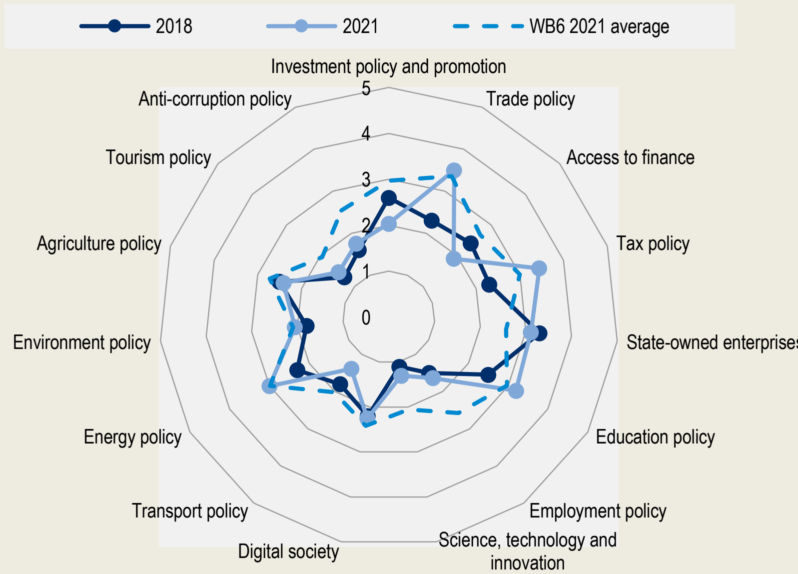
# 22 Kosovo profile

# Key findings

## Figure 22.1. Scores for Kosovo (2018 and 2021)




Note: Dimensions are scored on a scale of 0 to 5. Dimension scores for 2021 are not directly comparable to the 2018 scores due to the addition/removal of relevant qualitative indicator. Therefore, changes in the scores may reflect the change in methodology more than actual changes to policy. The reader should focus on the narrative parts of the report to compare performance over time. See the Scoring approach section for information on the assessment methodology. Scores for Dimension 5 Competition Policy are not included in the figure due to different scoring methodology. See the Scoring approach for more information.

Kosovo has improved its performance since the publication of the Competitiveness Outlook 2018 report in 9 of the 15 policy dimensions[1] covered in the assessment (Figure 22.1). Although this clearly indicates progress in the setting up of polices to enhance its competitiveness – at least in about half of the dimensions covered in this assessment – if they are to have a lasting impact then their effective and continuous implementation, monitoring and upgrading should remain a key priority. Kosovo achieved its highest average scores in the trade, tax, education and energy policy dimensions, with scores all over 3.0 and all above the WB6 average. Kosovo's main achievements since the last assessment are as follows:

- **The trade policy framework includes better public consultations, fewer restrictions in trade in services and an e-commerce policy reform is underway.** Public consultations for trade-related regulatory policies have been strengthened through new legislation, a centralised consultation platform and regular monitoring by a single and independent public institution. Not only is Kosovo the least restrictive economy in the WB6 for trade in services – it also one of the most attractive in comparison to OECD members states and key partners. The signing of the Additional Protocol 6 to the Central European Free Trade Agreement (CEFTA) on trade in services in December 2019 has prompted reforms to remove restrictions on the movement, recognition of qualifications and activities of CEFTA service providers. Kosovo is also working to make its markets more attractive to foreign investors, notably through sectoral reforms based on EU regulations, such as in the courier sector. Finally, Kosovo is continuing its efforts to adapt its trade framework to the new challenges of e-commerce.
- **The tax administration is increasingly efficient.** The Tax Administration of Kosovo (TAK) continues to unify tax collection and all core tax administration functions. It now carries out all the main tax administration functions, including tax fraud investigations (generally carried out by

special police departments in other WB economies). TAK also oversees tax compliance assessment and risk management using a risk-based analysis which identifies taxpayers with certain abnormalities against a predetermined set of risk criteria. In terms of independence and transparency, TAK has full operational autonomy within the Ministry of Finance. Most taxes can be filed and paid electronically or manually, and information can be accessed on line or through regional services. TAK is regularly assessed by several domestic and international institutions.

- **Early childhood education (ECE) framework is more strategic and early school leaving is falling.** Kosovo's strategic ECE framework has clear objectives to increase inclusion and participation at this level of education, and is backed by an implementation timeline and budget. Kosovo has made progress in implementing new early learning and development standards for children aged 0-6, and is developing infrastructure to better monitor and respond to early school leaving. Policies have contributed to a decline in the early school leaving rate from more than 18.4% in 2013 to 9.6% in 2018, thus achieving the EU's 2020 target of less than 10%.
- **Energy markets reform is progressing, and energy efficiency and security are increasing.** The unbundling of network monopolies and third-party access in the energy sector are almost fully aligned with international good practice, notably the EU's Third Energy Package. Kosovo has made significant progress in unbundling the ownership of the transmission system operator (TSO), and fully unbundling the distribution system operator (DSO). Both are unbundled and separate from generation and supply activity, in line with EU directives. Compliance programmes and officers are in place and non-discriminatory third-party access is established and guaranteed by legislation. Kosovo has also made progress in energy efficiency, adopting a new Law on Energy Efficiency in 2018 as well as the relevant policy documents. In 2018 it simplified the administrative procedure for renewable energy projects and regulations to create a one-stop shop for renewable energy sources. These measures should help strengthen Kosovo's energy security by increasing domestic generation capacity and reducing losses from inefficient energy consumption.

### Priority areas

Despite these significant achievements, there are a number of areas in which Kosovo still needs to step up its efforts. These include the dimensions on employment; investment policy and promotion; science, technology and innovation; transport; agriculture; and environment, where Kosovo scores the lowest and below the WB6 average (Figure 22.1). The priority actions for these six areas are as follows:

- **Reduce youth unemployment and skills mismatches and introduce employment support policies.** Youth unemployment is extremely high, indicating severe problems with the school-to-work transition. Deficiencies in the education system and mismatches between the labour market and field of study mean Kosovo suffers skills shortages despite high unemployment rates for people of all skill levels. Kosovo should use its whole education and training infrastructure, including vocational education and training (VET), to provide adults with remedial education and improve their vocational skills. In order to build on the working population's existing skills and knowledge, and given high levels of informality, the authorities should develop a framework that can combine the recognition of prior learning with upskilling activities. Kosovo currently has no unemployment benefit system, although benefits were exceptionally allocated during the COVID-19 pandemic. Reforms to the social protection system are planned and will introduce unemployment benefits – they should introduce both an unemployment benefit scheme and a general healthcare scheme, and should ensure the social assistance scheme better targets the poor.
- **Further improve investment promotion and facilitation**. Kosovo lacks a comprehensive strategy framework for attracting foreign direct investment (FDI), or solid inter-agency or inter-ministerial co-ordination mechanisms, and council meetings are irregular. The Kosovo Investment

and Enterprise Support Agency (KIESA) lacks the capacity and resources to execute its very wide and extended mandate. This limits its ability to foster linkages between the FDI it is striving to attract and the small and medium-sized enterprises it is supporting. A clear strategy to attract FDI and proactively target investors would enable KIESA to focus its resources more efficiently.

- **Establish an overarching strategic vision for science, technology and innovation (STI).** Kosovo's performance is constrained by a lack of system-level STI priorities, limited implementation of relevant policy initiatives, and a lack of monitoring and evaluation activities. In order to develop and prioritise targeted policy measures, it should start by identifying and mapping the research and development infrastructure to gather economy-wide data on labs and researchers, increase investment in public sector research, and encourage research excellence.
- **Improve transport project selection tools and the governance of road and rail transport.** Kosovo still uses inefficient and suboptimal processes for selecting important transport infrastructure projects, with no progress since the last assessment. Although there has been progress in opening the railway market and unbundling rail monopolies, no positive improvements to road market regulation have been achieved and substantial additional efforts are needed to align local road market legislation with the EU and Transport Community *acquis*. Moreover, the high share of freight carried by road, around 88.4%, has clear negative effects on air pollution and climate change. Incentives to shift freight from road to rail could speed up harmonisation with the EU *acquis* and have a positive impact on the environment. Enhancing the human and financial capacities of the regulatory authorities should be one of the first priorities. In addition, interoperability activities are very important for the development of international railway transport and should be continued, but gradually, as interoperability takes time and funds.
- **Boost agricultural productivity by improving irrigation water management**. Although Kosovo has implemented several plans to improve irrigation infrastructure since the last assessment, it remains underdeveloped and inefficient. Only 32 237 hectares are irrigated (17.3% of Kosovo's arable land), while water network losses and lack of water storage facilities hinder efficiency. The productivity of agriculture in the economy largely depends on irrigation, as well as a functional water management system. Kosovo should increase investment in maintaining the existing irrigation network while bringing new areas under irrigation. Kosovo also needs to reduce illegal irrigation systems, improve monitoring and control, and increase the payments for irrigation services.
- **Advance environmental policies, in particular air quality and waste management.** Kosovo has one of the highest concentrations of air pollution in Europe with an annual mean exposure to particulate matter ($PM_{2.5}$) of 27 micrograms per cubic metre (µg/m$^3$). This is almost three times the World Health Organization recommended highest levels (10 µg/m$^3$). Kosovo can improve air quality by reducing its energy dependence on fossil fuels (particularly coal and lignite), improving household heating systems and reducing emissions from transport. Although some actions on waste management and the circular economy have already been planned in the former Waste Management Strategy, implementation has been limited, with most actions simply rolled over to the new strategy. Kosovo should focus on offering incentives at the municipal level for the separation of municipal waste at source, i.e. before it is collected and recycled or converted to energy, (e.g. rewarding households for sorting waste, decreasing utility bills) together with regular awareness-raising activities on waste prevention and recycling (brochures and information campaigns).

1: Please note that Dimension 5 (Competition policy) is excluded from the key findings section as it uses different scoring model Scoring approach.

## Economic context

### *Key economic features*

Kosovo is a small open economy with a limited but growing productive base. Services account for the largest share of the Kosovar economy, making up 47.5% of gross domestic product (GDP) and 65% of employment (World Bank, 2021[1]; Kosovo Agency of Statistics, 2021[2]). Wholesale and retail trade, real estate, transportation and storage, and financial services are the largest service sectors in the economy (Kosovo Agency of Statistics, 2021[3]). Industry accounts for 26.4% of GDP, with the highest contribution coming from the manufacturing and the construction sectors (11.7% and 8.5% of GDP, respectively) (Kosovo Agency of Statistics, 2021[3]). The contribution of agriculture, forestry and fishing to Kosovo's GDP has declined considerably over the past decade, from 15% in 2008 to 6.9% in 2019, although it still accounts for a significant share of employment – 5.5% of formal employment and an estimated 35% of informal employment (World Bank, 2021[1]; Cojocaru, 2017[4]).

Over the past decade, the growth of Kosovo's economy has been relatively strong, on the back of consumption growth supported by high inflows of remittances (over 18% of GDP), as well as credit from the expanding financial sector. However, given the economy's limited production base, the consumption-driven growth model has relied strongly on imports, which accounted for 56.1% of GDP in 2019. In combination with the relatively weak export base – 29.1% of GDP – this has resulted in the build-up of significant external imbalances, including high trade and current account deficits, which in 2019 reached 43.8% and 5.6% of GDP, respectively (European Commission, 2021[5]) (World Bank, 2021[1]).

Investment in Kosovo has been high; however, most of this investment, including foreign direct investment (FDI), has not supported the growth of the domestic production base or the tradable sector. Over the past decade, investment has mainly gone into the wholesale and retail trade, construction, transport, and financial service sectors. These sectors support domestic consumption and, with the exception of financial intermediation, have limited impact on the growth of domestic productive capacities or on productivity enhancing spillovers. Similarly, FDI has been mainly market-seeking, with the largest share allocated to the real estate and construction sectors (nearly 60% over the past decade) (Kosovo Agency of Statistics, 2021[3]). Thus, unlike in many peer economies in the Western Balkan region or aspirational Central and Eastern European peers, FDI in Kosovo has not been a significant driver of structural transformation, particularly towards more export-oriented growth.

Kosovo's economy is also characterised by relatively weak productivity, with growth slowing down considerably over the past five years. Across all sectors, labour productivity – measured as output per worker – is less than a quarter of the European Union (EU) average (World Bank, 2021[1]). The limited reallocation of labour from less to more productive sectors has resulted in lower productivity gains. Growth within sector productivity has declined over the past decade. In the context of strong investment growth this points to weaknesses in investment allocation, as outlined above, as well as significant frictions in the market preventing the reallocation of capital and other inputs to the most productive sectors and firms (World Bank, 2017[6]). These frictions stem from numerous structural challenges, including inadequate access to finance, significant infrastructure gaps, inadequate competition (including from the large informal sector) and high levels of corruption (see Structural economic challenges section below).

**Table 22.1. Kosovo: Main macroeconomic indicators (2015-20)**

| Indicator | Unit of measurement | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|---|---|---|
| GDP growth[1] | % year-on-year | 4.1 | 4.1 | 4.2 | 3.8 | 4.9 | -3.9 |
| GDP per capita[2] | Current international $ | 9 576 | 10 062 | 10 530 | 11 157 | 11 972 | 11 368 |
| Domestic GDP[2] | USD billion | 6.4 | 6.7 | 7.2 | 7.9 | 7.9 | 7.6 |
| Inflation[1] | Consumer price index, annual % change | -0.5 | 0.3 | 1.5 | 1.1 | 2.7 | 0.2 |
| Current account balance[1] | % of GDP | -8.6 | -7.9 | -5.4 | -7.6 | -5.6 | -7.1 |
| Exports of goods and services[1] | % of GDP | 21.9 | 23.7 | 27.1 | 28.8 | 29.1 | 21.6 |
| Imports of goods and services[1] | % of GDP | 50.4 | 50.9 | 52.6 | 56.8 | 56.1 | 53.7 |
| Net FDI[1] | % of GDP | 4.7 | 2.9 | 3.3 | 3.4 | 2.7 | 4.2 |
| Public and publicly guaranteed debt[3] | % of GDP | 12.8 | 14.4 | 16.3 | 16.9 | 17.5 | 22.8* |
| External debt[4] | % of GDP | 33.3 | 33.2 | 32.6 | 30.3 | 31 | ... |
| Unemployment[1**] | % of total labour force | 32.9 | 27.5 | 30.5 | 29.6 | 25.7 | ... |
| Youth unemployment[2***] | % of total labour forces ages 15-24 | 57.7 | 52.4 | 52.8 | 55.4 | 49.5 | ... |
| International reserves[1] | in months of imports of G&S | 4.3 | 3.5 | 3.3 | 2.9 | 2.8 | 3.2 |
| Exchange rate[1] (if applicable local currency/euro) | Value | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| Remittance inflows[2] | % of GDP | 15.1 | 14.7 | 15.3 | 15.6 | 15.7 | 18.9 |
| Lending interest rate[5] | % annual average | 8.32 | 7.45 | 6.83 | 6.65 | … | .. |
| Stock markets (if applicable) [1] | Average index | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Note: Data as of July 2019. n.a.=not applicable; G&S = Goods and services; *estimates for 2020; **2019 data due to unavailability of 2020 data; ***National estimate due to unavailability of modeled ILO estimate.
1. (European Commission, 2021[7]), *EU Candidate Countries' and Potential Candidates' Economic Quarterly Q1 2021,* https://ec.europa.eu/info/sites/default/files/economy-finance/tp048_en.pdf.
2. (World Bank, 2021[1]), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators.
3. (World Bank, 2021[8]), World Bank Western Balkans Regular Economic Report https://openknowledge.worldbank.org/bitstream/handle/10986/35509/Subdued-Recovery.pdf?sequence=1&isAllowed=y.
4. (EBRD, 2020[9]),*Transition Report 2020-21*, https://2020.tr-ebrd.com/countries.
5. (IMF, 2020[10]), *International Financial Statistics database*, https://data.imf.org/regular.aspx?key=61545855.

In the context of weak productivity growth, a strong increase in wages has weakened labour cost competitiveness. Over the past decade, Kosovo has seen a significant increase in the average wage, driven primarily by the growth in public sector wages, which have more than tripled since 2008 (Kosovo Agency of Statistics, 2021[3]). In conjunction with high remittance income, this has contributed to higher reservation wages and growing wage-to-productivity ratios in the private sector. This has significant policy implications. In light of the limits on monetary and exchange rate policy imposed by the unilateral adoption of the euro, competitiveness gains will need to be achieved internally through contained wage growth and higher productivity.

Labour market performance has been improving in Kosovo, but the outcomes are still weak relative to OECD and EU benchmarks. At 30.1%, the employment rate in Kosovo is among the lowest in the world, and the unemployment rate remains high at 24.6% (as of Q3 2020), despite a significant decline over the past decade (European Commission, 2021[7]). Furthermore, 60% of the working age population are inactive, with the activity rate among women especially low at roughly 21%. Meanwhile, the share of youth not in employment, education or training (NEET) is 37.7% (Kosovo Agency of Statistics, 2021[2]). Given its relatively young population, Kosovo's weak job growth and high youth inactivity limits the prospects of a demographic-dividend driven boost in growth and development. The high pace of emigration is further undermining growth prospects, even if it temporary relieves labour market pressures from the growing labour force. On the flip side, however, diaspora remittances support poverty reduction and thus remain an important source of income for the economy (Table 22.1).

Looking ahead to the next decade, Kosovo will need to strengthen its business and institutional environment, reduce infrastructure gaps, and strengthen the skills of its population in order to lay the foundations for sustained and job-creating economic growth. Nurturing and strengthening the linkages with the diaspora can help in this process as they have been an important driver of FDI investment and a significant source of remittances. Fostering the competitiveness and growth of the domestic private sector will also require limiting the growth of wages, particularly in the public sector, in order to help better align worker compensation with productivity across the economy, and make private sector employment more attractive and competitive.

### *Sustainable development*

Kosovo has committed to implementing the 2030 Agenda for Sustainable Development, which includes 17 Sustainable Development Goals (SDGs) and 169 targets, many of which were reflected in Kosovo's National Development Strategy (NDS) 2016-2021. However, considerable progress is still needed to meet the 2030 targets and ensure that Kosovo's development path is sustainable and inclusive. Better aligning SDG goals with all strategic documents would help in this process, as would better data collection to monitor progress on the goals: a 2019 study found that out of 231 SDG-related indicators applicable to Kosovo, only 33 indicators were readily available from official sources (Institute for Development Policy, 2019[11]).

Regarding well-being (SDG3), considerable progress is needed to improve outcomes across several dimensions. Extreme poverty has not yet been eradicated in Kosovo: about 5% of the population is estimated to be living on less than USD 1.90 per day. While the overall poverty rate has declined, faster progress is needed to reach the 2030 targets. More progress is also needed to create economic opportunities. As noted earlier, Kosovo's economy is characterised by very low employment and labour force participation. There are also significant inequalities between men and women, as well as young people – see Employment policy (Dimension 8). Significant disparities in various aspects of well-being are also noted across regions and ethnic groups (see discussion on inclusive growth below).

Vast progress is particularly needed in the area of health (SDG3), with Kosovo lagging behind not only the EU average, but also the averages of all its regional peers in many critical health indicators, such as infant mortality (Eurostat, 2021[12]). The sector is strongly impacted by a lack of financing for infrastructure, equipment, medications, etc. (see discussion on health below).

Significant progress is also needed on the environment. Kosovo's energy consumption is highly dependent on fossil fuels, and renewable energy contributes only 6% to the total energy mix. If the planned construction of a new coal-fired power plant is approved, Kosovo's reliance on the highly polluting lignite coal will remain a major obstacle to achieving SDG13, and may even lead to a regression in the goal of reducing emissions and developing a low-carbon economy. However, some progress has been made in the area of waste collection (Institute for Development Policy, 2019[11]) – see Environment policy (Dimension 13).

Regarding peace and institutions (SDG16), Kosovo needs to make considerable progress in tackling corruption and improving the efficiency and effectiveness of public institutions at the central and local level.

### *Structural economic challenges*

Kosovo faces a number of key structural challenges that undermine its competitiveness and attractiveness, as well as its integration into global value chains (GVCs).

### *Weak human capital reduces the scope for profiting from the demographic dividend*

As the youngest economy in Europe, with nearly 40% of the population aged 19 or younger, Kosovo could reap significant growth and development benefits if it put its growing labour force to work in high productivity jobs. However, weaknesses in the quality and relevance of education undermine these prospects:

- **Education quality**: The shortcomings in education quality are exemplified in student performance on international assessments such as the Programme for International Student Assessment (PISA), where Kosovo is the third-lowest performer of all participating economies. Less than a quarter of students attained the minimum level of proficiency across the three testing subjects (21% for reading, 23% for mathematics and 23% for science), which is well below the OECD average of over 75% for all three subjects (OECD, 2018[13]). The outcomes are especially worrying in the context of Kosovo's relatively high spending on education compared to regional peers: at 4.4% of GDP, education spending is on par with the OECD average. This points to the inefficient allocation of spending, with a high share going on teacher salaries but without translating into high-quality teaching. This in turn reflects limited resources for, and implementation of, evaluation and other quality assurance processes across all levels of the education system. It also highlights the poor implementation of competency-based curricula, reflecting in part weak teacher training and outdated textbooks.
- **Mismatches between education with labour market needs:** The challenges in the education system also reduce its alignment with labour market needs. In the latest Business Environment and Enterprise Performance Survey (BEEPS), 44% of firms identified an inadequately educated workforce as a major constraint (BEEPS, 2018[14]). This reflects significant challenges in the vocational education and training (VET) system and tertiary education. Kosovo's VET system is organised by specialised profiles; however, these do not align with labour market needs, which is particularly concerning as enrolment in the VET system has increased significantly in recent years, and is considerably higher than in the OECD and other Western Balkan (WB) economies – see Education policy (Dimension 7). Although other significant reforms have been introduced, including new curricula frameworks that include work-based learning, career guidance in higher education institutions and a National Qualification Framework, the lack of effective implementation, monitoring and evaluation negatively impacts educational outcomes. Various agencies collect data on labour market and education; however, initiatives to link and analyse the data in order to inform policy making have been delayed by a lack of funding and insufficient stakeholder engagement – see Education policy (Dimension 7).
- **Poor labour market participation and employment outcomes for youth and women**: Kosovo's employment rate is one of the lowest in the world, at 30.1%. Young people are particularly strongly affected by the lack of job prospects, with the unemployment rate of those aged 15-24 at 46.9%. Given Kosovo's relatively young population, weak job creation, especially in the private sector, creates significant labour market pressures, provides high incentives for youth emigration and weakens long-term growth prospects. Such prospects are also weakened by the underutilisation of women's productivity potential. The participation of women in the labour force is very low: about 20% of women are active in the labour market compared to about 60% of men. The weak participation of women is constrained by economic considerations, limited childcare options and cultural norms (Kosovo Agency of Statistics, 2021[2]).

### *A poor business environment hampers private sector development and investment*

Over the past decade, Kosovo has made progress in reducing the regulatory and administrative burden on businesses, especially for starting a business, and has improved the overall business environment. As a result it is currently ranked 57 out of 191 economies globally on the World Bank's Doing Business index

(World Bank, 2020[15]). Nevertheless, many outstanding challenges in this area undermine the competitiveness, investment and growth of enterprises:

- **Obtaining licences and permits takes much longer and is considerably costlier than in peer economies**. For example, obtaining a construction permit in Kosovo takes on average 273 days (compared to an OECD average of 152 days), requires 18 procedures (OECD average of 13) and costs 5.2% of the warehouse value (OECD average of 1.5%).
- **Contract enforcement is slow, costly and unreliable**. Contract enforcement takes on average 330 days, which is considerably faster than the OECD average (590 days), but much longer than the global leaders in the Doing Business Index (120 days). The process is slowed down by the overburdened court system, which has a significant backlog of cases (World Bank, 2017[6]). Contract enforcement is also quite costly: at 34.4% of the claim value it is well above the OECD average of 21.5%. Perhaps most significantly, confidence is lacking in the judicial system's fair and impartial decision making, which elevates uncertainty in contract enforcement. In the latest Regional Cooperation Council barometer survey, 50% of respondents stated that they do not trust the court system, 54% stated that they do not believe that the judiciary is independent of political influence, and 60% stated that they do not believe that the law is applied equally to everyone (Regional Cooperation Council, 2019[16]). In the latest BEEPS, 43% of firms identified the courts as a major constraint to doing business (World Bank, 2020[17]).
- **Unfair competition, particularly from the informal sector, represents a significant constraint for businesses in Kosovo**. In the latest BEEPS, 63.4% of firms stated that competition from informal enterprises represents a notable obstacle for their business. The high and persistent levels of informality are mainly due to weak enforcement rather than the prohibitive costs of doing business in the formal sector, as tax rates in Kosovo are relatively low compared to regional peers and EU and OECD averages (World Bank, 2021[1]). High tax evasion is instead linked to corruption among politicians and the tax and customs administrations (World Bank, 2017[6]).

### *Infrastructure deficiencies undermine investment, trade and GVC integration*

- **Unreliable electricity supply:** The reliability of the electricity supply is a significant obstacle for doing business in Kosovo. In the latest BEEPS, 63% of all firms, and 78% of manufacturing firms, identified electricity as a major issue. Firms in Kosovo report more frequent and more costly outages than firms in peer economies (World Bank, 2020[17]). Challenges in the electricity sector reflect a combination of factors, including insufficient and unreliable supply from the old and outdated coal-fired power plants, inefficient energy consumption, limited scope for importing electricity, and underdeveloped alternative sources of domestic electricity generation or energy supply (e.g. natural gas) (World Bank, 2017[6]).
- **Transport infrastructure**: Deficiencies in transport infrastructure connectivity harms the attractiveness of Kosovo as an investment destination. In terms of network size, Kosovo lags behind peer economies across all modes of transport. In road transport, the length of motorways is lower than peers of comparable size, as is the length of the overall road network (Eurostat, 2018[18]). In the rail sector, Kosovo lags behind peers in terms of the size of the network and the freight transported, particularly compared to economies with similar sized manufacturing sectors (as share of GDP), such as North Macedonia and Serbia (Eurostat, 2018[19]). Limitations in transport policy and a lack of investment in transport infrastructure development and maintenance mainly account for these gaps.
- **Limited access to finance**: This remains a significant obstacle to the investment, innovation and internationalisation of small and medium-sized enterprises (SMEs) in Kosovo. Although credit growth has been strong over the past decade, supported by the expansion of the mainly foreign-owned banking sector, declining interest rates, and low and declining non-performing loans,

enterprises still face constraints in accessing credit from the banking system. This is particularly the case for micro and small enterprises, which cannot meet banks' stringent loan requirements. For example, over 90% of loans in Kosovo require collateral, the value of which is well above regional and global peers, at 267% of the loan amount (World Bank, 2020[17]). Meanwhile, with the exception of leasing, which has grown considerably in recent years, financing alternatives to bank lending are very limited or non-existent.

*Cross-cutting and sector-specific constraints undermine the growth of key sectors*

- **Agriculture**: Agriculture is an important sector in Kosovo, accounting for 6.9% of GDP. The share of agriculture in formal employment is 14%, and the sector also accounts for a significant share of informal employment (World Bank, 2021[1]; Kosovo Agency of Statistics, 2021[3]). Given that 60% of the population live in rural areas and depend directly or indirectly on agriculture, this sector also plays an important role in poverty reduction. However, it is characterised by low productivity and limited internationalisation, which are hampered by high fragmentation, low access to finance and technology, and limited market links (World Bank, 2017[6]).
- **Manufacturing**: Upgrading and diversifying the manufacturing sector could play a key role in boosting exports and global value chain integration. Analyses of the capabilities embodied in the current export basket reveal considerable long-term potential for growth in the automotive industry (vehicle and engine parts), as well as in various other machinery and metal products. In the short to medium term there is growth potential in boosting exports of car seats, chemical products, metals and metal-based products, wood-based products, and agro-processing products (OECD, 2019[20]). The growth of this sector is constrained by factors such as gaps in infrastructure, customs and logistics, lack of skills, and weaknesses in the business environment. The attraction of FDI to this sector is also constrained by the limited capacities of Kosovo's investment promotion agency, the Kosovo Investment and Enterprise Support Agency (KIESA) – see EU accession process.
- **Information and communication technology (ICT) services**: This sector has contributed notably to service exports in recent years and has strong potential for further growth. The sector is constrained by factors such as the limited size of the domestic market, insufficient supply of skilled workers, weak collaboration between the sector and relevant educational institutions, and lack of access to finance, particularly for start-ups and high-risk venture capital (World Bank, 2017[6]).

*Poor public finance management undermines long-term development*

Despite Kosovo's success in keeping fiscal deficits and the public debt at relatively low levels over the past decade, fiscal performance has been relatively weak in terms of impact on the sustainable growth of the economy. High informality and tax evasion has had a significant negative impact on revenue collection. In addition, high and rising current expenditure, notably highly generous and poorly targeted social transfers, have increased non-discretionary fiscal spending. This has crowded out public investment in infrastructure and spending on critical sectors such as health and education (IMF, 2018[21]).

*Environmental degradation could affect the well-being of current and future generations*

- **Air pollution has become a critical challenge** in all major cities in Kosovo, as in the rest of the Western Balkan region. Air pollution is particularly acute in the winter months, when heating from burning solid fuels compounds the polluting effects from other sources. In Kosovo, annual exposure to most air pollutants – particulate matter (PM), carbon monoxide (CO), carbon dioxide ($CO_2$), nitric oxide (NO) and nitrogen dioxide ($NO_2$) – exceeds OECD and EU averages, and in many cases by a significant margin. For example, the annual exposure to $PM_{2.5}$ is 27 micrograms per cubic metre (μg/m$^3$) in Kosovo, which is slightly above the WB6 average (25.77 μg/m$^3$), but more than double the EU and OECD averages of 13.1 μg/m$^3$ and 12.5 μg/m$^3$, respectively. It is nearly triple the World Health Organization (WHO) recommended maximum annual exposure level of 10 μg/m$^3$ (EEA, 2020[22]).

- **Kosovo is vulnerable to the impacts of climate change**, but the transition to low carbon growth is slow. The energy sector is highly dependent on fossil fuels, including for power and heat generation and transport. The efficiency of energy consumption also remains low: the energy consumed per unit of GDP is nearly double the EU average (IEA Statistics, 2018[23]). Climate adaptation is a priority. For example, Kosovo has more limited water resources than other WB economies; however, due to increasing economic, environmental, climatic and demographic pressures, all river basins in Kosovo are expected to be water stressed in 20 years (World Bank, 2018[24]). More sustainable water management will therefore be critical to strengthen Kosovo's resilience to the impacts of climate change and to secure its long-term development.

### *Regional inequalities are undermining inclusive growth and well-being*

Although living standards have improved considerably in Kosovo over the past decade, the prosperity gains have not been shared evenly by all citizens. Inequality, as measured by the Gini coefficient, has increased since 2016. Regional disparities are also quite striking, with many rural areas lacking connections to piped water, sewage systems and reliable power supply. These gaps are even more pronounced in some regions – for example, in Mitrovica, only about 42% of villages are connected to piped water, compared to over 85% in Pristina (European Commission, 2018[25]). Considerable disparities also exist among ethnic minorities: Roma, Ashkali and Egyptian communities have considerably lower education, health, poverty and employment outcomes compared to the rest of the population (UNICEF, 2014[26]).

### *COVID-19 has exacerbated structural challenges*

Kosovo's economy has been strongly affected by the COVID-19 pandemic. In the first nine months of 2020, real GDP declined by 5.9% year on year (y-o-y), driven largely by a sharp decline in service exports (-63% y-o-y in quarter 2 and -60% y-o-y in Q3 of 2020), which were mainly tourism services to the diaspora, and a decrease in investment (-41% y-o-y in Q2 and -10.2% y-o-y in Q3 of 2020). The contraction was moderated by the decline in imports and increased government spending. Private consumption also bounced back in Q3 of 2020 following the removal of lockdown restrictions. The sectors most critically affected by the pandemic included construction, wholesale and retail trade, and accommodation services. Meanwhile, the growth in industry and ICT sectors moderated the decline in economic activity (European Commission, 2020[27]; 2019[28]).

The impact of COVID-19 on the labour market in Kosovo was mitigated by government support measures. The brunt of the fallout from the crisis was borne in Q2 of 2020, but some recovery has taken place since, and as of Q3 2020, labour market indicators have mostly been in line with their values in the previous year. Unemployment remained roughly the same at 24.6% (after increasing to 27.2% in Q2 of 2020), while the labour force participation rate declined from 42.9% in Q3 to 40% y-o-y (after declining to 33.2% in Q2). The impact on youth has been mixed. Youth unemployment decreased from 48.9% to 46.9% y-o-y in Q3, but the share of NEET youth increased from 36.3% to 37.6% over the same period (Kosovo Agency of Statistics, 2021[2]; European Commission, 2020[27]; 2019[28]).

Government support has helped to mitigate the impact of COVID-19 on household income and poverty. The main support measure was to allow citizens to withdraw 10% from their pension fund savings over a period of four months from August 2020. Citizens were also relieved from the repayment of loan instalments for a period of three months from April to June 2020. The government provided additional funding to support those who had the most difficulty in finding employment (OECD, 2020[29]).

Many of the abovementioned structural challenges have played a role in either amplifying the impact of COVID-19 or limiting the scope of the policy responses to lessen its impact. The crisis has, therefore, provided important lessons on how to build more resilient economies and institutions:

- **Fiscal policy:** The fiscal response has been critical in preventing a significant economic fallout from COVID-19, especially on labour market outcomes, but has resulted in a significant narrowing of the fiscal space. In the context of weaker prospective revenues in the wake of the crisis, particularly if recovery is slow, improving the efficiency of public spending will be critical in the coming months, as well as the prioritisation of expenditure that can support recovery and promote productivity growth and structural transformation for stronger and more resilient long-term growth. This includes increasing public investment, which has suffered significantly due to high and rising current expenditure. The crisis has also highlighted the importance of rebuilding fiscal buffers in the post-crisis period. In addition to better management of expenditure, this goal will require tackling some of the structural constraints that undermine revenue performance.
- **Innovation and technology adoption:** The COVID-19 crisis has starkly demonstrated the importance of the ability of firms to adapt to meet new challenges and changing circumstances. It has also revealed the advantages that firms which have embraced digitalisation and modern practices have over others. The resilience of the post-COVID recovery will therefore depend on the extent to which the structural issues limiting firm innovation and technology adoption are addressed (see Structural economic challenges), and to what extent digitalisation and digital skills become mainstreamed.
- **Access to finance:** COVID-19 has highlighted the significance of a well-developed and diversified financial sector that can respond to the financing needs of enterprises in times of crisis and during the recovery phase. As in the rest of the region, the main instruments for providing additional liquidity for enterprises during the crisis were in the form of subsidised lending or lending guarantees. However, a robust financial sector comprised of diversified financial institutions that can provide financing for riskier and innovative ventures, not just for established enterprises, will be essential during the recovery phase and going forward.
- **Informality:** The large size of the informal sector, as well as significant informal employment within the formal sector, have limited the scope of measures aimed at protecting the income and employment of people in the most affected sectors. As informality is widespread in the sectors most affected by the crisis, including retail trade and tourism, they have not been able to benefit from measures such as government subsidies, favourable loan terms or loan guarantees. Developing a more resilient economy also depends on the extent to which incentives for formalisation can be enhanced, and how much the oversight and sanctioning of non-compliance can be improved.
- **Health sector:** The health sector in Kosovo faces many challenges linked to insufficient funding. Healthcare expenditure is 1.6% of GDP (as of 2016), which is the lowest in the region. This represents only about 40% of the annual requirements for public health care, and translates into a lack of basic resources, including beds, equipment and medication. As a result, many people must seek quality health care in private institutions. In the absence of publicly available health insurance, citizens' out-of-pocket healthcare expenses are an estimated 40% of total healthcare costs. This is considerably higher than the OECD average of 13% (Kosovo Women's Network, 2016[30]).

### *EU accession process*

Kosovo has been a potential candidate for EU accession since 2008. The Stabilisation and Association Agreement (SAA) with Kosovo was initiated in July 2014 and came into force in April 2016. In November 2016, Kosovo also adopted the European Reform Agenda, which set out priorities until the end of 2017. The agenda's primary objective was to prioritise specific areas under the SAA such as good governance and rule of law to boost the implementation of activities that fulfilled these areas. In 2018, the European Commission (EC) confirmed that Kosovo had fulfilled all outstanding criteria for the visa liberalisation regime and proposed lifting visa requirements for its citizens. The decision on this proposal is still pending with the European Parliament and the European Council (European Commission, 2020[31]).

The importance of making progress on the socio-economic reform agenda remains a critical priority for Kosovo's path to EU membership. As Kosovo negotiates its accession to the EU, the findings in this Competitiveness Outlook 2021 offer monitoring relevant to a number of critical chapters of the *acquis*, while its recommendations provide the guidance needed to meet the accession requirements. The Competitiveness Outlook also provides a good basis for assessing the critical challenges that the economy faces as a starting point for the development of Economic Reform Programmes (Box 22.1).

### Box 22.1. Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates prepare Economic Reform Programmes (ERPs) which play a key role in improving economic policy planning and steering reforms to sustain macroeconomic stability, boost competitiveness, and improve conditions for inclusive growth and job creation. The ERPs contain medium-term macroeconomic projections (including for GDP growth, inflation, trade balance and capital flows), budgetary plans for the next three years and a structural reform agenda.

The structural reform agenda includes reforms to boost competitiveness and improve conditions for inclusive growth and job creation in the following areas:

1. Public Financial Management
2. Green transition
3. Digital transformation
4. Business environment and reduction of the informal economy
5. Research, development and innovation
6. Economic integration reforms
7. Energy market reforms
8. Transport market reforms
9. Agriculture, industry and services
10. Education and skills
11. Employment and labour market
12. Social protection and inclusion
13. Healthcare systems

The structural reforms part of the ERPs is organised in two parts:

- A first part identifies and analyses the three key challenges across those 13 areas. The identification and prioritisation of key challenges imply a clear political commitment at the highest level to address them and the ERPs should propose a relevant number of reform measures to decisively tackle each of them in the next three years.
- A second part provides an analysis of the remaining areas (not included as key challenges) and may propose additional reforms to address them.

The European Commission and the European Central Bank then assess these programmes, which form the basis for a multilateral economic policy dialogue involving the enlargement economies, EU

Member States, the Commission and the European Central Bank. The dialogue culminates in a high-level meeting during which participants adopt joint conclusions that include economy-specific policy guidance reflecting the most pressing economic reform needs. The findings of the Competitiveness Outlook provide guidance to the six Western Balkans EU candidates and potential candidates in identifying the key obstacles to competitiveness and economic growth, and in developing structural reform measures to overcome them.

Source: (European Commission, 2021[32]), Guidance for the Economic Reform Programmes 2022-2024 of the Western Balkans and Turkey, https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/erp_2022-2024_guidance_note.pdf; (European Commission, 2018[33]), Economic Reform Programmes: Western Balkans and Turkey, https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf.

*EU financial and development support*

The EU represents the largest source of external financial assistance in Kosovo. Since 2007, the EU has provided EUR 1.21 billion in assistance aimed at strengthening democracy, the rule of law, competitiveness, innovation, education, climate action and other critical priorities for Kosovo's sustainable and inclusive development. A further EUR 229 million has been provided since 1999 through lending from the European Investment Bank (EIB). The Western Balkans Investment Framework (WBIF) has provided EUR 148.4 million in grants that have leveraged investments of an estimated EUR 1.3 billion (European Commission, 2021[34]).

The EU also provides guarantees that support public and private investment by reducing the risks and costs associated with those investments. The new Western Balkans Guarantee Facility is expected to mobilise up to EUR 20 billion in investment over the coming decade (European Commission, 2020[35]).

The latest package of the Connectivity Agenda, which was set up under the WBIF, seeks to support investments in sustainable transport and clean energy. This package was presented at the Western Balkans Summit in Sofia on 10 November 2020 and completes the delivery of the EU's 2015 pledge to finance EUR 1 billion of investment for better connectivity in the WB region. It also represents the first step in the implementation of the flagship projects under the Economic and Investment Plan for the region. Kosovo is expected to receive up to EUR 204.7 million between 2021 and 2024 under this programme (European Commission, 2021[36]).

The EU has been instrumental in supporting Kosovo's response to the COVID-19 pandemic. EUR 68 million in bilateral assistance from the Instrument for Pre-Accession Assistance (IPA) 2014-2020 was provided to Kosovo to cover the urgent needs of the health sector and to support the economic and social recovery following the crisis.[1] A further EUR 100 million was provided in macro-financial assistance to support the economic recovery. Kosovo and other Western Balkan economies have also been recipients of the EU's regional economic reactivation package of EUR 455 million, as well as EUR 7 million of EC/WHO joint assistance to support vaccination readiness and health sector resilience. The EIB has provided a further EUR 1.7 billion in financing to the region (European Commission, 2021[34]).

## Scope and methods

### *Process*

Following the first two Competitiveness Outlook assessments, published in 2016 and 2018, the third Competitiveness Outlook assessment cycle for the WB6 economies was launched virtually (due to the COVID-19 pandemic) on 3 April 2020. The OECD team introduced Kosovo's Competitiveness Outlook public authority[2] and Statistical Office Co-ordinators[3] to the new digitalised assessment frameworks (see

Methodology chapter for details). The two primary documents for assessing each of the 16 policy dimensions – the qualitative questionnaire and statistical data sheet – were explained in depth, giving particular attention to new questions and indicators. The OECD team also explained digital solutions to be used to disseminate the material together with the detailed guidelines, tutorials and information on the assessment process, methodology and timeline.

Following the launch of the assessment, Kosovo Investment and Entreprise Support Agency (KIESA) disseminated the materials among all 16 Policy Dimension Co-ordinators and Statistical Office contact points in Kosovo. Where additional guidance was needed, the OECD team held teleconferences with Dimension Co-ordinators and Statistical Office contact points in April and May 2020.

All 16 Dimension Co-ordinators and Statistical Office contact points completed the assessment between April and May 2020. They assigned a score (see Scoring approach) to each qualitative indicator used to assess the policy dimension in question, accompanied by a justification. The completed assessments (qualitative questionnaires and statistical data sheets) were returned to the OECD team between May and July 2020.

The OECD reviewed the inputs and, where necessary, requested additional information from KIESA, Policy Dimension Co-ordinators and Statistical Office contact points. The updated assessment materials were sent back to the OECD between July and September 2020. In addition, the OECD organised policy roundtable meetings between October and November 2020 to fill in any remaining data gaps, to get a better understanding of the policy landscape, and to collect additional information for indicators where necessary.

Based on the inputs received, the OECD compiled the initial key findings for each of the 16 policy dimensions. It then held consultations on these findings with local non-government stakeholders that included chambers of commerce, academia and non-governmental organisations (NGOs) in November 2020. As a follow up, the OECD presented the preliminary findings, recommendations and scores to the Competitiveness Outlook public authority Co-ordinator, Policy Dimension Co-ordinators and Statistical Office contact points at a virtual meeting on 17 December. The draft Competitiveness Outlook economy profile of Kosovo was made available to Kosovo's public authorities for their review and feedback from mid-January to mid-February 2021.

### *Scoring approach*

Each policy dimension and its constituent parts are assigned a numerical score ranging from 0 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 0 is the weakest and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 22.2).

For further details on the Competitiveness Outlook methodology, as well as the changes in the last assessment cycle, please refer to the Methodology chapter.

## Table 22.2. Competitiveness Outlook scoring system

| | |
|---|---|
| **Level 5** | Level 4 plus independent impact evaluation. Results of monitoring and impact evaluation inform policy framework design and implementation updates in line with OECD good practice |
| **Level 4** | Level 3 plus evidence that the framework is monitored and, if necessary, adjusted accordingly |
| **Level 3** | Level 2 plus some concrete indications that the policy framework is being implemented effectively |
| **Level 2** | Framework specifically addressing the policy area concerned is solidly in place, officially adopted by the government or parliament (where applicable). The framework includes policy features necessary for it to have an impact |
| **Level 1** | Existing draft or pilot policy framework with signs of government activity addressing the policy area concerned |
| **Level 0** | No framework (e.g. law, institution, project, initiative) exists for the policy topic concerned |

### *Exceptions*

Unlike the other 15 policy dimensions, competition policy (Dimension 5) is assessed using yes/no answers to 71 questions in a dedicated questionnaire. A "yes" response (coded as 1) indicates that a criterion has been adopted, whereas a "no" (coded as 0) indicates the criterion has not been adopted. The overall score reflects the number of criteria adopted. Moreover, some qualitative indicators which have been added to this edition of the assessment for the first time, are not scored due to the recent character of the policy practice they capture and the unavailability of relevant data.

## Investment policy and promotion (Dimension 1)

### *Introduction*

Kosovo's performance in the investment dimension has slightly worsened since the last Competitiveness Outlook (OECD, 2018[37]), decreasing from 2.6 in the 2018 assessment to 2.0 in the 2021 assessment (Figure 22.1). Progress has been made on investment policy, but there has been declining development in investment promotion and facilitation. Table 22.3 shows Kosovo's scores for the investment policy and promotion sub-dimensions for the 2021 assessment.

**Table 22.3. Kosovo's scores for investment policy and promotion**

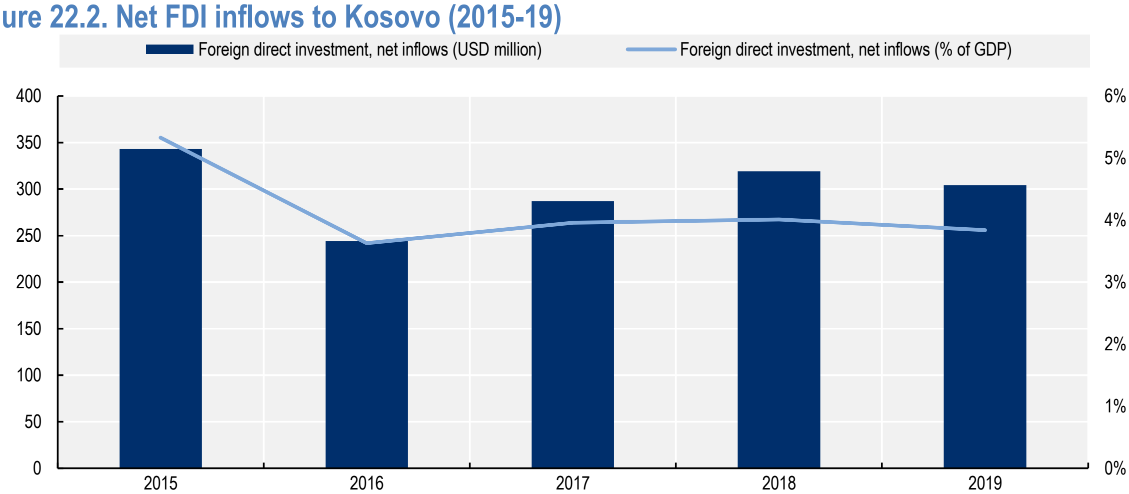
| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Investment policy and promotion dimension** | Sub-dimension 1.1: Investment policy framework | 2.4 | 3.2 |
| | Sub-dimension 1.2: Investment promotion and facilitation | 2.4 | 3.0 |
| | Sub-dimension 1.3: Investment for green growth | 0.0 | 2.0 |
| **Kosovo's overall score** | | **2.0** | **3.0** |

Note: No information was provided or available regarding green investment practices in Kosovo, thus, the economy received a score of zero for sub-dimension 1.3.

### *State of play and key developments*

In 2019, Kosovo attracted USD 304 million in net FDI inflows, which represented 3.8% of its GDP (Figure 22.2) (Kosovo Agency of Statistics, 2019[38]). This performance is well below the best performers of the WB6, where FDI inflows represent 8.4% of GDP for Montenegro, 8.3% for Serbia and 7.9% for Albania. However, it is similar to North Macedonia (3.8%) and higher than Bosnia and Herzegovina and "upper middle-income countries",[4] which average 1.6% of GDP. However, it should be noted that FDI has been mostly market seeking, with a significant share going to real estate, and mostly from the diaspora. The stock of portfolio investment in 2019 totalled USD 2.05 billion. Real estate and leasing activities are the largest beneficiaries of FDI, followed by financial services and energy. Food, ICT, infrastructure and energy are growing sectors. Most FDI came from the diaspora located in Albania, Germany, Switzerland, Turkey and the United Kingdom.

**Figure 22.2. Net FDI inflows to Kosovo (2015-19)**




Note: BoP refers to balance of payments in million current USD.
Source: (World Bank, 2021[1]), *World Development Indicators*, https://databank.worldbank.org/source/world-development-indicators.

StatLink https://doi.org/10.1787/888934255646

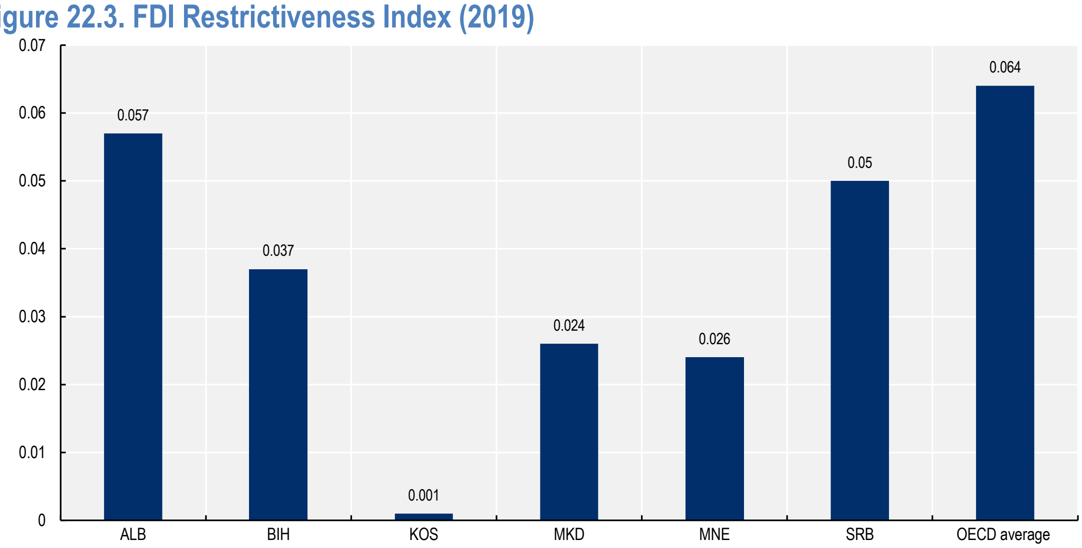
### *Sub-dimension 1.1: Investment policy framework*

Kosovo has a clear and comprehensive **legal framework for investment activities** and for conducting business; however, it does not have a stand-alone investment law. The main laws[5] governing investment are the 2014 Law on Foreign Direct Investment, the 2017 Law on Strategic Investments[6] and the 2018 Law on Business Organisations. The Law on Foreign Direct Investment gives equal and fair treatment, offers protection for foreign investors and provides a clear definition of foreign investors. The Law on Strategic Investments describes investment activities and the conditions under which investors can receive the status "strategic investor". The Law on Business Organisations covers the registration and closure of a company, and the rights and obligations of shareholders. All investment legislation is available in English on the official Kosovo Gazette website.[7]

Public consultations are organised according to the 2016 regulation, the Minimum Standards for Public Consultation Process. Kosovo has set up an online platform for public consultations, and draft laws are published on the Kosovo Assembly's website. In 2017, the government adopted the 2017-2021 Better Regulation Strategy 2.0,[8] which aims to improve the design of policies and legislation by ensuring that they are based on evidence (data and statistics), encouraging consultations with stakeholders and contributing to inclusive growth. However, the minimum standards for public consultations are not being applied consistently (European Commission, 2020[39]).

Kosovo's market is open, and **exceptions to national treatment** are very limited**.** Kosovo had the lowest score (0.001) of the WB6 economies in the 2019 OECD FDI Regulatory Restrictiveness Index, which assesses and benchmarks market access and exceptions to national treatment, scoring well below the OECD average (0.064) (Figure 22.3) (OECD, 2019[40]). This low score indicates that Kosovo has very limited restrictions to foreign investment, and that foreign firms operating in Kosovo are not subject to screening mechanisms and are granted the same privileges as local businesses. In other words, foreign investment rules do not constitute impediments to FDI. However, Kosovo does not have a negative list that delimits the sectors where foreign investment is prohibited or conditioned, and which outlines which discriminatory conditions apply.

#### Figure 22.3. FDI Restrictiveness Index (2019)




Note*:* Restrictions are evaluated on a scale which goes from 0 (no restrictions) to 1 (maximum restrictions).
Source: (OECD, 2019[40]), *FDI Regulatory Restrictiveness Index*, https://data.oecd.org/fdi/fdi-restrictiveness.htm.

**Investor protection against expropriation** without fair compensation is guaranteed by Articles 7 and 8 of the Law on Foreign Investment. Article 7 clearly stipulates that direct or indirect expropriation measures are taken only in a non-discriminatory manner, for a public purpose, under due process of law, and against "immediate, adequate and effective compensation". Article 8 indicates the compensation modalities and the timely compensation payment based on fair market prices. Additional protection and modalities are provided by the Law on Expropriation, which covers judicial and administrative appeal mechanisms for reviewing or contesting decisions on expropriation, as well as the amount of compensation. Kosovo also has a network of bilateral investment treaties that constitute an additional layer of protection for foreign investors.

Foreign investors have the same rights and remedies as domestic investors. However, the functioning of the judiciary remains a key weakness in Kosovo. While the laws and regulations are consistent with international benchmarks for supporting and protecting investment, their implementation suffers from high levels of interference from the executive, as well as limited resources and capacity. Kosovo introduced constitutional amendments in 2016 to improve the independence of the judiciary and align it with EU standards. The government has also implemented reforms which have improved court efficiency and reduced the case backlog. However, the administration of justice is deemed slow and inefficient (European Commission, 2020[39]). In addition, the judiciary lacks the capacity to deal with complex commercial and economic cases, as Kosovo does not yet have dedicated commercial courts,[9] and cases are examined by a designated department for commercial matters within the Pristina Basic Court.

Regarding **dispute settlement**, Kosovo is stepping up its efforts to offer alternative dispute resolution mechanisms. Its courts recognise international arbitration awards, as Kosovo has ratified the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention), and the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention). It has a pro-arbitration stance and hosts private arbitration centres in the Kosovo Chamber of Commerce and the American Chamber of Commerce in Kosovo.

Kosovo is striving to improve its mediation mechanisms in order to reduce the backlog of cases. In 2018 it adopted a new mediation law, which is being completed with secondary legislation, and organised awareness-raising events and training courses on mediation. Positive first steps towards online mediation were taken in early 2020. In 2019, the courts referred 2 846 cases to mediation, and prosecution offices referred 2 244 cases, a significant increase on 2018 figures (European Commission, 2020[39]). However, public awareness and familiarity with alternative dispute resolution tools remain low.

