and implemented by the Austrian Development Agency.
46. For more information, see <http://alled.eu/en/edu-net-2/>.
47. See two reports available for 2019-20 and 2020-21 at <http://alled.eu/en/category/resources-en/>.
48. For more information, see <https://smartkosova.rks-gov.net/>.
49. For more information, see <https://www.heraskosovo.org/>.
50. See the Smart Specialisation (S3) platform for Kosovo from the Joint Research Centre at https://s3platform.jrc.ec.europa.eu/kosovo#:~:text=Smart%20Specialisation%20in%20Kosovo*,-Kosovo%20registered%20in&text=Once%20begun%2C%20Kosovo's%20S3%20process,original%20Innovation%20Strategy%20in%202012.
51. For more information, see <https://kiesa.rks-gov.net/page.aspx?id=1,60>.
52. The Kosovo Digital Economy (KODE) Project, which arose as a result of the World Bank and Ministry of Economic Development of Kosovo dialogue, is reflected in the Kosovo Economic Reform Programme and in the National Development Strategy (2016-2021). For more information, see <https://kodeproject.org/en/home-2/>.
53. For more information, see <https://kiesa.rks-gov.net/page.aspx?id=1,134,464>.
54. For more information, see <https://startupkosovo.org/>.
55. The annual European Innovation Scoreboard provides a comparative assessment of research and innovation performance of the countries of the European Union and its regional neighbours. It allows policy makers to assess the relative strengths and weaknesses of national research and

innovation systems, track progress, and identify priority areas to boost innovation performance. See the regional chapter on Innovation for SMEs (Dimension 8b) for further information.

56. STIP stands for science, technology and innovation policy. For more information on the EC-OECD STIP Compass, see <https://stip.oecd.org/stip/>.
57. ESCOs offer services for implementing and financing energy efficiency projects, including energy auditing, design and engineering, equipment procurement, construction, installation, commissioning, measurement and verification (M&V) of energy and cost savings, operations and maintenance (O&M), facility management and energy services.
58. This support will be allocated to support SME investments in new products and services, support for start-ups, spin-offs and innovative projects as well as subsidies to purchase new machinery.
59. In 2019, net FDI inflows represented 3.8% of Kosovar GDP (OECD, 2021^[6]).
60. The Kosovo Government Programme (2021-2025) is a broader document communicating the main priorities of the government.
61. The new law on Sustainable Investments combines the provisions of the Law on Foreign Direct Investment and the Law on Strategic Investments.
62. The Matching Grants Programme is implemented through the CERP amounting to EUR 14.30 million, as a loan provided by the World Bank. The Ministry of Industry, Entrepreneurship and Trade is responsible for implementation.
63. During the assessment period, KIESA participated in matchmaking between 29 MNEs and SMEs.
64. From a baseline of 274 156 people in 2018, the number increased to 383 763 in 2020 (World Bank, 2022^[110]).
65. From a baseline of 0 in 2018, the number increased to 100 in 2020.



From:

SME Policy Index: Western Balkans and Turkey 2022

Assessing the Implementation of the Small Business Act for Europe

Access the complete publication at:

<https://doi.org/10.1787/b47d15f0-en>

Please cite this chapter as:

OECD (2022), "Kosovo: Economy Profile", in *SME Policy Index: Western Balkans and Turkey 2022: Assessing the Implementation of the Small Business Act for Europe*, OECD Publishing, Paris.

DOI: <https://doi.org/10.1787/ec7a78a6-en>

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