Kosovo has a sound **intellectual property rights (IPR) legal framework**,[10] which is partly harmonised with EU legislation[11] and contain minimum requirements of the Trade-Related Aspects of Intellectual Property (TRIPS) agreement. Kosovo is not party to international treaties related to IPR or organisations such as the World Intellectual Property Organization (WIPO), but abides by the multilateral conventions on intellectual, industrial and commercial property rights.[12]

**IPR enforcement** and implementation in Kosovo have improved overall, but remain challenging. The Agency for Industrial Property (AIP), a central administrative body of the Ministry of Trade and Industry, is responsible for the legal protection of intellectual property rights. It offers IPR registration conforming to regional and international practices[13] using efficient WIPO software. It has made good progress in reducing the backlog of applications for patents, trademarks and industrial designs. In 2020, the agency recruited 3 new staff members, bringing the total to 21 (European Commission, 2020[39]). On the enforcement side, the State Intellectual Property Council and the Task Force against Piracy and Counterfeiting are the main bodies responsible for co-ordination. However, their actions are restricted by limited institutional co-operation and capacity, a lack of resources within enforcement agencies, a lack of specialised prosecutors and judges, and poor public awareness.

Kosovo has also reinforced **IPR awareness raising and access to information**. The AIP, the Copyright Office under the Ministry of Culture, Youth and Sport, and the Kosovo Council on Intellectual Property Rights continuously organise awareness-raising activities, albeit on a low scale due to lack of resources.

It is noteworthy that the AIP publishes a monthly bulletin on IP applications and maintains a regularly updated online trademark and patent database.

### *Sub-dimension 1.2: Investment promotion and facilitation*

Kosovo has a clearly defined **investment promotion agency structure and strategy**, however, the Kosovo Investment and Enterprise Support Agency (KIESA) lacks the capacity and resources to execute an extended mandate. KIESA continues to have a large mandate that includes investment and export promotion, as well as support to SMEs and managing special economic zones. Under the economy's National Development Strategy 2016-2021, its staffing increased from 21 staff in 2016 to 28 in 2020, while its budget expanded from EUR 510 000 in 2016 to EUR 3.1 million in 2020. However, despite this expansion, its staff and resources are still insufficient to execute its very large mandate (European Commission, 2020[39]).

KIESA reports directly to the National Council for Economic Development (NCED).[14] The NCED is chaired by the Prime Minister of Kosovo and is composed of ministries with an economic orientation, and economic business associations. It organises and co-ordinates the activities of state institutions and aims to eliminate barriers and address the challenges of doing business in Kosovo, thus having an impact on improving the environment of business and investment in the economy. Nevertheless, Kosovo does not seem to have a comprehensive strategy framework for attracting FDI, or solid inter-agency or inter-ministerial co-ordination mechanisms, and council meetings are irregular. KIESA's budgetary and capacity limitations also limit its ability to foster linkages between the FDI it is striving to attract and the SMEs it is supporting.

Regarding IPA mapping indicators, KIESA does not have a clear **investor targeting** strategy or actions. The Law on Strategic Investments provides a list of priority sectors, namely: energy with infrastructure and mining, transport and telecommunication, tourism, processing industry, agriculture and food industry, health, industrial and technological parks, and wastewater and waste management. While KIESA provides dedicated information on key sectors[15] on its website, it does not have a clear strategy targeting these sectors. The agency promotes Kosovo as an investment destination through participation in international fairs, the organisation of FDI conferences abroad, and information sessions[16] targeting the diaspora. It also promotes the emergence of industrial clusters in the special economic zones.

Unlike the rest of the WB6 economies, Kosovo does not offer **investor incentives** to attract investments. It does, however, provide an attractive taxation regime and support measures for strategic projects. Kosovo has a flat corporate tax rate of 10%, and grants firms VAT (value-added tax) advantages including deferments and exemptions, such as for imports of raw materials and machinery. The Law on Strategic Investments provides additional advantages to businesses, including the provision of state-owned immovable property and supported access to basic infrastructure. The government can also issue guarantees or jointly finance FDI projects. KIESA supports investment in the special economic zones according to the Law on Economic Zones.[17]

Kosovo has improved its **investment facilitation services and activities**. This is illustrated by its ranking of 12 out of 190 economies in the starting business dimension of the Doing Business Index (World Bank, 2020[41]). Registering a business in Kosovo is simple, with minimal fees involved. The Ministry of Trade and Industry's Business Registration Agency offers 29 one-stop shops for registration at the municipal level. 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 dealing with the one-stop shop services.

However, it is worth noting that the overall ranking of Kosovo in the Doing Business Index regressed from 44 in 2019 to 57 in 2020. This regression is due to problems regarding electricity, protecting minority investors and obtaining construction permits (World Bank, 2020[41]). The quality of the business environment is also hampered by the size of the informal sector, which is estimated to be 31% of Kosovo's GDP (European Commission, 2020[39]).

KIESA provides **aftercare services** aimed at keeping investors satisfied and collecting their feedback. The function is included in the agency's official mandate, which requires maintaining a foreign investor registry and conducting regular visits to foreign investors. KIESA organises regional conferences with the private sector in different municipalities to ensure public-private dialogue. It also visits 300 to 350 foreign investors each year to understand their perception of the investment climate and business in Kosovo, and submits a report to the Kosovo Economic National Council so they can take required measures.

### *The way forward for investment policy and promotion*

Kosovo has a very open economy and a clear pro-investment stance. However, improving its attractiveness as an FDI destination requires policy adjustments and reforms in the following areas:

- **Adopt and develop a clear strategy to attract FDI and proactively target investors**. Although Kosovo participates in events aimed at attracting foreign investors, a clear strategy for target sectors would enable KIESA to focus its resources more efficiently.
- **Reinforce the independence, resources and capacity of the court system, notably for commercial disputes**. As commercial cases are currently redirected to a small division of the basic court system, Kosovo should focus on establishing a dedicated commercial court to handle business disputes effectively.
- **Increase public awareness and implementation of the recently adopted mediation mechanisms**. Although some awareness-raising campaigns are in place, Kosovo should focus on increasing businesses access to information on alternative dispute resolution to ease the court system's burdensome caseload.
- **Reinforce the co-ordination between IPR implementation and enforcement bodies, increase IPR agency capacity and resources, and step up IPR awareness-raising efforts**. IPR bodies currently only have the capacity to conduct low-level awareness-raising campaigns, and lack the capacity to train and allocate specialised judges and prosecutors to handle IPR disputes.
- **Reinforce KIESA's investment facilitation role, notably through better co-ordination with other government bodies and agencies**. As KIESA has a large mandate, a clear division of responsibility between departments and agencies, as well as greater inter-institutional co-ordination, should be enforced to avoid repetitive and overlapping objectives.
- **Ensure adequate capacity and resources for KIESA to allow it to fully implement its comprehensive mandate**. As KIESA's authority extends to several sectors and divisions, it is crucial that it receives more resources to promote linkages effectively between SMEs and multinational enterprises, as well as to establish an aftercare unit to boost aftercare services.
- **Integrate green growth priorities into the National Development Strategy**. Kosovo's NDS already includes a base for the promotion of FDI and promoting competitive industries which could be expanded on to include green growth objectives such as renewable energy and energy efficiency projects as a priority sector to develop. Additionally, the economy may include the green sectors in the Law on Strategic Investments, elaborating on the existing energy with infrastructure sector.

## Trade policy (Dimension 2)

### *Introduction*

Kosovo has made significant progress in all sub-dimensions since the last assessment, and has increased its score for trade policy from 2.3 in 2018 to 3.5 in 2021 (Figure 22.1; Table 22.4).

Kosovo has particularly strengthened its regulatory transparency by improving public consultations and increasing their number. The inter-institutional co-ordination mechanism in Kosovo has proven effective, and progress has been made in the implementation of public consultation standards through new legislation and a dedicated platform where all documents are published. The new communication channels, which are made available on the website of the Ministry of Trade and Industry (MTI), have increased the number of consultations with institutions and stakeholders on trade-related issues. The consultation mechanism is regularly evaluated and annual reports are prepared according to a specific methodology for the implementation of the standards, which is relatively rare in the Western Balkans and justifies Kosovo’s high score of 3.8 for the sub-dimension on trade policy framework.

Regarding trade in services, significant progress has been made in lifting restrictions hindering trade in Kosovo with the conclusion of Additional Protocol 6 to the Central European Free Trade Agreement (CEFTA) in December 2019. Kosovo continues to make great strides in increasing the attractiveness of its economy through the modification and adoption of sound policies on trade in services. Significant steps have been taken to open markets in some services sectors, such as the courier sector, which has seen the most significant decrease in the degree of restriction since 2018. Further efforts could be directed towards improving business regulation and changing cumbersome procedures for obtaining business visas. Kosovo is the most open economy for trade in services in the WB6 region. Compared to OECD economies, it is also one of the most attractive in terms of lack of restrictiviness towards service providers .

Regarding e-commerce and digitally enabled services, Kosovo has a strong policy framework for e-commerce that is in line with the EU *acquis*. In September 2020 it launched a draft Law on Electronic Identification on Trusted Services in Electronic Transactions to stimulate e-commerce. This initiative could bolster the existing fragile e-commerce flows and justifies the rating of 3.0 for this sub-dimension.

#### Table 22.4. Kosovo’s scores for trade policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Trade policy dimension** | Sub-dimension 2.1: Trade policy framework | 3.8 | 3.5 |
| | Sub-dimension 2.2: Services trade restrictiveness | n.a. | n.a. |
| | Sub-dimension 2.3: E-commerce and digitally enabled services | 3.0 | 3.1 |
| **Kosovo’s overall score** | | **3.5** | **3.4** |

### *State of play and key developments*

Trade represents 82% of Kosovo’s GDP. Its trade with CEFTA parties represented 43% of total exports in 2019 (a drop from 47.2% in 2018), and its trade with the EU represented 36% (against 30.2% in 2018).

In 2019, the EU supplied 50% of Kosovo’s total imports (against 47.2% the previous year). Imports from CEFTA fell to 14.3% (from 25.5% in 2018) as a direct result of the 100% import tariffs imposed by Kosovo on goods originating from Serbia and Bosnia and Herzegovina. In April 2020, the 100% tariffs were lifted and replaced by gradual trade reciprocity measures, which were finally abolished in June 2020.

Kosovo has a small domestic market and limited industrial production, and consequently a relatively high trade deficit. According to the Kosovo Agency of Statistics, Kosovo's trade deficit was EUR 2.97 billion in 2018, up from EUR 2.5 billion in 2017, with imports rising to EUR 3.34 billion from EUR 3.05 billion.

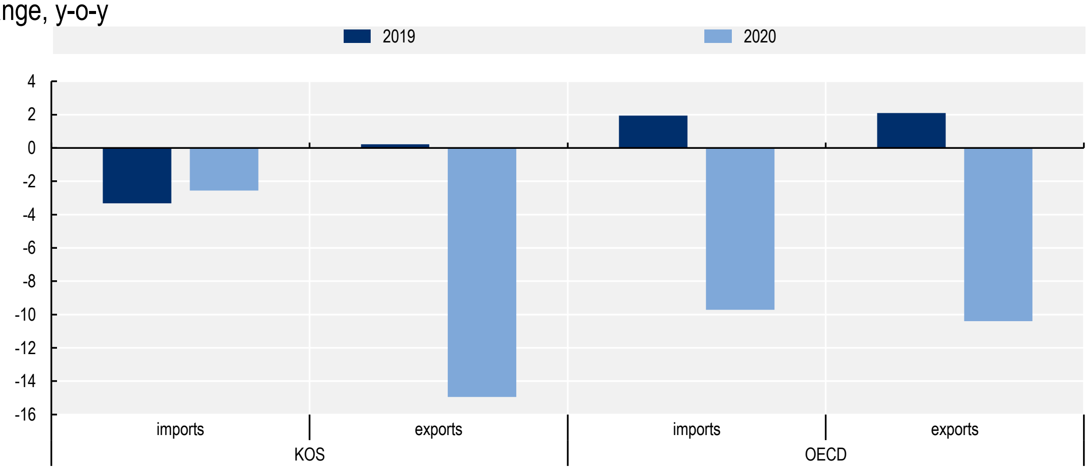
Exports fell to EUR 367 million in 2018 from EUR 596 million in 2017. According to the World Bank, Kosovo's overall trade deficit, which includes trade in both goods and commercial services, was an estimated 29.1% of GDP in 2018.

In terms of percentage share of GDP, in 2019, exports of goods and services represented 29.2%, and imports of goods and services represented 56.25%.

Like all economies, Kosovo has been heavily affected by the COVID-19 pandemic. The relatively low level of new import and export orders prior to the COVID-19 crisis, combined with pandemic-related export bans, restrictions on the movement of people, and closures of shops and services, led to a significant decline in imports and exports in Q2-Q3 2020. Although Kosovo was not the most severely affected economy in the region, it faced a decline of -2% in imports and -14% in exports (Figure 22.4).

### Figure 22.4. Impact of COVID-19 on trade, Kosovo versus the OECD (2019-20)

% change, y-o-y




Source: (IMF, 2020[10]), *World Economic Outlook*, https://www.imf.org/en/Publications/WEO/weo-database/2020/October; (OECD, 2020[42]), *OECD Economic Outlook, Volume 2020 Issue 1*, https://dx.doi.org/10.1787/0d1d1e2e-en.

StatLink https://doi.org/10.1787/888934255665

Kosovo is mostly dependent on trade in services, which contributes to trade openness more than trade in goods. In 2020, all WB6 economies, except Kosovo, were foreseen to experience a decline of FDI inflows. Before the outbreak of the pandemic, significant investments were made in energy and mining, which makes Kosovo the only economy likely to see an increase in FDI.

Overall, economies with a high dependency on trade in services, such as Kosovo, have suffered great losses due to the restrictions on movement of people implemented in response to the pandemic. Kosovo's current account deficit was projected to increase from 5.5% of GDP in 2019 to about 5.7% in 2020 and 2021 (World Bank, 2020[41]; World Bank, 2021[43]). Tourism, which is a key economic driver of the economy, was expected to contract by 8.8% in 2020 and lead to a severe recession. However, this sector might recover faster in Kosovo than in the other WB6 economies as 80% of travel services exports concern the diaspora.

The closure of EU borders to non-EU citizens, as well as other regulatory responses in the Western Balkans, have particularly affected freight transport services. The Western Balkan economies set up a CEFTA co-ordinating body to exchange information on trade in goods at the beginning of the pandemic. They also set up priority "green lanes" with the EU and "green corridors" within the WB6 to facilitate the free movement of essential goods through priority "green" border/customs crossings (within the WB6 and with the EU). At the peak of the crisis (April to May 2020), most road transport in WB6 economies passed through these green lanes and corridors, and they have helped to maintain a certain degree of international trade in goods in the region. Only about 20% of the goods that benefited from the green corridor regime (i.e. within the WB6) were basic necessities, with the rest regular trade. Such inclusive regional co-operation has proven very efficient in mitigating the consequences of the COVID-19 pandemic and is helping economies to recover.

### *Sub-dimension 2.1: Trade policy framework*

The importance of transparent legislative procedures has increased in priority for governments in recent years. A fundamental aspect of regulatory transparency is that the legislative process is open to all relevant stakeholders through formal and informal public-private consultation (PPC) channels, before and after the adoption of new regulations (OECD, 2019[44]). These consultation mechanisms increase the efficiency of economic activities and the degree of market openness as they can improve the quality and enforceability of regulations (OECD, 2012[45]). Governments in many economies are also adopting cross-cutting policies and/or guidelines to further improve the consultation process. The first sub-dimension of the trade policy dimension assesses the government's effectiveness in formulating, evaluating and implementing trade policy through two separate but complementary indicators: institutional co-ordination on trade policy formulation, and public-private consultation and transparency.

Kosovo has a functioning **inter-institutional co-ordination mechanism** for trade policy formulation. The MTI is responsible for trade policy development and works alongside the National Council for Economic Development (NCED), which acts as the main advisory and decision-making platform for economic policy making and reforms, including trade policy. The MTI established a co-ordinating body in 2016, the National Trade Facilitation Committee (NTFC), to handle and co-ordinate trade activity between different ministries, the private sector and civil society. The NTFC is also in charge of CEFTA harmonisation and standardisation of procedures, and the implementation of international agreements. NTFC meetings are organised at least twice a year and related reports are made public. The MTI has also established three sectorial working groups on agriculture, industry and services. Kosovo has made efforts to adapt its co-ordination framework to relevant issues, with the National Committee for Trade in Services recently established as an advisory body with the purpose of proposing trade policies in services.[18] It is common practice that the MTI's Secretary General establishes new trade policy working groups and creates channels of communication with the private sector and civil society whenever new laws are drafted. Currently, the trade department of the MTI is drafting its new work programme for the period 2020-2023. (Government of Kosovo, 2019[46]).

Targeted sectoral co-ordination and transparency initiatives are being put in place in Kosovo, and at the end of 2020 the Contact Point on Services (CPS) platform was launched. The CPS is a database to facilitate stakeholder access to the regulatory framework that governs service activities in Kosovo, helping those already in the market and entrepreneurs who want to start providing services.[19]

Inter-ministerial co-ordination and stakeholder consultation processes are conducted in a complementary manner during all stages of policy making (initiation, formulation, implementation, evaluation and monitoring). The private sector, including the different chambers of commerce, are included in all stages of policy making through working groups, the NTFC and the NCED. Chambers of commerce and civil society also participate in public consultations. NGOs, academia, EU offices and other institutions are also regularly involved in trade-related consultations.

Clear progress has been made in implementing **public consultation** standards. Since the Minimum Standards for Public Consultation Process regulation, entered into force in 2017, the fulfilment of these standards has increasingly become part of the MTI's work, and it has been consulting with more institutions and stakeholders. The MTI's website has been set up to enable free access to draft and final trade measures, and allows the private sector to comment on draft laws in a transparent manner.[20] All materials and documents (draft laws, calls for consultations) are made available on the website, and there has been an increase in the number of participants consulting these documents. According to the 2020 report (Government of Kosovo, 2018[47]; Government of Kosovo, 2020[48]), between 2018 and 2019, MTI's website saw an 18% increase in the number of consultations of published draft regulations. In 2019, 100% of published drafts were consulted; however, the number of consultations per draft was not disclosed. The regulation allows any citizen concerned or potentially affected by a regulation to provide comments before a measure is adopted. The public consultation system was extended to all municipalities in 2018.

Monitoring the quality and shortcomings of PPCs is not yet conducted systematically in the WB6 economies, and there exist few public bodies that supervise the implementation of consultations and monitor their quality. However, Kosovo is somewhat of an exception, and has the most developed consultation evaluation mechanisms among WB6 economies. PPCs, promotion tools and timelines of consultations are evaluated annually by the Office on Good Governance to determine whether an open, transparent and non-discriminatory form of PPC was used throughout the legislative process. Moreover, the Office on Good Governance annually reports and monitors public consultation implementation based on defined goals of effectiveness and inclusiveness.

The Office of Good Governance is tasked with preparing an annual report on the public consultation process, and checks whether draft proposals comply with public consultation requirements before the proposals are submitted to the government. Kosovo's annual reports on the PPC process have so far presented results for 2017 and 2019. (Government of Kosovo, 2018[47]; Government of Kosovo, 2020[48])

The Office for Good Governance established co-ordination structures in 2017 that introduced public consultation co-ordinators in each ministry. It also carried out capacity building activities, such as two rounds of on-the-job training on PPCs, training on using the electronic PPC platform and numerous information workshops. Introducing the electronic public consultation platform was one of the most important steps the government has taken to facilitate PPCs.

The reports produced by the Office for Good Governance show that 274 documents were drafted by all ministries in 2019, with 100% of the acts approved by government open to public-private consultation (compared to 90% in 2017). These documents were made up of 5 concept documents, 31 draft laws, 77 draft regulations, 129 draft administrative directives, 6 strategies, 5 programmes, 7 action plans and 14 “other”. Some 272 documents were consulted via the platform, with 2 consulted on by other tools including e-mail communication, stakeholder workshops and public meetings.

The total number of participants in the consultation process was 3 577 in 2019, representing an increase of 143% from 2018, when there were 1 469 participants (there were 2 104 in the first report of 2017). A total of 1 339 comments were received, among which 688 (51%) were accepted and implemented by the drafting institutions, 97 (7.2%) were partially accepted and 543 (40%) were rejected. There is no information for 6 comments.

The minimum standards provided for in the regulations were met by 67% of documents submitted to PPC (compared to 52% in 2017), while 33% did not meet all the minimum standards (compared to 48% in 2017). All documents submitted by the MTI met the minimum standards in 2019. (Government of Kosovo, 2018[47]; Government of Kosovo, 2020[48]).

In terms of **bilateral and multilateral free trade agreements**, Kosovo joined CEFTA in 2007 and signed the Stabilisation and Association Agreement (SAA) with the EU in 2016. Kosovo also signed a Joint Declaration on Cooperation with the economies of the European Free Trade Agreement (EFTA) in 2018, and the first virtual meeting of the joint committee between Kosovo and EFTA was held in November 2020. Kosovo is at an early stage in its application for observer status at the World Trade Organization. In this context a memorandum on the foreign trade regime has been prepared, but not yet implemented.

In June 2019, Kosovo ratified its free trade agreement with Turkey (signed in 2013), which provides for the progressive elimination of customs duties on a list of products within a decade. The agreement also sets out a commitment to negotiate provisions on the facilitation of trade in services. In July 2019, Kosovo signed an Economic Cooperation Agreement with the Czech Republic, and in December 2019 it was the first economy to sign a Partnership, Trade and Cooperation Agreement with the United Kingdom (in anticipation of the United Kingdom's withdrawal from the EU-Kosovo SAA).

### *Sub-dimension 2.2: Services trade restrictiveness*

Services contribute almost two-thirds of GDP in WB6 economies on average, which illustrates how strongly economic growth, innovation and labour markets depend on effective policies that promote open and competitive service markets. In 2019, services accounted for 74% of GDP in Kosovo, which represents a 6.22 percentage point increase from 2009. Services accounted for 85.2% of employment in 2019 and 83.4% of new businesses registered. Services exports have seen an annual average growth rate of 12.9%, while services imports have seen an annual average growth rate of 8.1%, resulting in a growing surplus. Enhancing the openness of trade in services can improve the efficiency and productivity of domestic firms. Trade in services allows countries to specialise according to their comparative advantages in services and skills (OECD, 2021[49]). The potential gains from lifting stringent restrictions on services trade are significant, as increased domestic and foreign competition complemented by effective regulation can enhance performance (OECD, 2018[37]). Moreover, unbalanced regulatory restrictions on services significantly affect trade by raising the costs for firms to operate in the host economy (Box 22.2).

#### Box 22.2. The costs of regulatory barriers to trade in services

OECD analysis reveals that services trade restrictions significantly affect trade by raising the costs for firms to operate in the host economy (Rouzet and Spinelli, 2016[50]). Trade costs arise both from policies that explicitly target foreign suppliers and from domestic regulation that falls short of best practice in the area of competition and rule-making. The costs resulting from barriers to trade in services are much higher than those of trade in manufactured goods.

Trading services is costly. Studies show that policy-induced services trade costs are relatively high. Expressed as percentages of total trade value, average multilateral costs for cross-border services trade are around 57% for communication services, 54% for business services, 60% for transport services, 103% for insurance services and 255% for financial services. Even exporting to the most liberal countries still requires compliance with regulations at a cost that corresponds to around 30% of the export value in most sectors, and nearly 90% in financial services. Within the European Single Market, however, services trade costs are significantly lower: policy-induced costs of cross-border services trade are around 10% in most sectors and around 32% in financial services.

Source: (Benz and Jaax, 2020[51]), *The costs of regulatory barriers to trade in services: New estimates of ad valorem tariff equivalents*, https://dx.doi.org/10.1787/bae97f98-en; (Rouzet and Spinelli, 2016[50]), *Services Trade Restrictiveness, Mark-Ups and Competition*, https://dx.doi.org/10.1787/5jln7dlm3931-en.

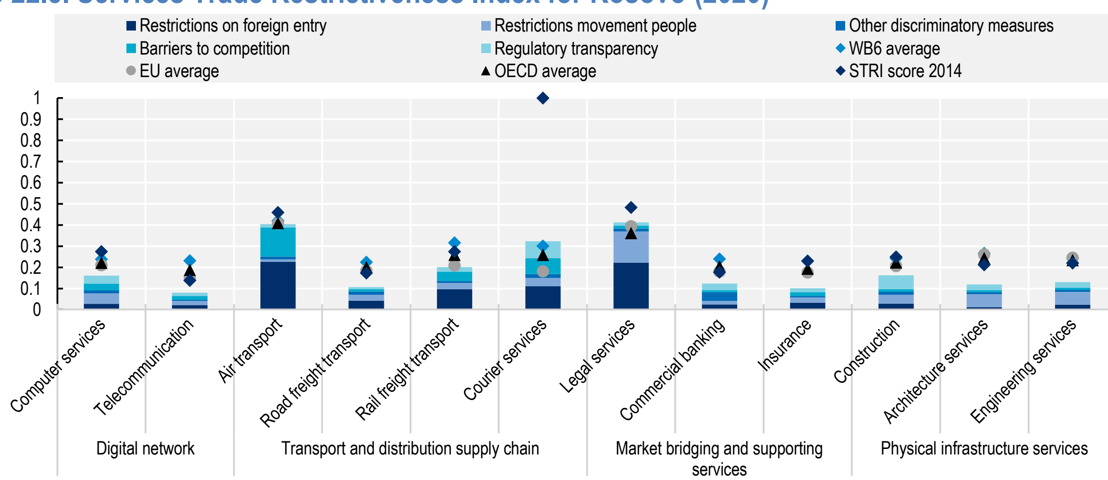
The OECD Services Trade Restrictiveness Index (STRI) was used to **analyse Kosovo's policies and barriers to trade for 12 services sectors**. The OECD STRI project is a unique, evidence-based diagnostic tool that inventories trade restrictions in 48 economies,[21] allowing economies to benchmark their services regulations against global best practice, identify outlier restrictions, and prioritise reform efforts. For this CO assessment cycle, the 12 services sectors are grouped into four clusters: 1) transport and distribution supply chain (air transport, road transport, rail transport, courier); 2) market bridging and supporting services (commercial banking, insurance, legal services); 3) physical infrastructure services (construction, architecture, engineering); and 4) digital network services (computer services, telecommunications).

Information was collected from the WB6 economies' laws and regulations, and indices were calculated for seven years (2014-20). These composite indices quantify restrictions across five policy areas: foreign entry, movement of people, barriers to competition, regulatory transparency and other discriminatory measures. The indices quantify regulatory restrictions in each of the 5 policy areas for the 12 sectors by giving them a value between 0 and 1. Complete openness to trade in services gives a score of 0, while being completely closed to foreign service providers yields a score of 1.[22]

Each policy area is composed of a series of measures. These measures are called "horizontal" if they are present in all sectors, or "sector specific" if they only affect a particular sector.[23] The STRI measures the "most-favoured-nation" restrictions and does not take into account any specific concessions, such as regional trade agreements or mutual recognition agreements (Geloso Grosso, 2015[52]).

Figure 22.5 shows the STRI indices for each of the sectors, as well as the average scores for the WB6, EU and OECD. Compared to the OECD and key partners' average STRI indices (represented by a "+"), Kosovo is in the low range in terms of the degree of restrictiveness of its service sectors. Overall, it also has the least restrictive regulatory environment in the region. This makes it a preferred candidate for foreign service providers. The four sectors with the lowest score relative to the WB6 average are telecommunication services, road freight transport, insurance and architecture services. The three sectors with the highest score relative to the WB6 average are courier services, legal services and air transport.

## Figure 22.5. Services Trade Restrictiveness Index for Kosovo (2020)



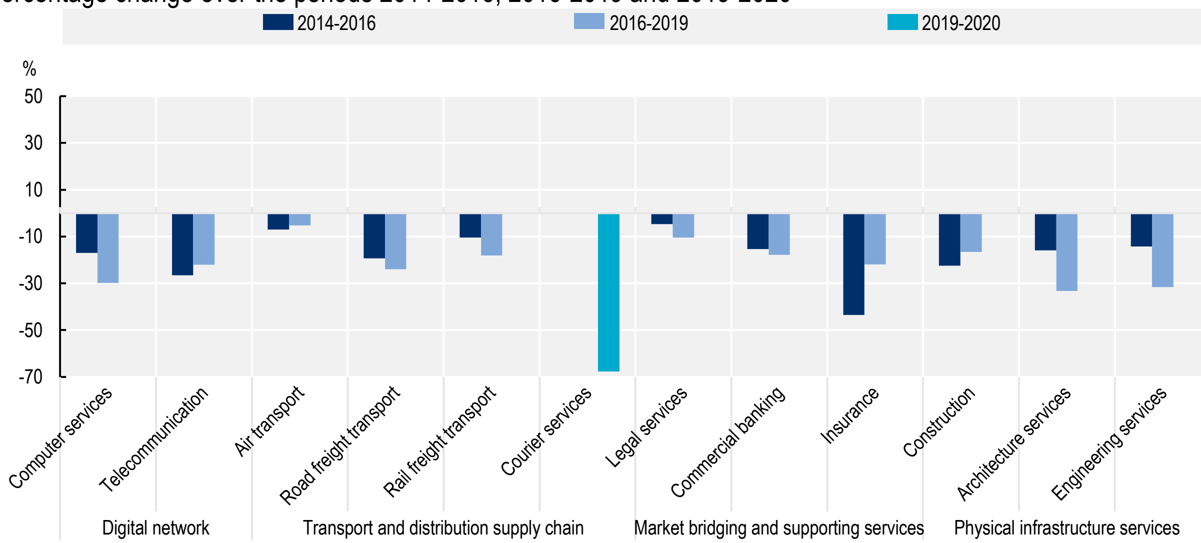

Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; Bulgaria, Croatia and Romania are not OECD members nor OECD STRI key partner economies and therefore are not covered by STRI indices; key partners to the STRI project are Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa and Thailand.
Source: (OECD, 2020[53]) *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934255684

Kosovo shows a continued regulatory willingness to lower restrictions affecting trade in services, as shown in Figure 22.6. The economy has maintained a steady flow of reforms in the period 2014-2020, with a notable highlight being the opening of its courier market in 2019. The slowdown in reforms to open services markets in the period 2020-2021 is explained by regulatory efforts around the world to solely mitigate the negative effects of the COVID-19 pandemic. Nevertheless, the absence of an increase in the degree of restrictiveness in all WB6 economies for the period 2019-2020 is important, and contrasts with the marked overall increase observed in OECD economies for the same period (OECD, 2021[49]).

**Figure 22.6. Evolution of STRI scores by sector in Kosovo (2014-20)**

Percentage change over the periods 2014-2016, 2016-2019 and 2019-2020




Note: Negative values indicate a reduction in restrictiveness of the economy's trade regulatory environment.

Source: (OECD, 2020[53]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934255703

The following analysis starts with the horizontal measures that are included in all sectors and that typically hamper services trade in the economy as a whole. In particular, in the area of general business regulations, restrictions on the movement of service providers, standards for the cross-border transfer of personal data, the legal framework for public procurement and the screening of foreign investment. It then reviews each of the 12 sectors analysed, displaying the STRI scores, explaining what drives the results, and providing a brief description of the most common restrictions and good practices.

*General business regulations and barriers to the movement of people* affect the ability of firms to operate in Kosovo. The requirement of minimum capital in the form of a deposit that must be placed in a bank or notary's office to register a limited liability company affects foreign companies,[24] and cumbersome procedures for obtaining business visas limit the search for investment opportunities. However, significant progress has been made in easing conditions for the movement of people between CEFTA economies through the conclusion of Additional Protocol 6 to the CEFTA Agreement, although there are still some restrictive requirements for those from economies outside CEFTA or the EU.

A common practice in STRI participant economies is to apply labour market tests (LMTs) to determine whether suitably qualified local workers are available (or could easily be trained to do the work). LMTs typically involve seeking advice from industry representatives and government agencies to determine current skill shortages. In Kosovo, the update of the Law on Foreigners in 2017 lifted LMTs for work permits issued to third economy nationals, and no quotas are applied on the same categories of workers. This greatly improved the attractiveness of the economy compared to other WB6 economies. However, the initial authorised length of stay of foreign services providers (12 months) falls short of international best practice (36 months), and therefore mitigates the positive effects of the 2017 policy change (OECD, 2021[49]).

There is also a low degree of restrictiveness of applied *standards for the cross-border transfer of personal data* in Kosovo. These standards are set at the EU level. Transfers to non-EEA (European Economic Area) economies may take place when standards ensure an adequate level of data protection or, failing that, where appropriate safeguards (e.g. binding corporate rules or standard data protection clauses) are in place.

Kosovo's *legal framework for public procurement* is largely aligned with the 2004 EU Directive. The Public Procurement Act explicitly refers to the principles of transparency, equal treatment and non-discrimination, although there is no explicit mention of non-discrimination towards third country nationals. Kosovo has also prepared implementing legislation that includes rules and guidelines to assist contracting authorities in managing *public procurement* and the award of contracts. Kosovo has a strategy (covering the period 2017-2021) and an action plan (2017-2019) to improve the public procurement system, but does not yet assess its implementation. The 2020-2021 action plan is currently under preparation.

The lack of burdensome *screening of foreign investment* eases such investment. In this regard, Kosovo is very attractive for foreign service providers. Laws and regulations in Kosovo do not mandate that economic interests should be considered in the review of foreign investments, although such consideration is not explicitly ruled out. Kosovo does not set a threshold above which a foreign investment project is subject to screening.

Beyond the regulatory measures that affect Kosovo's trade in services horizontally, there are a number of sector-specific restrictions in the 12 STRI sectors analysed, discussed in turn below.[25]

**Air transport services** are defined as passenger and freight air transport carried domestically or internationally (code 51 under the International Standard Industrial Classification – ISIC). The STRI for this sector only covers commercial establishments. Given the range of air transport subsectors, the approach of the STRI project is to focus on measures affecting carriers' transport of passengers and goods between points. Airport management and other aviation services are only relevant where regulations affect the ability of foreign carriers to transport passengers and goods between points. The other aviation services are covered more fully in the STRI for logistics services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.165 and 0.601. With a score of 0.404, Kosovo is the third-most restrictive WB6 economy, and scores lower than the WB6 (0.421), EU (0.406) and OECD (0.409) averages.

The air transport sector is the archetype of a service industry where the legal environment is regulated through international agreements. The WB6 region tends to harmonise its regulations with standards in force in the EU, which has several consequences. On the one hand, the sector has very little variation in scores between WB6 economies and the EU. On the other hand, the EU legal influence means that the sector is one of the most restrictive compared to other STRI sectors, which is justified by its nature as it combines legal and safety issues. In absolute terms, Kosovo's air transport regulations are open and highly harmonised with the EU. However, given that there is very little or no exchange of freight by air, as most imports from Kosovo are by land, some measures that raise the economy's STRI score may appear to be disproportionately restrictive compared to the actual size and structure of the market in Kosovo.

*Restrictions on foreign entry* figure prominently in the results of Kosovo's STRI for air services. Like 40 other OECD and STRI key partners (OECD, 2020[54]), the economy limits to 49% the share of capital that foreign natural or legal persons can hold in an air transport service company in Kosovo. This restriction is dictated and justified under EU regulations, but in absolute terms it affects Kosovo's STRI score compared to the limited size of the economy's air transport sector. The leasing of foreign aircraft is allowed, subject to prior authorisation, but only for dry leases (without a crew). The leasing of foreign aircraft with crew (wet leasing) is prohibited.

The other major category that influences the degree of restriction concerns *barriers to competition*. As in several OECD, STRI key partner and WB6 economies, Kosovo maintains public ownership in the aviation sector through two domestic airlines, Kosovo Airlines and Air Prishtina. The maintenance of state-owned enterprises (SOEs) in the sector is generally regarded as a restriction to trade in services, as traditional domestic airlines usually enjoy a competitive advantage over foreign companies. However, none of the airlines in Kosovo have a fleet of aircraft. The domestic airlines continue to work with other airlines serving Pristina and to sell excursion trips. This situation is relatively rare and negatively affects the STRI score in this sector, even though the impact of Kosovo's domestic carriers on competition is limited due to their size and corporate structure.

The regulation of slots allocated at airports in different economies often has a strong influence on the degree of openness of the sector. In Kosovo, slots are allocated in a fair, non-discriminatory and transparent manner, according to the principle of equal opportunities for all airlines. However, there are some elements that have a negative impact on the STRI score in this area. The general principle in Kosovo concerning slot allocation is that an air carrier that has operated at least 80% of its slots during the summer/winter scheduling period is entitled to the same slots for the equivalent scheduling period of the following year (so-called grandfather rights). To mitigate the anti-competitive nature of this technique, slots not sufficiently used by air carriers are reallocated (the so-called "use it or lose it" rule). However, Kosovo prohibits the commercial exchange of slots, which limits trade in this area.

**Road freight transport** (ISIC Revision 4 code 4293). The STRI for this sector only covers commercial establishment. Cross-border trade is governed by a system of bilateral and plurilateral agreements that involve permits, quotas and other regulations.

The 2020 scores for all OECD member states in this sector range between 0.105 and 0.624. With a score of 0.106, Kosovo is one of the least restrictive economies among all STRI participants, and therefore the least restrictive economy in this sector within the WB6. It scores considerably lower than EU (0.184), OECD (0.201) and WB6 (0.225) averages.

This is of utmost importance for Kosovo, as the road freight sector largely dominates the other transport sectors in the economy. Kosovo does not impose any sector specific regulations that would restrict the sector. Unlike in most STRI participant economies, there is no restriction on foreign entry in the form of limitations on acquisition and use of land and real estate by foreigners. The movement of people is also very unrestrictive, as there is no imposition of quotas or LMTs. There is no firm in the sector that would be controlled by the government. Registering a company is significantly less lengthy, costly and burdensome in comparison to the other WB6 economies.

**Rail transport** (ISIC code 4912) is provided over a dedicated network where the market structure may take different forms, the two most common being: 1) vertically integrated rail services firms owning and managing both the infrastructure and the operation of freight services; and 2) vertical separation between infrastructure management and operations. Regardless of market structure, there are well-established best practice regulations that also consider competition from other modes of transport, particularly road transport.

The 2020 scores for all OECD member states in this sector range between 0.129 and 1. With a score of 0.202, Kosovo is the least restrictive economy among WB6 economies in the rail transport sector. It scores lower than EU (0.210), OECD (0.260) and WB6 (0.317) averages.

In terms of *foreign entry restrictions*, the sector is negatively affected by limits to the proportion of shares that can be acquired by foreign investors in publicly controlled firms. According to the Law on Publicly Owned Enterprises, a private person can only own up to 50% of the SOE shares. Existing railway operations in Kosovo are organised and managed by the publicly owned Trainkos. The legal framework also lacks in transit rights for international rail transport, which limits the sector.

Kosovo shares borders with four economies, but is only connected by railroad with Serbia and North Macedonia. There is no bilateral agreement with Serbia, and the bilateral agreement with North Macedonia is only applicable for the railroad sector from the border to the station located nearest to the border in both economies. Railway services can only be supplied if there is commercial presence in Kosovo. A licence is required to enter the rail freight transport market, which also has a negative effect on the STRI score.

Regarding *restrictions on the movement of people*, certain professions in the sector, such as train drivers, need a licence to practise. Only train driver licences granted in an EU member state are considered valid in Kosovo. Licences issued by the authorities of third economies are only recognised through mutual recognition agreements established bilaterally. Although better than a complete lack of recognition procedures, mutual-based recognitions still involve legal uncertainty for foreign service providers.

*Barriers to competition* are an important contributor to Kosovo's STRI performance in rail transport services. Access to railway infrastructure is mandated at a domestic level. The Ministry of Transport establishes the method for calculating the access costs that the infrastructure manager should charge for railway operators seeking access to the network. The transfer and trading of infrastructure capacity are both prohibited. Railway infrastructure is solely managed by a public company, Infrakos.

The **courier services sector** (ISIC Rev 4 code 53) includes postal and courier activities. While courier services have traditionally been important means of communicating, the rise of modern ICT has contributed to the less frequent use of letters between individuals for communication.

The 2020 scores for all OECD member states in this sector range between 0.106 and 0.88. With a score of 0.323, Kosovo is the third-least restrictive WB6 economy. It scores higher than the EU (0.182) and OECD (0.259) averages, but lower than the WB6 average (0.301). Compared to the previous assessment cycle, the courier services sector has undergone a substantial transformation in terms of reducing its restrictiveness. However, the score is still mainly affected by two sector-specific measures: 1) the universal service provider is the state-owned Post of Kosovo JSC; and 2) the designated postal operator (DPO) who performs the universal postal services obtains preferential tax or subsidy treatment.

A 2019 reform has opened the market to foreign service providers and has lowered the economy's restrictiveness index by more than 70%. The main regulatory reason for this change lies in the abolition of monopolies on delivery. In terms of restrictions to the movement of people, authorisations provided by the Regulatory Authority of Electronic and Postal Communications (ARKEP) are required for all courier services practising in Kosovo. As the courier profession is regulated, the fact that there are no laws or regulations establishing a process for recognising qualifications gained abroad contributes negatively to the economy's STRI score in this area.

*Foreign entry restrictions*, such as licence requirements to enter the market, play a significant role in many economies' STRI performance, including Kosovo. ARKEP is the only institution able to authorise the provision of postal services. Prior to 2018, Kosovo, like many other economies, had a monopoly in two reserved areas – letters and parcels. In the 2018 law, the public postal operator was entitled to offer reserved services including acceptance, transport and delivery of local and international shipments with a weight up to 100 grams in order to meet the universal postal service request. Since 2019, reserved services have been provided by the company that receives the status of DPO and bears the responsibility of providing universal postal services. Reserved postal services include the receipt, transportation and delivery of simple shipments weighing up to 100 grams. The public postal service provider can nevertheless continue to exercise its entitlement to provide reserved services until the end of 2021.

Regarding *barriers to competition*, in 2020 the Post of Kosovo JSC was designated as a universal postal service provider for a period of five years. The Post of Kosovo JSC is the only public postal operator in the economy. With the new 2019 Postal Services Law, the universal postal service provider can be compensated by the government if universal services provision incurs additional net costs that may constitute an unreasonable burden, and if the provider cannot cover these costs from other postal or business services. ARKEP determines the level of compensation on a net cost basis.

**Legal services** (ISIC Rev. 4 code 691) cover advisory and representation services in domestic and international law. Measures are entered separately into the STRI database for each, when relevant. International law includes advisory services in domestic law, third-economy law and international law, as well as a right to appear in international commercial arbitration. Domestic law involves advising and representing clients before a court or judicial body in the law of the host economy.

The 2020 scores for all OECD member states and OECD partners in this sector range between 0.141 and 1. Kosovo is the third-least restrictive WB6 economy with a score of 0.412, higher than the EU (0.394), OECD (0.362) and WB6 (0.391) averages. In comparison to 2014, Kosovo became less restrictive in the legal services sector. The score is mostly a result of restrictions on the entry of foreigners and restrictions on the movement of people, such as the requirement for a licensed foreign lawyer to act as a co-lawyer with a local and licensed lawyer, and other restrictions described in detail below.

Unlike a number of OECD, STRI key partners and WB6 economies, Kosovo does not restrict the temporary movement of natural persons by imposing quotas or LMTs. Restrictions, however, are present in the form of a licence required to provide legal services in the economy. All licences for foreign lawyers are granted by the Kosovo Bar Association (KBA), and all foreign lawyers must be registered by the KBA in the register for foreign lawyers. Two types of licence are possible: a temporary licence for matters of international law, and a permanent license that enables foreign lawyers to practice domestic law. A foreign lawyer can only obtain a licence to practise domestic law if they enter into a contractual relationship with a local lawyer as a co-lawyer, a restriction which negatively affects the STRI score. However, the presence of the temporary licence greatly limits the degree of restrictiveness of this sector, and places Kosovo in the lower bracket of restrictiveness in the WB6 region, as well as compared to OECD member states. Finally, locally licensed lawyers are obliged to declare an address for correspondence within a defined geographical area of their local bar association.

Regarding *restrictions on foreign entry* in Kosovo, partners and shareholders of law firms have to be licenced and registered professionals in order to practice domestic law. Practice or cross-border legal advice on international law is not subject to an equity restriction. Commercial association is only possible between lawyers and other licensed professionals, other law firms, joint law offices, or local and foreign bar associations. Restrictions on the board of directors has a negative effect on the STRI score. In both domestic and international law, all founding partners and shareholders of law firms must be licensed and registered lawyers.

In the area of *barriers to competition*, freely set fees by legal professionals are considered to promote better competition in legal services. In this respect, the STRI considers the imposition of fees as a barrier to trade. Kosovo’s laws require the KBA to regulate state lawyers’ fees for cases related to domestic law. There is no distinction made between foreign and local lawyers. All fees are mandatory and listed in the regulations for lawyers.

**Commercial banking** (ISIC Rev 4 divisions 64-66) is defined as deposit-taking, lending and payment services. Commercial banking services are traded business to business, as well as business to consumer for retail banking. Efficient banking services are one of the backbones of dynamic economies as they provide financing for investment and trade across productive activities and underlie all value chains.

The 2020 scores for all OECD member states and key partners in this sector range between 0.131 and 0.517. With a score of 0.123, Kosovo is the least restrictive WB6 economy in the commercial banking sector, and scores lower than the EU (0.180), OECD (0.205) and WB6 (0.239) averages. Kosovo is also less restrictive than the Czech Republic, which is the best CEEC[26] performer with a score of 0.127. In comparison to 2014, Kosovo became less restrictive in the commercial banking services sector. The STRI score in this sector is especially affected by restrictions on extending loans or taking deposits in foreign currency, as well as Kosovo’s deviation from international risk weighting standards (Basel standards).

The results are mainly due to three policy areas: restrictions on foreign entry, barriers to competition and regulatory transparency. These results reflect the particular characteristics of the sector, as well as the policy environment in which it operates. As the banking sector plays a key role in each economy, but can pose risks to financial stability, restrictions on entry and competition have sometimes been used as a means for authorities to maintain control over operations in the absence of effective prudential regulation.

*Restrictions on foreign entry* are often identified as the main source of restrictiveness in the commercial banking sector; however, Kosovo remains relatively open in this regard. It does not limit the share of foreign equity capital in local banks, nor does it restrict the establishment of branches of foreign banks. The licensing of foreign-owned banks is not restricted and is undertaken according to objective and transparent principles applied in an undifferentiated manner to domestic banks. Kosovo does not restrict cross-border bank mergers and acquisitions. Foreign banks do not have to be established locally in order to provide services to residents. No restrictions are imposed on the members of the board of directors of a commercial bank.

Although *barriers to competition* generally contribute substantially to economy scores, Kosovo is positioned in the liberal third of the WB6 economies. Its scores are positively influenced by the adequate regulation of financial products, and the full operational, managerial and fiscal independence from the government of its supervisory authority. None of the largest commercial banks is state owned.

Regarding *regulatory transparency* in the licensing process, the authorities are obliged to provide reasons for the rejection of an applicant within a maximum of 15 days, in line with OECD good practice. However, the burdensome length and cost related to resolving a debtor's insolvency contributes negatively to the indices in Kosovo.

In terms of *other discriminatory measures*, Kosovo's adherence to International Financial Reporting Standards (IFRS) has helped its STRI score. However, the compliance of its regulations with international standards differs to some extent, in particular the application of Basel standards (Sub-dimension 1.1: Investment policy framework). Kosovo also applies certain forms of restrictions on foreign banks for raising capital domestically.

**Insurance services** (ISIC Rev. 4 codes 651 and 652) comprise life insurance, property and casualty insurance, reinsurance, and auxiliary services. Private health insurance and private pensions are not covered.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.1 and 0.565. With a score of 0.101, Kosovo is the least restrictive WB6 economy in the insurance services sector. It scores lower than the EU (0.175), OECD (0.193) and WB6 (0.231) averages. This sector is mostly affected by the requirement that managers must be resident in Kosovo for providing life and non-life insurance, and reinsurance services.

The STRI results of Kosovo’s insurance sector are mainly due to three policy areas: restrictions on foreign entry, restrictions on the movement of people and regulatory transparency. These results reflect the particular characteristics of the sector and the policy environment in which it operates. The insurance sector follows the general logic of the financial sector in Kosovo in its non-restrictive character. Kosovo underwent a redesign of insurance regulations in 2015, lifting most of the restrictions in its insurance legal framework. The sector is now among the three least restrictive services sectors in the economy.

There are, however, some elements that influence the score in this sector. There are still *restrictions on the movement of people* in the form of licence requirements. Licence to practise, which is delivered by the Central Bank of Kosovo (CBK), is required for both insurance and reinsurance intermediaries, and all actuaries need to be appointed by the CBK. For foreign insurer applicants, a statement must be provided by the home economy supervisory authority that there is no objection to the start of proposed activities in Kosovo. One of the criteria for licensing agents as insurance intermediaries is that they must be a resident of Kosovo. Residence is also required for managers of insurance companies in order to exercise their activity. The same limitation applies to brokerage services.

Regarding *barriers to competition*, the insurer, which has a licence to conduct certain classes of insurance and can request the exercise of activities in other classes of insurance, must obtain a licence for activity expansion. The CBK has exclusive responsibility for the licensing, supervision and regulation of insurers. Approval by the regulatory authority is required for new rates or fees and for new products or services.

**Construction services** (ISIC Rev 4 codes 41 and 42) covers the construction of buildings (residential and non-residential) and construction work for civil engineering. Construction services play an important role in the functioning of economies by providing the infrastructure for other industries. These services account for a significant share of GDP and employment in most economies. Public works, such as roads and public buildings, account for about half of the market for construction services. The STRI for construction services therefore covers detailed information on public procurement procedures.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.464. With a score of 0.162, Kosovo is the least restrictive WB6 economy. It scores lower than the EU (0.207), OECD (0.223) and WB6 (0.242) averages. The scoring for this sector is mostly affected by the lack of public procurement regulation to explicitly prohibit the discrimination of foreign suppliers.

There are *restrictions on the movement of people* through Kosovo’s imposition of licensing requirements to provide engineering services. Furthermore, at least one engineer must be licensed for the issuance of construction permits. To apply for a construction permit, copies of the professional licences of the project designers who prepared the construction documentation are required. However, the law specifies that this requirement is mandatory only when the licences are available through relevant legal acts; until then, applicants must ensure that project designers are qualified with the relevant diploma.

**Architecture services** (ISIC Rev 4 code 711) cover architectural services and related technical consultancy. These services constitute the backbone of the construction sector, with key roles in building design and urban planning. An important feature is the regulatory complementarity between architecture, engineering and construction services, with all three sectors having very similar STRI scores. Architectural and engineering activities are often combined into projects offered by one company, and are sometimes subsumed in the building and construction sector.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.113 and 0.684. With a score of 0.119, Kosovo is the least restrictive WB6 economy. It scores lower than the EU (0.261), OECD (0.244) and WB6 (0.266) averages. The sector’s score is mostly affected by licensing requirements and the lack of a temporary licensing system.

*Restrictions on the movement of people* are caused by the fact that a licence or authorisation is required to practice, and there is no temporary licensing system, which means that foreign architects do not have the option to be temporarily authorised to carry out a specific project or to advise in some areas of architecture services but must go through the whole process of being licensed in Kosovo.

**Engineering services** (ISIC Rev 4 code 711) covers several related activities, such as engineering and integrated engineering services, and engineering related scientific and technical consulting services.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.118 and 0.575. With a score of 0.130, Kosovo is the least restrictive WB6 economy. It scores lower than the EU (0.246), OECD (0.234) and WB6 (0.244) averages. As in the architecture services sector, the engineering sector’s score is mostly affected by licensing requirements and the lack of a temporary licensing system.

Engineering services are the backbone of construction and supply. Engineers are involved in the construction of key infrastructure, such as buildings and roads, and play an important role in the development of production processes and the adoption of new technologies.

In engineering services, the results are mainly affected by *restrictions on the movement of people*. A licence or permit is required to practice and there is no temporary licensing system, which means that foreign engineers cannot enter Kosovo temporarily to carry out a specific project or to provide advice in certain fields. However, Kosovo does have a procedure for recognising foreign qualifications. An applicant with a qualifying licence in their home economy must take the general part of the professional exam and fulfil the conditions prescribed in the law. Candidates willing to take the professional examination to carry out tasks in construction must present a variety of documents, including a certificate from the Ministry of Education, Science and Technology (MEST) if academic qualification is achieved abroad. Moreover, those applying for registration on the list of architects and engineers in Kosovo can submit, among other documents, a nostrified (i.e. recognised) diploma by the ministry if they graduated outside the economy.

**Computer services** (ISIC Rev 4 codes 62 and 63) include computer programming, consultancy and related activities, and information service activities.

The 2020 scores for all OECD member states and STRI partners in this sector range between 0.123 and 0.448. With a score of 0.160, Kosovo is the least restrictive WB6 economy in the computer services sector. It scores lower than the EU (0.211), OECD (0.222) and WB6 (0.239) averages. The scoring is heavily affected by horizontal limitations on duration of stay for contractual and independent services suppliers, as well as intra-corporate transferees.

This sector is very rarely regulated by sectoral legislation, but is still subject to general laws that apply to the economy as a whole. Restrictions on the movement of people therefore account for one-third of the total score in computer services. The skilled labour intensity of the sector, together with the complementarity between cross-border trade and the movement of natural persons, explains why restrictions on the movement of people feature prominently in this sector in Kosovo. It also explains why this sector is the most open compared to similar sectors in the other WB6 economies. Kosovo has the most attractive horizontally applicable regime for foreign service providers, and therefore its computer services sector is the most liberal.

**The telecommunication sector** (ISIC Rev 4 codes 611 and 612) comprises wired and wireless telecommunications activities. These services are at the core of the information society, providing the network over which other services such as computer services, audio-visual services and professional services are traded.

The 2020 scores for all OECD member states and STRI partners in telecommunications services range between 0.108 and 0.682. With a score of 0.079, Kosovo is not only the least restrictive WB6 economy in the telecommunications sector, but also the least restrictive economy among all STRI participants for this sector. Therefore it scores lower than the EU (0.151), OECD (0.188) and WB6 (0.232) averages.

The results for the telecommunications sector are affected by two policy areas: restrictions on the entry of foreigners and barriers to competition. On average in all STRI participating economies, barriers to competition account for 30% of the total STRI scores in the telecommunications sector. This reflects the fact that it is a capital-intensive network industry, and its strategic importance has led many economies to restrict foreign investment and activity in the sector. This is not the case in Kosovo, however, where EU support has benefitted the sector through a rigorous review of its regulatory regime. The immediate consequence is that the regulation of the telecom sector is aligned with EU regulations and good practice.

In order to ensure fair competition in the telecommunications market, Kosovo has an independent telecommunications regulator, ARKEP, which is separate from stakeholders and the government and operates without state intervention. ARKEP has sufficient regulatory powers to effectively regulate the sector through *ex ante* regulation applied in accordance with EU principles, but only in the case of an operator with significant market power, which is not the case in all telecoms markets. *Ex ante* regulations are applied based on regular market analysis, and are readily available on the ARKEP website. Kosovo applies a "use-it-or-lose-it" policy to frequency bands, which is an important measure that prevents incumbent operators from over-holding valuable frequency licences and free tradable spectrum and telecom services. The fact that Kosovo also maintains the presence of an SOE[27] negatively affects its STRI score, but is widely observed in this sector.

In absolute terms, the regulatory framework of the telecommunications sector in Kosovo is competitive and constrained only by horizontal measures that apply to the economy as a whole, mainly the movement of people. Although telecommunications lend themselves easily to cross-border trade from a technical point of view, restrictions on the movement of persons account for a modest share of the total STRI score in this sector.

### *Sub-dimension 2.3: E-commerce and digitally enabled services*

E-commerce can bring about significant gains for businesses and is positively related to firms' process innovation. It enlarges businesses' market scope, reduces operational costs at various stages of business activities and lowers barriers to entry, thus intensifying competition (OECD, 2013[55]). E-commerce also benefits consumers by providing information on goods and services, helping identify sellers, and comparing prices, while also offering convenient delivery and the ability to purchase easily via a computer or mobile device (OECD, 2013[55]).

Digital trade is therefore becoming an increasingly interlaced platform for the exchange in digital services integrated into trade of goods. These implications of the digital transformation underline the importance of adopting a more holistic approach to policies, as well as more international co-operation (Ferencz, 2019[56]).

An e-commerce law ideally ensures the proper functioning of the digital market by facilitating the establishment of digital services and their free movement within the region, if co-ordinated. Its aim should be to provide legal certainty for business and consumers by establishing harmonised rules on issues such as transparency and information requirements for online service providers, commercial communications, electronic contracts, and the liability limitations of intermediary service providers. Examples of what the EU Directive on Electronic Commerce[28] covers include shopping, newspapers, databases, financial services, professional services (such as lawyers, doctors, accountants, real estate agents), entertainment services, direct marketing, advertising and internet intermediary services (such as hosting and search engines). Modern e-commerce regulations should focus on, among other things, electronic documentation and signature, online consumer protection, data protection and privacy, cyber security, intellectual property regulations, and intermediary liability. An attractive regulatory environment should refrain from maintaining disproportionately restrictive policies such as licensing requirements for e-commerce platforms, limitations on the type of goods that can be sold online (other than for generally accepted public policy considerations), and restrictions on cross-border data flows. This sub-dimension analyses the content and implementation of existing legislation in the WB region. It then uses the OECD Digital STRI to quantify the performance of the WB6 economies in trade in digital services by identifying the restrictive elements that hamper digital trade.

Kosovo has a solid **e-commerce policy framework** within the Law on Information Society Services, adopted in 2012. This law transposes the EU e-commerce directive[29] and includes chapters on electronic signatures, electronic contracts and electronic payments. The purpose of this law is to establish convenient possibilities for the development of electronic trade and the use of electronic transactions, and to reduce potential problems and abuse during electronic transactions. The Law on Electronic Identification on Trusted Services in Electronic Transactions (transposing the EU regulation on electronic identification and trust services for electronic transactions in the internal market – the eIDAS regulation) has been approved and is now in the final stages of adoption by parliament. This law will supplement the Law on Information Society Services and will create an enabling legal environment for e-commerce and other electronic services.[30] All public, private, NGO and academic stakeholders were consulted during the drafting process.

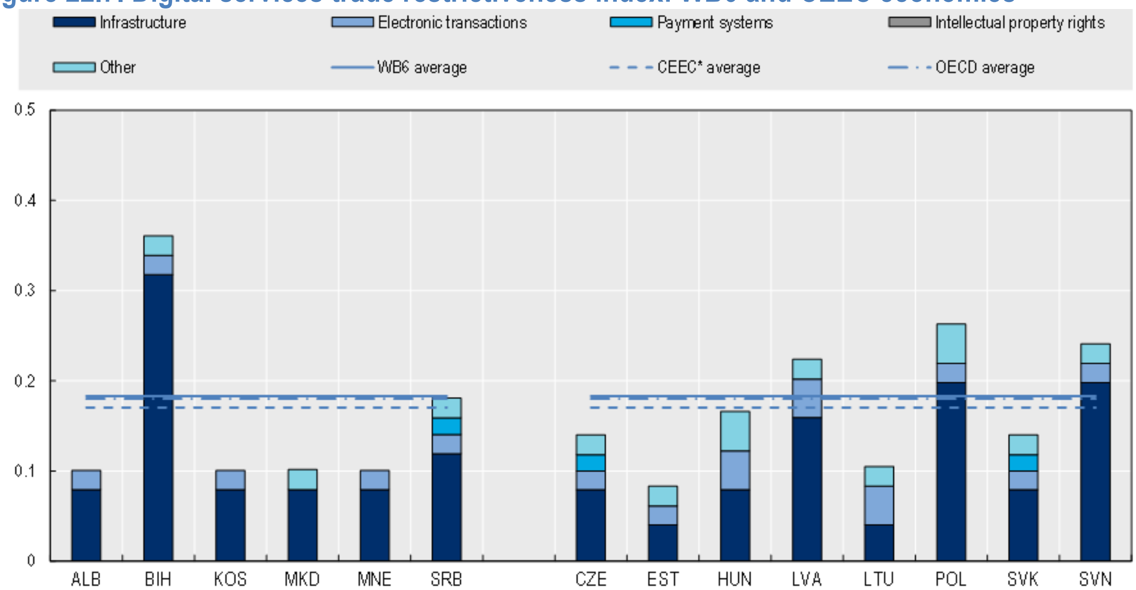
Regulations on e-commerce fall under the competence of several institutions. The Ministry of Economy and Environment (MEE) is responsible for e-commerce legislative and policy development, while the MTI and ARKEP are responsible for implementing the law. The MTI is supported in its role by the European Commission through the Instrument for Pre-Accession Funds (EUR 4 million). A working group has been established to steer the e-commerce regulations and funds and consists of representatives of the government, the banking and financial sector, the private sector, NGOs and academia. The new law will repeal Chapter XIII of the Law on Information Society Services on the use of signatures. According to the draft law, the MTI will have the main roles and responsibilities in addressing e-commerce, and will co-operate with the Agency for Personal Data Protection, the Ministry of International Affairs, the CBK, the Kosovo Banking Association, and others. Co-ordination tools are regulated by the draft law.

The Working Group’s work started in September 2020 with the aim to significantly boost e-commerce in Kosovo. It comes in a context of clear evidence of a booming e-commerce sector. The number of online purchases is increasing inside and outside of the economy, and there has been a significant increase in the companies and platforms providing e-commerce in Kosovo. Among the enterprises surveyed by the Kosovo Agency of Statistics in 2018, 11.4% made sales through a website or other computer application; this number rose to 22.7% in 2019. Moreover, based on a consultation with the Kosovo Association of Information and Communication Technology (STIKK), there is evidence that during the COVID-19 pandemic there has been a significant increase in the use of e-commerce solutions by all STIKK member companies as a means of development. This is revealed by the sharp increase in demand for e-commerce solutions addressed to STIKK member companies by customers from different sectors and markets during 2020. COVID-19 has favoured the digitalisation of many companies in Kosovo.

Despite improvements in the legal framework, e-commerce is still very limited, and some regulatory aspects are not yet fully operational. Kosovo lacks an online shopping culture and the related legal environment (63.6% of the population have never ordered or purchased products online, according to 2018 data) (Kosovo Agency of Statistics, 2018[57]). E-commerce suffers from the regulatory shortcomings of the electronic payment system and the lack of consumer confidence in e-commerce: Banks in Kosovo mostly do not support online payment processes, and if they do, the fees per transaction are very high. As a result, the use of e-commerce is difficult. Businesses have had to adapt to this in different ways, the most common solution being "cash payment" upon delivery of goods/services. Unfortunately, there are no reports estimating the size of the e-commerce market in Kosovo.

The OECD digital STRI captures **the restrictiveness of digitally enabled services** by identifying cross-cutting barriers that inhibit or completely prohibit firms’ ability to supply services using electronic networks, irrespective of the sector in which they operate. The regulatory data underlying the digital STRI were extracted from the existing OECD STRI database and data collected under public laws and regulations affecting digitally enabled services. Digital STRIs are the result of aggregating the identified barriers to trade into composite indices. The rating takes into account the specific regulatory and market characteristics as well as the links and hierarchies between regulatory measures affecting digitally enabled services (Ferencz, 2019[56]). Figure 22.7 shows Kosovo’s score on the digital STRI index.

**Figure 22.7. Digital services trade restrictiveness index: WB6 and CEEC economies**




Note: (0=no restrictions, 1=fully restricted); average represents the WB6 average for 2020; *CEEC=Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia (Bulgaria, Croatia, and Romania are not OECD member states or OECD STRI Partner economies and therefore do not have calculated STRI indices); the absence of a category in the graph means that it is exempt from restrictions.
Source: (OECD, 2020[53]), *Services Trade Restrictiveness Index Regulatory Database*, http://oe.cd/stri-db.

StatLink https://doi.org/10.1787/888934255722

The 2020 Digital STRI scores for all OECD member states in this sector range from 0.043 to 0.488. The WB6 average is 0.183. Kosovo is in the lower bracket in terms of the restrictiveness of its telecommunications sector with a score of 0.101, which places it among the four least restrictive WB6 economies. Since 2014, Kosovo has become less restrictive in the digital services sector.

Results in most Digital STRI economies are regularly driven by infrastructure and connectivity measures. This is due to the lack of effective interconnection regulation, which is not the case in Kosovo where regulation is relatively well-aligned with international good practice. Similarly, although Kosovo has stricter rules than the OECD guidelines in this area (OECD, 2013[58]), it does not impose excessive conditions on cross-border data flows beyond those put in place to ensure the protection and security of personal data. No specific licences or authorisations for e-commerce activities, in addition to ordinary commercial licences, are required.

International standards for electronic contracts and key electronic authentication measures, such as the recognition of electronic signatures, are generally in place.

Policy areas relating to intellectual property rights and payment systems account for a smaller share of the scores of Digital STRI participating economies. Kosovo is relatively open in this category from a regulatory point of view as it follows the principles of European regulations. Regulations are therefore in place that provide for the treatment of foreigners that is no less favourable than that accorded to nationals in terms of intellectual property protection. All necessary regulations related to the payments systems are in place, although their use is limited in practice (as mentioned above).

### *The way forward for trade policy*

Kosovo has taken important steps to improve its trade policy framework, especially in the areas of public consultations on new legislation and evaluation mechanisms. Nevertheless, the government of Kosovo could improve its trade policy framework by considering the following:

- **Strengthen public consultation mechanisms and make them more transparent.** The authorities responsible for public consultation mechanisms should be mandated to publish consultation summaries on the dedicated website. Kosovo should also consider increasing the number of stakeholder comments in the consultation process, for example through the use of methods for public consultation other than electronic platforms (such as informal meetings).
- **Broaden trade in services efforts beyond regional trade agreements**. Significant improvements have been made among WB6 economies to open services trade through the conclusion of CEFTA Additional Protocol 6 in December 2019. Nonetheless, the STRI analysis in this section has provided some insights into where domestic reforms could help to attract new businesses and improve competitiveness:
    - **Ease conditions on the temporary movement of natural persons** beyond regional trade agreements to further encourage innovation and knowledge transfer and contribute to economic growth. A starting point could be to amend the limitation on the length of stay of foreign services providers as it falls short of international best practice; OECD good practice recommends a minimum initial length of stay of foreign service providers of 36 months.
    - **Reduce the remaining barriers to market entry and competition in courier services, legal services and air transport sectors**. Further efforts could be made to increase competitiveness. There are improvements to be made in the courier sector, such as amending the preferential subsidy treatment available to the designated postal provider. In the air transport services sector, Kosovo could consider lifting the interdiction of the lease of foreign aircraft with crews. It could also depart from the slot allocation process that gives priority to historic slots, which has a negative effect on competition. The regulation in the legal services sector that requires foreign lawyers obtaining a licence to act as co-lawyer with a local and licensed lawyer could also be reconsidered, and potentially abolished.
    - **Continue to monitor and promote services**. Maintain the momentum of initiatives such as the services database and dedicated website, but also develop additional means to estimate the potential of the economy's services sector. A start could be to systematise statistics collection on services activities by generating more disaggregated data at the sectoral level. Regarding trade in services there is a need to begin generating more detailed data on the different services categories and on foreign affiliate trade statistics (FATS).
- **Strengthen the regulatory regime for e-commerce**. Kosovo should bring into force as soon as possible the new Law on Electronic Identification on Trusted Services in Electronic Transactions that will replace the existing Law on Information Society Service to make up for the current regulatory shortcomings, particularly in the area of payment systems. For this, Kosovo can rely on the recommendations of the OECD's Policy Guidance on Mobile and Online Payments (Box 22.3).

### Box 22.3. OECD policy guidance on mobile and online payments

A key component of a solid e-commerce regulatory policy is the establishment of sound measures for electronic payments and settlements. The main roles of a payment system are to provide a means of transferring value between different parts of the economy and to facilitate transactions at minimum cost. Its design will be optimal if it is organised in such a way as to allow rapid and efficient value transfers, while imposing minimum additional costs and risks. High costs for the payment process can seriously affect economic activity, making transactions too costly. Conversely, the lower costs of efficient payment systems can have a positive effect on economic growth.

Policy makers can help to encourage economic activity by promoting a framework for electronic settlements and payments. The OECD's Policy Guidance on Mobile and Online Payments (OECD, 2014[59]) provides an informative framework on policy measures to establish a regulatory environment for e-commerce that can be adapted to WB6 economies.

The framework is oriented around a number of pillars:

- **Information on conditions and transaction costs**. These principles focus on the accessibility and readability of payment information, the complexity of payment conditions, and the clarity and transparency of billing statements.
- **The privacy implications of mobile and online payment**. These guidelines focus on the collection and use of payment data.
- **Security implications of mobile and online payment transactions**. These guidelines focus on protecting the security of consumer payments.
- **Confirmation process**. These guidelines focus on issues that impede e-commerce transactions, such as the uncertainty of transactions.
- **Children**. This includes issues such as the costs incurred by children in accessing goods and services.
- **Different levels of protection among providers and payment methods**. This includes information on consumer protection and levels of payment protection.
- **Fraudulent, misleading, deceptive and other unfair commercial practices**. These guidelines focus on how to regulate inconsistent payment information, renewable contracts, renewable subscriptions and repeat purchases, unexpected charges and consumer confidence.
- **Dispute resolution and redress**. These include issues such as the roles and responsibilities of the parties and the cost of redress.

Source: (OECD, 2014[59]), *Consumer Policy Guidance on Mobile and Online Payments*, https://dx.doi.org/10.1787/5jz432cl1ns7-en.

## Access to finance (Dimension 3)

### *Introduction*

Kosovo has made progress in certain indicators that facilitate access to finance (Figure 22.1). With an overall score of 2.1, Kosovo is performing below the WB6 average (Table 22.5). However, it should be noted that this is mainly linked to the absence of a stock market in the economy, which negatively impacts the score for the mobilisation of long-term financing and lowers the overall score. Kosovo has made progress regarding access to alternative financing sources since the previous assessment, increasing its score from 1.4 to 1.8.

**Table 22.5. Kosovo's scores for access to finance**

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Access to finance** | Sub-dimension 3.1: Access to bank finance | 3.4 | 3.4 |
| | Sub-dimension 3.2: Access to alternative financing sources | 1.8 | 1.9 |
| | Sub-dimension 3.3: Mobilisation of long-term financing | 0.5 | 2.8 |
| **Kosovo's overall score** | | **2.1** | **2.6** |

### *State of play and key developments*

#### *Sub-dimension 3.1: Access to bank finance*

Kosovo's financial sector is bank-dominated. Banks account for around 66% of overall financial sector assets, which is a lower share than other Western Balkan economies. As of August 2020, ten commercial banks were operating in the economy, eight of which were foreign owned, accounting for 86.7% of total banking assets (CBK, 2020[60]). As of 2019, no bank had ceased its activity and no bank has been sold since 2010. Of the ten operating banks, the cumulative share of the top three banks has constantly decreased from 77.8% in 2010 to 56.9% in 2019, showing an increase of competition in the banking sector. This could also be associated with the parallel decrease of effective interest rates from 14.4% in 2010 to 6.5% in 2019.[31] However, the level of competition should also be carefully monitored, as too much competition in the banking sector increases the possibility of excessive risk taking by banks, potentially leading to failures (Thorsten Beck, 2003[61]; World Bank, 2018[62]).

Kosovo has moderately developed its regulation for the **banking industry**. Some progress has been made since the previous assessment in implementing legislation on banking supervision that aims to strengthen corporate governance and the management of credit risk. This legislation was adopted in March 2019 by the Central Bank of Kosovo (CBK). Some progress has also been made on aligning with the Basel III recommendations,[32] with the CBK implementing the definition of capital and the leverage ratio, as well as the Internal Capital Adequacy Assessment Process for banks as a Pillar 2 requirement[33]. However, in order to be compliant with Basel II requirements[34] from January 2020, Kosovo needs to revise its regulations on credit risk, market risk and operational risk. The CBK is drafting new regulation on liquidity requirements, but no further information on this could be identified during the assessment period.

No major changes have occurred to the **register** since the previous assessment. A cadastre is available online, with all records fully digitalised; however, only authorised intermediaries such as lawyers can obtain information on land ownership. In addition, there is no independent mechanism for filing complaints related to immovable property registration. In 2020, the Kosovo Cadastral Agency launched the testing phase of an online module for mortgage registration and communication with banks and credit non-bank financial institutions. The results are expected to be analysed in the next assessment period.

In February 2020, the CBK approved new instructions on credit registry and established the Credit Registry of Kosovo. It is mandatory for loan providers to use the system and to be monitored by the CBK. The instructions establish the procedure for reporting the collection and distribution of positive and negative information regarding active loans and the credit history of natural and legal persons. The aim is to improve the credit rating process of credit clients and the performance of CBK's supervisory function. The registration system for security rights over movable assets is also online and publicly accessible. However, it requires a personalised login, after which users can also register pledges through the system. The pledge registry of movable assets covers the entire economy and is open to all interested natural and legal persons. The information is regularly updated and covers the entire economy.

The registration of fixed assets is mandatory and needs to go through the cadastre office. Only fixed assets can be used to secure loans, which potentially limits the options for borrowing money. There is no unique threshold under which **collateral requirements** are flexible for small businesses, this depends on banks' internal policy, however the regulations specify which type of collateral could be used. Although domestic credit lending to the private sector is increasing, banks are increasingly risk averse, which means that they impose high collateral requirements (close to 270% of the loan value and relying on fixed assets), making it difficult for many SMEs to qualify for loans (World Bank, 2019[63]).

Kosovo is one of the few economies in the Western Balkans region that established a **credit guarantee** fund prior to COVID-19 (AECM, 2020[64]). The Kosovo Credit Guarantee Fund (KCGF) is fully operational and covers up to 50% of the risks of principal loans for micro, small and medium-sized enterprises (MSMEs) operating in the industrial sector, up to a maximum guarantee of EUR 250 000. For businesses operating in the agricultural sector the maximum guarantee is fixed at EUR 100 000. The total amount of the loan in both sectors cannot exceed EUR 1 million. The loan maturity under the guarantee is fixed at 84 months. There is also a guarantee fund under the EU's Competitiveness of Enterprises and Small and Medium-sized Enterprises Programme (COSME), through which the KCGF has transferred benefits to the financial sector to support MSMEs operating in the field. The maximum loan amount is fixed at EUR 150 000, and 50% is covered under the guarantee. The minimum loan maturity is fixed at 12 months while the maximum is 120 months. Up to December 2019, approximately 3 500 businesses had benefitted from both programmes, representing a guarantee value of EUR 75 million.

At the end of 2020, the KCGF signed a subsidiary agreement with the Ministry of Finance for around EUR 22 million. This agreement, the result of a financing agreement between Kosovo and the World Bank under the Financial Sector Strengthening Project, aims to increase the capital of the KCGF to further support the private sector's need for short-term liquidity. It will also promote investment by creating guarantees for certain market segments such as women in business, young entrepreneurs, and the manufacturing and agriculture sectors. The KCGF, through support from the Millennium Foundation Kosovo, also foresees supporting the acceleration of project finance investments from private investors in renewable energy and energy efficiency projects.

### *Sub-dimension 3.2: Access to alternative financing sources*

There are limited alternatives to banks as a source of finance in Kosovo; however, **leasing** has become a growing financing resource for businesses, increasing from EUR 20.8 million in 2012 to EUR 52.7 million in 2019. Leasing has been regulated since August 2009 under the supervision of the CBK. The leasing law includes clear definitions and ownership rights, as well as information on how the process should be instigated, the steps to follow and guidance on any required involvement of third parties.

The law on **factoring,** drafted in co-operation with the European Bank for Reconstruction and Development (EBRD) and the CBK, entered into force in October 2018. The regulation establishes the general legal and regulatory requirements for the exercise of factoring by entities licensed/registered by the CBK. It defines and governs types of factoring, factoring contracts, the rights and obligations of the parties to a factoring transaction, as well as the reporting and supervision of licenced/registered entities. However, as of January 2020 no factoring activity had been reported.

There are no government supported **private equity** or **venture capital** activities in Kosovo. The Enterprise Innovation Fund (ENIF), which is a stand-alone venture capital fund covering the Western Balkans region under the Western Balkans Enterprise Development and Innovation Facility (WBEDIF), invested EUR 200 000. In addition, EUR 1 million in equity finance was invested in one company under the Enterprise Expansion Fund (ENEF), which is the second investment fund under the WBEDIF's equity instrument pillar (WB EDIF, 2019[65]).

**Business angel networks** are relatively active in Kosovo and involve smaller investments. One active network saw 15 separate investments in 2018 with a cumulative amount of EUR 250 000; however, the invested amount had decreased by around 50% compared to 2016 (EBAN, 2018[66]).

No activity has been reported on **crowdfunding** or **initial coin offering** during the assessment period. At the time of drafting, the EBRD is assessing the possibility of developing a crowdfunding donation/reward-based system with a financial institution that supports start-ups. The platform is planned to be launched in 2021.

### *Sub-dimension 3.3: Mobilisation of long-term financing*

The Law on Public Private Partnership is the main legislative act that sets out the policies, procedures and institutional framework for **public-private partnerships** (PPP) in Kosovo. The PPP law clearly defines the rights of all parties involved, including investors. It refers to the Law on Public Procurement for tendering procedures. Dispute mechanisms are regulated by the law and the standard PPP agreement, which foresees: 1) amicable resolution; 2) mediation by an independent expert; and 3) arbitration. Several PPP projects have been approved by the PPP Committee, and contracting authorities have awarded six contracts[35] since 2016 following competitive tendering procedures.

Savings rates are generally low in Kosovo (39%) compared to the euro area (67%). Despite a constant increase, from 5% in 2011 to 9% in 2017, household savings within financial institutions are even lower (49% in the euro area in 2017) (World Bank, 2018[62]). Savings generally reflect households' disposable income, general economic conditions and the rate of poverty. Savings in financial institutions reflect the income of households plus the level of trust in these institutions. The lower the rate, the lower the potential liquidity that could be used by **institutional investors or asset management firms** for potential local investments. Therefore, the low level of savings could also explain the lack of such operators in the economy.

Although there is still no **stock market** operating in Kosovo, the primary government **bonds market** is open to banks. However, non-financial institutions are not allowed to access the market, which limits the number of potential investors and financial resources that could be raised by the government.

## *The way forward for access to finance*

To enhance the banking industry and support businesses' access to finances, policy makers should:

- **Support crowdfunding by adopting dedicated legal frameworks**. Targeting the large diaspora may be more successful than attracting venture capital, given the lack of such investment thus far. Such initiatives would increase the number of potential financing sources, especially for smaller companies, as well as expand the sources of private financing and boost foreign direct investment. Lithuania offers a good example (Box 22.4).
- **Make use of the new factoring legislation by introducing new factoring services as an additional source of finance from financial institutions**. Since the law entered into force in 2018 no factoring activity has been recorded. A review of the market could help to identify the needs of the private sector and further stimulate the use of factoring services.

- **Consider a review of the business angel network**. A comprehensive assessment of existing business angel investments could help the government to better capture the requirements of business angel networks. Based on the results, which would hopefully clarify the fall in investments in the last four years, the government could consider developing a strategic plan for the development of business angel networks. Additional policy tools, including tax incentives, could be deployed to promote further interest.
- **Diversify equity financing by supporting foreign stock listing**. As there is no operational stock market in Kosovo, and given the relatively small size of the market, foreign stock listing could increase access to finance for large and medium-sized enterprises. Although a listing on a foreign stock exchange might increase reporting and disclosure requirements, which could add additional pressure on executives, the government could increase corporate governance standards by targeting qualified enterprises and facilitate the transition of firms to the new jurisdictions. This could also help businesses attract investors who would otherwise be reluctant to invest. Such government actions might help enterprises overcome liquidity problems following the COVID-19 crisis.

### Box 22.4. Lithuania's crowdfunding legislation

While Lithuania's crowdfunding market is smaller than other European fintech hubs, the economy is only one of 11 EU Member States with dedicated domestic legislation for crowdfunding platforms and boasts a mature and comprehensive regulatory framework for crowdfunding. Although its crowdfunding is in its infancy, Lithuania currently has 15 registered crowdfunding platforms. There has been a positive increase in the total value of crowdfunding platform loan portfolios, from EUR 6.6 million in 2019 to EUR 9.13 million in the first half of 2020 (Bank of Lithuania, 2020[67]).

Lithuania adopted its Law on Crowdfunding in 2016 with the aim of providing a hospitable, clear and transparent setting for cross-border crowdfunding platforms. The law adopted all aspects of the European Commission's Regulation for European Crowdfunding Service Providers, allowing for a seamless transition once the EU Directive comes into force (European Commission, 2018[68]). It was established through a multiple stakeholder consultation process and provides better protection and guarantees for investors through information disclosure obligations, governance rules, risk management and a coherent supervision mechanism. The law covers equity, real-estate and debt-based crowdfunding models, while donation and rewards models continue to fall under the Civil Code of the Republic of Lithuania.

Transparency regulations for crowdfunding platforms help mitigate misinformation and legal risk to better protect investors. Platforms must be included on the Public List of Crowdfunding Platform Operators and subject to an efficient reliability assessment conducted by the Bank of Lithuania's supervisory authority within 30 days. Platform operators, board members and significant stakeholders also undergo a criminal record check, while platforms must instate measures to avoid, identify and address any conflicts of interest that would prejudicially benefit the funder or project owner.

In addition to the EUR 40 000 minimum capital requirement, platform owners are required to put up 10% of starting capital themselves. In the case of offerings between EUR 100 000 and EUR 5 million, platform operators are obligated to publish a light prospectus, while offerings over EUR 5 million require a full prospectus detailing the project and project owner characteristics, proportion of own funds used, details of the offering, security measures, and the existence of secondary markets.

In all cases, Lithuania's crowdfunding regulations require platforms to publish wide-ranging information on their websites for investors, including data on the company, risks associated with investment, project selection criteria, conditions and procedures for repayment of funds, disclaimers on tax and insurance information, and monthly and yearly progress reports.

Lithuania is continuously improving its innovative business environment to give financial institutions and crowdfunding platforms more investment opportunities. In 2016, the economy began allowing the use of remote identity verification via qualified electronic signatures and video streaming/transmission, and is harmonising itself with the EU Regulation on electronic identification. Lithuania has also recently amended its Law on the Legal Status of Aliens to include an e-residency programme that allows foreigners to set up companies, open bank accounts and declare taxes through digital identification. This will further financing opportunities for its fintech platforms.

Source: (European Commission, 2018[68]), *Impact Assessment: European Crowdfunding Service Providers (ECSP) for Business,* https://op.europa.eu/fr/publication-detail/-/publication/2eb8abc0-22cb-11e8-ac73-01aa75ed71a1; (European Commission, 2017[69]), *Identifying market and regulatory obstacles to cross border development of crowdfunding in the EU*, https://ec.europa.eu/info/sites/info/files/171216-crowdfunding-report_en.pdf; (Bank of Lithuania, 2019[70]), *Consumer Credit Market Review*, https://www.lb.lt/lt/leidiniai/vartojimo-kredito-rinkos-apzvalga-2019-m; (Bank of Lithuania, 2020[67]), *List of Crowdfunding Platform Operators*, https://www.lb.lt/lt/finansu-rinku-dalyviai?list=36.

## Tax policy (Dimension 4)

### *Introduction*

Table 22.6 compares scores for Kosovo with the Western Balkan average for two tax policy dimensions: tax policy framework and tax administration. Kosovo scores above the WB6 average for both dimensions. Scores for both dimensions are driven by slightly above-average performance in most indicators.

#### Table 22.6. Kosovo's scores for tax policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Tax policy dimension** | Sub-dimension 4.1: Tax policy framework | 2.8 | 2.6 |
| | Sub-dimension 4.2: Tax administration | 4.0 | 3.3 |
| | Sub-dimension 4.3: International tax co-operation | n.a. | n.a. |
| **Kosovo's overall score** | | **3.4** | **3.0** |

Note: For comparability with the previous assessment, the new sub-dimension (4.3) has not been scored but is discussed in the text below.

### *State of play and key developments*

*Sub-dimension 4.1: Tax policy framework*

**Tax revenue** as a share of the economy is relatively low in Kosovo. As for most WB6 economies, Kosovo's tax-to-GDP ratio has increased in recent years, from 21.8% in 2015 to 23.4% in 2019 (Table 22.7). However, this ratio remains below both the OECD (33.8% in 2019) and WB6 (30.6% in 2019) averages. Kosovo's tax mix is highly concentrated on taxes on goods and services, which accounted for 74.2% of total tax revenue in 2019. This share is considerably higher than the OECD average of 32.7% in 2018 and the WB6 average of 51.9% in 2019. Consequently, other taxes play a smaller role in Kosovo. In OECD countries, personal income tax (PIT) and corporate income tax (CIT) combined account for a third of total revenue, on average (33.5% in 2018). In Kosovo, these taxes only account for 14.1% of total tax revenue, in alignment with regional trends (14.9% WB6 average in 2019). The high level of VAT concentration is likely to leave Kosovo exposed to a potential decline in VAT revenue, which largely comes from VAT levied on imports. Kosovo could rebalance the tax mix by strengthening taxes on labour income, environmental taxes and recurrent taxes on immovable property. It could also raise additional revenue from social security contributions (SSCs) to provide supplementary funding for the welfare system. Kosovo yields the least revenue by far from SSCs among the WB6 (10% of total tax revenue in 2019 compared to a 28.8% WB6 average). However, SSC rates raises should be designed carefully and balanced against other policy objectives – an increase in SSCs may raise labour costs and further increase the large informal economy, which is a significant issue for Kosovo and other WB economies.

#### Table 22.7. Kosovo's tax revenues as a share of GDP

| | CIT | PIT | SSCs | Goods and services | Tax/GDP ratio |
|---|---|---|---|---|---|
| Kosovo | 1.3% | 2.3% | 2.6% | 19.3% | 23.4% |
| WB6 | 1.8% | 2.7% | 9.3% | 15.9% | 30.6% |
| OECD | 3.1% | 8.1% | 9.0% | 10.9% | 33.8% |

Note: CIT= corporate income tax; PIT= personal income tax; SSCs= social security contributions.
Source: OECD (2019[71]), OECD.stat https://stats.oecd.org/ (2019 for overall tax/GDP ratio and 2018 specific tax/GDP ratio).

Kosovo levies a standard 10% rate for CIT (Table 22.8), which broadly aligns with the 11.5% WB average (2020). This rate is significantly below the 23.3% OECD average (2020). This low CIT rate is also to some extent reflected in Kosovo's tax revenue. For instance, CIT revenue accounts for 1.3% of GDP in Kosovo, which is below WB6 (1.8% in 2019) and OECD (3.1% in 2018) averages. Kosovo introduced a CIT reform in 2019 that restricted the companies that can benefit from a special turnover tax in certain sectors. In particular, the turnover eligibility threshold for small taxpayers was reduced from EUR 50 000 to EUR 30 000. Under this preferential regime, taxpayers with an annual gross income of up to EUR 30 000 can opt for preferential rates applied to gross income – 3% on income from trade, transport and other activities, 9% on income from services and entertainment activities, and 10% on income from rental activities.

Capital gains are considered as business income and taxed at the standard 10% rate. Interest and royalty payments made to resident companies are subject to a withholding tax at the rate of 10%. However, dividend income is excluded from the CIT base, and no tax is withheld upon payment to resident and non-resident shareholders. Concerning the taxation of international business income, Kosovo operates a worldwide taxation system in which resident corporations pay taxes on domestic and foreign-sourced income, while non-resident companies are liable only for taxes on income originating in Kosovo. A worldwide taxation system is currently adopted in all WB economies. Such systems have become increasingly less common among OECD countries in recent years, particularly for small open economies.

### Table 22.8. Selected tax rates in Kosovo

| | CIT | PIT | SSCs | VAT |
|---|---|---|---|---|
| Kosovo | 10.0% | 10.0% | 10.0% | 18.0% |
| WB | 11.5% | 12.8% | 28.6% | 19.0% |
| OECD | 23.3% | 42.8% | 26.9% | 19.3% |

Note: CIT= corporate income tax; PIT= personal income tax; SSCs= social security contributions. CIT and PIT averages for WB and OECD are based on top statutory rates. PIT for Kosovo is the top statutory rate.
Source: (OECD, 2020[72]), OECD.stat, https://stats.oecd.org/, (2020 for CIT and VAT, 2019 for PIT and SSCs).

Corporate **investment incentives** in Kosovo involve both cost and profit-based incentives. Profit-based incentives (which generally reduce the tax rate applicable to taxable income) are targeted at small companies and include amortisation, special allowances and loss-carry forward. As mentioned above, Kosovo also implements profit-based incentives through special turnover tax rates applied to the gross income of small companies in specific sectors. It also implements a series of targeted cost-based incentives, which lowers the cost and increases the size of the investment. These incentives include depreciation across different categories,[36] a research and development incentive for investment in the exploration and development of natural deposits of minerals and other natural resources, and the full deduction of expenses paid by an employer to an educational institution for its employees. Research shows that cost-based incentives are preferable to profit-based incentives, which risk leading to high redundancy of expenditure as the investment may have proceeded anyway (UNCTAD, 2015[73]). Overall, Kosovo provides an attractive corporate tax environment for investment through a low standard CIT rate, special turnover tax rates and several corporate tax incentives. However, these measures also come at some cost to tax revenue. As a result, Kosovo may wish to investigate empirically whether the use of profit-based tax incentives involve redundancy of expenditure and continue to be value for money.

PIT revenue is low in Kosovo, which is common in the region. PIT revenue as a share of GDP was 2.3% in 2019, in line the 2.7% WB6 average (2019), but drastically below the 8.1% OECD average (2018). Kosovo currently operates a progressive PIT rate schedule, with four different rates: 0% for annual taxable income under EUR 960, 4% between EUR 960 and EUR 3 000, 8% between EUR 3 000 and EUR 5 000, and 10% over EUR 5 000. While Kosovo raises PIT revenue in similar proportion to regional levels, these rates are low compared to other WB economies. The other WB economies with a progressive rate schedule, Serbia and Albania, have a top rate of 18% and 23% respectively, while economies with a flat PIT rate had an average rate of 9.8% in 2020. Furthermore, input from local stakeholders indicates that the top PIT threshold is slightly below the average wage in Kosovo (EUR 5 400). This low and progressive taxation of labour income may encourage informal workers to enter the formal economy. However, the informal economy remains large, estimated at 31% of GDP (European Commission, 2018[74]). To further help the registration of informal workers, one option for PIT reform could be to redesign the PIT rate schedule to more effectively target high earners. This shift in the tax burden could help provide additional relief for low earners as well as an incentive to leave the informal sector. It would also help Kosovo increase wealth redistribution in its economy, as other taxes on labour income, such as SSCs, are mostly levied at the same rate across income levels.

Regarding the taxation of personal capital income, although **capital gains** are subject to PIT at the general progressive rates, other types of passive income are taxed at special rates: **interest** and royalties paid to resident individuals are subject to a 10% withholding tax, and rental payments to a 9% withholding tax.[37] **Dividends** are excluded from the PIT tax base, and in general exempt from any tax liability. The diverse tax rates on personal income create a difference between the taxation of labour income and the taxation of capital income. This difference, mostly fostered by the absence of dividend taxation, incentivises entrepreneurs to incorporate and receive income in the form of capital rather than salaries. Limiting these distortive effects by harmonising the taxation of labour and capital income could be explored as a policy option.

Contrary to most WB economies, funds from **social security contributions** are relatively low in Kosovo. In 2019, SSCs as a share of GDP were 2.6%, which is significantly lower than the 9.3% WB average (2019) and the 9.0% OECD average (2018) (Table 22.6). Kosovo is by far the least reliant of the WB economies on SSC funds – the second least reliant (Albania) levies twice as much revenue from SSCs proportionally. In principle, such low reliance on SSC funds may pose some challenges in funding welfare payments. The size of SSC funds in Kosovo could partly be explained by the economy's low SSC rates. Employers and employees are both liable for a 5% SSC payment on gross salary. Further voluntary contributions of up to 10% are possible for taxpayers. A maximum contribution of 15% of gross salary is therefore possible for both employees and employers. The total mandatory SSC liability amounts to 10% of gross salary, which is slightly above a third of the OECD and WB averages (26.9% and 29.4% in 2020, respectively). This is by far the lowest combined rate among WB economies (the second lowest is Albania with 27.9%). In addition to this below-average rate, the balance between employer and employee SSC is atypical by regional and international standards. While Kosovo levies the same rate for employers and employees, OECD countries tend to place a higher average SSC burden on employers (17.8% for employers and 9.8% for employees in 2020), and WB economies tend to do the opposite (9.5% for employers and 19.9% for employees in 2020). This trend in OECD countries is possibly linked to the fact that PIT rates are higher on average than in the WB6. Self-employed individuals are liable for a 10% minimum contribution, with an additional voluntary contribution of up to 20% (30% maximum overall contribution). The minimum contribution rate is far below the average rate for self-employed individuals in WB economies (29.7% in 2020). There is scope to redesign the current SSC framework by replacing part of the voluntary contributions with mandatory contributions.

Tax revenue from consumption is high in Kosovo. In 2019, taxes on goods and services as a share of GDP were 19.3%, the second highest among WB economies (15.9% WB average in 2019) (Table 22.6). This ratio is also above the OECD average (10.9% in 2018). The standard VAT rate in Kosovo is 18%, which is slightly below the 19.3% OECD average (2020) and the 19% WB average (2020). This rate is the second lowest of the WB economies (after Bosnia and Herzegovina). Kosovo also has a reduced 8% VAT rate for certain goods and services, including the supply of electricity and water, some food products, textbooks and medicine supplies. OECD research has found that reduced rates are generally not an effective way to target individuals on low incomes, and in some cases may even be regressive (OECD, 2018[75]). The threshold required to register for VAT in Kosovo was reduced in 2015 from EUR 50 000 to EUR 30 000, which aligns with the CIT thresholds introduced after the 2019 CIT reform. However, the VAT threshold is relatively low compared to the average threshold found in OECD countries. The reduction in the VAT registration threshold could also be complemented by VAT simplification measures, such as the less frequent filing of VAT returns and simplified accounting methods. As for **environmental taxes** in Kosovo, excise duties are levied on gasoline and diesel, but not on carbon emissions. An “ecology tax” mandates that vehicle owners must pay EUR 10 or 30 each year, depending on the vehicle type.

Kosovo’s official economic **modelling and forecasting** is carried out using the Kosovo Macro Projection Model, which forecasts future tax revenue using macroeconomic indicators and effective tax rates from the previous year. It has been developed for most taxes, with the exception of property tax. Currently, the Tax Administration of Kosovo (TAK) does not use micro-simulation models, unlike many other WB economies that are currently implementing (or implemented recently) such models. Kosovo would benefit from a more disaggregated approach to its revenue forecasting, which micro-simulation models would foster.

Kosovo does not currently operate a regular **tax expenditure report**, unlike several other WB economies. For example, Albania implemented a tax expenditure report in 2019 and North Macedonia and Montenegro are currently in the process of implementing them. The development of a regular tax expenditure report would allow Kosovo to monitor the use and effectiveness of tax incentives along with tax revenue forgone (OECD, 2010[76]). To do this, the cost of tax expenditure must be identified, measured and reported in a way that enables the comparison of the monetary value with direct spending programmes (IMF, 2019[77]). Cost-benefit analysis could also be conducted to evaluate whether specific tax incentives meet their stated objectives and, if not, whether they should be abolished or replaced.

Governments have taken rapid and unprecedented action to address the health crisis and the fall in economic activity caused by the outbreak of COVID-19. Containing and mitigating the spread of the virus has rightly been the first priority of public authorities. With containment measures in place, the immediate policy reactions focused on alleviating hardships and maintaining the productive capacity of the economy (OECD, 2020[78]).

Among its responses to the COVID-19 pandemic, Kosovo carried out a number of tax policies, including:

1. Tax filing and payment extensions for all tax types and pension contributions.
2. An exemption from VAT on imports of raw materials used in the production of bread and its products.
3. The calculation of interest and fines for the non-payment of property tax was suspended until 31 December 2020.
4. Wage subsidy scheme for employees affected by the pandemic.
5. Public loan guarantee scheme.

Kosovo has implemented a relatively narrow set of responses to COVID-19 compared to other WB economies. For example, it did not introduce a direct cash transfers to households, or the deferral of households’ and businesses’ fixed costs.

### *Sub-dimension 4.2: Tax administration*

The TAK is responsible for all main taxes, while the Customs Service collects customs duties and VAT on imports. The TAK carries out all the main **tax administration functions**, including tax fraud investigations that are generally carried out by a special police department in other WB economies. Its internal organisation matches the various functions of a tax administration (such as tax collection or audits), while special divisions exist for large taxpayers and SMEs. OECD research shows that a unified body that covers all taxes and all core tax administration functions is an important factor in strengthening the efficiency of the tax administration (OECD, 2018[37]). The TAK is regularly assessed by several domestic and international institutions. The Office of the Auditor General in Kosovo, as well as the International Monetary Fund (IMF) and the European Commission, carry out annual assessments leading to periodic strategic plans.

**Tax compliance assessment and risk management** is overseen by the TAK using a risk-based analysis which identifies taxpayers showing certain abnormalities regarding a predetermined set of risk criteria. This function is supported by the Division of Tax Audits Procedures and the Division of Risk Management within the tax administration. The analysis leads to the issuance of a Risk Response Plan, which classifies taxpayers into different revenue risk groups. OECD research shows that risk-based selection is a key element of effective and efficient compliance programmes as it allows administrations to make effective trade-off decisions and make the best use of their resources (OECD, 2018[37]). No legal framework has been implemented to guarantee procedural justice during tax audit procedures, which could be an area for improvement moving forward. The Division of Tax Audits Procedures monitors the audit implementation plan. Segmentation models are also used by the Division of Risk Management.

In terms of **independence and transparency**, the TAK has full operational autonomy within the Ministry of Finance. A legal framework establishes its legal status and defines its duties and responsibilities, as well as the procedures linked to its functions. While its budget is not independent from annual budgeting procedures, which fix the level of resources, the TAK has autonomy over its yearly expenditure. The director general of the TAK presents an annual report to the Ministry of Finance. As mentioned above, the TAK is regularly audited by the Office of the Auditor General in Kosovo, which produces annual reports on its performance, including independence and transparency. These reports provide recommendations that are mandatory for the management board to implement.

Concerning **tax filing and payment procedures**, most taxes can be filed and paid electronically or manually. Only e-filing is available for VAT, wage withholding tax and pension contributions. Most taxes are filed quarterly or annually. Taxes for which e-filing is mandatory are declared monthly. Overall, e-filing is widely used in Kosovo: 95% of declarations are undertaken electronically, and this figure has been constantly increasing since e-filing was introduced for the 2011 fiscal year. The whole tax filing procedure is regularly assessed by external auditors, including the IMF and the TAK itself.

Various **taxpayer services** are offered by TAK and its regional services, and online access to information, electronic communications and in-person inquiries are at the public's disposal. Kosovo's tax legislation also provides for a taxpayer advocate that protects the rights of citizens against the tax administration. The monitoring and assessment of taxpayer services is carried out in co-operation with relevant stakeholders. Surveys assessing taxpayer satisfaction are conducted every two years.

### *Sub-dimension 4.3: International tax co-operation*

Kosovo has not engaged extensively in **international tax** reforms since the last report. As it has not joined the Inclusive Framework on Base Erosion and Profit Shifting (BEPS), it has not formally launched any related initiatives. However, it is using the OECD Model Tax Convention as a basis for its double-tax treaties, which informally leads to the implementation of some BEPS minimum standards. Kosovo has yet to engage in administrative co-operation or exchange of information initiatives, but indicates that it is in the process of reviewing domestic legislation to determine necessary actions in these fields. In 2016, Kosovo drafted its Administrative Instruction on Transfer Pricing, based on OECD Transfer Pricing Guidelines and recommendations from the BEPS project. Kosovo would benefit from closely following OECD developments in these areas. This would allow Kosovo to align its tax system with international standards and facilitate potential adhesion in the future.

Kosovo has launched some limited initiatives in the field of **digital taxation**. Although it levies VAT on cross-border digital services, it has yet to implement international VAT/GST (goods and services tax) guidelines. In Kosovo, VAT is levied in the place where the service supplier is established, which differs from the "destination principle" – the cornerstone of international VAT/GST guidelines. Furthermore, Kosovo does not include individuals' income received from digital platforms in the PIT tax base, and thus fails to capture a growing revenue from the digital economy. Kosovo has not participated in the discussions on Pillars 1 and 2 of the OECD's Tax Challenges Arising from Digitalisation proposal. These developments taking place at the OECD level could have a great impact on the taxation of corporate income in Kosovo, especially under Pillar 2. The Global Anti-Base Erosion Proposal (GLoBE) intends to define the minimum taxation of corporate profits. Although the final rate will depend on ongoing discussions, Kosovo has a low CIT rate, one of the lowest in Europe, and is at great risk of being impacted by GLoBE. If the minimum rate is set higher than 10%, Kosovo would be faced with a choice of either raising its rate or risk forgoing tax revenue (other jurisdictions would collect revenue from economic activity that has its source in Kosovo). The GLoBE proposal might also restrict Kosovo's use of tax incentives, particularly those which are profit-based. This topic will have great importance in the near future, and Kosovo may wish to evaluate its position and prepare an action plan accordingly.

Kosovo is engaged in moderate **regional co-operation** with its WB neighbours, usually through memoranda of understanding or double taxation agreements. Kosovo is also part of the Regional Cooperation Council's SEE Strategy 2020 implementation programme. Its main regional co-operation partners are Albania and North Macedonia, with which Kosovo exchanges best practices on taxation and staff training.

### *The way forward for tax policy*

To enhance the tax policy framework and achieve objectives, policy makers may wish to:

- **Broaden its support for economic recovery in light of COVID-19, with targeted tax and subsidy measures**. Kosovo has implemented a relatively narrow set of measures to mitigate the effects of COVID-19 on its economy and citizens. Policy makers may wish to broaden existing efforts, while focusing on measures that could spark an economic recovery.
- **Increase tax revenue and diversify the tax mix by strengthening the role of CIT, PIT and SSCs**. Kosovo is heavily reliant on taxes on goods and services, and there is scope to diversify the tax mix. Additional funds from SSCs would help to finance the welfare system. Increased CIT and PIT could bring more progressivity into the tax system and raise additional revenue. Developing other taxes, such as property taxes or environment related taxes, could also be explored as a policy option.
- **Assess the design of the PIT rate schedule to bring more targeted progressivity into the tax system**. Kosovo's current PIT design places the top income threshold just below the average wage. The design could be strengthened to further target high earners and enable more wealth redistribution in the tax system.
- **Reinforce efforts to curb the informal economy and encourage businesses to register in the formal economy**. Kosovo has a significant informal economy, which reduces its tax base. Increasing efforts to curb the informal economy could bring additional tax revenue.
- **Consider making voluntary SSCs mandatory to widen the scope of welfare protection**. Of the WB6 economies, Kosovo yields the least revenue by far from SSCs in proportion to its economy. Redesigning the SSC system by replacing part of the voluntary contributions with mandatory contributions could be explored as a policy option. However, such an option should be balanced against the effect of high SSC rates, particularly for employees, on labour market outcomes (which could deter the registration of informal workers and businesses).
- **Assess the merits of differentiated taxation of labour and capital income**. Such differentiated taxation creates a considerable incentive for entrepreneurs to incorporate and receive income in the form of capital rather than salaries.
- **Avoid the use of profit-based tax incentives**. Kosovo's CIT is competitive through its low rate, which excludes the need for overly generous profit-based tax incentives which may create redundancies.

- **Strengthen capacities and tools to assess the effects of tax policies on the economy**. Kosovo has limited capacity in tax expenditure reporting and forecasting tax revenue. Instigating a regular and systematic tax expenditure report, and developing the use of micro-simulation models, should be encouraged to assess tax measure and reforms.
- **Re-evaluate the merits and disadvantages of worldwide taxation for resident companies**. For small open economies such as Kosovo, worldwide taxation may entail high administrative costs without necessarily raising significant revenue.
- **Follow the discussions of the OECD/G20 Tax Challenges Arising from Digitalisation project, in particular the work on Pillar 2 that aims to introduce a global minimum tax**. This reform would incentivise Kosovo (and other WB economies) to increase its CIT rate and redesign CIT incentives.
- **Strengthen engagement with the international tax community and implement international best practices**. Since the last CO assessment Kosovo has not carried out significant measures to align its tax system with recent international tax trends. It would benefit from closely following developments in the OECD concerning the BEPS project and its minimum standards. This would allow Kosovo to align its tax system with international standards and facilitate potential adhesion in the future.
- **Foster regional co-operation and co-ordination on common tax issues within the WB region**. Kosovo shares common challenges with other WB economies, and enhanced collaboration might be favourable for all economies involved. Areas such as tax compliance, training of tax administration staff and exchange of information would greatly benefit from a co-ordinated regional approach.

## Competition policy (Dimension 5)

### *Introduction*

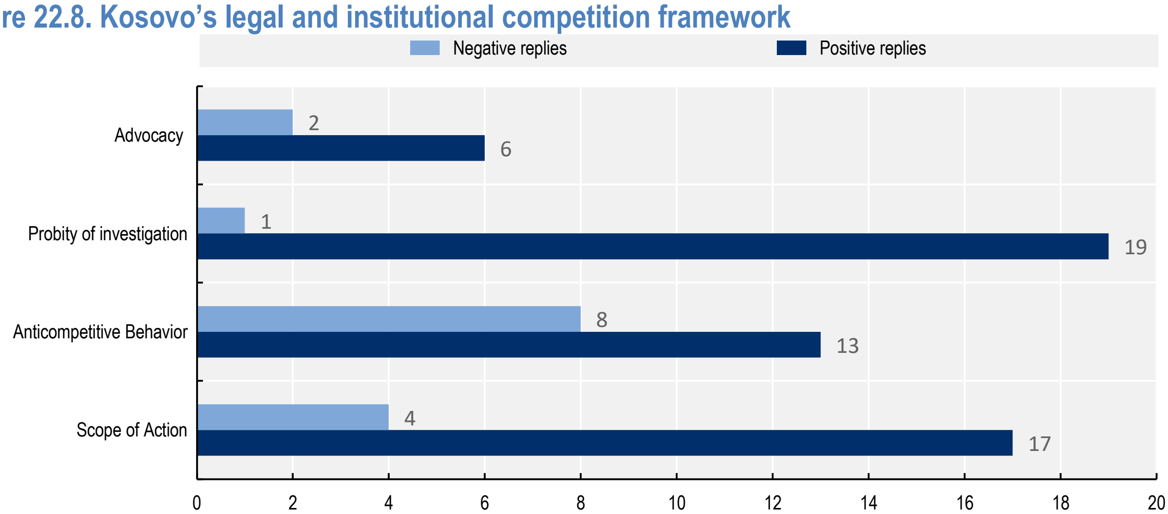
Kosovo is in the process of aligning its legislative framework on competition with international best practice, and particularly with the EU competition *acquis*. Although this requires further steps, the main provisions on prohibited agreements and abuse of dominance, as well as the criteria for *ex ante* merger control, reflect EU rules. Furthermore, over the last few years Kosovo has adopted several pieces of secondary legislation to address gaps that hinder the implementation and enforcement of competition rules.

The Kosovo Competition Authority (KCA), established in 2008 as an independent authority, is responsible for implementing the Law on Protection of Competition in Kosovo. It may initiate investigations, conduct onsite inspections, impose fines and remedies, and prohibit anti-competitive mergers. It has adopted its Strategic Plan for 2020-2023. The KCA did not operate between 2013 and 2016 as the members of the commission had not been appointed.

Unlike the other dimensions, where indicators are allocated a score from one to five, the Competition policy dimension assesses four policy areas (i.e., scope of action, anticompetitive behaviour, probity of investigation and advocacy, plus a new area: implementation). Scoring is based on yes/no (coded as 1/0) answers to the 71 questions in the questionnaire administered by the OECD. Where a response to a question is yes (coded as 1), then we refer to this as an adopted criterion. Each of the four policy areas has a different number of possible criteria that can be stated as having been adopted. Each policy area is assessed through data collected from the questionnaire indicators and by measuring the number of criteria adopted. The new fifth policy area (implementation) is not scored, but is a quantitative analysis of how many competition decisions have been adopted by the competition authorities. The anti-competitive behaviour and implementation policy areas are discussed together below.

Figure 22.8 reports the number of positive (alignment with good practices) and negative answers to a question on alignment for each of the four policy areas listed.

**Figure 22.8. Kosovo's legal and institutional competition framework**




Source: Based on the OECD assessment.

## *State of play and key developments*

### *Sub-dimension 5.1: Scope of action*

The Kosovo Competition Authority, the public institution responsible for applying competition rules in Kosovo, was established in 2008 by the Law on Protection of Competition. The KCA is governed by the Commission for Protection of Competition. The members of the commission, including the chairman, are granted a five-year mandate, with possibility of extension.

There are 19 staff in the KCA, in addition to the 5 council members, with the number of employees steadily increasing between 2015 and 2019. The organisational structure includes two departments: 1) the market surveillance department handles competition issues and consists of three divisions specialising in agreements, abuse of dominance and mergers; and 2) the administration and legal affairs department deals with administrative matters. Five employees work on administrative issues, while the others exclusively focus on competition issues.

The budget of the KCA has increased from EUR 233 000 in 2017 to EUR 350 000 in 2019. The budget is determined annually by the Ministry of Finance and then approved by parliament. The salary of KCA staff recently increased to compensate for the risks borne by officials in carrying out their duties.

In terms of competitive neutrality, the competences of the KCA encompass both private and public undertakings. The Law on Protection of Competition stipulates that its provisions apply to all forms of competition restriction by firms in Kosovo, or outside if those actions have impacts in Kosovo, irrespective of ownership, seat or residence.

The KCA has appropriate powers to investigate and powers to sanction possible anti-trust infringements, i.e. restrictive horizontal and vertical agreements, and exclusionary or exploitative practices by dominant firms.

The KCA may impose cease and desist orders and remedies on firms that have committed anti-trust infringements. It may also adopt interim measures in case the alleged competition breach poses a risk of irreparable damages. It can do this on its own initiative or following a request by the parties involved. It may also accept commitments offered by the parties to remove the competition concerns and close the investigation.

The KCA may compel investigated firms and third parties to provide relevant information, and may perform unannounced inspections on the premises of the parties to the proceedings, subject to a warrant by the competent court. The assessment of alleged anti-competitive conduct follows a thorough scrutiny of the collected evidence, which may include an economic analysis of the competitive effects of vertical agreements or possible exclusionary conduct.

The KCA has the power to impose fines of up to 10% of the aggregate turnover of the undertaking.

The Law on Protection of Competition also contemplates a leniency programme, which grants total or partial immunity from sanctions to firms that report to the KCA the existence of the agreement and submit appropriate evidence.

The law also covers the *ex ante* control of mergers, following the principles of the EU Merger Regulation. The KCA can prohibit concentrations that significantly restrict effective competition, particularly as a result of the creation or strengthening of a dominant position. It may authorise the transaction subject to structural and/or behavioural remedies suitable to address the competition concerns – i.e. divestiture of assets and/or obligations to act or refrain from acting in a certain way.

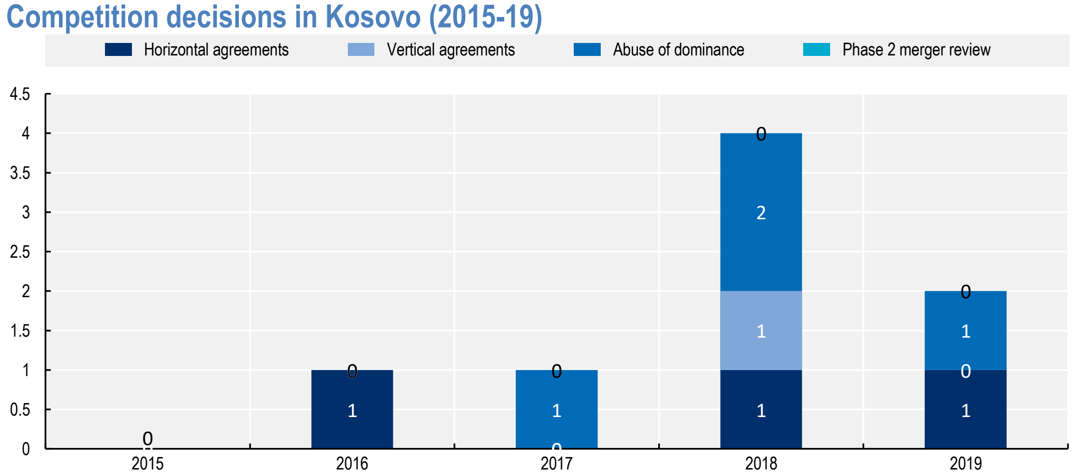
In the course of the investigation, the KCA may compel merging firms and third parties to provide relevant information and may perform unannounced inspections of the parties' premises. The assessment of notified mergers should follow a thorough scrutiny of the evidence, which includes an economic analysis of the restrictive effects and of possible efficiencies stemming from the concentration.

Regarding private enforcement, individuals, firms and consumers – either collectively or through consumer associations – can bring a legal action before the courts to seek damages from firms that have committed anti-trust infringements.

### *Sub-dimensions 5.2 and 5.5: Anti-competitive behaviour and implementation*

The anti-competitive behaviour and implementation policy areas together gauge the use of powers and resources in terms of decisions adopted and fines imposed for horizontal agreements, vertical agreements and exclusionary conduct. They also explore the actual activity of the competition authority on reviewing mergers. The implementation of the provisions mentioned above through competition enforcement is still very limited in Kosovo (Figure 22.9).

**Figure 22.9. Competition decisions in Kosovo (2015-19)**




Source*:* Data provided by the authorities.

From 2016 to 2019 the KCA investigated very few **horizontal and vertical agreements** (two in 2018 and one in the other years), without imposing any fines. It accepted commitments and closed the cases given the limited awareness of competition rules in domestic firms. However, in 2020 the KCA concluded a major investigation regarding a horizontal agreement on prices by 13 oil companies and imposed overall sanctions of more than EUR 1 million. The KCA has carried out four investigations into alleged abuses of dominant position (**exclusionary conduct**), one in 2017, two in 2018 and one in 2019, but without finding infringements.

No leniency application has been submitted to the authority, and the KCA has never performed unannounced inspections.

In the period 2015-19, the KCA received a total of 10 **merger** notifications. All mergers were unconditionally cleared in phase 1, as the KCA did not identify possible competition concerns that would require an in-depth review.

### *Sub-dimension 5.3: Probity of investigation*

The KCA is independent from the government and accountable to the Assembly of the Republic of Kosovo, pursuant to Article 24 of the Law on Protection of Competition. The government cannot give binding directions to the KCA. The Commission for Protection of Competition, which governs the KCA, is composed of five members who are proposed by the government and approved by the Kosovo Assembly.

Nevertheless, it should be highlighted that the KCA was not operational in the period 2013-16 because the Members of the Commission had not been appointed.

In terms of procedural fairness, the Law on Protection of Competition stipulates that the decisions of the KCA must be notified to the parties to the proceedings and published in the domestic Official Gazette. A non-confidential version of the decision is also published on the KCA webpage.

The KCA must deliver the decision to initiate formal proceedings to the parties. For investigations on both alleged competition infringements and merger reviews, the parties have the right to be heard and present evidence before a decision is adopted. Prior to scheduling a hearing, the KCA must provide the parties with a written notification covering the facts of the case.

The KCA publishes annual reports which are submitted to the Commission of Economy and Trade and then approved by parliament. Every three months the KCA reports to the Ministry of European Integration, and its recommendations are incorporated into the Kosovo EU Progress Report.

The decisions of the KCA may be appealed at the administrative court and eventually before the appeal court.

The KCA has published guidelines to clarify substantive or procedural issues, including the Regulation on Procedural Fairness, administrative instructions on horizontal and vertical agreements, as well as on the review of mergers. All documents are available on the KCA website.

### *Sub-dimension 5.4: Advocacy*

According to the Law on the Protection of Competition, the KCA may provide opinions to the Parliament and Government of the Republic of Kosovo on laws, regulations and other bylaws that significantly affect competition, as well as to central and local bodies of public administration. It may also provide opinions to promote awareness of competition and its role.

The KCA has actively engaged in competition advocacy in several sectors, particularly in the last few years. For example, it has issued opinions and recommendations to the Central Bank of Kosovo to ensure that insurance companies compete in terms of the prices and quality of services they provide, to the Ministry of Health on price regulation for medicinal products and equipment, and to the Tax Administration of Kosovo on administrative barriers to the provision of cash register equipment.

The KCA can also conduct market studies, for example in 2019 it published an analysis of the telecommunications sector and an analysis of the energy sector. Market studies are a tool used to assess how competition in a sector or industry is functioning, detect the source of any competition problems, and identify potential solutions. Competition problems that can be uncovered in market studies include regulatory barriers to competition and demand-side factors that impair market functioning. Market studies are a versatile tool that allow the examination of a broader set of issues than competition enforcement, and therefore their use is growing. International organisations, notably the OECD and the International Competition Network (ICN), have developed a wide range of documents on market studies, including the OECD Market Studies Guide for Competition Authorities (OECD, 2018[13]).

In 2019, the KCA concluded memoranda of understanding with the Energy Regulatory Office, Kosovo Railways, the Electronic and Postal Communications Regulatory Authority, the Water Services Regulatory Authority and the Central Bank of Kosovo. It has also discussed the scope for possible co-operation with several regulators and drafted a number of additional memoranda of understanding that are expected to be finalised soon. Notably, the KCA has been in contact with the Public Procurement Regulatory Commission, the Central Procurement Agency and the Public Review Body.

In the framework of the EU funded IPA,[38] specific activities have been planned to offer training to judges.

The KCA has organised many advocacy events aimed at developing competition culture, including with the Ombudsperson, the State Aid Commission, ministries, municipalities and chambers of commerce. Other advocacy initiatives have involved universities, the media and other stakeholders.

### *The way forward for competition policy*

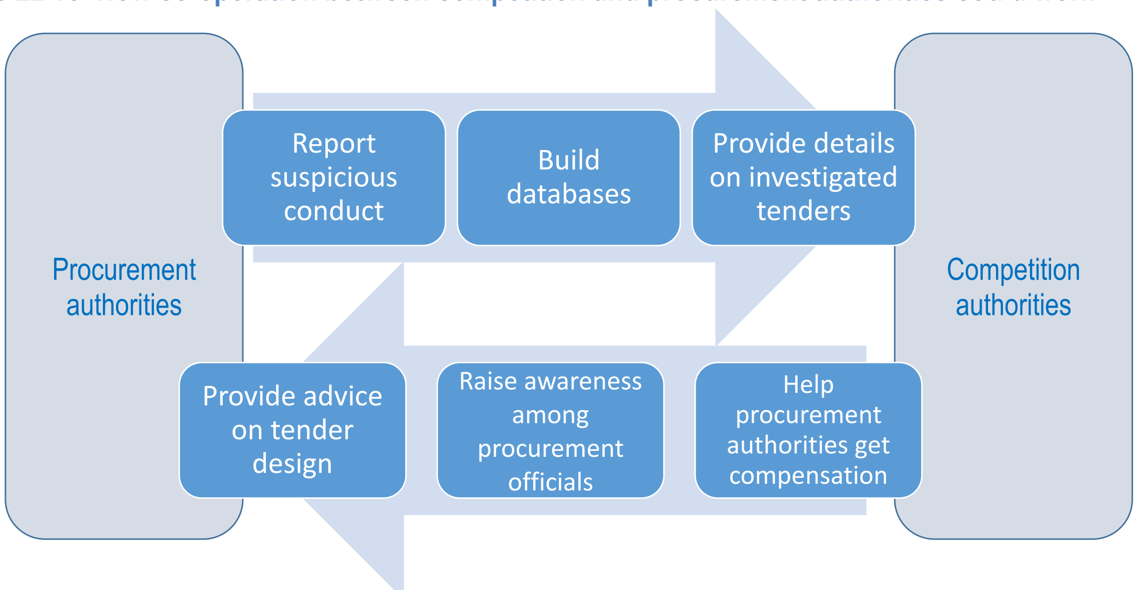
The priority concern of the KCA in recent years has been the promotion of competition principles and the spread of competition culture. The KCA has engaged in a broad set of advocacy initiatives to address competition restrictions in existing and draft law, and to increase awareness about the role and objectives of competition policy.

These efforts are commendable, particularly by such a young agency, but should be complemented with proactive competition enforcement and the imposition of severe fines to tackle infringement, ensure deterrence and encourage competition compliance by firms. Competition enforcement by the KCA has been weak to date, although the case concluded in 2020, which for the first time led to the imposition of high fines on cartelists, is a promising sign for the future. Policy makers in Kosovo may wish to consider the following:

- **Shelter the KCA from political influence, and carefully preserve its independence.** OECD Competition Committee research has found that it is an ongoing challenge to ensure that a competition agency enjoys the requisite levels of independence, remains transparent and receives appropriate resourcing. Even well-established regimes may deviate from these standards, with detrimental consequences for the quality of competition enforcement, law and policy; however, it is essential that such standards are maintained. As indicated, the KCA was not operational between 2013 and 2016 as the members of the commission had not been appointed. This shows that political action or lack of action can have a strong impact on competition policy.
- **Prioritise strengthening cartel enforcement and increasing fines**. Cartels are the most clear-cut and undisputedly harmful competition infringements and affect every economy. The efforts of the KCA should be focused on detecting cartels and imposing heavy fines on infringers to deliver a strong message that firms engaging in collusion risk severe punishment. If the fine amount sufficiently exceeds illicit gains, offences can be deterred even when the probability of paying a fine is low. The fear of fines is also a key driver of leniency applications, thus fostering the effectiveness of the leniency programme – which has been unproductive in Kosovo so far – and further boosting detection. The KCA might engage in expanding its detection skills, for example by further strengthening the fight against bid rigging (see point below on public procurement), and start using its power to perform on-site inspections to collect evidence.
- **Pay specific attention to public procurement, particularly during the COVID-19 crisis.** Public procurement is a key sphere of action both for cartel enforcement and for competition advocacy. Bid rigging results in significant harm to the public budget and to taxpayers, dampening innovation and causing inefficiencies. The KCA should work closely with the Public Procurement Regulatory Commission and the Central Procurement Agency to reduce the risks of bid rigging through careful design of the procurement process, and to detect bid-rigging schemes during the procurement process. Figure 22.10 shows how co-operation between competition and procurement authorities can help detect and avoid bid rigging. The Recommendation of the OECD Council on Fighting Bid Rigging in Public Procurement (OECD, 2012[79]) calls for governments to assess their public procurement laws and practices at all levels of government in order to promote more effective procurement and reduce the risk of bid rigging in public tenders. The Guidelines on Fighting Bid Rigging in Public Procurement (OECD, 2009[80]), which form a part of the recommendation, are designed to reduce the risks of bid rigging through the careful design of the procurement process and to detect bid-rigging conspiracies during the procurement process. The OECD can also provide assistance through helping to assess the main rules governing the procurement of public

works and the procurement practices of major public buyers. It can provide recommendations to design competitive procurement and fight bid rigging in accordance with international good practices. It can also offer training for both competition and public procurement officials, based on the Guidelines on Fighting Bid Rigging in Public Procurement.

Figure 22.10. How co-operation between competition and procurement authorities could work




- **The KCA should make wider use of its power to perform market studies**. The OECD's Competition Division can assist competition authorities, regulators, ministries or other policy makers with market study projects. This could be particularly valuable in Kosovo, where the KCA and policy makers have limited experience with such tools.
- **Expand international co-operation and training.** International co-operation and targeted training initiatives are necessary in a fast-moving economic environment. In the face of increasing complexity of anti-trust issues and the frequent cross-border nature of competition infringements, the management and staff of the KCA should have regular opportunities to meet and share good practices with international competition experts and colleagues from other jurisdictions. International organisations such as the OECD, the ICN and the United Nations Conference on Trade and Development (UNCTAD) offer valuable opportunities in this regard. The OECD-GVH Regional Centre for Competition in Budapest provides an ideal forum to explore competition related issues. The KCA is already a regular participant in the centre's events and would benefit from actively continuing its participation. Additional training initiatives would further enable KCA staff to reach their full potential.

## State-owned enterprises (Dimension 6)

### Introduction

State ownership responsibilities for Kosovo's main portfolio of 17 SOEs are exercised by an inter-ministerial government commission whose work is supported by an SOE monitoring unit in the Ministry of Economy and Environment (MEE). Despite these ownership arrangements, several SOEs are loss-making, which indicates that there is scope to clarify SOE performance expectations and address structural shortcomings. Nevertheless, Kosovo achieves an above-average score in the governance and efficiency sub-dimension (Table 22.9), reflecting its strongly centralised ownership arrangements and the separation of ownership and regulatory functions. Kosovar SOEs are subject to high standards of financial disclosure, resulting in an above-average score in Sub-dimension 6.2. Kosovo also performs better than other WB6 economies when maintaining a level playing field with private companies (Sub-dimension 6.3), reflecting the fact that all SOEs operate as joint-stock companies and are thus subject to general company law. However, many SOEs do not earn economically significant rates of return and many benefit from state guarantees, which may result in an uneven playing field with private companies. Kosovo's performance on the state-owned enterprise dimension has not changed significantly since the 2018 Competitiveness Outlook (Figure 22.1), but the authorities report plans to update the Law on Publicly Owned Enterprises in 2021, which could lead to changes in scores depending on the direction of the planned reforms.

#### Table 22.9. Kosovo's scores for state-owned enterprises

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **State-owned enterprises dimension** | Sub-dimension 6.1: Efficiency and performance through improved governance | 3.1 | 2.2 |
| | Sub-dimension 6.2: Transparency and accountability practices | 3.2 | 3.0 |
| | Sub-dimension 6.3: Ensuring a level playing field | 3.0 | 2.8 |
| | Sub-dimension 6.4: Reforming and privatising SOEs | n.a. | n.a. |
| **Kosovo's overall score** | | **3.1** | **2.6** |

Note: For comparability with the previous assessment, the new sub-dimension (6.4) has not been scored but is discussed in the text below.

### State of play and key developments

*Sub-dimension 6.1: Efficiency and performance through improved governance*

Kosovo's state-owned enterprise portfolio consists primarily of 17 SOEs (Table 22.10). At the local level, Kosovo's municipalities own 43 local enterprises, mostly in the transport and public utilities sectors.

#### Table 22.10. Kosovo's main state-owned enterprises

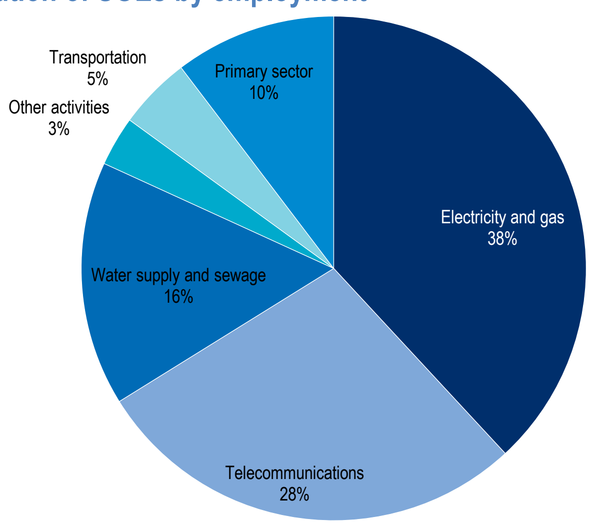
| Name of enterprise | Main sector/activities | Number of employees |
|---|---|---|
| KEK | Electricity | 4 145 |
| Telekomi i Kosoves | Telecommunications | 2 289 |
| Posta e Kosoves | Telecommunications | 1 013 |
| NKEC | Electricity | 3 |
| KRU Mitrovica | Water supply and sewage | 246 |
| KRU Prishtina | Water supply and sewage | 560 |
| KRU Gjakova | Water supply and sewage | 265 |
| Hidroregjioni Jugor | Water supply and sewage | 324 |
| KMDK | Waste | 82 |
| Trainkos | Transport | 233 |
| Infrakos | Transport | 315 |

| Name of enterprise | Main sector/activities | Number of employees |
|---|---|---|
| HE Iber Lepenc | Multi-sectoral | 274 |
| Radoniqi Dukagjini | Irrigation | 65 |
| Drini I Bardhe | Irrigation | 36 |
| Hidro Drini | Water supply and sewage | 216 |
| Hidro Morava | Water supply and sewage | 153 |
| Trepča Mine | Mining | 1 217 |
| KOSST | Electricity transmission | 340 |
| **Totals** | **18 enterprises** | **11 776 employees** |

Note: Enterprise names, sectors of operation and employee numbers are as reported by the Kosovo authorities for this assessment, with the exception of the employment figure for KOSST, which is based on online disclosures.

The Privatisation Agency of Kosovo (PAK) – by its own online disclosure – also holds administrative rights for over 500 previously "socially owned" enterprises (whose ownership was considered shared social property under the former Yugoslavia regime). Legally, the PAK holds these enterprises "in trust", with responsibility for administering legal claims on their ownership and overseeing their eventual privatisation or liquidation. The PAK's establishing legislation allows it to exercise a wide range of functions with respect to the enterprises, including appointing board members and senior management, approving business and investment plans, and revising corporate by-laws. Although legally the PAK may not "own" these enterprises directly, it has legal authority to exercise several important ownership rights, which makes it a *de facto* owner of a large portfolio of SOEs. According to the OECD definition, enterprises owned by the state, even if slated for privatisation, are considered SOEs and should thus be governed according to high standards of corporate governance until they are privatised.

### Figure 22.11. Sectoral distribution of SOEs by employment




Note: Employment figures are for 18 companies, including the main centrally managed portfolio, plus the electricity transmission operator KOSTT, which is owned directly by parliament.
Source: Calculations based on information provided by the authorities of Kosovo.

SOEs in Kosovo account for an estimated 3.3% of domestic employment, which is slightly above the OECD average and in between the share for neighbouring Serbia (2.9%) and Montenegro (3.3%).[39] SOEs' estimated share of domestic employment increased slightly (from 2.9%) when the state took majority ownership of the Trepča Mine in 2016. SOE assets in Kosovo account for the lowest share of GDP compared to other WB6 economies, based on estimates by the EBRD (EBRD, 2020[81]).[40] Although these estimates show that SOEs in Kosovo do not constitute a particularly large share of the economy, their presence in structurally important sectors such as electricity, telecommunications and transportation makes their efficient operation important for broader economic outcomes Figure 22.11.

Some of Kosovo's most prominent SOEs have suffered losses in recent years, indicating structural issues that impede their performance. For example, Kosovo Telecom was recently on the brink of bankruptcy owing to EUR 26 million of unpaid debts (BalkanInsight, 2020[82]). In 2017, Kosovo Railways operator, Trainkos, cut some of its domestic passenger services for two months, stating that revenue was not sufficient to cover operating costs and citing EUR 5 million of accumulated losses over the previous five years (IRJ, 2017[83]). SOE losses appear to sometimes stem from under-compensated public policy objectives (as may be the case for the aforementioned passenger rail service), or from broader structural issues such as overstaffing.[41]

Concerning the **clarification of ownership policy and rationales**, Kosovo adopted a state ownership policy in 2008 that clearly outlines the rationales for state ownership and establishes several basic principles for the state to follow in its role as shareholder. The first overarching objective for state ownership is to maximise value for shareholders by achieving sustainable positive income and ensuring the appropriate involvement of the private sector. The establishment of value maximisation – which can include both financial value and societal value – as an objective of state ownership is in line with the good practice guidance of the OECD Guidelines on Corporate Governance of State-Owned Enterprises (OECD, 2015[84]). Additional principles set forth in Kosovo's policy include the following: SOEs should implement sound corporate governance and transparency practices; their capital structures should maintain SOEs' financial discipline and minimise their dependence on the state budget; state capital provisions for major investments should be decided through the standard public budget process; and the private sector should be included in SOE operations where needed to increase efficiency and quality of services. The ownership policy states that government ownership should only be maintained in enterprises to protect the public interest and not purely as a result of historical factors.

While Kosovo's state ownership policy provides a sound foundation to support professional ownership practices and includes several good practice principles, more information on the success of its implementation would be useful, particularly as it was adopted 12 years ago. One shortcoming of the policy is that in its emphasis on the ownership responsibilities of the Government of Kosovo as a whole it does not provide detailed information on the roles of subsidiary state bodies in implementing the ownership policy. Stakeholders interviewed for this assessment communicated a general perception that Kosovo's ownership policy has been successful in introducing more professional governance arrangements and attracting some additional private capital (e.g. the public-private partnership with the domestic airport) to Kosovo's 17 main SOEs; however, the board member selection process (outlined in the state ownership policy) remains problematic in practice, with politicisation hindering the commercial performance of SOEs in many cases.

Kosovo has established predominantly centralised state ownership arrangements, wherein the Government of Kosovo has exclusive responsibility for ownership decisions, which are agreed upon by an inter-ministerial committee by simple majority vote. Efforts to **professionalise state ownership** practices in Kosovo are underpinned by the state ownership policy and the Publicly Owned Enterprise (POE) Monitoring Unit. The POE Monitoring Unit's main roles are to collect SOEs' annual financial statements, prepare a consolidated report on SOE financial operations, and review the performance of SOE boards of directors to help inform government decisions on the continuity and composition of each board. These arrangements are set out in the Law on Publicly Owned Enterprises, which also establishes some basic criteria for the composition of the inter-ministerial committee, notably that it must always include the Minister of Economy and Environment (who leads the committee), the Minister of Finance, the Minister of Trade and Industry, the Minister of Infrastructure and the Minister of Regional Development. There are subsidiary regulations for the rules of procedure of the inter-ministerial committee.

By establishing a central monitoring unit and ensuring that state ownership decisions are taken by the whole of government (and not individual line ministers), Kosovo has taken steps to harmonise ownership practices and separate ownership decisions from regulatory decisions. However, there is one SOE, the electricity transmission system operator KOSTT, that operates outside of these prevailing arrangements, as it is owned by parliament. The current ownership arrangements also mean that according to the authorities there is no process in place through which the state shareholder sets performance objectives for individual SOEs. Dividend expectations from certain individual SOEs are decided through the annual public budget process, but the process for setting other quantitative performance targets varies across the SOE sector and seems to be mostly driven by SOE management rather than by the state as shareholder. In particular, SOE business plans developed by senior management and subsequently approved by the board include financial and operational performance targets.

Kosovo has taken some initial steps to establish an SOE **board nomination framework**, but the process and criteria used for appointing (and in some cases dismissing) individual SOE board members is not particularly transparent. According to the Law on Publicly Owned Enterprises, SOE board recruitment procedures are led by recommendation committees established for each SOE, which are made up of seven individuals and must comprise senior civil servants or qualified external experts with relevant industry, financial or corporate governance expertise. The composition of these recommendation committees is decided by the Permanent Secretary of the Prime Minister's Office. Final decisions on SOE board nominations are made by the Government of Kosovo, but all board appointees must be among those preselected by the relevant recommendation committee. Although the general process for SOE board recruitment is clearly established by law, there is limited transparency regarding the criteria and procedures used by each recommendation committee to identify, vet and agree on candidates. For example, it is not clear if all board vacancies are subject to an open and competitive procedure, although the authorities report that board vacancies are indeed publicly announced. Regarding professional qualifications, SOE boards (which must comprise five to seven members) are required to include at least two individuals with adequate knowledge of accounting and must meet certain independence criteria, discussed below. There is scope to strengthen the professional qualifications criteria applicable to all SOE board members so that boards have adequate professional competencies and are clearly selected on merit.

External stakeholders interviewed for this review indicated a recurring practice, often following political cycles, of dismissing SOE boards and appointing "temporary boards" in their place. The interviewees noted several recent SOE board dismissals perceived to be politically motivated. The government maintains that the boards in question were dismissed owing to their non-compliance with requests to postpone the appointment of senior management to allow for the participation of an external professional advisory entity. Given that senior management appointments are legally the responsibility of SOE boards in Kosovo, these recent disagreements point to an inadequate or unclear separation of responsibilities between the state as shareholder and SOE boards of directors.[42]

Although Kosovo has established some criteria to **promote independent and professional boards** in SOEs, several media reports indicate a perception that board appointments are sometimes made on the basis of personal connections, for example with the ruling political parties.[43] Interviews with stakeholders conducted for this assessment echo this perception, which means that SOE corporate decision making, for example related to procurement or recruitment of senior management, is frequently subject to political influence. This practice contrasts sharply with the apparently sound formal criteria for SOE board membership, which emphasises independence and the absence of conflict of interest. According to the Law on Publicly Owned Enterprises, all SOE board candidates must not have had any business relationships with the SOE in question or have been elected officials, political appointees or decision makers in any political party for the three years preceding their application. Concerning their fiduciary duties, SOE board members are required to act in the best interest of the enterprise according to both the company law (the Law on Business Organisations) and the Law on Publicly Owned Enterprises. The law also states that when SOEs do not meet their performance targets set out in annual business plans for two years in a row, the state shareholder must consider board dismissal. SOE board members are subject to the Code of Ethics and Corporate Governance in Publicly Owned Enterprises, according to which all board members should ensure that sufficient procedures are in place to protect the assets, reputation and long-term interests of the enterprise. Despite the existence of these formal requirements, the apparent perception that SOE board seats are not consistently based on professional merit indicates shortcomings in SOE board recruitment criteria and procedures. Authorities in Kosovo also report that SOEs are expected to comply with the Law on Gender Equality, which sets the ambition of 50% representation of each gender in decision-making bodies in all legislative, executive and judiciary bodies. The authorities report that SOEs fall under the scope of this law, but that no SOE complies with its requirements, demonstrated by the very low number of female applicants to related positions.

### *Sub-dimension 6.2: Transparency and accountability practices*

Concerning **financial and non-financial reporting**, SOEs are required to submit their annual financial statements, audited by an external auditor, to the POE Monitoring Unit housed in the MEE. Financial statements are subsequently made available online, creating a channel for public accountability. Most SOEs appear to respect these disclosure requirements. For example, the websites of the Ministry of Finance and the MEE publish enterprise-specific reporting documents for all 17 SOEs that include annual reports on financial statements, business plans and corporate statutes. There are sometimes delays in making annual reports available online.[44] While SOEs are subject to apparently high standards of financial reporting, there is limited information available on their non-financial reporting requirements and practices. Although the requirement for SOEs to make their business plans available online might be considered a means of increasing corporate accountability, there is also a risk that it could jeopardise their commercial situation, for example if information on plans to expand in competitive markets is made public. Regarding disclosure at the state level, Kosovo appears to be the only WB6 economy to produce a consolidated financial report on SOEs, which is prepared by the POE Monitoring Unit and presented to parliament annually. The latest example of this report was produced in 2016 and is available online.[45] The authorities report that they are currently preparing a 2018/19 annual aggregate report; however, publication of this report, which is subject to parliamentary approval, has been postponed due to the COVID-19 pandemic and changes in the government and parliament.

Concerning **auditing practices**, as mentioned above all SOEs are required to have their financial statements audited by an external auditor in accordance with internationally accepted standards of auditing. However, in practice the state audit office sometimes performs SOE financial audits instead of external firms, which is not consistent with relevant OECD recommendations. Kosovo's related requirements are set forth in the Law on Publicly Owned Enterprises, which also establishes strict criteria for ensuring the independence of the audit firm selected to undertake the external audit. The audit firm is selected by the SOE's procurement officer, with assistance from the board audit committee. The Law on Publicly Owned Enterprises also establishes that both the National Audit Office and parliament can undertake additional audits of individual SOEs as deemed necessary. The authorities report that in cases where the National Audit Office undertakes an audit of an SOE's financial statements, an audit by an external audit firm is not required or undertaken, which is not consistent with OECD guidelines. As an example of such ad hoc audits, the National Audit Office audited Kosovo Telecom for the 2018 financial year, which assessed the credibility of the company's financial statements and the robustness of internal controls and the internal audit function (National Audit Office, 2019[85]). The Office of the Auditor General concluded that the 2018 financial statements did not present a true and fair view of the company's financial situation. A similar public audit of Kosovo Railways (Trainkos) was undertaken in 2019, and also concluded that the company's 2018 financial statements did not present a fair and accurate view of its financial situation. While this only concerns two SOEs, it points to scope for investigating the quality of other SOE financial statements to address any weaknesses and ensure that these statements can reliably inform the state's efforts to address structural problems that may limit SOE efficiency.

Concerning the legislative framework for the **protection of minority shareholders** – which will be relevant if the state decides to broaden the ownership of SOEs to include private investors – external assessments by the World Bank indicate that Kosovo has some basic legal requirements in place on the extent of shareholder rights.[46] However, the absence of an active stock market excludes Kosovo from receiving a score from the World Bank in some of the indicators related to minority shareholder protections. Broader issues related to weaknesses in the judicial system, highlighted by an example of the US Department of State (US Department of State, 2020[86]), could make it difficult for minority shareholders to obtain redress if their rights are violated, even if basic rights are adequately enshrined in law. Currently, only one of Kosovo's SOEs, the Trepča Mine, has non-state minority shareholders as it is 20% owned by employees and 80% owned by the Government of Kosovo.[47] As mentioned, the state took ownership of the mine in 2016 by a decision of the parliament just before it was due to initiate bankruptcy proceedings. The legislation applicable to Trepča Mine establishes that the supervisory board is elected by shareholders in proportion to their shareholdings and in accordance with the Law on Publicly Owned Enterprises. It is not clear from these two pieces of publicly available legislation how exactly the employees of Trepča Mine participate in the nomination of board members in proportion to their 20% shareholding; stakeholders interviewed for this assessment highlighted that the related procedures may be detailed in the enterprise's corporate statutes, but that these are not publicly available.

### *Sub-dimension 6.3: Ensuring a level playing field*

Concerning **legal and regulatory treatment**, all SOEs in Kosovo are incorporated as joint-stock companies, and thus subject to the company law also applicable to privately owned companies. The authorities in Kosovo also confirm that SOEs are subject to the same regulatory treatment as private companies. This provides a sound initial foundation for establishing a level playing field with private companies. However, a recent dispute between state-owned Kosovo Telecom and the privately owned Z-mobile points to some potential competition barriers where SOEs control the network infrastructure used by competitors. The dispute involved claims by the private mobile services operator that Kosovo Telecom was not respecting its contractual responsibilities to provide access to network infrastructure.[48] The dispute went to international arbitration, which concluded in favour of the private operator. This case illustrates that aligning SOE legislation with that of private companies is often not sufficient to ensure fair competition between SOEs and their private competitors.

Concerning **access to finance**, most SOEs obtain financing from the commercial marketplace, and some SOEs benefit from explicit state guarantees of their commercial debt. While such advantageous conditions for SOEs distorts the playing field, the fact that several SOEs are loss-making arguably constitutes a much more problematic structural issue. Just as advantageous operational conditions can favour SOEs and crowd out private sector competition, disadvantages faced by SOEs – such as under-compensated public policy objectives or employment expectations that impede efficiency – also distort the playing field and lead to inefficiencies in companies and markets. A 2015 external assessment by the GAP Institute for Advanced Studies identified overstaffing as a crucial structural problem in the SOE sector, often the result of political influence (GAP Institute, 2015[87]). In terms of responses to the COVID-19 pandemic, the authorities report that some SOEs have received funding from an emergency fund, and that state aid rules have been relaxed in the context of the pandemic.

### *Sub-dimension 6.4: Reforming and privatising state-owned enterprises*

Concerning **recent SOE reform**, in 2015 the Kosovo authorities amended the Law on Publicly Owned Enterprises to establish a new local SOE and set forth additional regulations for the state-owned Trepča Mine. The authorities report that there are plans to further amend this law, with parliamentary consideration of new amendments foreseen in 2021. The planned amendments span a wide range of issues, including developing a state strategy for SOEs; board member nomination, duties, remuneration and sanctions; strengthening SOE financial and operational reporting; and criteria for the mandatory restructuring of SOEs.

The government does not currently have any announced plans to **privatise** any of the 17 SOEs under the MEE. It had previously announced its intention to privatise Kosovo Telecom in 2019, but this did not take place and the authorities report that its performance will need to improve prior to privatisation to increase its attractiveness to potential investors.[49] Separately, PAK maintains a portfolio of over 500 formerly socially owned enterprises, for which privatisation or liquidation efforts continue. PAK is an independent public institution established in 2008 as the successor to the former Kosovo Trust Agency. It is mandated to privatise enterprises primarily through corporate spin-offs and/or liquidation.[50] According to the legislation establishing PAK, many of the enterprises under its remit are subject to conflicting ownership claims. PAK is legally tasked with ensuring that any individuals claiming to hold ownership or creditor rights in the enterprises receive due process and, as relevant, adequate monetary compensation.[51] Concerning the legislative framework for the potential privatisation of the 17 SOEs under the MEE, the Law on Publicly Owned Enterprises regulates the process, notably requiring the establishment of a government commission for privatisation. The commission is not a standing body, but rather established if the government adopts plans to privatise any of the 17 centrally managed SOEs, which it has reportedly not done in the past few years.

### *The way forward for state-owned enterprises*

SOEs operate at the nexus of the public and private sectors, and their operations are affected by both the quality of public governance and the prevailing corporate and boardroom culture. As is the case in most Western Balkan economies, ensuring that SOEs in Kosovo operate efficiently, transparently and on a level playing field with private companies will necessitate reforms in multiple policy areas that cannot be undertaken all at once. Choosing the appropriate sequencing of reforms is just as important as their content, and largely depends on the domestic political climate and current reform priorities.

The OECD Guidelines on Corporate Governance of State-Owned Enterprises (OECD, 2015[84]) provide a guidepost for reforms that the authorities of Kosovo can use to inform their policy efforts in this domain. Based on the state of play of SOE policy development in Kosovo, the following priority reform areas – which are in line with OECD guidelines – could offer a basis for discussions with the authorities:

- **Update the state ownership policy.** The state ownership policy was drafted in 2008 and has not been updated since. The policy contains several sound principles to underpin professional state ownership practices, but it is unclear how well public authorities and SOEs have implemented its principles. The state should assess implementation of the ownership policy and use the results of this assessment to inform an update of the policy, in consultation with all relevant government bodies. In line with the OECD guidelines, the ownership policy should clearly articulate the rationales for state ownership of commercial enterprises, outline the state's role in the governance of SOEs and define the respective responsibilities of all state bodies involved in its implementation. Key elements of Norway's ownership policy, as outlined on the state's website, are provided in Box 22.5 as an example.
- **Ensure that SOE board member recruitment is transparent and merit based.** While the state has established a general framework for SOE board nominations, which involves setting up SOE-specific "recommendation committees" to lead recruitment procedures, the criteria applicable to the recruitment of individual board members are not transparent. There is a perception that SOE board seats are often not accorded based on merit, pointing to shortcomings in the criteria used and/or the transparency of the process. Strong qualifications criteria are necessary to ensure that SOE boards are equipped with the right mix of professional competencies to effectively oversee corporate strategy, with a view to maximising their commercial efficiency. The authorities could also consider the use of professional staffing agencies to improve the efficiency and professionalism of the process.
- **Strengthen monitoring and reporting on SOE performance.** Kosovo has established a sound mechanism for developing a central overview of the financial performance of SOEs through the POE Monitoring Unit's collection of SOE annual financial statements. The functions of the POE

Monitoring Unit could be expanded to include more in-depth reviews of individual SOE performance, with a view to identifying the structural weaknesses limiting their efficiency. The results of such in-depth assessments could also be made public to strengthen accountability and incentivise improvements. The two recent public audits of Trainkos' and Kosovo Telecom's financial statements, which resulted in qualified opinions that the statements did not present a fair and accurate view of the financial situation, point to weaknesses in the quality and credibility of SOE financial reports. The authorities should take steps to address these weaknesses so that SOE financial reports can be relied upon to for identifying structural shortcomings that hold back SOE performance.

### Box 22.5. Norway's state ownership policy

The website of the Norwegian Government provides clear information to the public on the state's policy positions regarding state ownership, including explanations of why the state owns enterprises, what its portfolio contains and how state ownership is exercised by public authorities. Excerpts from the website are provided below:

- **Why the state is an owner**: "The Government believes that private ownership should be the main rule in Norwegian business and industry. The state should only have ownership interests in companies when this is the best means of meeting the state's needs."
- **What the state owns**: "The state has direct ownership, managed through the ministries, in 72 companies. […] The state regularly assesses the rationale for its ownership and its goal as an owner in each company, to ensure that they are updated and relevant, and to help the state to efficiently solve different tasks or safeguard different needs."
- **How state ownership is exercised**: "The Government's ambition is that the Norwegian state's exercise of ownership shall be in accordance with best international practice […] Together, the state's principles for good corporate governance and the state's goal as an owner form the basis for how the state exercises its ownership. The key elements of the framework for the state's exercise of ownership – about which there has been a broad political consensus over time – are included in the state's ten principles for good corporate governance."

Source: (Norwegian Ministry of Trade, Industry and Fisheries, 2020[88]), *State Ownership*, https://www.regjeringen.no/en/topics/business-and-industry/state-ownership/id1336/.

## Education policy (Dimension 7)

### *Introduction*

Table 22.11 shows Kosovo's scores for the four education policy sub-dimensions and the cross-cutting dimension on system governance, and compares them to the WB6 average. Kosovo has the highest score (along with Serbia) of the WB6 economies for the early childhood and school sub-dimension, driven by its above-average ratings for the indicators on early childhood education and early school leaving prevention. It also scores highest (along with North Macedonia) for the system governance cross-cutting dimension. However, it scores below the WB6 average for the sub-dimension on teachers.

**Table 22.11. Kosovo's scores for education policy**

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Education policy dimension** | Sub-dimension 7.1: Early childhood and school education | 3.5 | 3.0 |
| | Sub-dimension 7.2: Teachers | 2.3 | 2.7 |
| | Sub-dimension 7.3: Vocational education and training | 3.3 | 3.1 |
| | Sub-dimension 7.4: Tertiary education | 2.8 | 2.8 |
| | Cross-cutting dimension: System governance | 4.0 | 3.3 |
| **Kosovo's overall score** | | **3.2** | **3.0** |

### *State of play and key developments*

Kosovo has several well-designed education policies that are similar to many European and OECD economies, including a sophisticated system for reducing early school leaving, and learning standards for each level of pre-university education. While Kosovo's education policy scores have remained generally stable since the 2018 Competitiveness Outlook, there have been some improvements in specific sub-dimensions. Kosovo's overall performance is slightly above the regional average in the education policy dimension (Table 22.10), but there are signs that policy implementation remains a major challenge. Data on the education system are very limited compared to other Western Balkan economies. Moreover, student learning outcomes in Kosovo, as measured by PISA, remain low, and a significant share of students do not achieve baseline proficiency levels in reading and mathematics (OECD, 2020[89]). Considering that Kosovo has one of the youngest populations in Europe, strengthening the education system will be crucial if future generations are to support the economy's long-term development and competitiveness.

Similar to economies around the world, Kosovo was faced with a rapid shift from classroom to remote learning in 2020 to help slow the spread of COVID-19. Working with donor agencies, including Microsoft, UNICEF and Save the Children, Kosovo's government introduced distance-learning opportunities for each education level. In the area of early childhood education it launched the online platform, Distance Education – Care, Development and Early Childhood Education for 0-6 year-olds, in April 2020. The platform provided learning and information materials for educators and parents, as well as guidance on how to explain the COVID-19 pandemic to children. To leverage the platform's potential, MEST, in co-operation with UNICEF, organised online training that reached 1 543 educators working in preschool institutions and at the pre-primary level across Kosovo. For the reopening of preschools, MEST, in co-operation with donors, issued the "Protocol for facilitation measures to resume the work of preschool institutions in Kosovo". Even after preschools reopened, the Distance Education platform continued to be active, and its content has also been broadcast on radio and television since October 2020 to provide equal access to all children at the pre-primary level.

Beyond the preschool level, Kosovo rolled out the online Learning Passport, which has provided digital curriculum materials and open-source content to support and guide learners. Other organisations working in Kosovo have also introduced initiatives to address the educational challenges presented by the pandemic. For example, the Organization for Security and Co-operation in Europe started a project to train teachers on how to support the mental health of students during the crisis.

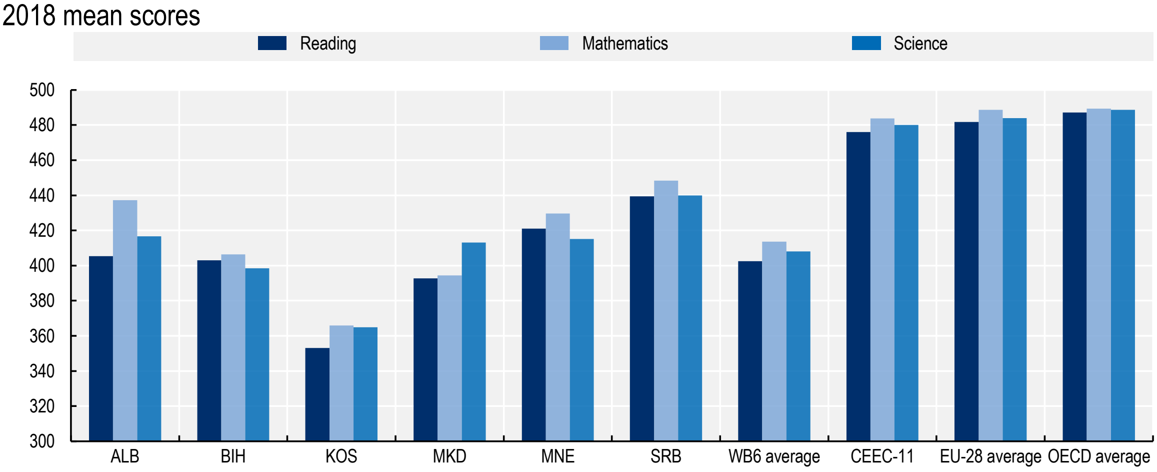
### *Sub-dimension 7.1: Early childhood and school education*

Kosovo's score in this sub-dimension is slightly above the Western Balkan average, largely because of its policies to address early school leaving. Since the last CO assessment, Kosovo has made progress in implementing new Early Learning and Development Standards for children aged 0-6, and developing infrastructure to better monitor and respond to early school leaving. Although internationally comparable data on Kosovo's education system are limited, the economy reports universal participation in primary education. However, the share of students enrolled in lower secondary and upper secondary education has been decreasing over recent years, and in 2018 was 90.5% and 86.8%, respectively. This trend is similar to what is observed in other WB6 economies.

In terms of learning outcomes, Kosovo's average performance is much lower than other Western Balkan and European economies (Figure 22.12). Only 21% of students in Kosovo attained baseline levels of proficiency in reading, compared to the OECD average of 77% (OECD, 2020[89]). This share was similar in mathematics, where 23% of students achieved at least baseline proficiency, compared to the OECD average of 76%. These findings suggest that there is a significant learning crisis in Kosovo that is not being addressed by the economy's well-designed education policies. These results also have implications for Kosovo's long-term development, as students without basic skills are less likely to attain better paying and more rewarding jobs. However, it is positive that Kosovo has managed to maintain performance levels in reading and mathematics across PISA cycles[52] while simultaneously increasing its coverage index by 13 percentage points[53] (OECD, 2020[90]).

#### Figure 22.12. Performance in reading, mathematics and science in Western Balkan education systems (2018)

PISA 2018 mean scores




Note: CEEC: Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.
Source: (OECD, 2020[89]), *PISA 2018 Database, Tables I.B1.4, I.B1.5 and I.B1.6*, www.oecd.org/pisa/data.

StatLink https://doi.org/10.1787/888934255741

Kosovo's performance in the **early childhood education** indicator is above the regional average. There is a strong strategic framework for early childhood education (ECE) with clear objectives, and an implementation timeline and budget that aims to increase inclusion and participation at this level of education. The sector is also recognised as a core element of Kosovo's broader development strategy, and there is a high level of engagement by international donor agencies. Kosovo's Early Learning Development Standards for children aged 0-6, which describe expectations for child behaviour and performance in different areas of development and learning, is a key strength of the system, and there is some variety in the data available to monitor and evaluate the sector. However, data on ECE staff are limited, making it difficult to support ECE educators and therefore improve the quality of provision. Despite an impressive ECE policy framework, Kosovo reports that as of 2018/19, the gross enrolment ratio of children in early childhood education and development (International Standard Classification of Education, ISCED, level 0) was only around 20%. While this is slightly lower than North Macedonia's reported enrolment rate (24%), other Western Balkan economies with available data reported at least 48% enrolment at this level. Research suggests that Kosovo's low levels of ECE participation are in part caused by the inadequate number of public kindergartens, which are distributed unevenly across the economy, and a limited number of subsidised ECE places for children from vulnerable groups (UNICEF, 2017[91]). At the time of this review, Kosovo was revising its Law on Early Childhood Education, which is expected to help make ECE more inclusive.

The **instruction system**[54] in Kosovo performs slightly below the regional average, despite several positive policy features. For example, the Quality Assurance Strategy for Pre-University Education 2016-20 sets out objectives for improving educational quality and equity with clear and measurable targets, allocations of responsibilities, and a budget and timeline for proposed activities. However, there have been no comprehensive evaluations of the entire instructional system. Since 2016, Kosovo has been implementing a competency-based curriculum framework and core curriculum, which describe learning standards. Kosovo uses a combination of continuous, formative and summative classroom assessments, in addition to external examinations, to assess students against the curriculum. External examinations are administered to students at the end of lower secondary education (Grade 9) for selection into either general or vocational pathways, and at the end of upper secondary (i.e. the Matura in grade 12) to certify the completion of upper secondary school. Positively, Kosovo is developing a centre for assessment that will become responsible for managing all central-level assessment instruments. The development of this centre would align with many OECD countries and other education systems in the region that have specialised bodies to manage student assessments.

Kosovo has a strategy for quality assurance in school education, and the curriculum framework sets out a list of indicators for measuring teaching and learning. These indicators are monitored by municipal and regional inspectors and by school directors, who mainly have managerial and administrative responsibilities. Although Kosovo has established processes for external school evaluations, there does not seem to be a clear set of school quality standards. In many OECD and European education systems, these standards define the vision and dimensions of quality schooling and serve as the main reference for evaluation (OECD, 2013[92]). Without such standards, it may be difficult for actors in Kosovo to identify the strengths and areas of improvement for individual schools.

Kosovo has sophisticated systems to tackle **early school leaving.** These have contributed to a decline in the early school leaving rate from more than 18.4% in 2013 to 9.6% in 2018, thus achieving the EU target of less than 10% by 2020 (Eurostat, 2021[93]). While Kosovo does not have a specific strategy for early school leaving, several policies and initiatives to address the issue include work plans developed and reviewed every two years to support schools and municipalities in dealing with dropouts. There are also targeted initiatives to support students at risk of early leaving, such as needs-based scholarships for upper secondary school, career guidance programmes and efforts to engage parents and other actors. Kosovo also collects a range of information about early school leaving and its contributing factors, which is centrally stored within the Education Management Information System (EMIS). Since 2017, the EMIS system has included an early warning system of abandonment, and in 2019/20 Kosovo introduced a rewards system to encourage schools to report data accurately. Kosovo analyses its early school-leaving data to inform policy decisions. For example, students transferring from one school to another made it difficult to track attendance and other early school-leaving factors. In response, the government has started changing the procedures around school transfers so that this does not create a problem for tracking early school leaving.

### Sub-dimension 7.2: Teachers

Kosovo's score in the sub-dimension on teachers is slightly below the average for Western Balkan economies (Table 22.11). While there are a number of administrative instructions and laws that regulate initial teacher education and their professional development and management, data on the profession are very limited and it is difficult to determine the extent to which policies have been implemented. As a result, Kosovo was unable to provide data on the educational background and experience of practising teachers.

Despite the challenges of collecting data on teachers, Kosovo is building the legislative framework to strengthen **initial teacher education (ITE)**. There is an accreditation process for ITE programmes based on professional teacher standards, which are defined by the Teachers Professional Development Strategy 2017-2021 and the curriculum framework. This means that ITE providers must demonstrate how their programmes help candidates develop the specific competencies needed to teach. In 2018, Kosovo also introduced a new administrative instruction that requires new teachers to complete an internship during their studies, pass a professional examination and complete one year of work in a school (i.e. a probation period). Following the successful evaluation by the school director, they can officially be contracted as a teacher. While these are positive practices found in many European education systems, Kosovo does not have minimum entry requirements for selecting ITE candidates, and there are no targeted efforts to recruit teachers into the profession.

Kosovo's clear strategy for the **professional development and management** of teachers defines the standards of the teaching profession and breaks down the competencies required at different stages of the teaching career. The 2017 administrative instruction on the licensing system and teacher development sets out a progressive career structure linked to financial incentives. There are four categories of licensed teacher in Kosovo: career teacher, advanced teacher, mentor teacher and merit teacher. The categories (depending on the level) consider years of work experience, professional development requirements and passing an appraisal process. While there is some variety in the type of professional development activities and programmes available in Kosovo, there are no observations or visits to other schools or professional learning networks/communities. Moreover, there is evidence that Kosovo's budget allocation for professional development is insufficient, and that the uneven implementation of relevant policies has not contributed to improvements in the quality of professional development, nor to a "change in teachers' approaches to their professional practice" (Mehmeti, Rraci and Bajrami, 2019[94]). It will likely be difficult for Kosovo to improve teaching practices without more comprehensive and meaningful evaluation and support to help teachers improve.

### Sub-dimension 7.3: Vocational education and training

Kosovo's score in the sub-dimension on vocational education and training (VET) is similar to the Western Balkan average (Table 22.11). Professionally oriented education typically starts in upper secondary school, when students are allocated into either a general (gymnasium) or vocational or professional school. Kosovo's VET system is organised by specialised profiles, but there are general concerns that these do not align with labour market needs (World Bank, 2019[95]). Available data suggest that enrolment in VET has increased in Kosovo in recent years, and as of 2017/18 the majority of upper secondary students (53%) attended VET schools (Kosovo Agency of Statistics, 2021[3]). While caution should be used when comparing different data sources, international data suggest that VET participation in Kosovo is much higher than Western Balkan (29%), EU (27%) and OECD (23.5%) averages (UIS, 2020[96]). Similar to other economies, data from PISA 2018 found that boys are more likely to attend vocational programmes than girls in Kosovo (OECD, 2020[89]).

A range of public bodies are responsible for the **governance of VET** in Kosovo, which is guided by the Kosovo Education Strategic Plan 2017-2021 and the broader development strategy (2016-21). Key institutions include the MEST, the Agency for Vocational Education and Training and Adult Education,[55] the National Qualification Authority,[56] the Council of Vocational Educational and Training and for Adults

(CVETA), as well as municipalities and VET schools that implement policy decisions on VET. Social partners participate in the advisory boards of the central VET agencies and participate in drafting standards, curricula and teaching materials. While legislative acts regulate the roles of various VET actors in this complex governance system, there is occasionally overlap in the allocation of responsibilities. To ensure the quality of VET, Kosovo has clear processes for accrediting VET programmes, and providers are subject to regular evaluation and inspection. Although the government collects information on the completion rates of VET programmes, Kosovo did not report having information on employment rates, hiring after work-based learning or the earnings of VET graduates. As a result, Kosovo cannot undertake analysis to provide adequate career guidance and support learners in making informed decisions about their futures.

Kosovo's comprehensive education strategy identifies harmonising the VET system with labour market requirements as one of seven strategic objectives. It recognises the importance of **work-based learning** (WBL) by calling for "all students…to carry out practical learning in school and professional practice outside the school" (MEST, 2016[97]). Kosovo's new curriculum framework sets out the amount of WBL for each grade level. An administrative instruction for WBL also provides guidelines for VET schools and companies on the implementation of WBL, quality assurance and safety standards. In April 2020, the government raised the budget for VET to cover the costs of equipment, insurance and travel for students in an effort to encourage participation in apprenticeships and other forms of WBL. The MEST and municipal education directorates provide scholarships for women and socio-economically disadvantaged students to encourage their participation in WBL, with 140 women supported through these scholarships in 2020. Kosovo uses broad public awareness campaigns, presentations to social partners and companies, and dedicated career placement services to help match learners with WBL places. There are also online portals listing WBL opportunities. Although these are positive features, donor agencies continue to play an important role in developing and implementing Kosovo's WBL policies, and there is limited data to monitor participation and the outcomes of programmes.

### *Sub-dimension 7.4: Tertiary education*

Kosovo's score in the tertiary education sub-dimension is on par with the Western Balkan average (Table 22.11). Despite having several institutional bodies and policies that support the two respective qualitative indicators in this sub-dimension (equitable access to higher education, and labour market relevance and outcomes of higher education), the transition between education and the labour market remains a significant challenge. For example, Kosovo has the highest share of youth (aged 15-24) who are not in employment, education or training (NEET) among Western Balkan economies, around 33% as of 2019 (ETF, 2020[98]). The share of the labour force (aged 15+) who have attained some form of tertiary education (ISCED 5-8) is around 27%, similar to other economies in the region (ETF, 2020[98]). While individuals with higher levels of education and skills are more likely to be employed, Kosovo has one of lowest formal employment rates in the world, and women are especially at risk of having limited opportunities – see Employment policy (Dimension 8).

Some policies promote **equitable access to higher education** in Kosovo, and the Law on Higher Education requires that all students who wish to study at this level receive equal access to opportunities (Official Gazette of the Republic of Kosovo, 2011[99]). There are transparent processes for selection into higher education,[57] and scholarships are available for students who earn high grades or who represent certain categories (e.g. students with disabilities, veterans). However, there are no incentive mechanisms in place to encourage institutions to enrol these groups of students. Some data on equity in the tertiary sector are collected through Kosovo's System for Information Management in Higher Education platform, such as enrolment and completion by age, gender and minority background. However, there are no proxies for socio-economic background, and challenges remain regarding the participation of Roma and Egyptian students. Moreover, no evaluation or analysis has been undertaken to identify associations between student factors and higher education participation.

Kosovo's current education strategy addresses the **labour market relevance and outcomes of higher education**. There are already mechanisms in place that help increase the labour market relevance of higher education, such as career guidance in higher education institutions (HEIs), scholarships for in-demand programmes and communication/awareness campaigns to inform prospective students about study options. Kosovo also has several initiatives to support the internationalisation of higher education, such as participation in the EU Erasmus Plus programme and grants for students who wish to study abroad. Several public agencies collect data on the labour market and higher education system using surveys of employers and graduates, quantitative forecasting models and sector studies. Moreover, Kosovo's Employment Agency, supported by international donors, recently set up the Kosovo Labour Market Barometer, which centralises data from 12 different public institutions and makes it publicly available in an online portal.[58] While there are no data on employment rates by field of study, and labour market information is not yet used to inform curriculum design, the Labour Market Barometer plans to start connecting labour market data with information from higher education institutions. This tool has the potential to support sector analysis that could help improve the quality and relevance of Kosovo's higher education system. Currently, quality assurance is regulated by law and the Kosovo Accreditation Agency, which uses EU standards and practices such as requiring HEIs to monitor and review their programmes to ensure that they achieve set objectives and respond to the needs of students and society.

#### *Cross-cutting dimension: System governance*

Kosovo's score for this cross-cutting dimension is slightly above the Western Balkan average, as several of the economy's **system governance** features align with policies and practices found in European and OECD education systems. For example, there is a clear and comprehensive education strategy (and accompanying action plan) that was developed in consultation with stakeholders and that covers all levels of education. Importantly, this strategy has been evaluated, and there are technical reports on the overall system and thematic issues. While there has also been some independent research and analysis on Kosovo's education system, this has mostly been led by donor agencies. Another strength of Kosovo's system governance is the Kosovo Qualification Framework, which was developed in line with the European Qualification Framework. The economy also has a clear indicator framework for monitoring the education system, and donor agencies are working with the government to strengthen Kosovo's EMIS. This system includes information on student learning outcomes available through participation in international assessments and economy-level exams. However, Kosovo does not have a system-wide standardised assessment to measure student performance, unlike many Western Balkans economies which have either established one or are in the process of doing so. Despite some positive features of system governance, Kosovo has struggled to improve teaching practices and learning outcomes, suggesting that the implementation of these well-designed policies may be an issue.

### *The way forward for education policy*

In today's increasingly global and fast-changing world, achieving inclusive and quality education can help Kosovo increase its regional competitiveness and create opportunities for more individuals to develop the competencies needed for sustainable development and social cohesion. The government will need to reflect on the economy's political, social and fiscal environment to determine how best to achieve Kosovo's education goals. The following considerations can provide insights for discussions on the way forward to enhance education:

- **Strengthen data collection and management across the system**. Kosovo is already working with international partners to strengthen the interoperability of EMIS, but there is a clear need for more rigorous, timely and comparable data on the education system. To this end, it is important that Kosovo continues participating in large-scale international surveys that generate valuable comparable data, and establishes protocols for mapping and defining indicators and co-ordinating data collection among public agencies (to avoid overlap across the government). The education information system in Estonia could be a useful example for Kosovo to explore (Box 22.6).

- **Improve evaluation and reporting on the education system**. Although Kosovo already publishes an annual statistical report on the education system, the government should consider producing an analytical state of education report. This report should be published regularly and draw on data from the improved EMIS, which would support the monitoring of education legislation and policies at all levels of the system. These analyses and reporting practices would help hold education actors accountable for achieving Kosovo's education goals.
- **Continue to develop and refine teacher policies**. Kosovo has already taken steps to strengthen the teaching profession by introducing new requirements for initial teacher preparation and reforming the teacher licensing processes. However, it will be important to monitor the implementation of teacher policies and refine them if necessary to improve the quality of teaching and learning. Importantly, Kosovo will also need to ensure adequate and sustainable funding to support reforms to teacher preparation and professional development.

### Box 22.6. The Estonian Education Information System

Estonia is known for having a sophisticated digital civil registration system. Most of the country's public services are available online, and even voting can be done through a secure digital identification process available for all citizens via their national identity card, a mandatory document that establishes a person's identity. This personal identification system is also used in the education sector. As a result, the web-based Estonian Education Information System (EHIS) is able to link all education databases with each other and with over 20 different information systems across the economy, such as the Population Register (used for example, to calculate the number of out-of-school children) and the Estonian Examination Information System.

The EHIS follows clear guidelines about how information can be accessed and presented, which helps protect personal and statistical data from being misused. In particular, access to the EHIS requires registered authorisation. Only individuals performing a duty prescribed by law that requires information from the database are able to access personal information about students, teachers and school staff. To obtain approval, individuals must submit a written application to the Ministry of Education setting out what data they require and how they intend to use it. These features enable the EHIS to serve as an important tool for monitoring and guiding policies in Estonia's education system.

Source: (e-Estonia, n.d.[100]), *Education, e-Estonia*, https://e-estonia.com/solutions/education/; (Lao-Peetersoo, 2014[101]), *Introduction of Estonian Education Information System (EHIS)*, http://www.oecd.org/education/ceri/Birgit%20Lao-Peetersoo_Introduction%20to%20the%20Estonian%20Education%20Information%20System%20EHIS.pdf; (Abdul-Hamid, 2017[102]), *Data for Learning: Building a Smart Education Data System*, http://hdl.handle.net/10986/28336.

## Employment policy (Dimension 8)

### Introduction

Limited progress has been made to align labour market regulation, including laws on occupational health and safety, with EU directives. The implementation of the labour law and occupational health and safety (OHS) legislation, as well as the framework for the work of labour inspectorates, remains deficient, and the capacity of labour inspectorates still needs to be increased. More progress is needed to reduce the high levels of skills mismatch and to develop and implement an adult education system. Very limited progress has been made in the area of bilateral and tripartite social dialogue, and the low minimum wage has remained unchanged. Introducing a comprehensive social security system is still on the agenda, and progress needs to be made in the reform process. Limited progress has been made to address the extremely high gender employment gap and facilitate women's labour market access. Important progress in the area of employment policies has been made by setting up public employment services in 2017. However, limited progress has been made to strengthen their capacities and enhance the level and scope of targeted ALMPs to have a sizeable impact on reducing unemployment and bringing vulnerable groups into work.

Table 22.12 shows Kosovo's scores for the four employment policy sub-dimensions, and compares them to the WB6 averages. Kosovo scores below the regional average in all four employment policy sub-dimensions, leading to a dimension score below the WB6 average. There has been a very limited increase in the score compared to the last assessment (Figure 22.1), showing the need for more progress in this policy dimension.

### Table 22.12. Kosovo's scores for employment policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Employment policy dimension** | Sub-dimension 8.1: Labour market governance | 1.8 | 2.6 |
| | Sub-dimension 8.2: Skills | 1.0 | 2.2 |
| | Sub-dimension 8.3: Job quality | 1.5 | 2.4 |
| | Sub-dimension 8.4: Activation policies | 2.0 | 2.9 |
| **Kosovo's overall score** | | **1.6** | **2.6** |

### State of play and key developments

### Table 22.13. Key labour market indicators for Kosovo (2015 and 2019)

| | Kosovo | | WB6 average | EU average |
|---|---|---|---|---|
| | 2015 | 2019 | 2019 | 2019 |
| **Activity rate (15-64)** | 37.6% | 40.5% | 61.0% | 74.1% |
| **Employment rate (15-64)** | 25.2% | 30.1% | 51.5% | 69.3% |
| **Unemployment rate (15-64)** | 32.9% | 25.7% | 16.3% | 6.4% |

*Note*: WB6 average rates are based on author's own calculations using simple averages.
Source: (Kosovo Agency of Statistics, n.d.[103]), Labour Market Yearly Indicators, https://askdata.rks-gov.net/PXWeb/pxweb/en/askdata/askdata__Labour%20market/?rxid=c3e44c2e-1aff-4e4a-b55b-2ca64a485a50; (Eurostat, n.d.[104]), Labour Force Survey data base, https://ec.europa.eu/eurostat/web/main/data/database.

Between 2015 and 2019, the working-age population (15-64 years old) rose by 9.4%[59] and the number of young people entering the labour market every year increased (Government of Kosovo, 2017[105]). As seen in Table 22.13, the activity rate of the population aged 15-64 increased from 37.6% in 2015 to 40.5% in 2019 (Kosovo Agency of Statistics, 2020[106]). Between 2015 and Q2 2019, the strongest increase in activity rate was recorded among young people (15-24) and older people (55-64). The activity rate of older workers increased strongly between 2015 and 2017 (by nearly 6 percentage points), but fell by 3.4

percentage points between 2017 and Q2 2019, possibly as a result of the Law on War Veterans passed in 2016 (WIIW and World Bank, 2020[107]).

In 2019, the activity rate in Kosovo was still far below the EU average and the 71.2% average of five Eastern and South East European transition economies that could serve as peer economies (Bulgaria, Romania, Hungary, Slovenia and Croatia). The employment rate increased from 25.2% in 2015 to 29.8% in 2017, and has risen only slightly since then, reaching 30.1% in 2019 – the lowest in the region and far below the WB6 average and the EU average (Eurostat, 2020[108]). Between 2015 and 2019, the employment rate rose among all age groups, driven by employment growth in the wholesale and retail trade sector, the construction industry and agriculture.[60] The unemployment rate fell steadily from 32.9% in 2015 to 25.7% in 2019 (with a marked drop between 2018 and 2019 of 3.9 percentage points). However, as the employment rate only rose by 1.3 percentage points during this period, this implies that people exited unemployment either for inactivity or migration.

Estimates on the basis of the Labour Force Survey (LFS) show that the employment rate fell from 29.1% in the first quarter of 2020 to 24.1% in the second quarter. Employment growth resumed in the third quarter, with the employment rate reaching 30.1%. The unemployment rate increased from 25% in the first quarter of 2020 to 27.2% in the second quarter, and fell to 24.6% in the third quarter. Variations in the employment rate have thus had a bigger impact on inactivity than on unemployment (Kosovo Agency of Statistics, 2020[109]).

The number of registered jobseekers rose noticeably between March 2020 and May 2020, from around 120 000 to 187 000, and continued to rise to 201 000 in October 2020, according to administrative data. This increase is caused by expected benefit receipts linked to the COVID-19 pandemic and the discrepancy between the recording of LFS unemployment and registered jobseekers, indicating a possible misuse of benefits. The government guaranteed that all individuals who lost their jobs due to COVID-19 would receive monthly payments of EUR 130 from April to June 2020. All payments to social welfare recipients were planned to be doubled during April and May.

Support was also available for private sector activity and employment. Eligible firms received EUR 170 a month for each employee on their payroll for March and April 2020, as well as EUR 206 for each new employee hired on a minimum one-year contract during the crisis. Wage supplements were paid during the crisis by the government to vital health and safety personnel such as doctors, police officers and firefighters (EUR 300 per month in additional wages), and to workers in pharmacies, grocery stores and other essential businesses (EUR 100 per month in additional wages). By 11 May 2020, over 170 000 workers had applied for salary compensation, unemployment benefits and other social welfare measures included in the emergency fiscal package (OECD, 2020[29]).

A scheme to regularise informal employment has been established. To help transform undeclared work into declared work, employers who voluntarily disclose to state authorities that they previously employed unregistered employees are provided with access to the short-term financial assistance available during the 2020 coronavirus pandemic if they employ the workers on a declared contract of at least one year. By May 2020, formal employment had increased by 2.6% (Williams, 2020[110]). While these are initial indications that the regularisation scheme may be effective, misuse has been reported, and it may take time until more unregistered enterprises are convinced to participate in the scheme.

The economic recovery plan, approved in August 2020, allocates EUR 365 million to support businesses, create jobs and stimulate aggregate demand. Out of this budget, the government 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. Firms can receive subsidies covering 50% of their rental expenses and access professional support to help them operate effectively during the pandemic, including guidance on moving operations online, working from home and digitising key business practices. The plan also foresees that citizens can withdraw up to 10% of their pension trust contributions for a period of four months, although this may not have a big impact on income as the rate of people employed in the formal economy is very low (OECD, 2020[29]).

### *Sub-dimension 8.1: Labour market governance*

Regarding the **regulatory framework** in Kosovo, the current Law on Labour was first prepared in 2010. The level of transposition of EU directives is only partial, and the European Commission has stressed the need to undertake more efforts in this area (European Commission, 2019[111]). In 2018, the Ministry of Labour and Social Welfare (MLSW) prepared new draft laws on labour and on maternity and parental leave, which transpose 17 EU directives.[61] The drafts had not been adopted at the time of writing.

According to the current labour law, non-standard forms of work include fixed-term employment contracts and contracts for specific tasks (up to 120 days a year). Employees for specific tasks do not enjoy various rights, such as annual leave. The new labour law proposes several other forms of employment contract, such as temporary agency work contracts and contracts/agreements on specific tasks.

The share of workers on temporary contracts (including contracts for specific tasks) is extremely high in Kosovo, although it fell from 72% in 2015 to 60.5% in 2019, which is still largely above the WB6 average of 21.9% in Q2 2019 (WIIW and World Bank, 2020[107]) and the EU average of 13.6% (Eurostat, 2020[108]). As shown on the Labour Force Survey, individuals with temporary contracts were asked why they had this kind of contract, and 92% reported that there was no other contract type available. Only 5.3% of employees surveyed said that they had the right in their main job to benefit from the social security scheme at work (Kosovo Agency of Statistics, 2020[112]). In general, there is a link between a higher level of employment protection of permanent workers and a high share of less protected temporary workers. In 2016, the gap between regular and fixed-term contracts in the strictness of employment protection legislation was far higher in Kosovo than in the other economies in the region. Kosovo showed the lowest level of employment protection for fixed-term contracts (OECD, 2016[113]).[62]

The self-employment rate has slightly increased from 21.2% in 2015 to 22.4% in Q2 2019 (near the WB6 average of 23.1% in Q2 2019). Some 18.8% of employed persons were in “unstable employment”, according to Labour Force Survey data of the Kosovo Agency of Statistics. Unstable employment refers to workers in unstable jobs who are either self-employed without employees or who work without pay in a family business. These two groups of workers are vulnerable and are more likely to be informally employed than wage earners. Men are more likely to be in unstable employment than women (Kosovo Agency of Statistics, 2020[106]).

The social security system is not fully developed. Non-standard workers without an employment contract or with a contract for specific tasks are not covered by all branches of the social security system. The Concept Note on Pension Reform and Social Security was drafted in December 2018 but had not been adopted at the time of writing.

Kosovo’s legal framework for OSH covers to some extent specific areas regulated by EU directives, and progress has been made in this area in recent years. This progress needs to be built on to close the gap with the EU *acquis* (European Commission, 2019[114]).

The implementation of the labour law, OHS legislation and the framework for the work of **labour inspectorates** remains deficient, and no progress has been made to improve the work of labour inspectorates. According to the Law on Labour Inspectorate, labour inspectorates’ tasks include: 1) ensuring implementation of the labour law, conditions of work and protection at work; 2) providing technical information and advice to employers and employees on the most effective means of observing legal provisions; 3) notifying the Minister of Labour and Social Welfare or other competent authorities on any deficiencies in the applicable law; and 4) supplying information and advice to employers and employees on issues relating to the labour law and the protection of employees if an enterprise is reorganised or restructured. In practice, labour inspectorates mainly carry out inspections of workplaces, review complaints and requests, carry out investigations of accidents at work, certify OHS experts and license OHS services. It is the key supervisory body regarding OHS, which means that its tasks also include the collection, processing, analysing and publishing of information in the area of employment relationships and safety and health at work. This information is gathered at the domestic, regional, sectoral and company and workplace level to investigate the causes of injuries and occupational diseases. Fines can be imposed in the range of EUR 500 to 35 000 for violations of the Law on Health and Safety at Work, and EUR 100 to 10 000 for violations of the Law on Labour; however, these fines appear to be rarely imposed. The Strategic Development Plan for Labour Inspectorates was established for the period 2017-2021 but there is no evidence that major measures have been taken to implement this plan.

There is no comprehensive monitoring system set up by labour inspectorates. There has been an increase in the number of fatalities related to workplace accidents, from 14 in 2017 to 21 in 2018, which points to weaknesses in preventing accidents and occupational diseases and investigating complaints (European Commission, 2019[114]). Fatal accidents happen mainly in the construction sector. The labour inspectorate does not follow up on these cases properly and there are concerns regarding the accuracy of data on workplace accidents and occupational diseases, and the under-reporting of fatalities. Available data also point to a poor record on detecting and combatting child labour. According to the latest data from April 2019, 10.7% of children in Kosovo, mainly from Roma and Ashkali communities, are involved in work, 6.8% of whom work in hazardous conditions. However, labour inspectorates have not reported a single case of minors engaged in work (European Commission, 2019[114]). The number of labour inspectors is low, although increased slightly in 2018 (European Commission, 2019[111]).[63]

As shown in an analysis of strengths, weaknesses, opportunities and threats (SWOT) included in the Labour Inspectorate Strategy 2017-2021, there is little trust in labour inspectorates and no awareness-raising activities to remedy their poor image or advocate for compliance with the law (Government of Kosovo, 2016[115]). Labour inspectors are mainly law graduates who receive little or irregular continuous training (depending on external funding) and whose working conditions are poor. The strategy identifies a risk of high staff turnover and other weaknesses including the lack of a work plan, action plans not being implemented, a lack of statistics, poor social dialogue and corruption. Inter-institutional co-operation is neither regular nor systematic. The strategy contains a number of planned measures to improve the capacities of labour inspectors and inter-agency co-operation;[64] however, there is no evidence of their implementation. In 2019, the Strategy for Prevention and the Fight against Informal Economy, Money Laundering, Financing Terrorism and Financial Crimes 2019-2023 was adopted. This also contains measures to improve the work of labour inspectorates (see Cross-cutting policy areas: Informality); however, there is no evidence that implementation has started. A new Law on Labour Inspectorates of Kosovo, which mainly concerns changes regarding OSH, was in the process of approval by the Assembly of Kosovo at the time of writing.

The **employment policy framework** comprises the Sectoral Strategy and Action Plan of the MLSW 2018-2022, the Action Plan for Youth Employment 2018-2020 and the Employment Policy 2019-2021, which defines the activities of Kosovo's public employment service (the Employment Agency of Kosovo, APRK). The Employment Policy also includes small measures to bring vulnerable groups into employment (in particular Roma, Ashkali and Egyptian communities, and women from rural areas). These groups are particularly vulnerable, and the unemployment rate in Roma and Ashkali communities is assessed to be above 90% (European Commission, 2019[114]). The members of these communities usually work in the informal sector and few are registered as unemployed.

The Sectoral Strategy of the Ministry of Labour and Social Welfare (2018-2022) addresses the lack of a complete and functional system of safety and health at work. There is a basic labour market information system[65]; however, there is no monitoring system for policy outputs. The MLSW is in the process of drafting a policy paper addressing OHS issues (intersectoral strategy).

There is a legal framework for **tripartite social dialogue** and collective bargaining in Kosovo. Several basic laws and sub-legal documents specify the nature and type of collective bargaining that can take place. Nevertheless, social dialogue is weak.

Workplace representation exists only in the public sector, except for a limited trade union presence in the private sector mainly in former public/socially owned enterprises. There is no other workplace representation (e.g. works councils) in Kosovo. Trade unions are not present at the company level (data for 2016, there is no new information). Two new initiatives (one in banking and one in the arts sector) were undertaken in 2016 to establish trade unions that also cover the private sector (Shaipi, 2017[116]).

The Union of Independent Trade Unions of Kosovo is the only trade union confederation in Kosovo. It is represented in the public sector, although healthcare and education have been formally disengaged from the confederation for some time. Progress has been made in these two sectors following a sector collective agreement signed between the Ministry of Health and the Federation of Health Trade Unions of Kosovo (FSSHK) in 2015 and 2018. A collective sectorial agreement was signed between the MEST and the United Trade Union of Education, Science and Technology. The first collective agreement was signed at the firm level between the Municipality of Kamenica and the United Science Education Union in 2019. Aside from these examples, collective bargaining occurs mainly at the economy level, and even there it is not representative. The Social Economic Council (SEC) meets regularly, but has been weak in terms of pushing forward its agenda effectively (see below) (SBASHK, 2017[117]) (FSSHK, n.d.[118]).

The general collective agreement signed by social partners in 2014 and negotiated at the SEC expired before it was fully implemented either in the public or social sector. The general scope of the collective agreement includes the establishment of labour relations; working hours and leave; salaries and other compensations for employees; contract terminations; and the rights and obligations of employers and employees, as well as conflict resolution between the two.[66] The agreement is largely not respected in the private sector. The most problematic aspect identified by businesses concerns the fact that permanent contracts will only be signed after an employee has successfully performed in a position for three continuous years. Another significant item is the inclusion of experience as a factor in annual salary increases that amount to 0.5% for every year of professional experience. In the private sector, this provision has barely been implemented and in the public sector it has not been well implemented as it affects the state budget.

The members of the tripartite SEC include five members of the Union of Independent Trade Unions (BSPK),[67] which has been criticised by consecutive EU progress reports for lack of representation.[68] Employers are represented by the Kosovo Chamber of Commerce (three members) and the Kosovo Business Alliance (two members). Representatives of five ministries are also members. The SEC is involved in negotiations regarding the minimum wage (no new agreement since the 2018 CO), the general collective agreement (no new agreement), amendments to the labour law, and reforms of the pension system and the law on SEC (Kosovar Stability Initiative, 2016[119]). Within the SEC there are five professional commissions that cover tripartite legislation; finance, economy and privatisation; salaries, prices and pensions; employment and vocational training; and the health and safety of the working environment. Although the SEC meets regularly, its influence is weak. Nevertheless, there have been some instances when the government has considered the requests of social partners (e.g. the establishment of a social security fund, as noted by the trade union confederation).

At the regional level, the FSSHK, which is the federation of health workers in Kosovo's public institutions, has established regional bodies that take part in Ministry of Health and MLSW working groups and play a significant role in social dialogue. It is one of the first unions bringing the dialogue to the grassroots (local) level. There are also various economic chambers at the regional level that are not represented on the SEC but that play a role in ministry working groups.

Consultations on new policies are generally conducted with all stakeholders, including social partners (employer and employee organisations) and civil society. Initially, individual meetings are held with key stakeholders to present the ministry's objective for the proposed policy and the field of implementation. Workshops are then organised with larger groups, where written comments are accepted and at the end of the process a report is published with the justification for accepting or not accepting the comments (Government of Kosovo, 2011[120]; Government of Kosovo, 2016[121]).

So far, there have been no strategies or action plans addressing tripartism and social dialogue. However, the MLSW is in the process of drafting a Strategy for Tripartite Social Dialogue.

### *Sub-dimension 8.2: Skills*

Key indicators point to a significant **skills mismatch** in Kosovo. The extremely high youth unemployment rate (15-24 years old), at roughly 49% in 2019, indicates major problems in the school-to-work transition, even though the rate has been slightly decreasing in recent years (57.7% in 2015). The youth unemployment rate is largely above the WB6 average of 35.6%[69] and the EU average of 14.6% in 2018 (Eurostat, 2021[122]). Poor labour market outcomes for young people are linked to weaknesses in the education system, in particular the poor quality of education at all levels, the failure of educational programmes to meet market demand, and insufficient practical work in school and enterprises, which leads to a lack of practical experience and ties to employers. A lack of advice and career guidance leads to horizontal skills mismatches (Government of Kosovo, 2017[105]).[70]

The NEET rate among all 15-24 year-olds rose from 31.4% in 2015 to 32.7% in 2019, which represents a major labour market risk for these young people and is far above the 2018 WB6 average of 22.1%. The employment rate of low-educated individuals is extremely low according to Labour Force Survey data, at 11% in Q2 2019 (WIIW and World Bank, 2020[107]). This rate may even be underestimated as it probably does not consider the high share of informal employment, which is typically taken up by low-skilled individuals. Data show that the employment rate increases considerably with skill level. The employment rate of medium-educated individuals increased by 10 percentage points between 2015 and 2019, reaching 63% in Q2 2019. Between 2018 and 2019, employment growth in Kosovo was driven by the increased employment of low- and medium-skilled individuals, and the unemployment rate was highest among the low educated (34.2%) and lowest among the high educated (22.4%) (WIIW and World Bank, 2020[107]). Entering the labour market through informal employment is widespread as only slightly more than half (54.8%) of young people have an employment contract (Government of Kosovo, 2017[105]). Similar to some other economies in the region, Kosovo is participating in a project to develop skills mismatch indicators supported by the European Training Foundation (ETF), which will deepen insights on skills mismatches.

Despite the high unemployment rate, skills shortages hinder the growth of companies. According to the Skills Towards Employment and Productivity (STEP) employer survey conducted by the World Bank in 2015, 18% of employers indicated that a skills gap in general education was a major obstacle for business expansion, 22% noted gaps in technical and vocational education and training (TVET), and 36% identified gaps in workers' experience (WIIW and World Bank, 2020[107]). According to the same survey, more than half of hiring companies faced a skills problem. Horizontal skills mismatches are prevalent: there are popular professions that young people especially continue to aspire to that have abundant applicants, but a lack of professional institutions that provide training and education for professions in which jobs are available. For example, there is high demand for workers in the IT sector, yet a large number of students graduate from law school every year and cannot be absorbed by the labour market. In general, many job postings require computer skills as well as foreign language skills, which are lacking in Kosovo (Brancatelli, Marguerie and Brodmann, 2020[123]). Low pay in the private sector also discourages people from undertaking training and education in particular professions.

A basic **adult education** framework is in place. There was a Strategy for Adult Learning for the period 2005-2015, but it had no major impact. The staffing and infrastructure of adult learning institutions are inadequate, and learning content needs to be better adapted to labour market needs (Haxhikadrija, Mustafa and Loxha, 2019[124]).

The STEP household survey indicated that 37.3% of adults lack basic reading skills (well above the OECD average of 19.7%) (WIIW and World Bank, 2020[107]). Some learning programmes for remedial education (grades 6-9) and adult education programmes within VET schools are being developed and supported by international donors (Haxhikadrija, Mustafa and Loxha, 2019[124]). Some specific programmes are also being offered, such as “Literacy for women and girls” for Roma, Ashkali and Egyptian communities. However, developing an efficient and quality adult education system remains a key challenge. Most firms do not provide continuous training to their workers, according to the STEP employer survey (the situation is similar in Serbia, worse in Albania and better in Bosnia and Herzegovina). According to the World Bank study, on-the-job training is more common among firms that had problems hiring due to inadequate skills among applicants, larger firms, firms that invested in research and development, and foreign-owned firms (Cojocaru, 2017[4]). Progress has been made on offering training to unemployed individuals, however (see Sub-dimension 8.4: Activation policies). The Kosovo qualification system is being revised, which could serve as a framework for the recognition of prior learning (Alija, 2018[125]).

As in many European countries, SMEs in particular need support for upskilling their workers. Some good practice examples are given in Box 22.7.

### Box 22.7. Incentives for SMEs to train their employees, Belgium (Flanders)

In Belgium (Flanders), the SME Wallet (KMO-portefeuille) programme offers specific incentives to encourage SMEs to train their employees. It targets SMEs exclusively and is designed to help them grow and become more competitive through skills investments. The SME Wallet covers 30-40% of training costs, depending on the size of the enterprise. SMEs can apply for subsidies on line. Employers determine their own training needs, and there is no targeting element. A recent impact assessment determined that participating firms achieved higher growth than a control group.

Other countries have developed similar programmes targeting SMEs exclusively, including the Chèque Formation in Wallonia, Belgium; Profi!Lehre and Weiter!Bilden in Austria; the Consortium for HRD Ability Magnified Program (CHAMP) in Korea; the Industry Skills Fund in Australia; and the Formação-Ação in Portugal.

Source: (OECD, 2019[126]), *OECD Skills Strategy 2019: Skills to Shape a Better Future*, https://doi.org/10.1787/9789264313835-en.

### *Sub-dimension 8.3: Job quality*

Real wage development has been moderate in recent years. While labour productivity declined in 2016 and 2017, it grew in 2018. This meant that unit labour costs increased in 2016 (+9.2%) and 2017 (+5.2%), but fell in 2018 (-1.6%) (WIIW and World Bank, 2020[107]). Breaking the low wage/low productivity cycle is a major challenge.

A minimum wage set at a moderate level may be a good tool to raise wages at the bottom of the wage ladder, and can prevent poor **quality earnings** (OECD, 2018[127]). In Kosovo, the minimum wage is low compared to average gross wages, and thus likely has little impact. At the beginning of 2019, the minimum wage amounted to 28% of average monthly wages, by far the lowest rate in the region (WIIW and World Bank, 2020[107]). For comparison, in 2019 minimum wages were 40% of gross wages on average in Austria, Bulgaria, Croatia and Hungary (WIIW and World Bank, 2020[107]). The minimum wage for employees over the age of 35 is EUR 170 a month, while for those under the age of 35 it is EUR 130. The minimum wage is below the average wage paid in the agricultural sector, a sector in which wages are usually low (Government of Kosovo, 2011[128]). In contrast to other economies in the region, the minimum wage has not increased since 2011, although the Government of Kosovo is supposed to define a minimum wage at the end of every calendar year based on SEC proposals. It is questionable whether the minimum wage has significant coverage among formal employment, but data are not available to confirm.

The highest wages in Kosovo are paid in the state-owned enterprise sector, while the lowest wages are in the private sector.[71] In private companies, workers have longer working weeks (45.8 hours) on average than in the government sector (35 hours) and in state-owned enterprises (39.2 hours). Some 31.4% of respondents to the 2019 Labour Force Survey reported to sometimes work on Sundays, while 6% reported to do so usually (Kosovo Agency of Statistics, 2020[106]). The low wages and poor working conditions in the private sector quite likely push workers to seek employment in the public sector or abroad, which exacerbates the skills shortage in the private sector. Improving working conditions and wages in the private sector would need to go hand in hand with a strategy to increase the sector's productivity.

Due to the very low work intensity in Kosovo, poverty remains high, and many people do not have access to essential services such as health care. According to the latest poverty estimates from the Kosovo Agency of Statistics, 18% of the population were living below the poverty line in 2017 (set at EUR 1.85 per day), while 5.1% were living below the extreme poverty line (EUR 1.31 per day). Low-educated individuals and female-led households are more likely to be poor. Roma and Ashkali communities face disproportionately high levels of poverty and social exclusion given their low education and marginal employment levels (European Commission, 2018[74]).

Only 13.9% of working age women (aged 15-64) were employed in 2019, an increase from 11.5% in 2015 (Kosovo Agency of Statistics, 2020[106]; WIIW and World Bank, 2020[107]). This is well below the EU female employment rate (64.1%) (Eurostat, 2020[108]), and extremely low compared to other economies in the region (the WB6 average **female employment rate** was 45.8% in Q2 2019, and the female activity rate was 53.7% (WIIW and World Bank, 2020[107])). The male employment rate was 46.2% in 2019, which shows that the gender employment gap is extremely high, the largest in the region. The activity rate of women was only 21.1% in 2019, a slight increase since 2015, but no increase since 2017. The female unemployment rate was 34.4% in 2019 and the female youth unemployment rate was 62.9% (in Q2 2019, an increase from 38% in 2015). The female unemployment rate was 36.3% among medium-educated women, 26.6% for low-educated women and 31.1% for high-educated women (WIIW and World Bank, 2020[107]).

Key explanations for the low female employment rate include traditional gender roles, family responsibilities, limited access to quality and affordable child and elderly care, conservative social norms and discrimination, and women's limited access to assets and productive inputs (World Bank, 2017[129]; Haxhikadrija, Mustafa and Loxha, 2019[124]). Migration by men further reduces women's possibilities to combine work and family life. Despite improvements among younger cohorts, women in Kosovo have significantly lower levels of education than their male counterparts (e.g. 50% of working-age women are not educated beyond lower secondary education compared to 27% of men) (World Bank, 2017[129]). Career breaks further reduce women's likelihood of accessing employment. The female part-time employment rate is low (4.3% in Q2 2019) (WIIW and World Bank, 2020[107]), indicating that employers may not be willing to offer suitable working hours for women that would permit them to reconcile work and family life (Government of Kosovo, 2020[130]). Article 49 of the Law on Labour regulates the principles, conditions and criteria for the use of maternity leave. Although the law is generous in protecting mothers, it sets disincentives for hiring women due to the added financial burden on employers (World Bank, 2017[129]). Secondary legislation for implementing the Law on Protection from Discrimination has not yet been adopted. In the reporting period, the Ombudsperson received a similar volume of discrimination cases as in previous years, but the number of *ex officio* investigations on discrimination grounds doubled. Institutions continue to perform poorly in processing and investigating cases of discrimination (European Commission, 2019[111]).

The Sectoral Strategy of the Ministry of Labour and Social Welfare (2018-2022) includes women as a target group. However, they remain under-represented among the Employment Agency's beneficiaries: while women represented around 45% of all registered jobseekers, they only represented 34% of participants in active labour market measures (World Bank, 2017[129]).

The Agency for Gender Equality has prepared the Kosovo Programme for Gender Equality 2020-2024, which outlines highly relevant activities to improve skills and the reconciliation of work and family life, as well as combat discrimination in the labour market. The related action plan for 2020-2022 has a budget of EUR 13.7 million. Some EUR 2.6 million will be funded by Kosovo's own budget, with EUR 11.1 million covered by donors (Government of Kosovo, 2020[130]). In the long run it will be important to include these social investments in the economy's budget.

### *Sub-dimension 8.4: Activation policies*

The MLSW's draft Sectoral Strategy for Employment and Welfare for 2018-2022 and the related action plans for the Employment Agency of the Republic of Kosovo (APRK), form the policy framework for **public employment service** (PES) activities. The APRK was created in April 2017. Previously, employment services and ALMPs were offered by the MLSW. The APRK has a tripartite committee and provides services and measures for unemployed individuals through its mechanisms at regional and local levels. It has 28 employment offices, 8 centres of vocational training and 5 mobile centres (Government of Kosovo, 2017[105]). The range of services provided corresponds to standard PES tasks,[72] but resources are low. The APRK employed 294 staff in 2019, 92 of whom provide employment services to jobseekers.[73] In 2017, when the APRK was set up, the average caseload per job counsellor was 1 020, the highest in the region. Progress has been made to reduce the caseload to 769 in 2019, which is still higher than in other economies of the region and more than eight times the average caseload of counsellors in a range of EU Member States with well-developed PES.[74] The reduction in Kosovo's average caseload was largely linked to the fall in registered unemployed individuals, from 93 866 in 2017 to 70 970 in 2019.[75] In 2017, 71.5% of unemployed individuals were long-term unemployed, while in Q2 2019 this figure was 63.6%, according to Labour Force Survey data (WIIW and World Bank, 2020[107]). The long-term unemployed made up 90% of total registered jobseekers in 2016 (Government of Kosovo, 2017[105]).

The employment offices register and profile unemployed individuals and other jobseekers.[76] Unemployed individuals are segmented into three groups that define the services provided to them:

1. **Low risk of becoming long-term unemployed**. These individuals are advised to use self-service instruments and, if necessary, will be provided assistance in using them, as well as in activating social networks and advice on how to contact an employer directly to find a job.
2. **Medium risk of becoming long-term unemployed**. Employment services are provided to these individuals that include job mediation, job search assistance, labour market information and training.
3. **High risk of becoming long-term unemployed**. For this group the counsellor should offer intensive support and counselling that combines job search skills, career guidance, motivation during the job search period and creating an individual employment plan. In-depth and individual counselling is provided for those who are long-term unemployed during an interview lasting about 30 to 45 minutes.[77] The counsellor informs and advises the unemployed client to participate in the various ALMP measures, taking into account the categories and funds available.

The budget for ALMPs was EUR 6.6 million in 2019, corresponding to 0.08% of GDP, which is very low compared to OECD standards (0.36% on average in 2018, and 0.46% if including placement services and PES administration) (OECD, 2020[131]). In 2019, 11 500 people participated in ALMPs (including training measures), 37% of whom were young people and 40% women (women were well targeted as they represented only 30% of unemployed according to LFS data). In 2016, only 3.9% of registered unemployed individuals benefited from employment services for placement into regular employment, and 10.2% participated in ALMPs according to administrative data (Government of Kosovo, 2017[105]). Among ALMP participants, most were enrolled in vocational training courses (7.6% in 2016), 0.8% participated in public works, 0.5% in wage subsidies, 0.4% in practical work and 0.1% in self-employment schemes. There is no information available on whether these shares have risen since.

Data for 2016 show that more than 60.9% of registered unemployed individuals had not attended school or were enrolled only in primary school, while 31% had not gone higher than secondary school (Government of Kosovo, 2017[105]). There are no recent data available on the composition of registered unemployed individuals. However, Labour Force Survey data indicate that more than two-thirds of the unemployed are long-term unemployed.[78] Given the high caseload of counsellors and the low budget for ALMPs, employment services for the vast majority of jobseekers cannot be delivered in an effective and meaningful way. Consequently, the placement rate is low (12.4%), particularly among those with professional skills (9.3%).[79]

The PES identified 12 511 job vacancies in 2017, which is not enough given the high number of registered unemployed. Progress has been made, however, with the number of registered vacancies increasing to 15 647 in 2019.

The Employment Agency has a performance management module, undertaken through the Employment Management Information System, with monitoring data issued every three months and annually; however, detailed results are not publicly available. A customer satisfaction survey was also conducted that targeted PES users. The results obtained from this research are reflected in the work plan of the Employment Agency, but not published.

There is currently no unemployment benefit system (although benefits have been exceptionally allocated during the pandemic). As part of the reforms of the social protection system, arrangements for unemployment benefits are planned. A concept paper is part of the government work plan for 2020, but has not yet been approved.

The Social Assistance Scheme (SNS) is the main social assistance programme in Kosovo. The amount of family benefit is based on the number of family members and starts at EUR 60 a month for a one-member family and goes up to EUR 180 for a family of 15.[80] Coverage is low, social assistance does not sufficiently target the poor, and spending has been declining (Government of Kosovo, 2017[105]) (European Commission, 2018[74]) (European Commission, 2019[111]). A concept paper for reforming the SNS was drafted and approved in September 2020 by the Government of Kosovo. It aims to improve the scheme's impact on poverty alleviation and expand the coverage of poor families. Able-bodied social assistance recipients must register at the PES and actively search for work, otherwise they get sanctioned. Electronic data management and information exchange systems have been established. All social assistance recipients must register with the PES to qualify for assistance; however, monitoring and follow-up on job searches is weak. Kosovo has not implemented a general health insurance scheme.

In the absence of unemployment benefits, and with the low coverage of social assistance, the implementation of activation requirements is weak compared to many OECD and EU countries (OECD, 2015[132]; Langenbucher, 2015[133]). Jobseekers must report to the employment office every three months, which is not frequent enough (e.g. in the United Kingdom jobseekers must report every two weeks). If a person registered as unemployed does not appear within six months in an employment office they are automatically cleared by the information system and considered passive. Although it is useful to clear the registry data regularly, more could be done to ensure that jobseekers are actively searching for employment, particularly those receiving welfare benefits.

The Sectoral Strategy for Employment and Welfare 2018-2022 points to the lack of co-ordination between different programmes and services for social inclusion, although some co-ordination takes place within the MLSW.[81] In particular there is no integrated delivery of social and employment services at the local level.

Despite poor labour market outcomes among marginalised Roma and Ashkali communities, Kosovo's latest revised action plan on the integration of these communities does not include measures specifically targeting them in **ALMPs**, unlike elsewhere in the region (European Commission, 2019[114]). Strategic documents define the target groups for ALMPs as women from rural areas, women without other income, young NEET, long-term unemployed, people with disabilities and repatriates. While increasing employment among youth and the Roma, Ashkali and Egyptian community are stated objectives of the 2018-2022 sectoral strategy, there is no evidence that these groups are well targeted by ALMPs. The Action Plan for Youth Employment (adopted in 2018) has limited scope (European Commission, 2018[74]). ALMPs should continue to focus on women, young people and marginal groups.

The Economic Reform Programme for Kosovo 2019-2021 sets out plans to improve the delivery of ALMPs. These include the objective to increase referrals to ALMPs by 10% and to develop and implement self-employment and entrepreneurship programmes, on-the-job training programmes for newly graduated from higher education, and support voluntary work initiatives. An evaluation of ALMPs is planned for 2021.

Kosovo has made progress in strengthening institutional capacity to deliver ALMPs to vulnerable groups through the adoption of the Law on Social Enterprises approved by the Assembly of Kosovo. In August 2020, four bylaws were adopted that enable the registration and operation of social enterprises in the Republic of Kosovo. In co-operation with the EU, a grant support programme has been developed for social enterprises implementing active labour market measures. It is expected to be finalised by the end of 2020, and several NGOs and businesses should be contracted.[82]

### *Cross-cutting policy areas: Informality*

The size of the informal economy in Kosovo is estimated to be above 30% of GDP (Government of Kosovo, 2019[134]). Although informal sector employment is not covered by the economy's Labour Force Survey, it is also estimated to be high. The incidence of informal employment is higher for men, young and elderly people, and the low educated (WIIW and World Bank, 2020[107]). The main sectors for informality are construction, manufacturing and social services, according to a MLSW Report. Data on time use show that informal workers work 52 hours per week on average, while those employed formally work 44 hours per week (Social Impact, 2018[135]).

The Strategy for Prevention and the Fight against Informal Economy, Money Laundering, Financing Terrorism and Financial Crimes 2019-2023, adopted in 2019, plans to develop approaches to formalise informal employment. The objectives of the strategy are:

- Improving the analysis and monitoring of informal employment, and establishing a register for employed people at MLSW.
- Conducting public information campaigns on the consequences of informal employment and the benefits of formal employment, and informing employers about the consequences of informal employment.
- Organising joint activities with social partners to address informal employment.
- Deepening inter-institutional co-operation in combating informal employment.
- Conducting an analysis of the state of informal work and an assessment of good practices for its reduction.
- Building the capacity of labour inspectors through training.
- Establishing an efficient system for supervising and evaluating the work of labour inspectors.
- Establishing a methodology to ensure better targeting, based on risk.
- Improving the working conditions for labour inspectorates through the establishment of an information management system and the improvement of technical working conditions.

This strategy is highly relevant, and it should begin to be implemented.

### *Cross-cutting policy areas: Brain drain*

Although there are no data, there is evidence that significant numbers of medium and highly educated workers have left Kosovo to seek better opportunities abroad (e.g. in the construction sector). Brain drain in Kosovo has been happening for a long time and is caused by, for example, limited opportunities for highly skilled people and/or very low compensation for workers and professionals, and poor working conditions such as health and safety at work and long working hours. There are no policies to address brain drain in Kosovo.

### *The way forward for employment policy*

To improve employment policy, policy makers should consider the following recommendations:

- **Implement as a minimum the Strategic Development Plan for Labour Inspectorates 2017-2021 and the Strategy for Prevention and the Fight against Informal Economy, Money Laundering, Financing Terrorism and Financial Crimes 2019-2023.** It is particularly important to improve the monitoring system of labour inspectorates and increase transparency, implement preventive measures, and effectively impose fines in cases of clear infringements of the law. The capacities of inspectorates in terms of training, hardware and software need to be improved, and inter-agency co-operation needs to be strengthened. Labour inspectors need to be trained to detect child labour.
- **Establish a complete and functional system of health and safety at work**. The first step will be to develop a strategy document on occupational safety and health, to implement preventive measures, and to strengthen worker representation for OHS-related issues at the company level. Labour inspectorates' capacity to reduce accidents at work and occupational diseases should be increased.
- **Use the whole education and training infrastructure in the economy, including VET institutions, to provide remedial education and vocational upskilling to adults**, as also recommended by the ETF (ETF, 2019[136]). In order to build on the already acquired skills and knowledge of the working population, and given the high level of informality, it is recommended to develop a framework for the recognition of prior learning combined with upskilling activities.
- **Scale up childcare facilities and support for elderly care**. International experience shows that the labour market participation rates of women depend on the availability of childcare and after school care (OECD, 2016[137]). Amend the maternity leave law to remove the financial burden on employers for generous compensation during maternity leave (e.g. by tax financing the leave). This should reduce the barriers to employing young women. Implement all employment relevant measures of the Kosovo Programme for Gender Equality 2020-2024.
- **Continue to enhance the number of job counsellors and significantly reduce their caseload.** This is necessary given the high incidence of long-term unemployed and unemployed individuals with multiple employment barriers. In order to serve vulnerable groups and hard-to-place jobseekers the number of counsellors would need to be multiplied by eight to reach the caseload of well-developed PES such as those in Germany in France. It is also recommended that for vulnerable groups, job counsellors should co-operate with social and health services at the local level, as employment barriers are often complex. This is increasingly implemented in the EU (Konle-Seidl, 2020[138]). Jobseekers should be followed up more regularly (e.g. every two to four weeks).
- **Introduce the planned comprehensive social protection system that includes an unemployment benefit scheme and a general healthcare scheme, and reform the social assistance scheme to better target the poor.** The system should include the possibility to top up low incomes with means-tested welfare benefits to encourage the taking up of work and to activate recipients to participate in the labour market, as in a number of EU Member States.
- **Use time-limited (e.g. six months) exemptions to social security contributions to transform temporary contracts into permanent ones**, as in Portugal (Düll et al., 2018[139]). At the same

time revise the employment protection legislation of temporary and permanent contracts to increase the use of permanent contracts and ensure that temporary employed individuals enjoy the same basic employment rights and working conditions (working time, paid holidays, etc.) and have equal access to social protection.

- **Continue implementing the scheme to regularise informal employment (set up in the context of COVID-19), and implement awareness-raising campaigns.** Evaluate the scheme and make the necessary adjustments in programme design and implementation to limit misconduct and fraud.

## Science, technology and innovation (Dimension 9)

### *Introduction*

Table 22.14 shows Kosovo's scores for science, technology and innovation (STI), and compares them to the WB6 average. The economy scores below average in all three sub-dimensions and ranks fifth out of the six Western Balkan economies in STI and public research systems, and sixth in business-academia collaboration indicators. Kosovo's performance in this dimension has been constrained by a lack of system-level STI priorities and the limited implementation of relevant policy initiatives. In particular it is difficult to fully assess Kosovo's progress since the previous assessment cycle due to inadequate monitoring and evaluation activities. The resulting scarcity of relevant data has also slowed ongoing reform efforts, most notably the Smart Specialisation Strategy being developed in partnership with the EU.

**Table 22.14. Kosovo's scores for science, technology and innovation**

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| Science, technology and innovation dimension | Sub-dimension 9.1: STI system | 1.8 | 2.4 |
| | Sub-dimension 9.2: Public research system | 1.3 | 2.0 |
| | Sub-dimension 9.3: Business-academia collaboration | 0.7 | 1.6 |
| **Kosovo's overall score** | | **1.3** | **2.1** |

### *State of play and key developments*

#### *Sub-dimension 9.1: STI system*

Kosovo's STI system is in the early stages of development, and limited progress has been made since the previous assessment cycle in 2017. Without a clearly defined system-level policy framework, policy makers and stakeholders struggle to prioritise and effectively engage in STI activities. Kosovo does not have a clear **STI strategy** in place, as the most recent strategy on research expired in 2016. Instead, the strategic framework consists of two high-level strategies: the Kosovo Research Programme (NRP), which outlines Kosovo's overarching development agenda and sets research priorities, and the Kosovo Education Strategic Plan (KESP) 2017-2021. The lack of a dedicated and uniform STI strategic framework has prevented Kosovo from addressing challenges to its STI system and formulating targeted policy actions, and implementation remains highly uncoordinated. The Kosovo Strategy for Innovation and Entrepreneurship provides some high-level guidance but does not provide a comprehensive roadmap for STI policy making or tools to co-ordinate implementation efforts. Other relevant policy documents include the Kosovo IT Strategy, which includes provisions to promote innovation and research and development within the IT sector, and the University Strategic Plan.

Since the previous assessment, the government has drafted the Strategy for Supporting Innovation and Entrepreneurship 2019-2023, adopted in March 2019. Efforts to develop a smart specialisation strategy, in line with Joint Research Centre methodology are underway, but remain in the early drafting stages. However, the lack of comprehensive statistical data collection practices for relevant STI indicators has hindered this process and slowed the necessary mapping of Kosovo's innovation ecosystem.

The **institutional framework** of the STI system remains complex, with a number of government ministries and institutions, private sector groups and international organisations overseeing various aspects of STI policy development and innovation. Following a governmental reshuffle in early 2020, innovation is now within the competency of the MEST, whereas previously responsibility lay with the Ministry for Innovation and Entrepreneurship (MIE). Established in 2017, the MIE was intended to co-ordinate innovation activities between government institutions, academia and the private sector. Although it did not act as an independent implementing agency for innovation, it oversaw a specific budget allocation for innovation.

Responsibility for developing and implementing STI policy remains fragmented. Without a functioning mechanism for identifying and resolving issues through inter-ministerial co-ordination, the development and implementation of STI policies suffers from inadequate co-ordination and overlapping areas of responsibility. In addition to the MEST, the Kosovo Research Council and the Scientific Innovation Council (SIC) oversee similar policy domains. MEST plays an extensive role within STI policy and is responsible for promoting scientific research and technological development, as well as overseeing the higher education system. It also oversees the implementation and funding of the STI objectives outlined in the NRP,[83] and is responsible for promoting knowledge and technology transfer within the economy.[84] The SIC aims to monitor the creation and commercial application of new innovations and is overseen by MEST; however, it has not yet been fully established and remains inoperative.

Kosovo's **regulatory framework** for the STI system is primarily defined by the Law on Scientific Research Activities, which oversees scientific research, knowledge and technology transfer and innovation. As such it regulates research institutions, scientific councils, financing for STI activities and conditions for researchers. The law requires the government to allocate at least 0.7% of its annual budget to support STI activity, although this requirement has yet to be upheld in practice.

The Law on Scientific Innovation and Transfer of Knowledge and Technology defines which organisations and institutions operate within the STI sector, and identifies multiple sources of funding used for innovation and knowledge and technology transfer. The law also requires MEST to establish the SIC, and outlines its mandate to monitor the development and commercial application of new innovations. The Law on Higher Education distinguishes between various types of HEI and outlines their primary objectives, including a commitment to knowledge creation and transmission as one of their core functions. Kosovo does not participate in EURAXESS.[85]

There have been no major changes to the regulatory framework since the previous assessment cycle, and implementation of the legal framework, including the requirement to develop an economy-wide research programme, is somewhat lagging. Kosovo adopted amendments to the Law on Patents in 2019, which brought the economy's legal framework for intellectual property somewhat closer to the EU *acquis*. The capacity of the Agency for Industrial Property has also been strengthened, which has helped to clear the backlog of patent applications accumulated in recent years. However, enforcement of intellectual property (IP) rights remains low, and public awareness of the use of IP, especially amongst the business community, needs to be increased.

Kosovo engages in extensive **international collaboration** to further its STI objectives and participate in international initiatives and research projects. However, the impact of these efforts remains limited amid the underdeveloped domestic STI policy framework, which restricts the potential to fully exploit access to international programmes and meet international commitments. With only 72 applications submitted from 2014 to 2019, Kosovo's participation rate in Horizon 2020, the EU research and innovation funding programme[86] in which Kosovo participates as an international co-operation partner, is lower than other Western Balkan economies. To date, Kosovo has participated in 18 projects and received over EUR 2.5 million in funding. However, since the previous assessment cycle, Kosovo has taken a number of steps to expand its contact points network and raise awareness among researchers about available opportunities associated with Horizon 2020. As a result the economy performed well in 2019, with a 20.4% success rate for applications from Kosovo compared to an average of 12% among all Horizon 2020 participants. As part of Horizon 2020, Kosovo also participates in the European Cooperation in Science and Technology (COST).[87]

As a participant in the European Research Area (ERA), Kosovo has strong incentives to increase its **alignment with EU STI policies**. However, it has made relatively little progress since the previous assessment cycle in achieving its commitments and further integration into the ERA due to the insufficient collection of the necessary statistical indicators. Overall, the lack of readily available and reliable data makes it difficult to assess the economy's progress in this policy area.

### *Sub-dimension 9.2: Public research system*

Kosovo's public research system remains underdeveloped and lacks adequate budgetary, administrative and strategic support. The Law on Higher Education regulates the overall structure and organisation of the public research system in Kosovo, which is mainly populated by public universities and private HEIs.[88] Kosovo has yet to develop a new strategic approach to research since the previous research strategy expired in 2016, and has made limited progress in implementing its existing objectives.

The **institutional structure of the public research system** remains ineffective. The expired Kosovo Research Programme was largely unimplemented and based on outdated guidelines and standards for scientific research drafted by the Kosovo Science Council, which ceased operation in 2011 amid political turmoil. There are 26 HEIs in Kosovo, of which 7 are public universities and the rest are private colleges. Although all public HEIs include commitments to pursuing research in their mission statements, most prioritise teaching over research in practice. Coupled with often poorly equipped research labs and other key research infrastructure, the quality of HEI research in Kosovo remains below potential (Kaçaniku, Rraci and Bajrami, 2018[140]). For example, since the previous assessment Kosovo has been unable to implement plans to install new research labs in five HEIs due to budgetary constraints, and there have been no new initiatives to maintain or update lab equipment in the economy (Mehmeti, Mehmeti and Boshtrakaj, 2019[141]). The Kosovo Accreditation Agency is not part of the European Association for Quality Assurance in Higher Education or the European Quality Assurance Register for Higher Education, which further limits quality research outputs.

Limited **public research funding** is a key constraint to the development of STI, as the sector is systemically underfunded. Although required by law to allocate at least 0.7% of its annual budget to support scientific research activities, government spending on science and research amounted to only 0.1% of GDP in 2019 (European Commission, 2020[39]). However, absolute funding for scientific research, which is predominately institution-based, has increased significantly in recent years (albeit from very low levels), suggesting an increasing commitment by the authorities to invest in the system.

Grants valued up to EUR 10 000 per year are available to fund small projects, mainly within the HEI sector. These grants cover expenses such as short-term visits and conferences, specific laboratory equipment and software, and costs for external advisors. Although researchers in Kosovo are eligible to access funding through Horizon 2020 and COST, Kosovo's participation in these initiatives remains low compared to other Western Balkan economies. Low levels of domestic expenditure on research activity and reliance on foreign donors inhibit the development and implementation of strategic investment in research infrastructure and programmes.

The development of **human resources for public scientific research** remains limited, as HEIs tend to prioritise teaching over research and apply uneven criteria for promoting scientific research excellence. The quality of postgraduate programmes in terms of preparing students for research careers is poor, and academic staff are not typically required to engage in research activities. Furthermore, there are few mechanisms to monitor or evaluate their research (Kaçaniku, Rraci and Bajrami, 2018[140]). Subsequently, the number of publications published in international peer-reviewed journals was less than a quarter of the Western Balkans regional average in 2018 (World Bank, 2018[142]). There is also limited support available for researchers to engage in international research projects and attend international events and conferences. Although international initiatives and donors such as Horizon 2020 and COST provide additional resources to researchers, the low awareness of these programmes and the limited resources to support access to them continues to restrict their impact in the economy.

### *Sub-dimension 9.3: Business-academia collaboration*

Kosovo does not appear to have a formal **collaboration promotion framework** to support business-academia collaboration. Such collaboration is not explicitly recognised in the STI policy framework and there are no concrete promotion measures or objectives in place. Consequently, technology absorption capacity remains limited and investment in research and development by the private sector remain low compared to other Western Balkan economies.

There are some **financial incentives for collaboration**; however, most are oriented towards the private sector to promote innovative companies and do not specifically promote business-academia collaboration. An innovation voucher scheme overseen by the Ministry of Innovation and Entrepreneurship is in place but has reportedly been underutilised, with few applications submitted. It is unclear whether low participation rates are due to lack of interest or awareness among firms and academics. **Non-financial incentives for innovation** remain similarly underdeveloped in Kosovo. Researchers have few incentives to participate in business-academia collaboration as they are still assessed against conventional performance criteria. The funding and efforts of the MEST are geared to providing full or partial scholarships for students to study abroad, mostly for master's courses, and there are few opportunities for PhD/postgraduate research.

Kosovo has made some progress since the previous assessment in developing stronger **institutional support for collaboration**. A number of innovation centres operate in major cities throughout the economy (Box 22.8), and EUR 1.1 million was allocated to fund labs and equipment at two regional innovation centres. The establishment of four innovation centres and training parks across the economy have strengthened Kosovo's innovation infrastructure. These centres have played an important role during the COVID-19 pandemic in supporting domestic innovative solutions to the challenges presented, including the fabrication of face shields and distance-learning tools for primary school students. However, these institutions are primarily oriented towards business incubation and may not fully accommodate scientific research activities.

### Box 22.8. Innovation Centre Kosovo

The Innovation Centre Kosovo (ICK) was founded in 2012 to support entrepreneurship, innovation and commercially based business development in Kosovo. It aims to create new jobs and promote green energy. The centre supports both start-ups and existing companies with the potential for growth.

An integral element of the ICK is the incubator, which provides pre-incubation, incubation and virtual incubation services to both start-ups and early-stage companies. In addition to the incubator, various innovation and ICT-related support programmes are implemented via the ICK, including Junior Geeks, Angel Club, a Tech Boost Programme and the Start-up Social Workshop.

Since 2018, the ICK has administered a small-scale "Innovation Fund" grant scheme, which makes available co-financing of up to EUR 50 000, supported with donor funding. To date, two calls have been successfully completed, awarding over EUR 500 000 to 13 SMEs in 2018 and 2019.

Overall, more than 390 start-ups have successfully worked with the ICK, and over 2 100 have been created.

Source: (Innovation Centre Kosovo, 2021[143]), *Innovation Centre Kosovo homepage*, https://ickosovo.com/.

### *The way forward for science, technology and innovation*

Kosovo has made limited progress in developing science, technology and innovation since the last assessment. The development and prioritisation of targeted policy measures remains a major challenge amid the absence of an overarching strategic support framework for STI and a lack of funding. To improve the situation, Kosovo should consider the following:

- **Establish an overarching strategic view and develop mechanisms to co-ordinate policies across the whole of government.** The Smart Specialisation Strategy represents an important opportunity to develop a strategic approach to STI policy making, especially if coupled with the adoption of a new research strategy.
- **Identify and map the research and development infrastructure** to gather economy-wide data on labs and researchers. If these efforts are further complemented with the expanded collection of statistical data related to STI, Kosovo will be able to meet its commitments under the ERA and prepare for a research infrastructure roadmap.
- **Increase investment in public sector research and encourage research excellence.** Comprehensive financial and non-financial programmes to upgrade research as a profession, including though investment in better equipment in research labs, increased assistance to encourage international collaboration and research exchanges, will increase the quality and quantity of research outputs in the medium term and should stimulate the integration of academic research with the business community.
- **Maintain momentum and continue to improve participation in international STI collaboration.** Further actions should be taken through the contact points network under Horizon 2020 to provide more training and awareness raising about the opportunities of international initiatives. Measures could include better linkages of researchers through increased mobility and the exchange of best practices.

## Digital society (Dimension 10)

### *Introduction*

Table 22.15 shows Kosovo's scores for digital society and compares them with the WB6 average. Kosovo has continued digital society policy reforms since the last assessment cycle, but progress has been slow in most of the sub-dimensions. The economy nearly reached the WB6 average for the access sub-dimension as broadband development has shown stable progress, with the rural broadband infrastructure programme launched in 2019 already demonstrating solid impact on the Internet connectivity of remote areas. Although the regulatory framework on electronic communications continues to be improved to facilitate investment in network infrastructure development, alignment with the EU framework is not yet complete, and the market suffers from some persisting competitive distortions. There has been widespread discussion of the potential of the ICT sector in Kosovo; however, there is also a lack of reliable data to support data-driven decision making, which affects all aspects of digital society development, including digitalisation, jobs, inclusion and trust. Kosovo scores below the WB6 average in the sub-dimensions of use and society, and has average ratings for jobs and trust. The contribution of the ICT industry to GDP stagnated at 1.9% in 2018 and 2019 (Kosovo Agency of Statistics, 2021[144]). The digitalisation of SMEs is stagnant, and although the IT industry continues to work mostly in international markets, there is limited evidence to indicate that it is ready to move focus from outsourcing and exploit the promise of data-driven innovation. There is evidence that e-commerce reforms, boosted by the new conditions imposed by the COVID-19 pandemic, are creating a new e-commerce culture in Kosovo, although limited resources have been allocated since 2018 to building trust in the digital society domain. Privacy, personal data protection and free access to information remain critically underdeveloped.

#### Table 22.15. Kosovo's scores for digital society

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Digital society dimension** | Sub-dimension 10.1: Access | 2.8 | 2.9 |
| | Sub-dimension 10.2: Use | 1.8 | 2.4 |
| | Sub-dimension 10.3: Jobs | 2.3 | 2.3 |
| | Sub-dimension 10.4: Society | 1.5 | 2.1 |
| | Sub-dimension 10.5: Trust | 2.2 | 2.2 |
| **Kosovo's overall score** | | **2.3** | **2.4** |

### *State of play and key developments*

#### *Sub-dimension 10.1: Access*

Kosovo is in the process of completing an ambitious rural **broadband infrastructure** programme that promises to connect every household and every public and private institution in the territory with high-speed Internet. The Electronic Communication Sector Policy – Digital Agenda for Kosovo 2013-2020, along with the overarching Kosovo Digital Economy (KODE) project for 2018-2023, have created a broadband development framework that facilitates private sector investment. The data collected by the Regulatory Authority of Electronic and Postal Communications (ARKEP) suggest that fixed broadband penetration increased from 15.1% at the end of 2017 to 20% in Q3 2020 (ARKEP, 2020[145]). According to ICT usage survey data from the Kosovo Agency of Statistics, 96.4% of households in Kosovo had Internet access at home in 2020, which is the highest percentage in the region, surpassing even the EU average (90% in 2019) (Kosovo Agency of Statistics, 2021[146]). The same survey indicates the type of access from home is 95.1% through fixed lines and 54.7% through mobile connections. However, just over 70% of the population uses 3G/4G mobile broadband (ARKEP, 2020[145]).

To cover scarcely populated areas, the government secured a World Bank loan of EUR 20.7 million for a rural broadband infrastructure development project under the KODE project. The overall objective of the project is to improve the quality of digital infrastructure throughout Kosovo to deliver at least 100 Mbps, upgradeable to 1 Gbps, to all households. Implementation started in 2019 with the announcement of eight competitive calls for co-financed infrastructure development projects[89] covering 85 specific “white”[90] areas, 48 schools and 17 healthcare centres. In total, 30 grant agreements were signed with different Internet service providers (ISPs) for respective sub-projects. During 2020, another 6 calls were published, which resulted in the financing of 21 new sub-projects to cover 62 white areas, 27 schools and 9 healthcare centres, offering free Internet access for five years. Along with public institutions, 4 000 families in 147 white area villages will benefit from free-of-charge high speed Internet connections for the same duration. These projects are co-financed up to 50% by the state, according to state aid rules that are aligned with the EU Guidelines on the Rapid Deployment of Broadband Networks (2013/C 25/01). The target of the project was to cover 100% of Kosovo households with broadband Internet by the end of 2020, which is close to actual monitored data. KODE also started the pilot project in 2020 of connecting mobile towers with fibre optic and 5G-ready active equipment. This project will continue until the end of 2022. The KODE Project Implementation Unit within the MEE acts as the broadband competence office and provides programme co-ordination and implementation monitoring. The MEE also monitors the implementation of the digital agenda.

In co-operation with ARKEP, the MEE has developed a comprehensive Broadband Electronic Atlas[91] to map fixed and mobile infrastructure and services. Kosovo, supported by the World Bank, takes part in the Balkans Digital Highway Project with other WB economies to investigate regional interconnectivity improvements through infrastructure sharing of the optical fibre ground wire installed by local energy utilities. During July 2020, ARKEP further improved the regulatory environment for network infrastructure investments by adopting a number of regulations to facilitate broadband infrastructure development and shared use (e.g. regulations on open access to the local loop or to the curve and bitstream, on technical and operational issues of access to networks in bitstream, and on interconnection services). These were in addition to the regulations adopted during the 2018/19 period (e.g. regulations on the shared use of associated facilities, on general authorisations, and on the quality of electronic communication services). ARKEP adopted regulation on the rights of way and common use of infrastructure in 2012. The government has prepared draft legislation on measures that reduce the cost of deploying high-speed electronic communications networks, in accordance with the EU’s Broadband Cost Reduction Directive (2014/61/EU), but the law has not yet been adopted.

The **ICT policy regulatory framework** is constantly improving its alignment with the EU *acquis*. The existing electronic communications framework is almost fully aligned with the EU 2009 regulatory framework, which is positively reflected in market developments. The domestic regulator, ARKEP, is fully staffed and has the resources to ensure the active improvement of the regulatory framework through adjustments that support private sector investment in communications infrastructure development. However, the only pending issues to complete alignment with the EU framework are the financial independence of ARKEP, which is not ensured,[92] and relevant EC recommendations that have not yet been implemented (European Commission, 2020[39]). A persistent challenge for the Ministry of Economy and Environment and the regulator is the outstanding privatisation of the incumbent state-owned operator, Kosovo Telecom, after failed attempts to sell the company and the large debt it has accumulated since 2015. In 2019, the Ministry requested EBRD assistance to prepare Kosovo Telecom for privatisation.[93] In the meantime, government-imposed competition restrictions continue, as public institutions are still obliged to use services solely provided by Kosovo Telecom. In a positive move, the regulator reviewed pricing policies for frequency allocation, leading to a 30% price drop for the currently allocated frequencies for mobile telephony services. ARKEP is also reviewing pricing policies for new frequency allocations and annual regulatory fees. ARKEP monitors the electronic communications market and regularly publishes reports and indicators on its development. Although citizens have online access to regulations and open consultation outcomes, regulatory impact assessments for new regulatory proposals are not being conducted, and human resource capacity in this field remains low. ARKEP and MEE took part in preparations for the Regional Roaming Agreement, which was signed in April 2019.

A basic legal framework on **data accessibility** is in place in Kosovo to enable data sharing within and across the public sector; to allow data openness; and to guide the transparent collection, access and control of data. The adoption of the 2019 Law on the Right for Access to Information, the new Law on Personal Data Protection and subsequent regulations on fees for access to public documents, are major legislative improvements. The international Open Data Charter[94] was adopted as a strategic framework for data accessibility in 2016. The Open Data Readiness Assessment, performed in 2018 following World Bank methodology, concluded that there is limited understanding of the significance of data formats and licences in the public sector, and that demand for open data is still limited in the industry because an ICT-outsourcing mindset prevails (Ministry of Public Administration, 2018[147]). It also noted that key data for enabling FDI and business development, such as a business registry, are not fully available or searchable (Ministry of Public Administration, 2018[147]). With the assessment, an action plan, co-ordinated and monitored by the Unit for Open Data in the Information Society Agency (AIS), was developed to address the identified shortcomings.

The AIS also manages the government's Open Data Portal,[95] created in 2016, as well as the State Electronic Data Centre and ICT infrastructure for public institutions. Over 205 datasets from 14 different public sector organisations were published on the portal by August 2020, using a variety of closed and open formats and licences, because of the absence of specific, formal guidance. Regulations and corresponding technical support for the re-use, sharing and commercialisation of data are not yet in place. There is also no database of indicators on data accessibility and openness to assist data-driven policy making. However, the Ministry of Public Administration has formally put in place a process for the general secretary of every ministry to nominate official open data focal points in each ministry with specific role and duties.

### *Sub-dimension 10.2: Use*

The current **digital government** framework is based on the Strategy on the Modernisation of Public Administration 2015-2020, whose publication was a positive step towards rationalising, optimising and digitalising administrative processes. However, its implementation has not progressed as planned, as noted by the European Commission in its report on Kosovo in May 2019, where it recommended increasing efforts to implement e-government frameworks and services (European Commission, 2020[39]). Since then, the AIS has prepared and proposed a new e-government strategy in its role as the central co-ordination point for digital government.[96]

The draft Strategy for Electronic Governance 2020-2025 and its action plan are expected to provide the new digital government framework for the next period; however, the document was still under consultation with stakeholders in late 2020. Until the strategy is adopted, a number of other policies cover aspects of digitalisation in Kosovo, including the Digital Agenda 2020, the KODE project and the Strategy on the Modernisation of Public Administration 2015-2020. These policies promote digital technologies for civic engagement in policy design, legal and regulatory reform, online public services and tools, public officials' asset disclosure, and fiscal transparency. Positive results from the implementation of these policies include the development of Kosovo's interoperability framework, based on the European Interoperability Framework model; the creation of some e-government services; and the adoption of the Law on Electronic Identification and Trust Services in Electronic Transactions in late 2020. This law supplements the Law on Information Society Services to create an enabling legal environment for electronic services.

Recent initiatives include launching the Ministry of Finance's public consultations online platform[97] and transparency portal,[98] backed by the strong commitment of government for collecting and investigating public officials' asset declarations. Since 2017 all public sector institutions, including local authorities, have been legally obliged[99] to use the public consultations platform for every policy or legislative proposal. The

Prime Minister's Office, which is tasked with implementation monitoring, reported positive trends in fulfilling the minimum standards of public consultations in 2019, despite challenges. Impressively, the number of participants in the public consultation process has more than doubled since 2018. Although tax authority services have been largely digitalised, Kosovo is still a long way from achieving a fully digital government, and the need for increased co-operation and support in building the capacities of public officials for developing and maintaining e-services is still high (Office on Good Governance, 2019[148]).

Improving the e-business environment and encouraging **private sector ICT adoption** to increase companies' efficiency and competitiveness is one of the high-level objectives of the Digital Agenda 2020; however, the document does not outline specific measures to promote the adoption of ICT by firms. As in the previous assessment cycle, there has been limited or no government funding for programmes that provide IT training or consulting support for the digitalisation of private sector companies. However, the government has reduced VAT for ICT equipment to 8%, and ICT is exempt from VAT and customs duties on import. The government depends on donor-funded projects to offer digital skills training for employees of traditional businesses to enable the exploitation of digital technologies for increased productivity and exports. Such projects include the IPA II projects EU Support for the Competitiveness of Kosovo's ICT Sector[100] and EU Support to Digitalisation of Businesses through ICT.[101] However, use of ICT by business has stagnated, reflected in 2019 ICT usage data presented by the Kosovo Agency of Statistics which shows that only 52.4% of enterprises declared they had business web pages, down from 63.1% in 2018 (Kosovo Agency of Statistics, 2021[149]).

Although e-commerce is a significant driver of private sector ICT adoption, a comprehensive legal framework to support its regulated use still needs to be developed. Bottlenecks include the poor security of online payment systems and the fact that banks in Kosovo still charge 2.5% to 3% in fees for each international online credit card payment transaction (TEB, 2021[150]). The logistics and transport infrastructure needed for e-commerce is also inadequate. The government has not built a critical mass of transactional e-services for businesses, which would stimulate the adoption of ICT by private sector companies.

### *Sub-dimension 10.3: Jobs*

The Kosovo Education Strategic Plan (KESP) 2017-2021 is the main policy document for the development of education at all levels. Although it does not directly address **digital skills for students**, it draws attention to the need to accelerate the integration of ICT in schools and to prepare digital teaching material. The use of ICT and modern teaching technologies in Kosovo's education system is relatively low. In 2017, the reported computer-student ratio in Kosovo was 1:46, which is much lower than the EU average (1:7). According to the MEST, 44.4% of schools had ICT equipment in 2017, but equipment maintenance continues to be poor. The MEE, via the KODE project, is gradually improving Internet connectivity speeds for schools[102] in under-served areas, as well as building a data centre for research and education that will serve as a hosting facility for a video conferencing platform and other online services and platforms. During 2020, 12 municipalities in Kosovo received high school IT equipment worth EUR 160 000 to fulfil distance learning requirements imposed by the COVID-19 pandemic. However, despite the technological investment, the number of teachers able to prepare and use electronic content in the learning process is very limited. Teacher training and qualification testing on digital skills has not received adequate attention, even though it is key to ensure high-quality education. The MEST depends heavily on donor support to provide teacher training in ICT. For example, the EU Support for the Competitiveness of Kosovo's ICT Sector project offers free IT courses for ICT teachers and trainers/instructors.

Students' digital skills are developed through classes on information technology, taught from the sixth grade of primary education through secondary education. However, the curriculum is outdated, mainly providing basic information on how to use a computer and the background on how it functions, which does not meet the actual needs of 12-year-old pupils, most of whom started using digital devices at preschool age. The situation is further exacerbated by tech-shy or ill-trained teachers. The IT subject is graded annually and tested in economy-wide achievement tests. Curricula are designed by the MEST in co-operation with working groups that comprise municipality, academia and civil society representatives. According to the KESP this role was supposed to be transferred to the Agency for Curriculum, Assessment and Standards (AKVS), but this agency is yet to be established. The MEST is monitoring progress of the implementation of the KESP, but data collection on digital skills is not systematic. High schools and universities lack the data-driven approach required to create up-to-date learning programmes. As a result, the curricula, especially in tertiary education, do not meet the needs and requirements of IT companies, which adversely affects the industry's competitiveness.

The KESP also provides a basic policy framework for **digital skills for adults**. The framework includes formal and informal training systems, public services, support programmes and social protection to address barriers to learning faced by low-skilled and disadvantaged adults, and the use of digital learning and mentoring platforms to increase the accessibility of training opportunities. Legislation on adult education and vocational training has been in place since 2013. The Agency for Vocational Education and Training and Adult Education plans, implements, oversees and improves the professional education and adult education system. The Ministry of Labour and Social Welfare, through the Employment Agency, manages eight vocational training centres in seven regions of Kosovo, where ICT is one of many training programmes for unemployed individuals. It is also foreseen that the VET school Gjin Gazulli in Pristina will be upgraded to a new centre of competence for ICT, where six IT professional profiles will be developed. Non-formal learning options, including IT training, are widely available from private sector providers, some of which are accredited by the National Qualification Authority and licenced by the MEST. However, not all available ICT programmes, including university programmes, offer quality training that addresses labour market needs. The Kosovo Association of Information and Communication Technology (STIKK) has repeatedly signalled the poor quality of digital competencies and IT skills acquired through the education system. This is reflected in the Kosovo IT Strategy 2020, which emphasises improving IT education and promoting HR excellence in Kosovo. On a positive note, the MEE[103] has introduced a project to provide advanced digital and business skills training for around 1 500 current and newly trained ICT professionals. The first cohort of trainees, which was balanced in terms of gender, have already been trained, and follow-up activities on their employability in the local ICT market are being conducted. The KODE Project launched its youth training activity under the Youth Online and Upward (YOU) programme in 2020, which aims to train 2 000 young people in digital and soft skills by 2023.

**ICT sector promotion** has been driven by the private sector, mainly STIKK, in co-operation with line ministries and government agencies. Currently, the main policy instruments for ICT sector promotion are the Electronic Communications Sector Policy – Digital Agenda for Kosovo 2013-2020; the KODE project that supports growth for the communications sub-sector; and the IT Strategy 2020[104] that promotes the IT sub-sector. Although some progress has been made, the implementation of the IT Strategy 2020 has been slow as the allocation of financial resources has been limited and it has been given low priority by all recent governments. Kosovo's Smart Specialisation Strategy, which will probably highlight ICT as a priority, is still at a very early preparation stage. The ICT sector, including outsourcing, has 1 249 registered companies, 621 of which registered in 2019 (Kosovo Agency of Statistics, 2020[151]; 2021[152]). Some 61% of IT companies work in international markets, with most revenue coming from exports to EU countries; 39% of IT companies operate in the local market (STIKK, 2019[153]). IT companies are not highly specialised or differentiated in terms of technologies, target industries (vertical specialisation) and specific functional areas (horizontal specialisation). IT companies represented by STIKK have repeatedly signalled the mismatch between skills taught at different levels of the education system with the skills required by the industry. Among IT companies there is a lack of knowledge (e.g. IT market and technology trends, especially regarding potential export markets) and resources to underpin IT sector growth (STIKK, 2019[153]). Access to finance is another bottleneck. The IT Strategy foresees that the Ministry of Finance will draft a legal act to stimulate the supply of venture capital, but the process is still in an initial phase.

Preliminary consultations with stakeholders have begun to identify the most suitable model for a venture capital instrument.

Programmes and activities for ICT sector promotion in recent years have focused on fostering technology start-ups and ICT innovation companies. Under the Economic Reform Programme, STIKK, line ministries and government agencies were supposed to establish the first digital Tech Park in Pristina, where ICT would be the leading sector. However, the Tech Park was still not operational by the end of 2020. The ICK was also created to support entrepreneurship, innovation and commercially based business development with a focus on ICT start-ups (Box 22.8). Under the scope of the Innovation Fund, the ICK implemented a dedicated scheme to support a selected number of start-ups in the ICT and technology sector. Some 220 companies were financed through this scheme with a total of EUR 1.8 million in the period 2018/19.[105] The ICK has also managed other financial support programmes for MSMEs that were co-funded by the German Development Cooperation (GIZ). During the same period, significant financial resources were invested in the establishment and operation of the regional centres for innovation and entrepreneurship. However, all these financial support tools focus on technology innovation and start-ups in general and cannot be considered as direct support schemes for ICT sector promotion, even though ICT sector companies may be the main beneficiaries. IT training has not been financed by any of these schemes. In the STIKK survey for the IT Barometer 2019, a majority (83%) of companies declared that they face a deficit of skilled (qualified) workers. ICT companies cope with this deficit by investing in training (in-house or other specific training) and multiple international certifications (such as Project Management Professional, Microsoft) (STIKK, 2019[153]). However, donor-funded projects under the IPA II instrument, such as the EU Support for the Competitiveness of Kosovo's ICT Sector project, also provide ICT training.

### *Sub-dimension 10.4: Society*

The **digital inclusion framework** is only partly covered by policies for education and for the rights of individuals with disabilities, fostering social inclusion, non-discrimination principles and accessibility of information. The Strategy on the Rights of Persons with Disabilities (NSRPD) 2013-2023, co-ordinated by the Prime Minister's Office/Office for Good Governance, aims to set up a unified system of data on persons with disabilities. The Law on Electronic Identification on Trusted Services in Electronic Transactions (transposing eIDAS Regulation, EU No.910/2014), adopted in 2020, stipulates that services should be equally accessible to persons with disabilities. A project funded by IPA II (2019) will support the MEE with EUR 4 million to implement the eIDAS Regulation and the establishment of the electronic identification and authorisation scheme. However, Kosovo has not yet adopted obligatory e-accessibility regulations and guidelines for public sector websites that meet international standards – Web Content Accessibility Guidelines (WCAG) 2. These are vital to ensure equal access to public sector information and services for all citizens.

Digital inclusion is also considered in policies and legislation on the development of electronic communications that tackle universal service requirements and network infrastructure development in remote locations. The KODE project actively contributes to reducing the gap in ICT connectivity between urban and remote areas in Kosovo. According to the Kosovo Agency of Statistics, in 2020, 96.4% of households in Kosovo had access to the Internet from home, from any device. During the previous assessment period, a project to train women in IT, the Women in Online Work pilot,[106] achieved significant impact by increasing women's competitiveness and opening new opportunities for them to join the digital market. Although this project was not extended into the current period (2018-20), significant digital skills training activities have been launched under the KODE project, also focusing on closing the gender gap in using modern technologies. Positive results are already reflected in 2020 statistics, which report that while Internet use by men remains fairly stable at 57.4% in 2020, use by women has increased to 40.2% in 2020 from 35.4% in 2018 (Kosovo Agency of Statistics, 2021[154]). Although a steady improvement of the percentage of people over 65 years using the Internet at home has been registered (10.1% in 2020 from

8.4% in 2018), this group largely remains excluded from the digital society (Kosovo Agency of Statistics, 2021[155]).

### *Sub-dimension 10.5: Trust*

The legal framework on digital **privacy protection** is aligned with the EU framework, but not practically enforced. The new Law on Access to Public Information and Law on Personal Data Protection (PDP), transposing the General Data Protection Regulation (GDPR) (EU 2016/679), were adopted in 2019. Before the adoption of the new PDP law there was no mechanism in place to perform compliance inspections, and thus enforcement of the existing framework was limited. The new PDP law designated the Information and Privacy Agency as the competent independent authority to supervise the enforcement of the new framework and perform inspections. However, given that the agency has lacked a commissioner for the last three years, it has been facing serious operational and administrative problems and has conducted no inspections. During this time, complaints and sanctions have had to go through the court system, which in practical terms has made digital privacy protection an unrealistic cause. The implementation of the new framework requires the adoption of by-laws deriving from both laws on data protection and access to public information to enable the Information and Privacy Agency to perform its duties (e.g. impose fines). However, without the appointment of a commissioner, neither inspections nor regulation adoption can take place. The new PDP law also obliges controllers and processors of personal data to be certified. The Information and Privacy Agency is tasked with issuing this certification based on criteria and procedures that will be specified in the sub-normative acts, which are also still pending. The latest competitive process for the selection of the commissioner was launched at the end of May 2020, but none of the three candidates for the post received the required 61 votes in the Assembly on 14 August, which was the third time in two years that the parliament has failed to appoint a person to the position (Xhorxhina, 2020[156]; Assembly of the Republic of Kosovo, 2020[157]).

**Consumer protection in e-commerce** is mainly regulated by the Law on Consumer Protection, which was adopted in 2018 and includes provisions on e-commerce. E-commerce is regulated by the 2012 Law on Information Society Services, which transposes the e-Commerce Directive (2000/31/EC). The new Law on Consumer Protection came about as a result of the implementation of the Programme on Consumer Protection 2016-2020. This was adopted on the recommendation of the EC under the Stabilisation and Association Agreement to ensure further alignment of the legislation, to strengthen and develop administrative capacity, and to increase consumer information and education. The Consumer Protection Council is designated to co-ordinate activities among all institutions responsible for consumer protection in Kosovo.

E-commerce is growing fast in Kosovo, boosted by restrictions imposed to address the COVID-19 pandemic. Citizens' online shopping culture is changing (the share of the population who has never ordered or bought products online decreased from 63.6% in 2018 to 43.1% in 2020) (Kosovo Agency of Statistics, 2021[158]), and trust is increasing with gradual improvements of e-payment systems. Nevertheless, bank fees in Kosovo are the highest in the WB region (some banks are charging consumers 1% to 3% of the amount they spent online), and only 10% of people in Kosovo have credit cards (TEB, 2021[150]; PWC North Macedonia, 2020[159]). Some well-known e-commerce websites, including Amazon, Aliexpress and ASOS, recently added Kosovo to the list of countries they ship to, which has simplified purchases and increased the number of online transactions. In a positive move, the Ministry of Trade and Industry published a report in May 2020 that includes data on complaints relating to online shopping. However, a widespread awareness campaign or website with guidelines has not been implemented so far to inform citizens about their rights in e-commerce, how to exercise them, and which competent institutions are tasked to assist consumers.

Positive progress in the implementation of the domestic **digital security risk management** framework is limited by the small allocation of resources for cybersecurity. However, there is some evidence of implementation of the Cyber Security Strategy and Action Plan 2016-2019, such as the adoption of the new Law on Electronic Identification on Trusted Services in Electronic Transactions in 2020, and the Law on Critical Infrastructure in 2019, based on the EU Directive on the Identification and Designation of Critical Infrastructure (2008/114/EC). However, the draft law transposing the Directive on Security of Network and Information Systems (NIS Directive), to achieve a high common level of security of network and information systems with EU Member States, is still under preparation, and is expected to be finalised by the end of 2021. The follow-up policy document on cybersecurity for the next period has not yet been adopted. The Kosovo Cybersecurity Council has been monitoring the implementation of the strategy and collecting relevant data, but reports are not publicly available.

The operation of the domestic cybersecurity team, KOS-CERT, continues to be challenged by insufficient human and financial resources. KOS-CERT is still operating under the authority of ARKEP, which provides basic services with only two staff members. Donor programmes[107] have been leveraged to support capacity building and sharing good practices. KOS-CERT signed a memorandum of understanding for co-operation with the domestic computer emergency response teams (CERTs) of Albania (AL-CSIRT) and North Macedonia (MKD-CIRT). The government is funding a new project for upgrading KOS-CERT with equipment and smart services[108] in 2020. During 2021, the MEE, together with KOS-CERT, plan to address cybersecurity in 5G networks through the EU toolbox for risk mitigating measures. The MEE, in co-operation with other stakeholders from the energy sector, is also planning to establish a sectoral CERT for energy during 2021.

### *The way forward for digital society*

Despite some important steps taken to improve the digital society policy framework, the government of Kosovo should pay more attention to the following aspects:

- **Update legislation to ensure the financial independence of the domestic regulatory authority for electronic communications, in accordance with the EU framework**. Strengthen efforts to update existing legislation on public finance so that the domestic regulatory authority for electronic communications, ARKEP, is able to use the funds generated by respective regulations for the purposes described in the Law on Electronic Communication.
- **Accelerate the adoption of data re-use, sharing and commercialisation legislation, and strengthen the demand for open data innovation through inclusive co-creation processes**. Promote guidelines that regulate data formats, interoperability and data licences, and provide technical support on these issues to public institutions. Co-operate with civil society organisations to raise public awareness on data openness. Allocate sufficient resources to build the capacity of public officials and develop public-private partnerships on open data innovation for the creation of e-services and applications for citizens and businesses.
- **Ensure that the new Strategy for Electronic Governance 2020-2025, which is pending adoption, provides a concrete vision of digital transformation across government bodies and public institutions, and promotes the creation of high-quality online transactional services**. Address all remaining obstacles in public administration legacy legislation and remove bottlenecks in online payment systems. The new strategy will need to provide an overall vision for the digitalisation of the government and its commitment to deliver high-quality electronic services to citizens and businesses. Sufficient financial and human resources will need to be ensured for building capacity in the public administration to create and maintain e-services. The government could also consider reorganising the Information Society Agency so that it co-ordinates the development, interoperability and maintenance issues of e-services, directly managing or collaborating with the IT staff of line ministries and public institutions.
- **Accelerate the establishment of the Agency for Curriculum, Assessment and Standards (AKVS) and improve co-operation with the private sector for high-quality ICT education that**

**meets labour market needs**. It is important to transfer responsibilities from line ministries to the AKVS, as foreseen in the KESP 2017-2021, and to strengthen collaboration among state institutions, academia and the ICT industry (through STIKK) in redesigning curricula and adjusting the qualifications acquired by students and adults at all levels of the education system. New curricula should focus on preparing a skilled ICT workforce that will support the digital transformation of businesses and underpin ICT sector growth. The monitoring of indicators on digital skills will also need to be systematised to enable informed decision and policy-making processes.

- **Adopt obligatory guidelines that ensure that e-accessibility of public sector websites meet international standards (e.g. WCAG 2.0), and develop a database of digital inclusion indicators**. The government should consider appointing a government body, such as the Information Society Agency, to monitor and enforce e-accessibility regulations and to provide technical support to public sector institutions for implementation. A complete set of indicators to monitor digital inclusion should be adopted and regularly monitored by a competent institution to support a data-driven approach to reviewing and designing digital inclusion programmes.
- **Appoint a commissioner to head the Information and Privacy Agency, and allocate sufficient human and technical resources to allow the agency to complete and implement the legislative framework**. Personal data in Kosovo remain largely unprotected, despite the transposition of the GDPR (EU 2016/679) into domestic legislation. The government will need to resolve persisting bottlenecks in electing a commissioner to lead the Information and Privacy Agency. This will accelerate the adoption of necessary implementing legislation for the new PDP law. Regulations on guidelines and procedures for the certification of data controllers and data processors will also need to be prioritised.
- **Prioritise the design and adoption of a new policy on cybersecurity and prepare legislation on security of network and information systems to transpose the NIS Directive**. The new cybersecurity policy will need to consider the outputs from the implementation of the previous strategy and ensure cross-sectoral participation. It will also need to ensure the transposition of the Directive on Security of Network and Information Systems (NIS Directive) to achieve a high common level of security of network and information systems with EU Member States. The allocation of sufficient human and financial resources for the domestic KOS-CERT will also need to be guaranteed to ensure that the team improves the quality and diversity of services it provides for the benefit of the public and the private sector in Kosovo.

## Transport policy (Dimension 11)

### Introduction

Since the last assessment, Kosovo has made some progress in the railway and asset management sectors, but the remaining fields of the transport policy dimension have stagnated (Figure 22.1). Kosovo's performance in the transport dimension is substantially below the WB regional average (Table 22.16). Given this significant gap there is still considerable progress to be made in this policy area to reach EU performance levels. The initial goal should be to achieve the WB regional average by exchanging good practice ideas with the other WB economies.

Table 22.16. Kosovo's scores for transport policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Transport policy dimension** | Sub-dimension 11.1: Planning | 1.5 | 2.3 |
| | Sub-dimension 11.2: Governance and regulation | 1.5 | 2.6 |
| | Sub-dimension 11.3: Sustainability | 1.2 | 1.3 |
| **Kosovo's overall score** | | **1.4** | **2.0** |

### State of play and key developments

#### Sub-dimension 11.1: Planning

Since the previous assessment there have been no significant improvements to the **transport vision.** A new Law on Roads and a Law on Road Transport are in the adoption process. Kosovo has also developed a Sectorial Strategy for Multimodal Transport (SSMT) for 2015-2025 (Government of Kosovo, 2015[160]) with a corresponding five-year action plan. This strategy covers all transport modes and is proposed to be revised every five years. A working group for updating the SSMT was established in October 2020. The development of the SSMT involved consultation processes with all relevant stakeholders as per local legislation. The strategy includes clear and measurable objectives, with proposed activities and measures, follow-up indicators for each mode of transport, and a timeframe for implementing measures. However, the level of policy implementation is not entirely known as there are no available monitoring reports of implemented strategies. Some legislation has been adopted since the last CO assessment as a result of the previous and ongoing transport strategy, which are presented in the transport modes below. Overall, less than 15% harmonisation with the Transport Community Treaty (TCT) has been achieved.

The SSMT prescribes that the Transport Planning Unit, merged in 2011 with the Department for European Integration and Policy Co-ordination into a Policy Co-ordination Division, should be responsible for assessing, reporting, monitoring and updating the SSMT; however, stakeholders report that this body does not exist, and monitoring reports are not available. The monitoring reports must be used to report on the lessons learnt and assist in defining countermeasures to fill out legging activities, although it remains to be seen how they will be used to inform future strategy updates. The SSMT overlaps with the National Development Strategy 2016-2021 (Government of Kosovo, 2016[161]), which lists activities related to the development of road and railway links. The ultimate goal of the government should be a systematic and regular update of the vision/strategy based on monitoring reports, development of the strategy, impact assessments, as well as the assessment of the recommended measures through the transport model.

No transport model of Kosovo was developed during the preparation of the SSMT, and therefore could not be used to prioritise the proposed measures. The SSMT recommends using such a model to forecast future traffic flow demand and the capacity utilisation of the planned transport network/link over the estimated time horizon (e.g. 20-30 years). However, the SSMT does not recommend assessing or prioritising proposed measures within the strategy, hence the strategy and the transport model will lose their purpose.

The impact on tourism has not been assessed in the SSMT or other strategies, showing the lack of a holistic policy-making approach. Transport-related strategic documents have not been aligned with the previous European Commission Staff Working Document (CSWD) from 2019, although the current update of the SSMT should be aligned with the latest CSWD issued in October 2020 (European Commission, 2020[39]), which will directly influence the harmonisation process with the EU *acquis*. Developing and upgrading transport policy and infrastructure through a fully integrated and jointly implemented approach with tourism policy and other relevant strategies will improve the attractiveness of Kosovo and the region and make the market more competitive.

Co-operation with other WB economies to exchange experience, as recommended in the previous assessment cycle, has not occurred, other than in the Transport Community Permanent Secretariat's (TCPS) regular working meetings. Co-operation with other WB6 economies and regular exchange of good practice needs to be enhanced and intensified, as the effective development of a transport vision and planning can only be conducted through regular regional discussions that lead to a single and competitive transport market.

Since the last CO assessment, no progress has been visible in the **transport project selection** field. The project identification and selection framework is still the same as the single project pipeline (SPP)[109] for infrastructure projects developed in 2015 (Government of Kosovo, 2015[162]). This covers 11 transport infrastructure projects costing around EUR 1.19 billion. The efficiency of the SPP methodology applied to select and prioritise transport projects is undermined by the lack of a financial and economic assessment and an understanding of full social impact. This means that it is not clear if the proposed investment is for infrastructure that could generate the greatest return. There are no economy-wide guidelines for the development of cost-benefit analysis, but international practices and guidelines are used. Environmental impact assessments are conducted according to domestic legislation (Assembly of the Republic of Kosovo, 2009[163]; Official Gazette of the Republic of Kosovo, 2010[164]; Official Gazette of the Republic of Kosovo, 2010[165]), while social impact assessments are conducted using international financial institution (IFI) procedures.

Since the last CO assessment there have been no changes to **implementation and procurement processes**. The Law on Public Procurement (currently being amended) was adopted in 2011 and prescribes alternative procurement procedures for projects funded through public-private partnerships, IFI funds or other public contracts. *Ex post* evaluation of implementation and procurement processes exists, but frameworks have not yet been revised based on the results. Although the roles and responsibilities of government bodies[110] are defined, they lack the human and financial capacity to execute their procurement and implementation tasks and have not been given oversight roles for the procurement and monitoring of public-private partnerships.

There is no co-operation with WB economies during implementation and procurement, and therefore best practices and lessons have not been shared. Box 22.9 contains good examples of project implementation and monitoring tools used in Albania and Serbia to help control funds and invest in the projects that generate the best for society and the economy.

The **asset management system**[111] is in the early development phase in Kosovo. Legislation has been drafted and adopted based on the 2018 Technical Assistance to Connectivity in the Western Balkans (CONNECTA) study – Preparation of Maintenance Plans 2018-2022 for Road/Rail TEN-T indicative extensions to WB6 (Transport Community, n.d.[166]). Based on this, the railway infrastructure manager, Infrakos, prepared a seven-year maintenance plan for 2019-2025. In order to continue with developments in this field, a policy framework for the institutionalisation of the road asset management system needs to be developed. The key objective of a well-developed asset management system is to provide justification for the maintenance budget and to help direct limited funds towards areas where the return on investment will be the greatest. Such a system should be considered as an integral component of transport planning, identification, prioritisation, implementation and monitoring. A good example recently established in the region is the Albanian financial management system that also includes asset costs; other good examples can be found in North Macedonia and Serbia (road asset database, bridge asset databases, etc.). Co-operation with regional authorities could be worthwhile to exchange good practice. If transport infrastructure assets are well regulated and well operated it leads to a well-developed and maintained transport network, which is a pre-requisite for regional transport integration and the building of a competitive regional transport market.

### Box 22.9. Effective tools to manage transport projects in Albania and Serbia

Albania and Serbia are the only two economies with a sound tool for transport project identification, selection, prioritisation and implementation in the WB region.

In 2018, **Albania** adopted the Decision on the Public Investment Management Procedures. For the purpose of budget planning on investment expenditure, the projects are divided into two groups: 1) capital administrative expenditure on equipment, furniture, computers, IT, etc; and 2) expenditure on investment projects, including capital expenditure on infrastructure such as new constructions, reconstructions, rehabilitation with design costs, expropriation costs, purchase of larger technological equipment, implementation of works and supervision; and capital expenditure for capacity development, including research projects, technical assistance and capacity building.

The following project management cycle is applied:

1. Project identification based on an analysis of the public's needs.
2. Project evaluation and preparation, including an evaluation of the economic and financial justification.
3. Project approval and financing.
4. Project implementation.
5. Monitoring of project implementation, which should ensure that project activities are in line with planned activities.
6. Evaluation and audit, including implementation-related reporting and financial audit through the project performance indicators.

The following steps are applied based on the project cycle presented above:

1. Identify the project idea based on an analysis of public needs.
2. Review the draft idea (project management team leader and responsible authorities).
3. Prepare detailed project and evaluation, and a shortlist of alternatives.
4. Submit investment project proposal to the ministry responsible for investment projects.
5. Review the proposal (Council of Ministers).
6. Final approval, after the approval of investment projects within the annual budget.

As per Decision No. 290 of 11 April 2020, a financial management information system has been installed in every spending unit, including in all ministries, and is integrated into various departments to be used for all steps in the project management cycle.

In **Serbia**, the procedure for project identification, analysis of relevance, pre-selection, funding, implementation and monitoring is clear and publicly available, and co-ordinated through the Ministry of Finance. This procedure was adopted in 2019 though the Rulebook on the Management of Capital Projects.

The prioritisation process, which is applied to all projects, applies a cost-benefit analysis, an environmental and social impact analysis, and a safety assessment, among other things. Once the project is approved for financing there is a special procedure, similar to the one in Albania, that forms the preparation of a plan for project implementation. During project implementation there are specific procedure forms for reporting. One type of report is the interim report for the presentation of the current project status, which covers the activities carried out and the plan to execute the remaining project activities. At the end of the project, a final report needs to be developed.

There are three categories of project: 1) less than EUR 5 million; 2) between EUR 5 and 25 million; and 3) over EUR 25 million. *Ex post* monitoring is conducted for the third category three years after completion, which is a significant advancement on local legislation.

Source: (Republic of Albania, 2018[167]), *Albania – Decision of the Council of Minster No 185/2018*, http://80.78.70.231/pls/kuv/f?p=201:Vendim%20i%20KM:185:29.03.2018; (QBZ, 2020[168]), *Albania – Decision of the Council of Minster No 209/2020*, https://qbz.gov.al/eli/vendim/2020/04/11/290; (Ministry of Finance, 2019[169]), *Serbia – Rulebook on the management of capital projects*, https://www.mfin.gov.rs/UserFiles/File/podzakonski%20akti/2019/Uredba%20o%20upravljanju%20kapitalnim%20projektima.pdf; (Ministry of Finance, 2020[170]), *Serbia – Project cycle process – Forms*, https://www.mfin.gov.rs/dokumenti/saobracaj/.

### *Sub-dimension 11.2: Governance and regulation*

Since the last CO assessment, regulatory reforms have continued in the field of **aviation regulation**. The Single European Sky (SES) I package has been transposed and is in the process of implementation, bringing Kosovo significantly closer to the EU *acquis*. The SES II package has not yet been fully transposed, and the full transposition cannot be conducted until Kosovo enters the EU. Some legislation has not been implemented yet due to political reasons beyond the control of the Civil Aviation Authority. Monitoring of SES implementation is only done by the independent observer (based on European Common Aviation Area agreement assessments, as well as through the European Union Aviation Safety Agency), and not through internal bodies and agencies in Kosovo. Kosovo does not have its own air traffic management (ATM) Plan,[112] and is not a member of the European ATM Network or Eurocontrol. Kosovo is not a member of any functional airspace block, which reduces safety, limits capacity and increases costs. In addition, Kosovo does not receive revenue from upper airspace management and therefore cannot utilise and invest in capacity and infrastructure development.

The Airport Charges Directive has been transposed and is being implemented. This states that airport charges must be set and monitored based on the EU non-discrimination and transparency principles, and that quality standards for the service level agreement for services provided at the airport must be applied. A supervision authority has been established, whose mission is to supervise the air traffic management regulatory framework. The market is not monitored yet as per Air Service Regulation, which provides an economic framework for air transport regarding the granting and oversight of community air carriers' operating licences, market access, airport registration and leasing, public service obligations, traffic distribution between airports if needed, and pricing. In terms of safety culture,[113] a programme covering safety risk assessment and safety assurance has been adopted.

Air traffic is growing in Kosovo: the total number of passengers transported from all airports increased in the period 2017-19 by approximately 25.7%, amounting to 2.37 million passengers in 2019. This could be considered a significant increase in comparison with the world average increase of 11.7% (IATA, 2020[171]) over the same period. Given the significant growth of air travel and its projected importance for the economy, it is important that Kosovo continues regulatory reforms and brings the governance of the aviation sector closer to European standards and international best practice.

There have been many positive efforts in the **railway regulation** sector in Kosovo since the last CO assessment, but substantially more effort is needed to align legislation with the EU *acquis* and the TCT. Although the network monopoly is unbundled, the railway market is officially open and liberalised for international companies if they have valid licences and comply with local legislation to establish a legal entity (Sub-dimension 2.2: Services trade restrictiveness). Hence, the market should be fully opened and non-discriminatory. Structural reforms were adopted in 2011, and the vertical separation of the dominant state-owned railway company, Kosovo Railways, was implemented based on the Law on Railways (2012). There is only one state-owned infrastructure manager in the market and two operators (railway undertakings) – one state-owned and one private (since 2015). Of the currently applicable railway legislation in Kosovo (only 2% is considered not applicable), 19% of the of the legislation prescribed by the TCT is fully transposed and implemented, 39.5% is partially transposed and implemented, and 39.5% not transposed, while the rest remains unclear (information provided by the government). Harmonisation has been achieved since the last CO assessment in calculating direct costs, railway safety, interoperability, and maintenance; however, substantially more efforts are needed in these and all other fields to align legislation and market conditions with European railway standards.

The main oversight body for the railway sector is the Railway Regulatory Body, with responsibilities such as licensing, safety, market regulation and interoperability. Network statements for infrastructure and services facilities are regularly issued to ensure transparency and non-discriminatory access to rail infrastructure and to services in service facilities. The Investigation Body, whose purpose is to undertake accident investigation as a key input to improve the safety performance of railways, is under control of the Prime Minister's Office.

The Interoperability Directive 2016/797, which is important for the development of international railway transport, is partly transposed. The Register of Railway Vehicles was established in 2012 as a database on all used vehicles, owners, entities in charge of vehicle maintenance and vehicle technical information, as well as limitations on vehicle use. However, it should be transformed into the centralised registry for European Vehicle Register as per Commission Implementing Decision 2018/1614 by 2024. In terms of rail passengers' rights and obligations, Directive 1371/2007 has been transposed, which prescribes the framework to safeguard users' rights and improve the quality and effectiveness of rail passenger services in order to help increase the share of rail transport in relation to other modes of transport. The Rail Freight Corridors Regulation 913/2010 will need to be transposed into domestic legislation and implemented to enable the high-quality capacity of freight transport and a competitive modal shift to rail. Railway authorities signed the Declaration on European Railway Safety Culture in 2019 (ERA, 2019[172]), which should increase awareness and promotion of a higher standard of safety culture throughout the railway transport sector.

Bilateral co-operation is satisfactory, and an agreement on the incorporation of the railway networks of North Macedonia and Kosovo has been signed between the two economies, which should facilitate border crossings. The total number of transported passengers fell by 22.3% in the period 2017-19, amounting to 0.12 million passengers in 2019, while the total number of transported tonnes increased significantly, by 29.3%, amounting to 0.55 million tonnes in 2019. Kosovo's rail network and fleet utilisation are presented in Table 22.17.

## Table 22.17. Trends in rail transport in Kosovo (2017-19)

| Rail network utilisation | Change over 2017-19 (%) | 2019 | Share of EU average (2017) (%) |
|---|---|---|---|
| Passengers (passengers*km/km of track) | +110 | 3 293 | 0.15 |
| Freight (tonnes*km/km of track) | +87 | 77 385 | 3.99 |
| **Rail fleet utilisation** | **Change over 2017-19 (%)** | **2019** | **Share of EU average (2017) (%)** |
| Passenger (passengers*km/train*km) | +141 | 6 | 0.04 |
| Freight (tonnes*km/train*km) | +22 | 329 | 10.4 |

Source: (European Commission, 2019[173]), *Statistical Pocketbook: EU Transport in Figures*, https://ec.europa.eu/transport/facts-fundings/statistics/pocketbook-2019_en; Information provided by the government for this assessment.

Rail freight's share of transport modes in Kosovo was 11.6% in 2019. The freight mode share is low compared to the inland EU average, where road share accounted for 75.3% and rail share for 18.3% in 2018 (Eurostat, 2020[174]). There is potential to increase Kosovo's share of rail freight after it finishes rehabilitating the railway network (Route 10 and Route 7), which will reconnect the unbundled network and increase both speed and reliability (European Commission, 2015[175]). There is still much to be done (e.g. full opening of the market, incentives for shifting from road to rail, development of rail freight corridors, development of multimodal facilities) to achieve trends that will show the intensified development and cost-effectiveness of railway transport in Kosovo, and to reach EU average levels of rail network and fleet utilisation. An increase in the railway mode share could have direct positive impacts on air pollution and climate change.

There has been no visible positive improvement to **road market regulation** since the last CO assessment. Substantial additional efforts are needed to align local legislation with the EU *acquis* and the TCT. The Law on Road Transport is expected to be amended in 2020, while the existing law has been harmonised with some EU *acquis* regulation. Only 7% of the legislation prescribed by the TCT has been fully transposed, none of which has been fully implemented, 30% is partially transposed, and 57% is not transposed yet. Therefore, considerable efforts are needed in most fields to align the local market with European standards.

Kosovo does not participate in the multilateral quota system of the European Conference of Ministers of Transport (ECMT) (ITF/IRU, 2014[176]), which enables hauliers to undertake unlimited multilateral freight operations in 43 participating European member economies. Indicators[114] to measure the road network's performance have not been established yet. Kosovo will expand its bilateral agreements by signing new agreements with Latvia, Lithuania, Estonia and Finland on the transport of goods and passengers. The implementation of market access agreements and EU legislation is not monitored in Kosovo.

The high share of road freight, around 88.4% (a higher share than the EU average as presented above), has clear negative effects on air pollution and climate change. Therefore, incentives for shifting freight from road to rail could have a positive impact on reducing air pollution and climate change impacts.

The COVID-19 outbreak is affecting the transport and mobility market all over the world, including in WB economies. As a result, in the second quarter of 2020 Kosovo introduced measures at its border and customs control to enable the provision of essential goods and medical equipment. Kosovo introduced "green lane" measures in the major corridors for the transport of emergency goods. It should take no longer than 15 minutes to pass through the green lane border crossings (including any checks and screenings), and procedures should be minimised and streamlined. The implementation of these measures could directly impact how border crossings are treated in the future. Installing other measures based on regional experiences could also have positive impacts, such as the measures to minimise crossing time that include the implementation of one-stop shops (OSSs) for road border crossing point (BCP) Preševo/Tabanovce between Serbia and North Macedonia, the automation of customs procedures, and traffic management measures that transfer physical queues into virtual queues through an electronic queuing management system (e-QMS) installed in Baltic countries.[115]

Monitoring indicators to assess the performance of all transport modes either do not exist or are not properly established (indicators generally should include infrastructure conditions, average user costs, travel time satisfactory level [reliability], value of assets, market research and customer feedback, quality of user information, audit programmes). Regular data surveys are neither planned soundly (including the purpose and level of data needed and budget allocated) nor conducted regularly. The surveys that have been conducted have only been for the purposes of specific projects and not for general transport infrastructure assessment and planning. Therefore, there is no basis for a quality assessment of the transport network performance.

### *Sub-dimension 11.3: Sustainability*

Further efforts are required to improve **road safety** in Kosovo. A Road Safety Strategy (RSS) and related action plan have been developed for the period 2015-20, and the Ministry of Infrastructure has recently appointed a working group to review the RSS and draft a new action plan. The RSS defines the overall budget per year, but is not allocated to specific action plan measures. There are no indicators for each of the proposed measures either, which could make monitoring difficult. In any case, the RSS is currently not monitored and there are no available monitoring reports so far. Monitoring should be conducted by the secretariat of the Road Transport Safety Council and reported to the council at least twice a year, but this does not happen. The action plan also assigns responsibility to the beneficiary for each proposed measure. It is not clear if the staff of the Road Transport Safety Council are sufficient for implementing the strategy, and there is also a shortage of financial resources.

The RSS is partially compliant with EU legislation and the TCT (the outstanding parts not included in the strategy include road infrastructure safety management, road safety audit, road safety inspection, speed management, safe system approach, and "forgiving" roads). Full alignment is expected in the new strategy in 2021. Kosovo applied to become a member of the International Safety Data and Analysis Group (IRTAD) (ITF, n.d.[181]), but its request was rejected, which means that Kosovo cannot currently contribute to international co-operation on road accident data and analysis. The regional Road Safety Action Plan (Transport Community, 2020[182]) was endorsed by the Ministerial Council of the TCPS in October 2020, and Kosovo needs to align domestic plans to achieve the goals set within this plan (strengthening road safety management, promoting safe infrastructure, protecting road users, enhancing co-operation and exchanging experiences).

The total number of fatalities fell in the decade 2010-20 by approximately 59% (Table 22.18), amounting to 80 in 2020 (Kosovo Agency of Statistics, 2020[183]). This represents the best achievement in the region, and complies with the goal of the European Commission’s Policy Orientation on Road Safety 2011-2020 (European Commission, 2010[184]) to reduce road fatalities by 50% between 2010 and 2020 (as per the Decade of Action for Road Safety 2011-2020, officially proclaimed by the UN General Assembly in March 2010). The RSS defined goals to reduce the number of fatalities by 50% by 2020 (it achieved 43.6%), the number of injured road users by 20%, and the number of all accidents by 10%. It will be known if these goals have been met once 2020 detailed traffic accident data are available.

## Table 22.18. Road safety trends in Kosovo (2010-20)

| | Change over 2010-20 (%) | Change over 2017-20 (%) | 2020 |
|---|---|---|---|
| Number of fatalities (Kosovo) | -59 | -38.9 | 80 |
| Number of fatalities (EU) | -23* | -2.5* | - |
| Number of fatalities per million inhabitants (Kosovo) | - | - | 44.9 |
| Number of fatalities per million inhabitants (EU) | - | - | 51 |

* Data refers to the period until 2019. EU average includes all 27 Member States.

Source: (European Commission, 2019[185]), *2019 road safety statistics: What is behind the figures?*, https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_1004; (Eurostat, 2021[186]), *Victims in road accidents by NUTS 2 regions*, https://ec.europa.eu/eurostat/databrowser/view/tran_r_acci/default/table?lang=en; (Kosovo Agency of Statistics, 2020[183]), *Statistical Yearbook of the Republic of Kosovo*, https://ask.rks-gov.net/media/5641/vjetari-2020-final-per-web-ang.pdf.

The goal of the European Union's "Vision Zero" strategy is to zero deaths or serious injuries on Europe's roads by 2050 (European Commission, 2019[28]). The strategy has an intermediate goal of a 50% decrease in road fatalities between 2021 and 2030. Kosovo has made positive progress but must continue harmonising its legislation with the TCT, as well as permanently carrying out activities in the fields of education, awareness campaigns, enforcements, etc. to achieve better results and comply with the requirements for the next steps (Box 22.10).

Kosovo has an **environmental sustainability strategy**, and some environmental sustainability transport related parameters are partly covered through the Kosovo Environmental Strategy 2013-2022 (Ministry of Environment and Spatial Planning, 2013[187]) and the Kosovo Environmental Plan. These strategies set different objectives and goals (without measures) related to environmental sustainability in the transport sector.[116] All of these objectives and goals should be followed up by specific actions and measures and linked with the domestic transport framework, which needs to define clear and measurable indicators with timelines, budgets, and a responsible body for implementation, as none of these have been set in the strategy and plan. The Strategy for Environmental Protection and Sustainable Development is planned to be drafted by the government in 2021.

**Combined transport**[117] is the most cost-efficient transport mode, reducing environmental pollution, and increasing co-operation between the freight forwarding network companies. The legal and regulatory framework to support combined transport is not yet defined, although the transport strategy has set some priority actions. Co-modality is proposed in the SSMT through, for example, creating a multimodal organisational framework, connecting a multimodal system with the EU networks, and improving an existing terminal and constructing a new terminal in Miradi. However, there is no separate strategy for logistics and co-modal solutions. There is both a lack of multimodal infrastructure facilities and insufficient understanding of multimodality to develop a framework for combined transport.

Data collection needs to be one of the key actions to assess the performance of all sustainability areas. A strategy for data collection is needed as a basis for assessing the transport sector and to directly influence the prioritisation processes within transport policy in general.

### *The way forward for transport policy*

Kosovo has taken some important steps to develop a competitive transport sector, as presented above, but special attention should be paid to the following remaining challenges:

- **Update the transport strategy regularly.** The update should be based on the findings and conclusions from strategy implementation monitoring of the first five years, and include measures to implement activities not implemented in the period 2015-2020. The update should also consider the TCT and the findings from the implementation monitoring of other related strategies (e.g. environmental, climate, tourism).
- **Develop a tool for project identification, selection, prioritisation and implementation and apply it consistently and regularly**. This tool should be applied to all transport projects in Kosovo. Good examples could be followed from the region, such as in Albania and Serbia (Box 22.9). The project systems in these economies cover all processes, from project identification to the *ex post* monitoring of implemented projects, as well as the financial management IT system that is planned to be implemented in all spending departments of government institutions and implementing agencies.

- **Focus on continuing rail reforms**. These reforms should speed up harmonisation with the EU *acquis*, and therefore the transposition and implementation of all necessary legislation from the TCT needs to be faster. Enhancing the human and financial capacities of the regulatory authorities is one of the first priorities. Interoperability activities are very important for the development of international railway transport and should be continued, but gradually, as interoperability takes time and funds. Rail freight corridor regulation will need to be transposed into domestic legislation and implemented to enable the high-quality capacity of freight transport and a competitive modal shift to rail.
- **Ensure efforts to become a member of the ECMT remain a key priority**. The ECMT system could enable hauliers to undertake an unlimited number of multilateral freight operations in 43 participating European member economies. Once Kosovo becomes a member it will need to upgrade existing legislation to comply with the road haulage qualifications standards for companies, managers and drivers under the Quality Charter for Road Haulage.
- **Develop and tailor cost-benefit analysis (CBA) guidelines specific to Kosovo.** It is very important for each economy to develop its own CBA guidelines with accompanying technical instructions. The guidance needs to be updated often, on a maximum two-year basis. A good example is the United Kingdom's Transport Analysis Guideline (UK Government, 2019[188]), which provides information on the role of transport modelling and transport project appraisal tailored to the UK market. To ensure the consistency of the discount rates used for similar domestic projects it is necessary to develop a benchmark for all technical and economic parameters, including the financial and economic discount rate in the guidance documents, and then apply it consistently in project appraisals at the economy level. Empirical research needs to be conducted at the economy level to generate input data for the calculation of externalities.
- **Ensure that transport facilitation is a key priority.** It is necessary to implement one-stop shops[118] and other measures as per the regional Action Plan for Transport Facilitation (Transport Community, 2020[178]), endorsed in October 2020. These measures include improving and upgrading existing ICT infrastructure, constructing or modernising infrastructure to remove physical and technical barriers and to increase capacities, and capacity building to improve performance efficiency. The implementation of these measures will be a key trigger for integration of the Kosovo transport market into the regional transport market, which will increase the competitiveness and connectivity of the WB region and drive deeper integration into the broader European market. Good examples from the region include North Macedonia and Serbia, which have recently introduced a well-developed one-stop shop system and are currently in the initial stages of implementing a pilot project for an electronic queuing management system.
- **Develop a combined transport strategy.** The development of this strategy will promote sustainable transport as it will help to shift freight transported from road to rail, which is a more environmentally friendly mode of transport**.** As the rail and road Routes 7 and 10 (European Commission, n.d.[189]) are being modernised, the timely development of a combined transport framework in Kosovo could generate substantial benefits for the economy. Combined transport saves time and resources for shipping companies. Therefore, incentives for shifting freight to combined transport are needed.
- **Develop an integrated environmental and transport action plan.** This plan needs to integrate existing indicators and to include new ones in a framework for environmental sustainability in the transport sector. A good example is the Transport and Environment Reporting Mechanism (EEA, n.d.[190]) developed by the European Environmental Agency, which prescribes indicators for tracking transport and environmental performance in the EU.[119] Existing measures and indicators should be applied in the relevant strategies, including the new transport strategy.

### Box 22.10. Innovations in road safety: Road safety social impact bonds, Montenegro

In 2018, the United Nations Development Program (UNDP) in Montenegro, in co-operation with the key domestic players in road safety, developed the idea of road safety social impact bonds as an innovative and alternative performance-based public financial instrument that shifts the policy framework from inputs and outputs to outcomes and value-for-money. This innovative idea involves the private sector investing in road safety improvements to strengthen sustainability together with the public sector. The public partner commits to paying the outcome payments to the investor if (and only if) the predefined and measurable social goals are met. This idea has great potential to help other economies in the region (and beyond) replicate and scale-up the model.

Source: (UNDP Montenegro, 2014[190]), *Rethinking Road Safety in Montenegro*, https://www.me.undp.org/content/montenegro/en/home/projects/RoadSafety.html.

## Energy policy (Dimension 12)

### *Introduction*

Kosovo has made significant progress across all sub-dimensions of the energy dimension (Figure 22.1). Overall, Kosovo scored 3.0 compared to 2.3 in the last Competitiveness Outlook. The most significant progress relates to unbundling and third-party access, where Kosovo is almost fully aligned with international good practice. Kosovo has also shown significant improvement on energy efficiency, and to a lesser extent renewable energy, where the adoption of several strategies, secondary legislation and regulation has led to the increased implementation of international practices.

Kosovo's overall progress is confirmed by the Energy Community Secretariat (Energy Community Secretariat, 2020[191]), which scores Kosovo's transposition of the Third Energy Package at 64%, the third highest within the Western Balkans; implementation is scored at 56%. Despite this achievement, there is further room for improvement. The key challenges lie in finalising the transposition and implementation of the Third Energy Package (Box 22.11), continuing with market liberalisation and deregulation, promoting competition in the retail and wholesale market, and pushing forward with regional integration.

This need for improvement is also reflected in the regional perspective, where Kosovo, compared to other WB economies, has lost some ground since the previous Competitiveness Outlook when it was among the leaders in the Western Balkans, with a score above the regional average. However, in this assessment cycle the score is more in line with the regional average (Table 22.19). Driving this fall in relative performance is the rapid development in other economies, coupled with limited progress in Kosovo on energy policy, the legal and institutional framework, the energy regulator, the natural gas and electricity supply framework, and regional integration indicators (for details please see the respective sub-dimensions below). This does not mean that there was no progress in these sub-dimensions, but that progress was muted, especially when compared to the regional performance.

**Table 22.19. Kosovo's scores for energy policy**

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Energy policy dimension** | Sub-dimension 12.1: Governance and regulation | 3.3 | 3.1 |
| | Sub-dimension 12.2: Security of energy supply | 2.8 | 2.9 |
| | Sub-dimension 12.3: Energy markets | 3.0 | 3.0 |
| **Kosovo's overall score** | | **3.0** | **3.0** |

### *State of play and key developments*

#### *Sub-dimension 12.1: Governance and regulation*

Kosovo's energy sector is governed by an extensive **legislative framework**.[120] However, although the primary legislative environment almost fully transposes the EU Third Energy Package (see Box 22.11), the lack of adoption of secondary legislation and regulations, as well as their actual implementation, means that the final implementation of the Third Energy Package in Kosovo is not complete. The Energy Community Secretariat rates Kosovo's transposition at 64%, one of the highest of the WB6, and implementation at 56% (Energy Community Secretariat, 2020[191]). However, it notes that 22% of the Third Energy Package remains partially transposed and 14% is not transposed at all, particularly regarding renewable energy. The Secretariat also notes that implementation is lacking across all sub-dimensions, particularly natural gas, although this is partly due to Kosovo not having a natural gas market. Furthermore, the list of secondary legislation mandated by Kosovo's primary legalisation (Energy Community Secretariat, 2020[192]) shows that a variety of secondary acts are missing. Overall, the gaps in transposition and implementation of the Third Energy Package, and the lack of adoption of secondary legislation, means that Kosovo's market does not fully reflect international best standards and practices reflected in the EU

Third Energy Package. Consequently, Kosovo is unlikely to be as efficient in allocating energy as it could be.

### Box 22.11. The Third Energy Package

In 2007, the European Commission proposed a new legislative package, the Third Energy Package, in an effort to further enhance and harmonise the EU's Energy Union and internal energy market. This package entered into force in September 2009 and consisted of several important directives and regulations.[1]

The Third Energy Package largely rests on four pillars: 1) transparency; 2) non-discrimination; 3) a strong, independent national regulator; and 4) sustainability. Together, these pillars represent EU best practice and aim to establish a fair and level-playing field for competitive energy markets that seek to optimise scarce resources. For example, the first two pillars drive the need for unbundling the transmission and distribution system, combined with guaranteed, non-discriminatory and open access to those networks to all users backed by transparent rules and prices. Without such unbundling requirements and third-party access, it is very possible that the system operators, which are natural monopolies, could prohibit market entry and lead to sub-economic market outcomes.

In addition to these pillars, the Third Energy Package also seeks to enhance international co-operation within the EU by establishing an international regulatory agency (the Agency for the Co-operation of Energy Regulators, ACER) and promoting regional integration. Regulation (EC) No 714/2009 contains clauses that open and allow for further regulation to be drafted to enhance harmonisation in the form of network codes.

In 2019, the EU introduced the Clean Energy Package which supplements and in part replaces the Third Energy Package. That is, while the Clean Energy Package retains the key legislative aspects of the Third Energy Package, it expands measures for sustainability and green energy growth, as well as consumer rights and protections. Despite this, the Third Energy Package remains a good starting point for all of the WB economies as many of its key pillars have so far not been introduced or implemented in their entirety in the region. Aligning with it is also a requirement for the WB economies as members of the Energy Community, whose acquis reflects most of the Third Energy Package. Moreover, with many WB6 economies aspiring to become EU members, the transposition and implementation of the Third Energy Package and subsequent Clean Energy Package are accession requirements. To conclude, the Third Energy Package provides for the implementation of international best practice on competitive markets, and is also a firm requirement for the Western Balkan economies.

1: Directive 2009/72/EC concerning common rules for the internal market in electricity and repealing Directive 2003/54/EC; Directive 2009/73/EC concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC; Regulation (EC) No 714/2009 on conditions for access to the network for cross-border exchanges in electricity and repealing Regulation (EC) No 1228/2003; Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and repealing Regulation (EC) No 1775/2005; Regulation (EC) No 713/2009 of the European Parliament and of the Council of 13 July 2009 establishing an Agency for the Cooperation of Energy Regulators.

Legislation is complemented by a comprehensive **energy policy** that consists of a variety of strategies and action plans. However, these action plans and strategies are mostly dated and do not extend into much beyond 2020. Two new long-term strategies are being drafted and are expected to be adopted by the end of June 2021: the Energy Strategy of the Republic of Kosovo 2021-2030 and the National Energy and Climate Plan 2021-2030. The government reported as part of this assessment that more than 75% of the Energy Strategy Implementation Program 2018-2020 had been implemented.[121]

The action plans and strategies are supplemented with a strategy for liberalising the electricity wholesale and retail market. However, the OECD understands that price liberalisation and deregulation has been suspended for customers connected to 35 kV and 10 kV power lines (i.e. their price remains regulated), and that all customers (even unregulated) are still with the universal supplier, the Kosovo Electricity Supply Company (KESCO). The liberalisation and deregulation of the retail market was postponed by the regulator in July 2020, partly due to the COVID-19 pandemic, with the decision to extend the coverage of universal supplier obligations for KESCO to March 2021. Of the seven licensed supply companies, only the universal supplier, KESCO, is active. This means that although supplier switching is embedded in legislation, de facto competition is absent in the market, and customers have no choice but to be supplied by KESCO. So far, little has been done to promote competition or market liquidity.

Regarding market monitoring, it appears that extensive data and indicators are collected frequently. However, the precise nature of the indicators collected is not clear. Furthermore, most of the data are not shared with the public, or are only shared based on annual reporting by the Ministry of Economic Development and the regulator. This could be improved as part of a drive to increase transparency and promote competitive market behaviour by all participants. Strategies and action plans are evaluated on a regular basis and revised if needed. The Ministry of Economic Development revises the energy strategy every three years and designs a new strategy for the next 10 years.

Regarding the **institutional framework**, public institutions in the energy sector have specific roles and responsibilities, as detailed in Table 22.20.

### Table 22.20. Kosovo's institutional framework for energy policy

| Entity | Roles and responsibilities |
|---|---|
| Assembly of Kosovo | Monitors the regulator and chooses the regulator's board members. Approves the energy strategy and legislation. |
| Prime Minister's Office | Supports the preparation of energy policies and government approval of relevant acts. |
| Ministry of Economic Development | Drafts energy policy and legislation, and adopts certain secondary acts. |
| Ministry of Finance | Monitors subsidies and other financial aspects of government commitments to the energy market in Kosovo. |
| Ministry of Trade and Industry | Registers enterprises, including those within the energy sector. |
| Ministry of Environment and Spatial Planning | Develops environmental policies, monitors the implementation of environmental policies by energy companies, issues environmental compliance for energy companies and implements legislation on energy performance in buildings. |
| Energy Regulatory Office (ERO) | Monitors the energy market, licenses energy enterprises, adopts secondary legislation that regulates the energy market. |
| Electricity Transmission and System Operator, KOSTT | Operates the transmission system and energy market. |
| Electricity Distribution System and Supply Operator, KEDS | Operates the distribution system. |
| Kosovo Energy Corporation, KEK | Key state company that generates electricity and operates coal mines. |
| Independent Commission for Mines and Minerals | Licenses coal enterprises. |
| Kosovo Electricity Supply Company (KESCO) | Supplies electricity and acts as universal supplier until March 2021. |

Note: The owner of KEDS and KESCO is the consortium made up of Çalik Holding and Limak.

Although these entities report that they currently have adequate resources, some expressed concerns that these resources might not be sufficient to meet new challenges stemming from the deployment of the EU-style electricity market.

Kosovo's **energy regulator**, the Energy Regulatory Office (ERO), conforms with the Third Energy Package, at least theoretically regarding its autonomous position, as reflected by the 77% score assigned by the Energy Community Secretariat (Energy Community Secretariat, 2020[191]). This score was partly assigned to reflect ERO's continuous efforts to transpose new *acquis*, including the integration of network codes, regulations on wholesale energy market integrity and transparency, and nominated electricity market operator rules.

Nonetheless, there are three concerns regarding possible infringements of ERO's independence. The first issue relates to the absence of a separate account for the regulator. Currently, the regulator's financing is a line item in the government's budget and accounts and is subject to government budget limitations. While in practice this might not lead to interference with the regulator's independence, assuming no steps are taken by the government that hinder the regulator in undertaking financial transactions, it would be better to separate the account of the regulator, according to international best practice. The second issue relates to staff salaries, in particular recent public administration reforms that envisage reducing the already low salaries of ERO staff. ERO is already struggling to acquire and retain the required skilled staff, and any further reduction in salaries will see it stripped of skilled labour. The third issue relates to the selection of ERO board members. Currently, the government pre-selects candidates before presenting a list to parliament. This means that the nomination is subject to political influence and considerations. This can partly be seen in the vacant chair and two additional board positions (since December 2020), leaving the board without enough members to have a quorum (i.e. no decision can be made). While the nomination and approval of board members is a lengthy process, prevailing political circumstances in Kosovo appear to contribute to delays in the nomination and approval of board members.

**Infrastructure management** is guided by the Ten-Year Network Development Plans (TYNDP) for the transmission service operator (TSO) and distribution service operator (DSO). The TYNDP provides an overview of energy infrastructure and its future developments, and aims for system stability, security of supply, diversification of energy sources and energy efficiency. The TYNDPs are supplemented with five-year investment plans. Both plans are reviewed annually and revised if needed. Kosovo also undertakes extensive monitoring and operational planning of infrastructure, supported by an asset maintenance planning policy and asset database used to identify the state of assets and need for maintenance. Nonetheless, based on information provided as part of this assessment, this system appears to be a tool of simple design used to monitor assets in six-month cycles.

### *Sub-dimension 12.2: Security of energy supply*

Kosovo does not have a natural gas market; however, there are ongoing efforts and plans to invest in natural gas infrastructure and eventually deploy a natural gas market, thus improving **the gas supply framework**. Efforts are also underway to put in place the relevant legislative framework, as reflected by the 2016 adoption of the Law on Natural Gas.[122] The Energy Community Secretariat (Energy Community Secretariat, 2020[191]) rates transposition as high in this sector, although implementation is low given that there is no natural gas market. Kosovo is currently looking into establishing natural gas supply via Albania and North Macedonia. A pre-feasibility study for the interconnector with Albania has been completed and is underway for the interconnector with North Macedonia.

There are policies in place[123] and a comprehensive monitoring system[124] for Kosovo's **electricity supply framework**. The monitoring of energy policy implementation is undertaken quarterly by the Ministry of Economic Development as part of the reporting on the implementation of the government action plan. Every year the ministry prepares an annual report on the Energy Strategy Implementation Program. Public transparency and the frequency with which indicators are published could be improved, according to the Energy Community Secretariat (Energy Community Secretariat, 2020[191]), which noted that Kosovo has fully transposed and complies with data collection and dissemination standards, including those concerning the energy supply framework, but lacks monthly statistics. Before COVID-19 there was an attempt to fully implement monthly statistics collection and dissemination based on best practices; however, this project has been suspended due to the pandemic.

However, there are some more pressing concerns regarding the electricity supply framework. It is not clear to what extent Kosovo has transposed and implemented EU Regulation 2019/941 on risk-preparedness in the electricity sector. The regulation represents EU best practice on preparing for possible electricity emergency situations. It establishes certain requirements in terms of planning, preparing, identifying and managing such a crisis. Kosovo does have some measures in place, and it is not mandatory for it to transpose this EU regulation as part of its status as an Energy Community Contracting Party; however, it is advisable for Kosovo to check, clarify and fully transpose and implement the regulation if this has not already been done.[125]

Another concern relates to the Energy Strategy of the Republic of Kosovo 2017-2026, which contains the objective of increasing power generation from coal. More precisely, approximately 450 MW of additional coal capacity is to be built after 2023 to replace the 270 MW that will be lost when TPP Kosovo A (a coal plant) is retired in 2023, and to support generation while the remaining coal plant, TPP Kosovo B, is refurbished in 2023 and 2024. However, the construction of the first plant has encountered difficulties with the withdrawal of the contracted company. Despite no concrete decision having been taken in response, the government has not changed its policy related to expanding coal-fired power generation, and plans to establish a new coal mine. Overall, Kosovo plans to spend EUR 1.5 billion to support the expansion and retirement of coal-fired power plants. It is not clear what drives this continued reliance on coal, nor whether the greenhouse gas costs were explicitly included in the decision to rely on coal-fired power generation.

The reliance on coal-fired power generation does not mean that Kosovo does not envisage increasing **renewable energy use**. The renewable energy sector is guided by an array of legislation, regulation, strategies and action plans, including the National Renewable Energy Action Plan 2011-2020 (adopted in November 2013) and the National Action Plan on Energy Resources of the Republic of Kosovo 2011-2020, and associated progress reports. Moreover, several reports have or are being drafted on Kosovo's renewable energy, and there has been a study on the options for the least costly integration of renewable energy into the grid. Kosovo has introduced a simplified administrative procedure for renewable energy projects with the adoption in April 2018 of regulation for a one-stop shop for renewable energy sources. This effectively establishes a single point of contact for information and applications relating to renewable energy within the Department of Energy at the Ministry of Economic Development. Furthermore, an extensive monitoring scheme is in place, associated with active policy revision if needed.

In line with international practices, self-consumption (prosumers[126]) is recognised by legislation, and connection and priority dispatching are guaranteed, although the associated costs are not published, which reduces transparency. Overall, Kosovo is on track to achieve the 2020 target that 25% of gross final energy consumption, and 45.6% of heating and cooling, will be from renewable sources.

Regarding transport, Kosovo is unlikely to achieve the 2020 target of 10% renewable energy in transport energy consumption, as set out in National Renewable Energy Action Plan 2011-2020. One aspect hampering the growth of renewable energy in transport is deficiencies in the support scheme for promoting renewable energy in transport, in particular the support schemes and sustainability criteria for biofuels and bioliquids. Moreover, Kosovo has not transposed any aspect of the EU Directive on the Promotion of the Use of Energy from Renewable Sources. This directive establishes the foundation of renewable energy within the transport sector, including targets, as well as the framework for increasing renewable energy.

There are several issues and concerns relating to renewable energy use in Kosovo. First and foremost is the current approach to supporting renewable energy. Kosovo should consider, in line with latest international good practices, moving away from a feed-in-tariff support scheme to a feed-in-premium or contract-for-difference scheme, at least for bigger projects (Box 22.12). The second issue relates to the lack of competitive assignment of new renewable energy source (RES) projects. However, the government does plan to adjust the support scheme soon and execute its first RES auction.[127]

Much like renewable energy, Kosovo's **energy efficiency** sector is guided by an array of legislation, regulation, strategies and actions plans.[128] The legislative framework establishes the approach to, and the requirement for, the energy efficiency certification of newly constructed buildings or buildings undergoing major reconstruction, as well as the minimum energy performance of buildings. Moreover, the legislative framework is in place for the concept of near zero energy buildings, and Kosovo expects to undertake several pilot projects in 2020. The sector has clearly established entities with specific roles and is guided by a dedicated energy efficiency agency, the Kosovo Agency for Energy Efficiency (KAEE), and an operational energy efficiency fund, the Energy Efficiency Fund (FKEE).

### Box 22.12. A new approach to subsidising renewable energy

Feed-in tariffs were the dominant form of financial support for renewables within the EU at the beginning of the 21st century. In this system, power plant operators receive a fixed payment for each unit of electricity generated, independent of the electricity market price (Banja et al., 2017[193]).

Feed-in tariff schemes offer several advantages, but mainly they insulate new market entrants from market price risks, which lowers their capital costs and enables private investment. The simplicity of feed-in-tariffs makes them suitable for markets with a large number of non-commercial participants such as households or local community-based initiatives (European Commission, 2013[194]).

However, feed-in tariff schemes exclude producers from actively participating in the market, which hinders efforts to develop large, flexible and liquid electricity markets as the share of renewable energy grows. This limits growth to certain technologies and sizes of installations, and creates difficulties in setting and adjusting appropriate tariff levels (European Commission, 2013[194]), which is a particular problem as costs of renewable generators have fallen rapidly in recent years.

The European Commission suggests switching from feed-in tariff to feed-in premium schemes (European Commission, 2013[194]). In these, plant operators sell the electricity generated directly on the electricity market and earn an additional payment on top of the electricity market price. This is received as a fixed payment or one adapted to changing market prices, thereby limiting price risks for plant operators, as well as the risks of providing windfall profits (Banja et al., 2017[193]). Feed-in premium schemes are beneficial because they force renewable energy producers to find a seller on the market. They also ensure that renewable energy operators are exposed to market signals. A well-designed premium scheme can limit costs and drive innovation by using a competitive process to allocate support. Such schemes also include automatic and predictable adjustments to cost calculations, which give investors the information and confidence necessary to invest (European Commission, 2013[194]).

The European Commission (2013[194]) suggests using a feed-in premium scheme in combination with the following good practice recommendations:

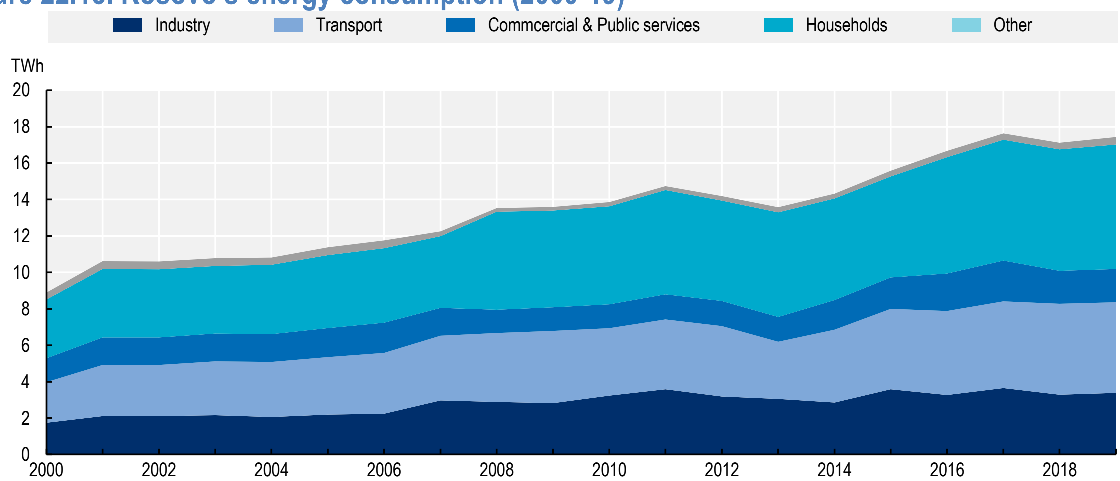
- Do not pay premiums for production in hours where the system price is negative or above the level of remuneration deemed necessary.
- Assign renewable projects and associated premiums using competitive allocation mechanisms such as auctions.
- Make planned volume-based premium reductions for new installations dependent on when they are approved, connected or commissioned.
- Conduct regular, planned and inclusive reviews of premiums for new installations.

The Council of European Energy Regulators (2018[195]), reports that in 2016/17, some 17 of the 27 EU Member States still used some form of feed-in tariff (although mainly for small projects), while around 16 used feed-in premiums, including to complement feed-in tariffs.

For more information on the different renewable support schemes employed across Europe please see http://www.res-legal.eu/home/ and for an overview of auctions and outcomes (including databases on auctions) see http://aures2project.eu/.

Source: (Banja et al., 2017[193]), *Renewables in the EU: an overview of support schemes and measures*, http://dx.doi.org/10.2760/521847; (CEER, 2018[195]), *Status Review of Renewable Support Schemes in Europe for 2016 and 2017*, https://www.ceer.eu/documents/104400/-/-/80ff3127-8328-52c3-4d01-0acbdb2d3bed; (European Commission, 2013[194]), *European Commission guidance for the design of renewable support schemes*, https://ec.europa.eu/energy/sites/ener/files/com_2013_public_intervention_swd04_en.pdf; (European Commission, 2014[196]), *Communication from the Commission – Guidelines on State aid for environmental protection and energy 2014-2020*, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52014XC0628%2801%29.

## Figure 22.13. Kosovo's energy consumption (2000-19)




Source: (Eurostat, 2020[199]), *Complete Energy Balance*, https://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=nrg_bal_cv&lang=en.

StatLink https://doi.org/10.1787/888934255760

The energy efficiency sector in Kosovo is facing several issues. First and foremost, a variety of secondary legislation still needs to be adopted, particularly regarding energy product labelling, where Kosovo has only implemented 3 out of 12 regulations and is therefore far from implementing best practices and standards. Data and indicator collection and publication also need to be improved. The sector's public entities are understaffed and in urgent need of additional human resources. Furthermore, the energy efficiency fund is mainly active with regard to public buildings, and limited financial support is available for private investment. There is currently no dedicated energy efficiency strategy for the industrial sector, with industry accounting for around 20% of final energy consumption.

### *Sub-dimension 12.3: Energy markets*

Although Kosovo is working towards deploying an operational organised **energy market** according to international standards and best practices, it is still far from achieving this goal. Kosovo currently has deregulated the (bilateral) wholesale market, using auctions to connect generators and public service providers. However, the liberalisation and deregulation of the retail market has been postponed, partly due to the COVID-19 pandemic, with the decision to extend KESCO's universal supplier obligation until March 2021.

Regarding the deployment of an organised wholesale market, KOSTT has signed a shareholder agreement with the transmission system operator of Albania to jointly establish a power exchange company called ALPEX. The company was established and registered in October 2020, and the agreement foresees that ALPEX will establish a branch in Kosovo and operate two separate bidding zones

(Albania and Kosovo) that will eventually be coupled. ALPEX is supported by the United States Agency for International Development (USAID) and the International Financial Corporation, which are helping Kosovo develop the necessary agreements, procedures and codes for operation, etc.

Kosovo's most significant progress since the last Competitiveness Outlook regards **unbundling and third-party access**. Both the TSO, whose ownership was unbundled, and the DSO which was fully unbundled, are unbundled and separate from generation and supply activity, and are thus in line with EU directives. Relevant compliance programmes and officers are in place. Non-discriminatory third-party access is established and guaranteed by legislation.[129] Nonetheless, there are two outstanding issues. The first regards the apparent separate branding of companies KEDS and KESCO.[130] The second issue relates to whether the regulator has adopted and published non-discriminatory rules for the connection of direct lines. These rules are mandated by the law and are part of a non-discriminatory third-party access regime. However, the regulator's website does not list this rule as being adopted.

With regard to **regional integration,** as of 14 December 2020 KOSTT began operation as a "Control Area"[131] within the Albania-Kosovo Control Block (Control Block AK).[132]

Following the entry into force of the Connection Agreement with ENTSO-E (the European Network of Transmission System Operators for Electricity), the allocation of cross-border capacities for the borders with Albania, Montenegro and North Macedonia is performed by SEE CAO (the Coordinated Auction Office in South East Europe), with the first auction having taken place at the end of 2020. The allocation of capacities with Serbia is still outstanding, subject to finalising and signing the agreement between the Electro-Power Industry of Serbia (EPS) and KOSTT for capacity calculation and allocating.

Based on the recommendation of the Energy Community Regulatory Board, ERO has adopted the rules for setting the procedure to designate the Nominated Electricity Market Operator (NEMO), in line with EU regulation on capacity allocation and congestion management. Once designated, the NEMO should accommodate international trade flows and the optimised use of interconnector capacity. Expectations are that the NEMO will be up and running towards the end of 2021.

#### *Cross-cutting sub-dimension: Energy incentives – direct and indirect subsidies in the energy sector*

There appears to be significant direct and indirect subsidisation in Kosovo. There are four forms of subsidies that need to be tackled:

1. Deviations in the payment conditions for public entities vs. domestic standards.
2. The blanket use of universal suppliers to supply all consumers, including all households and small consumers, with regulated prices. This stifles competition and possibly leads to price formation being significantly different to a competitive market. The regulator should investigate and recommend options to promote supplier competition and encourage consumer switching to a non-price regulated supplier.
3. The price regulation for thermal energy. While there is an appreciation that there is limited competition in the market, the continued blanket use of regulated prices can potentially lead to long-run deviation from competitive market equilibrium and prohibit new market entries.
4. The requirement for renewable generators to only pay 25% of their imbalance cost. This encourages renewable generators to forgo good forecasting practices to the extent where imbalances become greater. The resulting increased imbalances is a security of supply risk and an avoidable extra cost carried by consumers in a non-transparent manner.

### *The way forward for energy policy*

Although Kosovo has made significant progress since the last Competitiveness Outlook, there remain some key areas that need to be tackled:

- **Ensure additional human resources**. These are needed in a variety of areas, including for energy efficiency and for the regulator's activities throughout its areas of operation.
- **Draft and implement policies to promote competition and liquidity within energy markets**. Part of the solution will also be reinitiating **market liberalisation and deregulation**. These two areas should support the market in achieving a competitive market equilibrium.
- **Improve market monitoring and transparency**. Extending the collection of data and its publication, including frequency, will allow all stakeholders, including policy makers, to take more informed decisions and will support increased competition. Kosovo needs to collect and disseminate comprehensive monthly data to allow a closer to real-time analysis of the market and contribute to identifying issues. This is one of remaining aspects that needs to be finalised with regard to implementing the Third Energy Package data collection elements.
- **Design and implement a decarbonisation strategy and phase out coal**. These measures should support the development of a sustainable electricity sector in line with EU good practice. The strategy should also include or be supplemented by the introduction of a **greenhouse gas pricing mechanism** that eventually transforms into a **greenhouse gas certificate market/trading scheme** (Box 22.13). Together, these activities should support efforts to achieve a sustainable and climate-resilient energy market that is efficiently decarbonised in a competitive and efficient manner using economic market forces.
- **Improve the approach to renewable energy project assignment and support** to encourage renewable growth, and improve the **deployment of energy efficiency** measures to limit demand growth and volatility. Both actions will support the decarbonisation of the energy sector while easing the economic impact of possible greenhouse gas pricing, and should in the medium to long run create economic downward pressure on electricity prices.[133]
- **Improve regional integration**. The size of the electricity market in Kosovo does not lend itself to many generators with generation portfolios that benefit from economies of scale. To fully harness the benefits of a competitive market Kosovo needs to pursue regional integration, as trade will enhance the competitive forces at play in Kosovo and increase the liquidity of its energy market. There are additional benefits to regional integration and market coupling, including price stability due to shared demand and supply (Baker, Hogan and Kolokathis, 2018[200]; Booz&Co, 2013[201]; Böckers, Haucap and Heimeshoff, 2013[202]).
- **Finalise the transposition and implementation of the EU's Third Energy Package** to complete the implementation of international good practice and fully align local legislation for the governance of the energy sector with the EU *acquis* (Box 22.11).

#### Box 22.13. Greenhouse gas pricing in North Macedonia

North Macedonia does not have a current greenhouse gas pricing mechanism. However, its Energy Development Strategy foresees the "introduction of carbon price and its convergence to the Emission Trade Scheme (ETS) level" (Government of North Macedonia, 2019, p. 60[197]). North Macedonia plans to introduce greenhouse gas pricing via a progressive introduction that starts with the direct taxation of $CO_2$ emissions followed by the introduction of requirements equivalent to joining the EU Emission Trade Scheme (EU ETS). Although North Macedonia cannot participate in the EU ETS at this stage it plans to undertake certain preparatory steps, including mapping installations that fall under the EU ETS and defining the scheme's scope, arranging the allocation of allowances through a designating authority and defining procedures, and designing auction platforms with built-in safeguard arrangements. Furthermore, emissions monitoring, reporting and verification should be addressed both within the scope of deploying the tax and prior to joining the EU ETS.

Source: (Government of North Macedonia, 2019[197]), *Strategy for Energy Development of the Republic of North Macedonia until 2040*, http://economy.gov.mk/Upload/Documents/Adopted%20Energy%20Development%20Strategy_EN.pdf; (Macedonian Academy of Science and Arts, 2020[198]), *Climate Change Mitigation in Third Biennial Update Report on Climate Change of the Republic of North Macedonia*, https://klimatskipromeni.mk/data/rest/file/download/64d2a5b8a5db3bcaa3ce23194512060f9a6a8072c504c31dc7f8396d6b8e3291.pdf.

## Environment policy (Dimension 13)

### *Introduction*

Kosovo has slightly improved its performance in the environmental policy dimension since the 2018 Competitiveness Outlook, from 1.8 in the last cycle to 2.1 in the 2021 assessment (Figure 22.1). Progress has been made on enhancing the frameworks for climate change mitigation and adaptation and air quality. Kosovo's score in the environment policy dimension matches the regional average of 2.1, and ranks fourth out of the six Western Balkan economies (Table 22.21).

### Table 22.21. Kosovo's scores for environment policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Environment policy dimension** | Sub-dimension 13.1: Resource productivity | 1.8 | 2.0 |
| | Sub-dimension 13.2: Natural asset base | 2.2 | 2.1 |
| | Sub-dimension 13.3: Environmental quality of life | 2.2 | 2.3 |
| **Kosovo's overall score** | | **2.1** | **2.1** |

### *State of play and key developments*

#### *Sub-dimension 13.1: Resource productivity*

Although no major changes have occurred to the legislative framework for **climate change mitigation and adaptation** since the last CO assessment, there have been some positive developments to the policy framework – most notably the adoption of the Climate Change Strategy[134] (2019-2028) and related action plan. The main objectives of the strategy concern both climate change mitigation and adaptation, as well as building the capacity of central and local partners, actors and stakeholders to integrate climate change issues into development processes and documents (Box 22.14). However, this strategy is not aligned with other strategic documents. As part of activities under the new strategy, the government was developing a Concept Document for Climate Change at the time of drafting. This document aims to set the scene for drafting the Climate Change Law, which should further align the legislative framework with the EU *acquis*. Implementation of the strategy started in 2020 and is running to plan; however, monitoring, which was planned to be conducted twice a year, had not been undertaken at the time of drafting.

Key institutions in this field are the Ministry of Economy and Environment (MEE) and its body, the Kosovo Environmental Protection Agency (KEPA), as well as the Ministry of Agriculture, Forestry and Rural Development (MAFRD). These organisations all lack qualified staff and are in need of continuous capacity building sessions, envisaged as a key measure under the new Climate Change Strategy. Horizontal co-ordination happens through the Council on Climate Change, which includes all relevant institutions. Inter-institutional co-operation is strong, with all parties constantly co-ordinating and fulfilling their obligations defined by the legislation for reporting to KEPA. They are also active participants in drafting legislation and strategic documents.

### Box 22.14. Kosovo's Climate Change Strategy

The Climate Change Strategy of Kosovo (2019-2028), and related action plan, were adopted in February 2019. The strategy covers both climate change mitigation and adaptation actions and objectives. As the power sector accounts for around 75% of total greenhouse gas (GHG) emissions in Kosovo, followed by road transport with 12%, mitigation objectives aim to reduce GHG emissions in mainly the energy and transport sectors, as well as in the forestry and industry sectors. In this context, concrete activities are listed in the Energy and Climate Plan (2021-2030), which was being developed at the time of drafting and which should determine GHG emission reduction targets.

Regarding climate change adaptation, the major climate-related risks identified concern: 1) rising intensity and frequency of precipitation extremes such as heavy rain events, and more severe droughts; 2) flash floods in mountain areas, and river floods in plains and lowlands; 3) increased temperatures leading to heatwaves and forest fires, more uncertain rainfall, and reduced runoff, combined with socio-economic developments and increased pressure on limited water resources; 4) ecosystem degradation and reduction of ecosystem services; and 5) increasing and new forms of pollution and water-related diseases. Adaptation measures envisaged in the new strategy mainly relate to landscape restoration and reforestation actions, and the creation of more secure facility locations and infrastructure. Reforestation of 140 km of riverbanks, or 28% of the length of rivers flooded (491 km of rivers are at risk of flooding), as a flood prevention measure should be implemented in the period 2019-21.

Source: (KEPA, 2018[203]), *Annual Report of the State of the Environment in Kosovo in 2017*, https://www.ammk-rks.net/repository/docs/Raporti_M_2017_english.pdf; (Government of Kosovo, 2018[204]), *Climate Change Strategy 2019-2028 and Action Plan on Climate Change 2019-2021*, https://gzk.rks-gov.net/ActDocumentDetail.aspx?ActID=29356.

Minimal changes have been noted in relation to developing a **circular economy framework** in Kosovo since the last assessment. The topic is indirectly covered under the new Integrated Waste Management Strategy (2020-2029) and Action Plan (2020-2022), which 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 re-use and recycle systems based on extended producer responsibility schemes.

The recycling rate of municipal waste in Kosovo is quite low, at around 5% (Eurostat, 2018[205]). However, according to relevant authorities, the recycling industry is currently gaining momentum in Kosovo as the private sector takes advantage of a lucrative opportunity for exporting secondary material within the region and to several EU Member States. At the time of drafting, Kosovo was in the second phase of development of its deposit refund system,[135] expected to be completed by 2022. There were also some educational awareness-raising activities on waste management organised in schools during 2018, as well as a project on reducing bio-waste through composting organised for several thousand households in the municipalities of Prizren and Fushe Kosove/Kosovo Polje. However, these activities are conducted on a rather ad hoc basis.

**Municipal waste management** in Kosovo has seen some developments since the last assessment, but is still generally weak. Although the municipal waste generation per capita of 227 kg is much lower than in the EU (492 kg per capita in 2018), and the lowest in the Western Balkans, its collection is somewhat problematic as it covers only 57.7% of the population, with significant discrepancies noted between urban and rural areas (Eurostat, 2018[205]; KEPA, 2018[203]). Furthermore, most landfill sites do not comply with sanitary standards, and waste is largely disposed of untreated. The illegal dumping of waste is a normal practice in Kosovo, especially construction and demolition waste, mostly due to the lack of dedicated landfill sites for this kind of waste. Despite efforts to close down illegal dumpsites, they continued to proliferate (from 1 572 in 2017 to 2 529 in 2019) and represent a serious public health risk, in particular due to hazardous waste and groundwater contamination (European Commission, 2020[39]).

No major changes in the legislative framework have been recorded since 2017. The new Integrated Waste Management Strategy (IWMS) (2020-2029), which continues the Waste Management Strategy (WMS) (2013-2022), has been developed but had not been adopted at the time of drafting due to delays. The government has not produced any reports on the implementation of the WMS, thus there is no information on whether its targets have been reached. Several projects in this area have been implemented that aimed to clean up illegal landfill sites and decrease their number, increase the waste service coverage and improve the waste collection rate, and provide supply equipment for waste collection.[136] However, most of the measures from the WMS were just rolled over to the new IWMS.

Most municipalities in Kosovo (34 out of 38) have drafted their municipal solid waste management plans, in line with their mandate; however, the WMS is only partly reflected in local planning documents (European Commission, 2020[39]). Municipalities implement and continuously review the objectives deriving from the plans, but there is no appropriate monitoring, except for the obligatory annual reports that municipalities submit to KEPA.

According to the Law on Waste (2004), municipalities in Kosovo are obliged to organise a system of waste separation at source by developing appropriate infrastructure. However, limited efforts have been undertaken in this regard. The primary separation of waste has been introduced in several municipalities to pilot separation at source.[137] These pilots aim to raise awareness and ensure the full participation of citizens and businesses, enhance the implementation capacities of municipalities (and scale up across the territory from 2021), as well as provide a sustainable operator for the collection of recyclables and ensure the financial sustainability of the system. These pilots take into consideration the integration of informal waste collectors from vulnerable groups. Kosovo is also currently piloting three systems in various municipalities to tackle organic waste (e.g. in Pristina).

Similar to other WB economies, waste collection and treatment infrastructure in Kosovo is financed through budget and donor funds, while waste collection and treatment services are funded from waste collection fees. Although waste collection tariffs have not changed since the last CO assessment, most municipalities in Kosovo have undergone the process of cost recalculation, client profiling and tariff setting for waste management services, as required in the Law on Waste, to introduce new waste collection tariffs.

Actions to combat the illegal dumping of waste have been undertaken. In particular, the government is implementing the Performance Grant–Clean Environment Race (2017-2021) project[138] that aims to decrease the number of illegal landfill sites. According to the project, municipalities that show good performance in waste management (e.g. improved collection rate or increased service coverage) win financial grants to be used for the sustainable removal and rehabilitation of illegal landfill sites, and further improvements of the waste management system. An additional measure to combat illegally dumped waste involves improving data collection by requiring municipalities to register illegal landfill sites (using applications for GPS co-ordinates) and report them to KEPA through the annual report. The MEE has also revised the Administrative Instructions on Mandatory Fines, which stipulates strict fines for littering, burning and the illegal dumping of waste.

### *Sub-dimension 13.2: Natural asset base*

Water resources in Kosovo are relatively scarce and unevenly distributed (among the five main river basins). By regional comparison, the levels of rainfall and renewable resources per person are much lower (estimated at about 1 600 $m^3$ total renewable water resources per person, which is the lowest in the Western Balkans), water resources are highly polluted, and the levels of water storage are among the lowest in the Western Balkans (World Bank, 2018[24]; 2020[206]). Households are major users of water (52%), followed by agriculture (41%) and industry (8%) (Government of Kosovo, 2017[207]). The gap between growing water demand and available quantities of good quality water has been widening in recent years leading to water shortages and interruptions in water supply and irrigation services (World Bank, 2020[206]). The already precarious situation with water resources might be further aggravated if the normalisation of political relations with Serbia regarding the management of water resources does not occur, especially given the disputes over water resources in the northern part of Kosovo,[139] which supplies around one-third of the population.

**The freshwater management framework** is only partially developed in Kosovo, and no major changes in legislative and policy framework have been noted since the last CO assessment. The provisions of the Law on Water (2004) apply to all surface and groundwater, the prevention of pollution at source, emissions control and water quality standards, as well as prevention and protection against flood risks. The mapping of hazard and risk of floods has not yet started yet, although it is being planned. The planning and management of hydropower plants do not conform with relevant EU legislation, and there have been many cases in which licences for hydropower plants (HPPs) were given before an environmental impact assessment (EIA) report was issued, or before taking into consideration the results of the EIA. Current practice in Kosovo shows that several of the built or planned HPPs are in nature reserves, which has a severe impact on biodiversity as well as water resources (CEE Bankwatch Network, 2019[208]). There is a system for the prior regulation and/or specific authorisation for water extraction from groundwater and/or surface waters, but a river basin management system has not been developed yet, nor has the river basin district authority become operational. Co-operation with neighbouring economies in this regard has been established, especially with those in the White Drini Basin.

The implementation of the Water Strategy for Kosovo (2017-2036) has been rather limited. The main area of progress is the establishment of several drinking water reservoir dams to improve drinking water supply. However their safety and management remain inadequate, especially given the water stress resulting from climate change (European Commission, 2020[39]). No implementation reports have been produced and no monitoring or evaluation mechanisms set. The strategy is not aligned with the sectoral strategies (agricultural or irrigation strategy).

Data and projections on water demand from agriculture, industry (including energy) and households are not available, and thus do not guide decisions about handling competing uses now and in the future. The government was working on introducing a water pollution cadastre at the time of drafting. Activities to establish a water information system, initially planned for 2020, have not begun. Some data on water risk management are collected, such as on historical water disasters and vulnerability/exposure to risks.

Kosovo hosts rich **biodiversity**, especially its flora, which is largely endemic. However, its ecosystems are threatened by illegal construction, illegal tree logging, hunting, the mushrooming of hydropower plants in protected areas and forest fires (KEPA, 2018[204]). **Forests** make up a large share of total land area of Kosovo (around 45% in 2018), which is around the WB average of 42%[140] (World Bank, 2020[210]).

There have been no major changes in the legislative framework targeting biodiversity and forest management since the last CO assessment. Regarding the policy framework, both the Strategy for the Development of the Forestry Sector (2011-2020) and the Strategy for Biodiversity (2011-2020) have been revised, and the MEE is preparing the updated Strategy for Biodiversity until 2030, which will be adopted as part of a wider Strategy of Environment Protection and Sustainable Development 2021-2030. The preparations of the new Forestry Strategy (2021-2030) started in September 2020, and its adoption is planned for the first trimester of 2021. Although no implementation reports have been produced, certain activities under the Strategy for Biodiversity have been realised, such as harmonising and strengthening the legislation for nature protection in line with the EU *acquis*; building capacity of competent bodies for implementing and enforcing measures and actions on biodiversity conservation; increasing the area of protected areas to 11.5% of the terrestrial territory (although very little progress has been noted since 2017); adopting a Red Book of Fauna in Kosovo in 2019 (Ministry of Environment and Spatial Planning, 2019[211]); and developing and implementing projects for increasing awareness of the importance of nature and preservation of biodiversity. Kosovo became a member of the International Union for Conservation of Nature (IUCN) in 2019.

Information on biodiversity, including the conservation status of threatened species and habitats, is collected by the Kosovo Institute of Nature Protection (KINP), whereas the MEE and its Department for Environmental Protection and Waters is the main body responsible for biodiversity. The Department for Forestry under the MAFRD is responsible for forest management. The human and financial resources of both bodies are not adequate to execute their main responsibilities.

The Strategy for the Development of the Forestry Sector includes forest fire prevention measures; however, according to the government the effectiveness of these measures remains limited. The latest economy-wide forest inventory system was created in 2012, but there is no economy-wide forest programme. Although the systematic monitoring of the condition of forests is not undertaken in Kosovo, it is conducted somewhat indirectly through the monitoring of climate change adaptation and mitigation actions. Illegal tree logging is mostly treated under the Law on Forests, with penalties of up to EUR 25 000. However, sanctions are rarely enforced due to lack of staff, as competences lie at the local level where there are only a few inspectors. There is also little readiness from legal institutions to impose sanctions.

**The land-use legal and policy framework** remains underdeveloped in Kosovo, and no major changes have been recorded since the last CO assessment, with the exception of several amendments to the laws that regulate this area. The main strategic document, the Land Consolidation Strategy (2010-2020), was being revised at the time of drafting, along with the updated Agricultural Land Consolidation concept document. However, implementation of the strategy remains largely limited. The main activity realised in this area relates to the ongoing (to be finalised by the end of 2021) agricultural land consolidation in 21 cadastral zones and 10 municipalities through the Strengthening Spatial Planning and Land Management (SSPLM) Project. This project aims to provide technical assistance for the preparation of municipal land development plans, including rural spatial plans and the drafting of municipal zonal maps to protect agricultural land from ad hoc and illegal construction. However, policy making and implementation are not supported by any indicators related to land-use management.

Numerous bodies are responsible for land-use management in Kosovo (MAFRD, MEE, Ministry of Finance and MTI). Reportedly, these bodies all have qualified staff and financial resources. Horizontal institutional co-operation seem to be functioning well through the inter-ministerial committee that meets twice a year, but vertical co-ordination appears non-existent. Limited capacity building and training courses have been conducted for responsible bodies, but the measures envisaged under the SSPLM project will address this issue.

### *Sub-dimension 13.3: Environmental quality of life*

Poor **air quality** in Kosovo represents one of the major threats to health. This becomes an even greater concern in the context of COVID-19 given that exposure to ambient and indoor air pollution increases the risk of cardiovascular, respiratory and developmental diseases, as well as premature death, thus making individuals even more vulnerable to the virus (OECD, 2020[212]). Kosovo has one of the highest concentrations of air pollution in Europe, with annual mean exposure to particulate matter ($PM_{2.5}$) of 27 micrograms per cubic metre (μg/m$^3$), which is almost three times higher than the WHO recommended highest levels (10 μg/m$^3$), and higher than the average values of the WB region (25.77 μg/m$^3$), the EU (13.1 μg/m$^3$) and the OECD (12.5 μg/m$^3$) (World Bank, 2020[210]; OECD, 2020[213]). Urgent action is needed on uncontrolled pollution, notably from outdated thermal power plants (coal and lignite combustion at existing power stations[141]), household heating (using coal as a low-cost source of energy), traffic, industrial emissions and the incineration of waste and other toxic materials (European Commission, 2020[39]).

No major changes in the legislative and policy framework have been recorded since the last CO assessment. In 2018, the government adopted the Action Plan for Air Quality (2018-2020) as part of the Strategy on Air Quality (2013-2022), which represents a major strategic document in this area and includes measures on air quality in the household, energy, industry and transport sectors. However, authorities have failed to implement these measures. Kosovo's government signed an agreement with the London-listed power generation company ContourGlobal in December 2017 to start the construction of the 500 MW "Kosova e Re" coal-fired power plant, aimed at replacing the 40-year-old Kosovo A plant. However, in 2020 ContourGlobal withdrew from the project and cancelled construction. In addition, the 2018 ban on the use of coal for heating in public buildings to reduce heavy air pollution has not proven effective so far.[142] In particular, most public schools could not comply with the ban as it was not accompanied by any financial support to facilitate the transition from coal to alternative energy sources, mainly due to budgetary constraints and weak overall planning and management.

A new action plan for air quality was being developed at the time of writing through activities as part of the Capacity Building for Air Pollution Control (2017-2020) project and the Environmental Data (2018-2021) project. These projects involve identifying air pollution sources, preparing an air emissions inventory (one central air quality portal was being developed at time of drafting), modelling pollutant distribution, and setting air pollution control measures. The results of these activities will also be useful when developing local air quality plans, envisaged for the 2020-2025 period, which are urgently needed, especially in zones where pollutant levels regularly exceed limits.

The Supply of Project Management, Air Quality Information Management, Behavioural Change and Communication Services (2019-2021) project[143] aims to support the Kosovo Hydro-Meteorological Institute (KHMI) in air quality monitoring and introduce an information management system, as well as collect and disseminate information on air quality. Through this project a significant increase in technical and human capacities for air quality monitoring and information management system is expected.

Air pollution monitoring consists of self-reporting by industries through the Pollutant Release and Transfer Register. However, at least twice a year the Environmental Inspectorate, in co-operation with the KHMI, measures emissions from the industrial sector. Limit values for the main atmospheric pollutants are determined by Administrative Instruction No. 02/2011 on Air Quality Assessment, transposed from Directive 2008/50 EC for Air Clean in Europe. Some of the indicators/polluters, such as PM, ozone ($O_3$), $NO_2$ and sulphur dioxide ($SO_2$), are aligned with WHO guidelines for the daily average, while annual average limits are higher than the WHO standards. When the alarm threshold is exceeded, there are clear administrative mechanisms established and immediate action is undertaken – normally within three days. Information on air quality is made available promptly, and the public has access to real-time data and information on air quality from 12 monitoring stations[144] through the webpage of the KHMI and via a smart phone application called "Kosovo Air Quality".

Most of Kosovo's population has access to safe **water and sanitation** services (92% have access to a piped water within their dwelling). Although 72.5% of the population have access to sanitation services, 11.6% have only partial coverage and 15.9% have no sewers. Only 1% of the population is connected to wastewater treatment systems, and almost all water is discharged untreated into rivers (World Bank, 2018[24]). However, this percentage might increase soon as three new urban wastewater treatment plants were being constructed in high-density urban locations at the time of drafting.

Since the last assessment, the policy framework has been complemented with the new Strategic Plan for Regional Water Companies (RWC) (2018-2022) that aims to apply and advance the legislation, improve the performance of RWCs, enhance service standards, and ensure RWC financial sustainability. A key priority in addressing water security issues for RWCs is to reduce their non-revenue water,[145] which currently stands at 58% (World Bank, 2018[24]). Implementation is on track, with regular annual implementation reports that underline the achievements of tariff targets. The latest assessment of this strategic plan found that clear progress had been made in reaching service standards and the financial sustainability of the RWCs, but a major challenge remained regarding the high level of water losses, although certain measures to decrease water losses in the system were introduced. The strategic plan set an annual target of a 2% reduction in water losses by RWCs (a total of 10% at the end of the implementation period in 2022), and RWCs are not allowed to change the level of water tariffs if this target is not achieved.

Current water tariffs cover operational and maintenance costs, as well as part of capital investments, whereas the main sources of funds in infrastructure come from the donor community. Water services are considered affordable for the majority of citizens,[146] except for the poorest households,[147] who are left without any targeted assistance in this regard.

There have been no major changes in the **industrial waste management** legislative and policy framework since the last assessment. Industrial waste, with the exception of waste from the extractive industry, will be part of the Integrated Waste Management Strategy (2020-2029). The chemicals register is currently being developed, and labelling rules for chemicals have already been set. The Pollutant Release and Transfer Register system is not functional.

The Seveso-III directive (Directive 2012/18/EU) regarding managing and controlling industrial risks and accidents has been fully transposed. There are no hazardous waste disposal facilities, although the government planned to start constructing a central disposal facility for hazardous waste[148] in 2018 in the municipality of Fushe Kosove, and organised several rounds of consultations with citizens. However, an agreement to build the facility was not reached. The funds for this project are secured by the European Commission but have not yet been used as the alternative location has not yet been found.

There is no policy or legislative basis for soil protection, but there have been some developments regarding the identification of contaminated areas. During 2018-19, KEPA produced a report on Kosovo hotspots that identified over 100 contaminated and hazardous sites for human health and the environment. This led to a World Bank financed project called Green Land[149] (2020-25), which aims to clean up contaminated areas. Three polluted areas are prioritised to be cleaned and the land rehabilitated. The project also aims to support the government in developing and implementing a long-term action plan for contaminated land remediation and redevelopment in Kosovo. This should contribute to the improvement of contaminated land management to reduce associated health risks and realise economic, environmental and social values from land redevelopment, such as the creation of urban green spaces, commercial development and renewable energy production. No soil monitoring system has yet been put in place.

### *The way forward for environment policy*

Despite some positive developments recorded since the last assessment cycle, further improvements are needed in a number of areas, mostly related to implementation. Going forward, special attention should be paid to the following:

- **Advance waste management by enforcing measures to separate and reduce waste, and increase recycling and recovery in line with circular economy principles**. Although some actions in this regard have already been planned and undertaken in the WMS, implementation has remained limited as most actions were simply rolled over to the new IWMS. The government needs to step up its enforcement efforts, and stronger co-operation with local governments will be essential. At the municipal level, incentives for the separation of municipal waste at source, i.e. before it is collected and recycled or converted to energy, should be offered (e.g. rewarding households for sorting waste, decreasing utility bills) together with regular awareness-raising activities on waste prevention and recycling (through brochures, information campaigns).
- **Improve air quality by decreasing dependence on fossil fuels in the energy mix, improving household heating systems and reducing emissions from the transportation sector**. Kosovo has one of the highest concentrations of air pollution in Europe due to power generation from polluting sources (coal and lignite), household heating, and an inefficient transport system and ageing vehicle fleet. Kosovo should undertake the following activities regarding energy, heating and transportation:

- **Energy**: phase out subsidies to coal (in the period 2015-17, more subsidies were paid for coal than renewable energy) and start supporting efforts to develop the natural gas market – see Energy policy (Dimension 12). Moreover, Kosovo should start implementing renewable support schemes that are fully aligned with the EC's Guidelines on state aid for environmental protection and energy 2014-2020 (CEE Bankwatch Network, 2019[208]). Shutting down the old Kosovo A Power Plant and installing the best-known contemporary filters at the Kosovo B Power Plant is highly recommended. In relation to renewables, priority should be given to using solar and wind energy over hydropower to address the current support imbalance and negative practices that have led to harming biodiversity.
- **Heating**: A large share of pollution is linked to poor socio-economic conditions, with most citizens using coal for heating because it is considered a low-cost source of energy. Subsidies could be considered for other forms of heating, such as solar space heating. Measures that ban the use of coal for heating in public buildings have not been effective – therefore, improved enforcement and financial support are needed through enhanced vertical co-ordination between different government levels.
- **Transportation**: Recommended measures include low-emitting buses, and ecological vehicle taxes that differentiate by age and level of $CO_2$ emissions to influence private vehicle purchasing and renewal decisions (World Bank, 2019[214]). Regarding vehicle tax an example from France may be useful for Kosovo. In 2008, France introduced the "feebate" system for new cars, which imposes a fee on vehicles with high $CO_2$ emissions or fuel consumption (i.e. those exceeding a certain threshold) and provides a rebate to vehicles with low $CO_2$ emissions or fuel consumption (those below this threshold) (Manea et al., 2019[215]).

## Agriculture policy (Dimension 14)

### *Introduction*

Kosovo has slightly improved its performance in the agriculture dimension since the last Competitiveness Outlook, with its score increasing from 2.0 in 2018 to 2.4 in 2021 (Figure 22.1). Most progress has been made in terms of agro-food capacity. However, Kosovo still scores low in comparison to other Western Balkan economies (Table 22.22).

#### Table 22.22. Kosovo's scores for agriculture policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Agriculture policy dimension** | Sub-dimension 14.1: Agro-food system capacity | 2.9 | 2.8 |
| | Sub-dimension 14.2: Agro-food system regulation | 2.3 | 2.9 |
| | Sub-dimension 14.3: Agriculture support system | 2.1 | 2.7 |
| | Sub-dimension 14.4: Agricultural innovation system | 2.5 | 2.6 |
| **Kosovo's overall score** | | **2.4** | **2.7** |

### *State of play and key developments*

Kosovo's agriculture sector has gone through a significant transformation in the last decade. In 2008, it lacked commercial market orientation and there was no system in place to efficiently link producers and buyers. Today, agriculture is an important economic activity that contributes 8.1% to GDP and accounts for over 23% of total employment (Kosovo Agency of Statistics, 2020[216]; 2020[217]). Around 363 000 people are involved in agriculture, and there are 130 775 registered farmers (these figures exclude four municipalities in the north part of Kosovo) (Kosovo Agency of Statistics, 2020[218]).

The total area of used agriculture land is 418 581 hectares (ha), while arable land represents 188 359 ha. The land use increases among the most important crops (fruits and vegetables). There has also been a significant increase in tree plantations (over 40%) and greenhouses (11.6%) between 2014 and 2019 (Table 22.23). The average farm size is 1.76 ha. The government recognises that land fragmentation is a factor for low productivity and aims to improve the regulation and consolidation of agricultural land.

#### Table 22.23. Area covered by most important crops (2014-19)

Hectares

| | 2016 | 2017 | 2018 | 2019 | 2019/2014 in % |
|---|---|---|---|---|---|
| **Vegetables in the open field (first crop)** | 7 864 | 8 033 | 7 818 | 8 319 | 5.47 |
| **Vegetables in greenhouses (first crop)** | 457 | 467 | 468 | 517 | 11.61 |
| **Tree plantations** | 5 493 | 6 247 | 7 687 | 9 244 | 40.58 |
| **Vineyards** | 3 112 | 3 199 | 3 271 | 3 367 | 7.57 |

Source: (Kosovo Agency of Statistics, 2020[183]), *Statistical Yearbook of the Republic of Kosovo*, https://ask.rks-gov.net/en/kosovo-agency-of-statistics/general-statistics/statistical-yearbook.

Kosovo is a net importer of agricultural products due to a surplus of consumption over production. Surrounded by more developed agriculture sectors in neighbouring economies, it faces challenges in remaining competitive and maintaining agricultural productivity. Land fragmentation, lack of efficient irrigation, limited research and slow improvement of production technologies are among the key factors impacting productivity. Recent production trends, however, illustrate a growing awareness of the natural potential of agriculture in Kosovo and a slow but certain increase in the interest of young entrepreneurs working in this sector.

Kosovo has been severely hit by the COVID-19 crisis, with GDP decreasing by 8.8% in 2020.

The total number of unemployed increased from around 94 101 in January 2019 to 111 899 in January 2020 to 198 063 to October 2020. The persistence of COVID-19 is stifling services exports, private consumption and investment. Without the increase in remittances and the economy's counter-cyclical fiscal policy response, the economy's contraction would be stronger.

The agriculture sector has faced many challenges, such as limitation of movement, market closures, decreased demand and logistical difficulties.

Kosovo has approved a EUR 20 million budget increase for grants and subsidies to the Ministry of Agriculture, Forestry and Rural Development, the Ministry of Culture, Youth and Sports, and municipalities affected by the pandemic. The support is to be distributed through existing mechanisms. Agriculture businesses and farmers are eligible for subsidies for monthly salaries and rental costs, and can benefit from interest-free loans, financial liquidity measures, export support measures and increased social assistance measures.

The imports of goods declined by 9% by July 2020, and are expected to be down by 12% by year end. By July 2020, imports of durable goods were down by more than 16%, imports of passenger cars by over 19%, and intermediate goods for industrial processing by 11.3%. Exports decreased by 8.3% in the same period.

Kosovo has demonstrated its fragility during the crisis. The pandemic is exerting unprecedented pressure on economic activity and the livelihoods of people. The high unemployment rate, which has doubled in 18 months, decreased labour opportunities and overall market value decreases are indicators that the risk of high poverty will last much longer than the COVID-19 crisis itself.

### *Sub-dimension 14.1: Agro-food system capacity*

Kosovo has made progress in expanding its **rural infrastructure** and digital framework in rural areas; however, access to electricity in rural areas is irregular and unstable. Based on the National Development Strategy (NDS) 2016-2021,[150] Kosovo identifies infrastructure as a priority for further improvement. According to the NDS, increasing agricultural production and agro-food industries are of paramount importance given the need to reduce the trade deficit. Nevertheless, "strengthening the sector is very difficult because of the limited agricultural infrastructure", which is especially true for the irrigation system, high land fragmentation and the unstable energetic system.

Kosovo has achieved considerable results in improving road infrastructure in the past decade. The new motorway network connecting Pristina with the borders of Albania and North Macedonia has enabled the much faster transfer of goods. These investments have increased the potential competitiveness of certain productions, particularly in the Dukagjini region, that lend themselves perfectly to labour-intensive horticulture. At the same time, investments in rural infrastructure are underway in several rural municipalities through public-private partnerships, donor assistance and long-term loans. However, the supply of electricity in rural areas remains a challenge. The situation has moderately improved since the last assessment cycle, but there are still power cuts and an unstable supply, especially during the winter period when consumption is higher.

Kosovo is making a great effort to improve its digital infrastructure in rural areas. As part of the Kosovo Digital Economy Project (KODE) 2018-2023, supported by the World Bank with USD 25 million, more than 200 villages, i.e. almost all of Kosovo's open-air settlements, will get broadband connections by 2023 – see Digital society (Dimension 10). Most rural areas in Kosovo are therefore expected to have broadband Internet access within the next five years. This will enable farmers to increase opportunities for digitalisation (market information systems, weather/climate data for prevention measures, online promotion/sales, etc).

To improve access to information for farmers, the domestic telecommunication provider, IPKO, signed a contract with the USAID-commissioned TetraTech in 2018 to implement the IPKO-Agrologic Forecast

Project. This project aims to inform farmers of agrologic conditions in the economy and provides the necessary information for early disaster prevention via 16 automatic meteorological stations in Kosovo.

Although Kosovo has implemented several plans to improve **irrigation infrastructure**, it remains underdeveloped and inefficient. The responsibilities for irrigation are shared among the ministries, public company and municipalities. Co-ordination and co-operation among these authorities are limited and result in low efficiency in irrigation water management.

The irrigated 32 237 ha represent only 17.3% of Kosovo's arable land, and water network losses and lack of water storage facilities hinder efficiency. As a result of unsustainable irrigation infrastructure, a large number of small illegal irrigation systems have been built by local farmers, which are unknown to irrigation companies. The ability of regional water supply companies to collect revenue from water sales is only 30%, which has led to the Government of Kosovo vowing to increase the coverage of the irrigation system to at least 40% of arable land by 2036, according to the NDS. Parliament approved the Water Strategy 2017-2036 in 2017, which largely describes the challenges of irrigation and the measures to be taken.

In 2019, the Strategy for the Irrigation Sector and Investment Framework and the Irrigation Master Plan were established as part of the EUR 20.8 million Agriculture and Rural Development Project 2017-2021 (ARDP), funded by the International Development Association (IDA) of the World Bank. The objective of the Irrigation Master Plan is to expand existing irrigated arable land by 7 000 ha by the end of 2021.

As a result of the ARDP project, two master plans were drafted and presented to domestic institutions and municipality representatives. However, the final Irrigation master plan, initially planned to be finalised by July 2020, has not been completed due to delays brought on by COVID-19. In addition to the master plan, the MAFRD will select at least five investment schemes to develop that meet government priorities; however these are also on hold due to the pandemic.

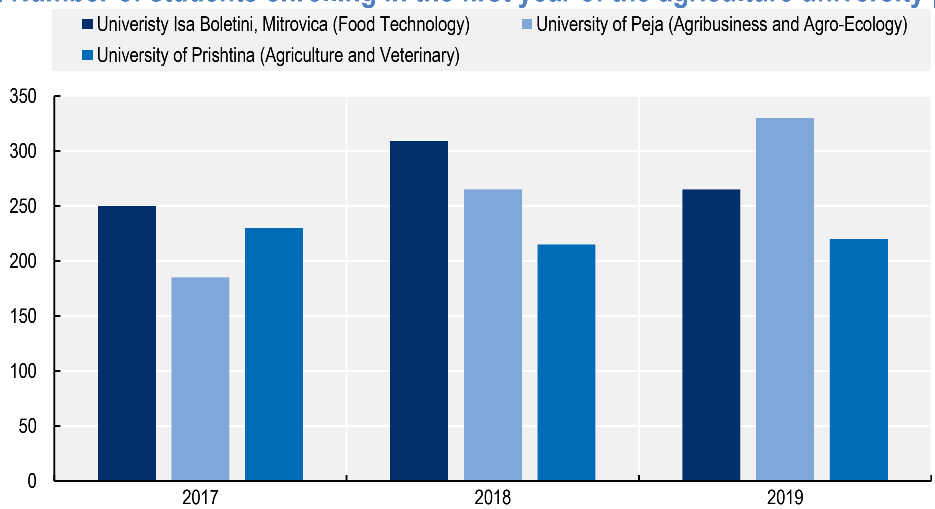
The **agriculture education system** in Kosovo lacks sustainable financing and suffers from the loss of an educated agriculture workforce to emigration. The MEST is responsible for agriculture education in Kosovo, while several ministries (along with private companies and NGOs) are involved in the provision of non-formal education, which holds equal status with formal education institutions. The agriculture education system comprises three agricultural high schools and two vocational schools that offer specialist agriculture courses. University agricultural education takes place at the Faculty of Agriculture of the University of Pristina, while university programme studies on agribusiness, agro-ecology and food technology are offered by the University of Peja and the University of Mitrovica.

Basic education and skills training are recognised by the Government of Kosovo as key elements in enabling the rural population to diversify its activities and find a basis for sustainable development in remote rural areas. Several strategic documents and plans prepared by the Government of Kosovo emphasise education as a precondition for the improvement and development of sustainable agriculture: the NDS 2016-2021, the Green Report for Kosovo 2018, and the Agriculture and Rural Development Plan 2003-2016. However, due to current low budget expenditure and the lack of prioritisation of agriculture educational development there has been little progress in bringing these plans to action.

Agriculture high schools and vocational schools are supported by government institutions and donor agencies active in Kosovo, such as the Danish DANIDA, the Norwegian Red Cross and the Swiss Agency for Development and Cooperation. The main objective of their support is to increase practical training for students and adopt curricula that meet labour market demand. As funding is mainly based on foreign support, the institutions' sustainability is at stake once donor support ends. This affects both the financial aspect and the maintenance of established educational standards.

The market is in constant demand for a qualified and professional workforce ready to meet the challenges of new production technologies and competitiveness criteria. The number of students enrolled in the first year of university studies in agriculture is not decreasing (Figure 22.14), and interest in university programmes is still very strong among the young population. However, Kosovo is facing a shortage of skilled labour due to the exodus of a large part of its agricultural workforce to EU countries. Students who have completed an internship in international education during university often use it as a one-way ticket for migration.

**Figure 22.14. Number of students enrolling in the first year of the agriculture university programme**




Source: (Kosovo Agency of Statistics, 2020[219]), Annual Statistics Books, 2020.

StatLink https://doi.org/10.1787/888934255779

*Sub-dimension 14.2: Agro-food system regulation*

**Regulations on natural resources** in Kosovo are limited; however, progress has been made in the organisation and planning of natural resource use. Although the Department of Natural Resources in Kosovo was abolished in 2018, the topic of natural resource remains under the auspices of the MAFRD. As the average farm size is 1.76 ha, fragmentation is the key factor for low productivity, and the government recognises the regulation and consolidation of agricultural land as a priority. Through the Strategy for Land Consolidation 2010-2020 the government has developed models for the consolidation process, including voluntary exchange and public-private partnerships.

The Zoning Map of Kosovo 2020-2028 was developed in 2019 to better plan the sustainable use of natural resources. It is a multi-sectoral document that uses charts, maps, photos and text to determine the planned use of space and action measures. These measures are based on the duration and projections of available public and private investment for the entire territory for a period of at least eight years.

The Kosovo Institute of Agriculture has been implementing the Domestic Program for Inventory of Agricultural Lands since 2017 with the aim of creating a domestic database using geographic information systems (GIS) for soil, irrigation water, vegetation and quarantine pests of plants. The data from this system will help to create measures for the efficient use of natural resources from environmental pressures and in the creation of sustainable farms related to the adaptation of climate change. This programme includes a large range of institutional and public stakeholders.

However, efforts to regulate natural resource use are limited, especially in terms of designing effective measures that will stop the loss of agricultural land[151] and improve legislation implementation by the provision of more efficient mechanisms of inspection/control. Inconsistent cadastral information and the lack of implementation of property rights legislation are holding Kosovo back from improving its natural resources regulations.

In terms of the **regulation of products,** those on seeds and propagation material are well monitored by advisory committees and institutions, but some regulations are not making much progress in terms of drafting and implementation. The regulations in this area are based on the Law on Seeds and the Law on Planting Material,[152] which regulate the production and marketing of agricultural crop seed varieties, hybrids and seed potatoes. A new Draft Law on Seeds was prepared in 2018 as part of the Italian-Kosovo project, which is a partnership between the MAFRD and a department within the Italian Ministry of Agriculture to further EU harmonisation in the agriculture sector. The draft law is awaiting further legal procedure for approval.

The seed sector of the MAFRD is fully responsible for the import, marketing, production and packaging of seeds, as well as propagation material. Seed production is controlled twice during the vegetation period by phytosanitary inspectors. The registration of new varieties is organised through the Department of Agriculture Policies and Trade within the MAFRD. Applications submitted from both regional and EU-based commercial companies illustrate that there is specific interest in registering new varieties of wheat, barley, maize and potato. Under the auspices of the Institute of Agriculture in Peja, the variety potential and adaptability of seeds is assessed. Based on the assessment report, a special committee within the MAFRD approves the variety and includes it in the list of varieties.

The Law on Fertilisers determines the rules for protecting producers and consumers of fertilisers. Based on this law, the MAFRD has developed the Kosovo Artificial Fertilisers Advisory Board, which provides recommendations on implementing legislation and proposes updates and changes. However, by 2020 only one proposal by a private business entity had been submitted.

### *Sub-dimension 14.3: Agricultural support system*

Kosovo's **agriculture policy framework** includes multiple stakeholder consultations during the policy making process; however, the monitoring and evaluation of policy implementation remains limited. The agriculture policy framework is based on the Agriculture and Rural Development Plan 2014-2020,[153] which has been harmonised with EU directives in terms of priority areas and measures. The MAFRD uses this plan for preparing an annual programme guided by the available budget, and via a broad consultation process with all stakeholders, including the private sector (farmers, processors, co-operatives, etc.), experts, farmers' associations and local action groups. The annual programme is then submitted to the government for approval. It is currently being aligned with the EU's Common Agricultural Policy, but all support measures are financed from the budget.

Agriculture policy is implemented through the Agency for the Development of Agriculture, which is the disbursing agency for direct grants and rural development actions planned for future IPARD measures. The agency's administrative capacity for evaluation, monitoring and accounting is still limited. The process of integrated control and management of the Land Parcel Identification System is ongoing, while the Farm Accountancy Data Network is already established. The ambition of the authorities is that Kosovo should be ready to manage EU funds for agriculture and rural development in the coming two years; however, no substantive changes to meet the criteria have yet been accomplished.

**Domestic support** for agriculture in Kosovo remains underfunded. In 2019, agricultural domestic support, including direct payments and rural development investments, reached EUR 49.6 million, which is comparable to the other WB6 economies when taking into account the size of Kosovo and its agriculture output.

The MAFRD has continued subsidising farmers through direct payments for crops based on surface cultivated; however, no cross-compliance measures have been introduced. Support in the livestock sector is based on the number of animals by category, milk production according to quality, and subsidies on reported slaughtered cattle, as well as planting material.

While investment grants are divided according to the EU IPARD structure[154] they are only financed by the budget supported by World Bank loans within the framework of rural development programmes. Investments are co-financed with government participation at 60% and farmer participation at 40%.

Financial assistance for natural disasters has improved. In 2011, the MAFRD established a committee to verify the damage caused by floods, hail and other natural disasters in agriculture. The committee works in co-operation with officials of the municipal departments for agriculture and officials of regional offices. The investment grant framework for 2019 introduced new measures that provide technical and financial assistance for natural disasters of EUR 500 000. As the budget (EUR 20 million) allocated for the measures envisaged in the Rural Development Programme has been almost spent, many applicants are being rejected due to insufficient budget following the application of the first-come first-served rule.

Kosovo's **agriculture trade policy** is based on international and regional trade commitments. There are no tariffs or VAT on agricultural inputs imports to stimulate agriculture development. However, in terms of trade policy, the general prospects are complex, and there are no export support measures for agricultural commodities.

Recently, the 100% tariff on goods imports originating in Serbia and Bosnia and Herzegovina were found to violate the CEFTA agreement. In April 2020, the tariffs were lifted and replaced by gradual trade reciprocity measures, which were subsequently abolished by the new government of Kosovo in June 2020. The tariffs seriously jeopardise the position of Kosovo consumers and provoke tariff and non-tariff barriers for the few Kosovo agriculture exporters trying to penetrate the regional market.[155]

Specific strategies for trade policies are to be developed within the Kosovo programme for implementing the Stabilisation Association Agreement.[156] Kosovo is currently at a very early stage, with the first working group for the preparation of a strategy regarding trade policies in the agro-processing industry established in 2020.

The Law on Common Market Organisations (CMOs) is still planned, but no progress has been made in the last two years, even though this is considered one of the indicators for the EU harmonisation progress by the European Commission. CMOs are designed to manage production and trade to ensure a steady income for farmers and a continued supply for consumers.

Kosovo's **agriculture tax regime** is liberal and reviewed annually, but no progress has been made in developing tax regulations in the last five years. Agriculture tax regulations are based on the Law on Taxes and annual customs tariffs, and overseen by the Ministry of Finance and the Customs Service. Income tax for the agriculture sector in Kosovo is 10%; however, some reductions on income tax are available. For those in the agriculture sector with an income of less than EUR 450 per month the tax applied is 10%, and for those with an income of more than EUR 450, the tax applied is between 8% and 14%, depending on income. Standard VAT in Kosovo is 18%, but VAT on machinery and certain varieties of plants and seeds is lowered to 8% as their production is low in Kosovo. Similar exemptions are applied to smaller products such as irrigation equipment and plastic sheeting for horticulture.

Kosovo has made progress in aligning **sanitary and phytosanitary (SPS) policies** with EU and international legislation, but education and training in the field remains limited. SPS measures are based on the Law on Food, which designates the Food and Veterinary Agency (FVA) as the competent authority with a mandate covering food safety, plant health and protection, and animal health and welfare. However, local inspectors are still performing official controls within their municipalities. The FVA is fully functional and has sufficient capacity to implement SPS measures, and no significant limitations regarding infrastructure, finances, technical support or training. The FVA has received support from in technical assistance in all fields of expertise from USAID and through EU mechanisms such as TAIEX or BTSF.

Kosovo has advanced in aligning food and feed safety legislation with EU standards, and has harmonised its operating procedures for food and feed checks and controls. The legal framework for plant protection products, fertilisers, plant quarantine, and seed and plant breeders' rights was completed in 2019 with 15 new administrative instructions. New standard operating procedures were developed between 2018 and 2020 for the implementation of administrative instructions and laws.

Regarding veterinary policy, Kosovo lacks a comprehensive disease monitoring and control system that is in line with EU legislation and World Organisation for Animal Health requirements. Animal health controls mostly take place on farms, while controls for the transport of animals are relatively rare. Animal identification and registration is still an important issue, with the under-reporting of animal movement remaining a challenge. There is also a lack of in-service training and education programmes for field veterinarians.

To improve the collection and disposal of animal by-products, Kosovo was granted EU funding for a new, fully equipped rendering plant. Despite having been built two years ago, the plant is still not operational. The FVA was obliged to launch a call for tender and select a management company for the plant. Collection will only be able to start in 2021.

The border inspection control system is the only agriculture information system in Kosovo; however, an EU-funded project has been established to create a new system to support the FVA create an additional electronic secured system that will reach EU standards.

### *Sub-dimension 14.4: Agricultural innovation system*

**Agricultural research and development** institutions in Kosovo co-operate with international research institutions and organisations, but research outputs remain weak and the field is underfunded. The Kosovo Agriculture Institute is the public research institute, funded by the MAFRD. It covers scientific and applied research, as well as the implementation of development of projects in the fields of agriculture, food safety and the protection of cultivated environments. The work of the Kosovo Agriculture Institute is continuously evaluated and monitored through its membership in international organisations such as the International Seed Testing Association and the Global Soil Laboratory Network, as well as through participation in cross-laboratory comparison tests in international laboratories.

The MAFRD, as part of activities to improve the research capacity of the Kosovo Agriculture Institute, has signed an agreement with institutional parties on specific research topics. The agreement enhances co-operation with the University of Modena and Reggio Emilia in Italy for PhD programmes in agro-food sciences, technologies and biotechnologies for the academic year 2020/21. The agreement with the university is adapted to the needs of the Kosovo Agriculture Institute, which aims to contribute to the sustainable development of the agricultural sector and food safety at the domestic level, benefitting both academic sand research staff.

Apart from the work of the Kosovo Agriculture Institute, the field of applied science and research projects is not dynamic. Research is largely dependent on donor-funded projects, while the budget for such projects is very limited and restricts projects to an ad hoc basis only.

**Agriculture extension services** are widely available and very competitive. Many of the extension services available are established as a result of donor-supported projects. The continuous monitoring and support of both public and private licenced advisors will be required once the donor funds cease. The Law on Advisory Services and the Strategy of Advisory Services 2015-2020 aim to raise agriculture knowledge among farmers and disseminate information on training, standardisation and market demands.

Besides public advisory services, 13 private companies are licenced to perform advisory activities through the Department of Advisory and Technical Services within the MAFRD. Approximately 300 advisors for agriculture and rural development have been certified, with 100 more expected to be certified by the end of 2020.

The Department of Advisory and Technical Services plays a co-ordination role in harmonising and supporting other organisations in the extension field. Activities developed at municipal information advisory centres have been organised to support farmers with technical advice in the areas of livestock, beekeeping, viticulture, arboriculture and vegetables.

### *The way forward for agriculture policy*

- **Improve irrigation water management**. Increase investment to maintain the existing irrigation network and bring new areas under the irrigation system as a priority. The productivity of agriculture in Kosovo largely depends on irrigation, as well as a functional system of water management. It is necessary to reduce illegal irrigation systems, improve the system of monitoring and control, and increase the payment for irrigation services.
- **Enhance the land consolidation process**. The land consolidation process is crucial for improved productivity. Further implementation, along with the establishment of the Land Parcel Identification System (LPIS), will provide the structural reform of agriculture, as well as opportunities for the utilisation of EU funds, for which the existence of the LPIS is a precondition.
- **Improve the correlation between skills acquired in agriculture education and labour market needs**. This will mean that students may discover it easier to find practical work during studies or full-time employment on graduating. The mechanisms of accountability and certification in the education system will also improve as the labour market demand requirements will continuously call for the transfer of new knowledge.
- **Meet the preconditions and increase capacity for the facilitation of IPARD funding**. As part of the harmonisation with the EU Common Agricultural Policy further effort is needed to accelerate the IPARD accreditation process. The remaining obligation for introducing cross-compliance measures needs to be fulfilled (as part of the criteria for IPARD programme accreditation), the new Law on Common Market Organisations should be finalised, and administrative capacity for evaluation, monitoring and accounting increased within the Agriculture Development Agency.
- **Continuously upgrade the SPS system and harmonise it with EU requirements**. Further efforts to implement the integrated food control system and transferring inspections from municipalities to the FVA are a priority. Opening the existing rendering plant for animal by-product collection and disposal is necessary for the completion of the animal monitoring and control system.

## Tourism policy (Dimension 15)

### *Introduction*

The tourism policy framework in Kosovo is in its early stage of development. Table 22.24 shows Kosovo's scores for the five tourism sub-dimensions and compares them to the WB6 average. Since the last assessment, Kosovo has only made slight progress in tourism by improving its score for the availability of a qualified workforce sub-dimension, driven by improvements in the VET framework indicator where it scores above the WB6 average (Figure 22.1). However, Kosovo scores below the WB6 average in all other sub-dimensions, with its lowest score being in the tourism branding and marketing and the destination accessibility and tourism infrastructure sub-dimensions. Kosovo is currently developing its Tourism Development Strategy, which will set up the governance structure and institutional framework and define the main policy measures, timeframe and budget for their implementation. Until the strategy is developed and adopted, progress in all sub-dimensions will remain rather limited.

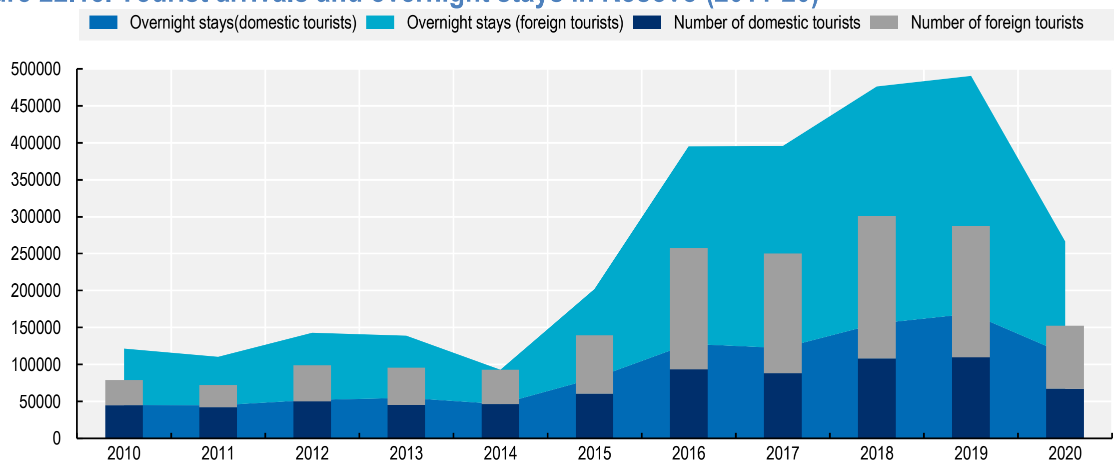
#### Table 22.24. Kosovo's scores for tourism policy

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Tourism policy dimension** | Sub-dimension 15.1: Governance and co-operation | 1.9 | 2.3 |
| | Sub-dimension 15.2: Destination accessibility and tourism infrastructure | 1.5 | 2.2 |
| | Sub-dimension 15.3: Availability of a qualified workforce | 1.8 | 1.8 |
| | Sub-dimension 15.4: Sustainable and competitive tourism | 1.2 | 1.6 |
| | Sub-dimension 15.5: Tourism branding and marketing | 0.5 | 1.6 |
| **Kosovo's overall score** | | **1.5** | **2.0** |

### *State of play and key developments*

In the last ten years, Kosovo has seen a steady increase in tourist arrivals and overnight stays. The highest increases were recorded in 2015 and 2016, when the number of total tourist arrivals, compared to the previous year, increased by 50% (2015) and 85% (2016), and the number of overnight stays by 117.4% (2015) and 96% (2016). The increase of foreign visitors and their overnight stays was faster than the growth of domestic visitors, reaching 160% in 2015 and 85% in 2016. However, over the last three years the increase in the number of tourist arrivals and overnight stays has slowed down, with 287 083 tourist arrivals and 490 402 overnight stays in 2019 (Figure 22.15), which is behind all other economies in the WB region. Around 50% of foreign tourists are from five destinations: Albania (19.6%), Germany (10.4%), Turkey (8.3%), Switzerland (7.9%) and the United States (5.8%). The main tourist destinations are Pristina, Peje/Pec and Prizren, where nearly 88% of tourist arrivals are registered.

**Figure 22.15. Tourist arrivals and overnight stays in Kosovo (2011-20)**




Source: (Kosovo agency of Statistics, 2021[220]), *Hotel Statistics*, https://ask.rks-gov.net/en/kosovo-agency-of-statistics/economy/hotels-and-tourism.

StatLink https://doi.org/10.1787/888934255798

According to the available data from 2019, accommodation and food services contribute to 1.4% of GDP and 6.4% of employment (23 600 jobs) (Kosovo Agency of Statistics, 2019[221]). However, due to the lack of reliable statistical data, the actual contribution of tourism to economic development cannot be assessed.

Tourism is not perceived as a priority sector in Kosovo, despite recent growth. Tourism development is included in several strategic and policy papers: the National Programme for Implementation of Stabilization and Association Agreement (NPISAA); the Economic Reform Programme 2019-2021 (Measure 6: Enhancing competitiveness in the tourism and hospitability sector); the Government Programme 2020-2023; the National Strategy for Cultural Heritage 2017-2020; and the Strategy and Action Plan for Biodiversity 2011-2020. However, a comprehensive approach is still missing. This will hopefully be addressed through the development of an economy-wide tourism strategy being developed that aims to tackle several challenges, such as the lack of a coherent and effective governance structure and institutional set up at economy and local levels, the poor accessibility of tourist destinations due to underdeveloped transport infrastructure, the lack of a quality assurance system meeting international standards, low-quality tourist services and products, unexploited natural and cultural heritage, shortage of competent workforce, and the weak visibility of Kosovo as a tourist destination in international markets.

Due to the COVID-19 outbreak, Kosovo's economy contracted by 5.6% in the first nine months of 2020, and by 3.9% in 2020 compared to 2019 (OECD, 2021[222]). In March 2020, the government implemented containment measures that involved closing all schools and universities; suspending all public transportation services; closing all cafés, bars, restaurants and non-essential stores; cancelling all cultural and sporting events; and obliging all private sector employees to work from home (OECD, 2020[29]). The containment measures put a stop to the tourism industry: hotels were closed during April and May 2020, and Pristina airport only reopened on 28 June. In 2020, the number of local visitors decreased by 39% compared to 2019, and the number of nights they stayed decreased by 33%. The number of foreign visitors also decreased by 52%, with the number of nights they stayed decreasing by 52.5%. Overall, the number of visitors in 2020 was 47% lower than in 2019, and the number of overnight stays was 46% lower (Figure 22.15) (Kosovo Agency of Statistics, 2021[223]). Measures implemented to support the tourism industry include:

- To support the economy, the government cut the interest rate on loans for SMEs operating in the tourism sector by 50%, and the interest rate on loans for large companies by 15%.
- The Promoting Private Sector Employment project of the Swiss Agency for Development and Cooperation in Kosovo prepared a document on the Economic Impact of the COVID-19 Pandemic

in the Hospitality Sector in Kosovo (Swiss Agency for Development and Cooperation, 2020[224]). The report was submitted to the Ministry of Finance in Kosovo to support planning for economic mitigation measures.

- A fiscal package of EUR 180 million (2.5% of GDP) was adopted by the government, and 76% of the package had been executed as of 26 August 2020.
- The New Economic Recovery Programme, corresponding to EUR 384 million, was adopted by the new government. The programme includes projects foreseen under the emergency fiscal package.
- The Ministry of Finance has approached international financial institutions (e.g. IMF, World Bank, EU and EBRD) and other bilateral donors for financial support.

The COVID-19 crisis has emphasised the importance of a resilient tourism industry. Kosovo should assess the impact of COVID-19 on the tourism industry and design a specific recovery plan with an emphasis on the development of sustainable tourism. Kosovo should also put effort into moving away from the further development of mass tourism and start developing new, high-quality and personalised tourist experiences around natural and cultural sites. A dedicated co-ordination framework would guarantee the efficient implementation of policy responses. Moreover, the development of marketing and promotion strategies would contribute to accelerating the recovery.

### *Sub-dimension 15.1: Governance and co-operation*

Kosovo's **tourism governance and institutional set-up** is still at an early stage of development. The Department for Tourism within the MTI manages tourism development and is responsible for tourism marketing (an economy-wide tourist office has not yet been established). The tourism governance structure will be defined in the new Tourism Development Strategy. The mandate of the Kosovo Tourism Council (KTK), established in 2014, was renewed in 2017. The KTK is the main body for **partnerships with stakeholders** at the economy level and for **vertical co-operation** and meets at least four times a year. Its members include representatives of the Association of Municipalities, tourism experts, and representatives of NGOs as well as senior officials of the MTI, the MEE, the MEST, and the Ministry of Culture, Youth and Sports, which are also involved in the development of the tourism strategy and are responsible for the implementation of tourism policy measures.

Implementing the new Tourism Development Strategy will depend a great deal on the ability to establish and implement an effective governance structure at the economy level (and active inter-ministerial co-operation), as well as active co-operation and dialogue with the private sector, educational institutions, NGOs, municipalities and the donor community. This is strongly related to the ability and knowledge of public officials responsible for implementing the strategy.

Municipalities that consider tourism as an opportunity for local development have adopted tourism development strategies. In the western region of Kosovo, the Destination Management Organisation was established in 2015 as an NGO to provide support for the development and promotion of sustainable tourism in the region through joint work with local authorities, businesses, public agencies and strategic partnerships with relevant stakeholders. Although this is a good achievement, in most municipalities tourism governance and destination management remain rather weak. The main constraints, besides the lack of coherent governance at the economy level, are the lack of qualified human resources, lack of financial resources and, according to private tourism stakeholders, weak co-operation and dialogue with the private sector at the local level.

The tourism **data collection and interpretation** framework is formally in place. Since 2017, some progress has been made in tourism data collection with the introduction of new processes: a register of all accommodation facilities, the monthly collection of statistics from accommodation facilities, a new quarterly survey on demand-side statistics, and the preparation of a platform for electronic data collection. A memorandum of understanding was signed in 2016 with Kosovo Police on collecting data on the number of foreign visitors. However, due to the large informal economy in the tourism sector,[157] and the large share of visitors who enter Kosovo to visit relatives and friends (76% of total border crossings in 2019), statistical data are still not reliable enough to assess the actual scope of tourism activity in the economy. The Tourism Satellite Account has not been implemented yet due to the lack of staff at the Kosovo Agency of Statistics dealing with tourism statistics (currently only one person works in tourism statistics) (Kosovo Agency of Tourism, 2020[225]).

### *Sub-dimension 15.2: Destination accessibility and tourism infrastructure*

There has been no progress in Kosovo regarding the **connectivity framework**, border crossings and visa requirements since the last assessment. Kosovo has established visa exemption agreements with 115 economies. Citizens of the EU Member States, the Schengen area and neighbouring economies can enter Kosovo with a biometric ID and can stay for up to 90 days over a six-month period.

Limited progress has been made on improving **accommodation capacity and the quality assurance framework.** The only development has been the establishment of a register of accommodation facilities. However, the categorisation of accommodation facilities is still voluntary and is not accompanied by awareness-raising campaigns and training for accommodation providers, which is necessary for Kosovo's international tourism competitiveness. There is also no monitoring or evaluation of the efficiency of the categorisation model. The quality assurance framework in Kosovo also needs to be improved. Incentives are currently limited to the provision of grants for SMEs in rural areas by the MAFRD to support rural tourism, with an annual budget of EUR 500 000. Investments in tourism are considered as strategic investments in the Law on Strategic Investments, adopted in 2017. However, no major investments have been made so far, and there is no regular evaluation of measures to develop accommodation facility to ensure the most efficient allocation of limited financial resources.

The **tourist information system** provides reliable information on tourist destinations, accommodation, attractiveness and tourist services. Information is available mainly in Albanian, English and Serbian on websites, road signs, in tourist information centres, etc., and is regularly updated by the Department for Tourism at the MTI. However, Kosovo has not yet established a framework for a tourism information system that includes the regular monitoring and evaluation of tourist information to ensure a systematic approach to the system at all levels down to destination level.

### *Sub-dimension 15.3: Availability of a qualified workforce*

A qualified workforce is one of the main factors for furthering tourism development in Kosovo, as it is the guarantee for improving the quality of tourist products and services, which is currently rather poor. According to the Government Programme 2019-2020, in recent years progress has been made in skills development, quality improvement and access to education. Human resources development in tourism is included in the Kosovo Education Strategic Plan (KESP) for the period 2017-2020. The new Tourism Development Strategy will also introduce **a skills supply framework** and specific policy measures. Kosovo is actively involved in the regional project, Towards Regionally-based Occupational Standards (TO REGOS), implemented by the Education Reform Initiative of South East Europe (ERI SSE) and the expert group, Western Balkans Alliance for Work-based Learning. This project aims to develop common qualification standards for tourism across the Western Balkans.

Overall, the **VET framework** is well advanced, with well-functioning co-operation with private tourism stakeholders. The Agency for Quality Assurance and Accreditation of VET is reported to be well equipped with sufficient financial resources. Curricula are updated according to the tourism industry's needs. Mandatory practical training is part of the VET framework, and the evaluation of activities and measures are planned in the KESP 2017-2020. The Kosovo Government Planning Office monitors the implementation of all strategies, including the strategic education plan. However, as the evaluation and monitoring reports of the VET framework are not available yet, a more detailed assessment of the tourism VET framework could not be provided.

Kosovo does not have a specific **higher education framework for tourism**. However, institutions offering programmes in the field of tourism, such as the Faculty of Tourism and Environment at the University of Applied Sciences in Ferizaj/Urosevac, have developed strategies and curricula in collaboration with the MEST. Despite the strategies not being specifically focused on tourism, curricula are developed in line with the labour market as they are adopted by working groups that include members from management, academic staff, students, alumni administration and industrial boards. The legislation in force for higher education specifies that each HEI should collaborate with the Agency of Accreditation (responsible for quality assurance) and meet the standards for accreditation. Institutions cannot offer programmes without accreditation. The curricula of the programmes are reviewed during the accreditation process. If programmes meet the conditions for accreditation based on European standards such as the Standards and Guidelines for Quality Assurance in the European Higher Education Area, they are subject to evaluation by local and international experts. The Agency of Accreditation plays a key role during the process of accreditation, but quality assurance within the HEI, the budget, and the engagement of sufficient and professional staff in certain areas remain a challenge.

### *Sub-dimension 15.4: Sustainable and competitive tourism*

A comprehensive **natural and cultural heritage enhancement framework** for tourism is being developed. Natural and cultural heritage will be included in the Tourism Development Strategy. The development of cultural tourism based on the principles of sustainable development is currently defined in the National Strategy for Cultural Heritage 2017-2020. This includes clear and measurable plans with timelines for the implementation of specific measures, organisational structure, division of tasks and responsibilities, and the human and financial resources needed for implementation. Natural heritage is included in the Strategy and Action Plan for Biodiversity 2011-2020. Monitoring and evaluation reports of implemented measures for both strategies are not available to enable a more detailed assessment.

The policy framework for the **promotion of sustainable tourism and operations within the tourism sector** will be defined in the new Tourism Development Strategy. Promotional activities such as increasing awareness and co-operation among all sectors for biodiversity are currently defined in the Strategy and Action Plan for Biodiversity 2011-2020. Sustainable tourism development is promoted through meetings held with businesses, associations and NGOs, and through media communications of Department of Tourism representatives. Awareness-raising activities on the importance of using certifications and tourism standards have been implemented. However, sustainability certification schemes, such as eco-labels and specific schemes for the certification of enterprises meeting sustainability standards, are not in place yet.

**The tourism investment and innovation policy framework** is not established yet, but is planned as part of the new Tourism Development Strategy. The challenge is to prepare a comprehensive analysis of tourism investment needs that will fully support the development of the main tourist products in the major tourist destinations, as defined in the new Tourism Development Strategy.

### *Sub-dimension 15.5: Tourism branding and marketing*

Kosovo's **tourism branding and marketing framework** has not yet been established. The Department of Tourism at the MTI manages the official websites that promote Kosovo tourism. Overall, tourism marketing is implemented by tourism stakeholders but in an uncoordinated manner. Kosovo still does not have an economy-wide organisation for tourism promotion and marketing, unlike most economies worldwide. Some progress in tourism promotion was made by KIESA, which participates in high-profile international tourism events such as ITB Berlin. However, this does not qualify as a comprehensive tourism and marketing framework.

The **digital tourism marketing framework** is not yet established. However, the Digital Agenda, which covers all sectors, began in 2020, supported by the Market Access and Digitalization Services for Kosovo Businesses (ACCESS) project, funded by the Austrian Development Cooperation and co-financed by the MTI and the MEE. A coherent tourism branding and marketing framework, including digital tourism marketing, is still needed to improve the visibility of the Kosovo tourist offer in international markets. Box 22.15 provides some ideas.

### Box 22.15. Approaches to managing tourism marketing and branding

The public sector has traditionally played a lead role in destination marketing and promotion activities, as the fragmented nature of the sector and small size of many tourism businesses makes it difficult for individual businesses to be visible to, and attract visitors from, remote tourism markets. More recently, economies have been exploring different tourism marketing models that draw on new funding sources, partnership opportunities and governance arrangements, as well as the development of digital strategies. Most economies have established economy-wide tourist organisations (NTO) or tourist boards as a central organisation responsible for tourism brand development and marketing in international markets, as well as the co-ordination of marketing and promotional activities of local tourist destination offices. However, due to high competition in the tourism market, NTOs are searching for new solutions to attract visitors using digital tools, and expanding their tasks to support tourist destinations through new tourist product development by providing market research and consultation to tourist destinations. NTOs are strengthening co-operation and dialogue with private sector stakeholders to ensure coherent and effective marketing and promotion in international markets.

Due to the rapid move to digital sales and distribution, economies are looking at new solutions to enable the small and micro-tourism business sector to be more easily connected to major online travel agents and other intermediaries. For example, in 2019 in South Africa the National Tourism Visitor Information System rebranded to become “Jurni”, which is an online platform connecting travellers and travel experiences across the country. Jurni acts as a booking tool and business application to help tourism SMEs overcome knowledge and resource constraints to reach global markets. It also acts as a central data hub providing insights to inform business strategies and decision making across the tourism value chain. A consumer-facing application also provides location-tailored information for tourists during their trip, based on geo-localised information, data analytics and artificial intelligence.

Economies with a more seasonal offer and an over-reliance on a limited number of high volume short-haul markets are seeking to diversify and expand into new markets or segments. This is both to increase the length of the season and to increase the demand for less popular destinations. Diversification can typically be based on cultural, heritage or urban products. Croatia, Greece and Turkey all have firm plans in this regard.

Many countries are also now giving greater prominence to marketing to their home markets, recognising that the volume of domestic tourism is often significantly greater than inbound tourism. Hungary, for example, is looking to use the domestic market as a way of spreading the benefits through extending the season and encouraging trips to lesser known destinations, and Slovakia and Romania have introduced recreational voucher schemes to incentivise employees to spend their holidays domestically.

There is a greater focus on the development of bookable products and experiences to attract visitors as part of the upstream marketing mix, which has translated into significant investment and specific programmes, as in for example Canada, Ireland and the United Kingdom.

Source: (OECD, 2020[226]), *OECD Tourism Trends and Policies 2020,* https://doi.org/10.1787/6b47b985-en.

### *The way forward for tourism policy*

- **Finalise and adopt the new Tourism Development Strategy**. This strategy should establish an efficient governance structure and institutional set up at the economy level, define clear policy measures, responsible institutions for their implementation, timeframe and budget allocation. The strategy should also provide policy measures for establishing the legislative and regulatory framework, starting with the adoption of the Law on Tourism. A monitoring and evaluation framework should be part of the strategy to ensure that the impact of the implemented measures on tourism development in the economy is assessed.
- **Establish an economy-wide tourist organisation** that will take over tourism branding and marketing in the economy. The development of a digital marketing framework is also of growing importance. The provision of a sufficient budget and a team of qualified staff working in the field of tourism marketing are preconditions for the successful launch and development of the economy-wide tourist organisation.
- **Include destination management organisations in the new Tourism Development Strategy to empower municipalities/tourist destinations to manage tourism development**. Policy measures should include capacity-building programmes for local tourist organisations, and sufficient budget should be secured for the start-up phase of organisations' development and operations. Donor support could be valuable for the development of destination management organisations as they can provide best practice cases from advanced tourism economies.
- **Introduce a framework for accommodation capacity and tourism quality** to increase the quality of tourist products and services. The adoption of a mandatory accommodation facility categorisation framework, accompanied by awareness-raising campaigns, training and advice for private stakeholders, is also recommended. A comprehensive tourism investment programme that includes a set of incentives for investing in private tourist infrastructure (including accommodation facilities), and improving the quality of tourist products and services, would help to increase the competitiveness of Kosovo tourism in international markets.
- **Develop a comprehensive framework for promoting sustainable development within the tourism sector**. This should include the mandatory consideration of sustainability criteria in all investments in tourist infrastructure. These investments should be supported by public incentives, and provide awareness raising and training for tourism sector stakeholders on developing their businesses sustainably. Using best practices from other countries, such as the Green Scheme by Slovenian Tourism,[158] is recommended.

## Anti-corruption policy (Dimension 16)

### Introduction

Table 22.25 shows Kosovo's scores for the anti-corruption policy dimension and compares them to the WB6 average. All scores for Kosovo are below the WB6 average, with the score for anti-corruption law enforcement bodies closest to the average. In recent years, Kosovo has adopted several important laws to strengthen its anti-corruption framework and the rule of law more generally. Since the previous assessment, Kosovo has intensified anti-corruption awareness-raising and training activities. However, the limited capacity of key anti-corruption institutions remains a concern.

**Table 22.25. Kosovo's scores for anti-corruption policy**

| Dimension | Sub-dimension | Score | WB6 average |
|---|---|---|---|
| **Anti-corruption policy dimension** | Sub-dimension 16.1: Anti-corruption policy framework | 1.0 | 2.1 |
| | Sub-dimension 16.2: Prevention of corruption | 2.5 | 3.3 |
| | Sub-dimension 16.3: Independence of the judiciary | n.a. | n.a. |
| | Sub-dimension 16.4: Business integrity and corporate liability | n.a. | n.a. |
| | Sub-dimension 16.5: Investigation and prosecution | 2.5 | 2.8 |
| **Kosovo's overall score** | | **1.8** | **2.5** |

Note: For comparability with the previous assessment, the two new sub-dimensions (16.3 and 16.4) have not been scored but are discussed in the text below.

### State of play and key developments

#### *Sub-dimension 16.1: Anti-corruption policy framework*

In terms of **policy documents, co-ordination and implementation**, the latest adopted anti-corruption policy documents in Kosovo were the Anti-Corruption Strategy and Action Plan 2013-2017. According to the government, most of the measures have been implemented, but the latest published data suggest only partial implementation. For the period July-December 2017, the action plan envisaged 120 actions or measures; however, the Anti-corruption Agency (ACA) concluded that only 70 actions had been completed or were being implemented (ACA, 2018[227]).

The adoption of the Anti-Corruption Strategy and Action Plan 2019-2023 has been delayed. By law, the ACA is responsible for drafting the strategy in co-operation with other government and non-government institutions, which is then adopted by the Assembly of Kosovo. On 29 March 2019, the ACA forwarded the draft documents to the Committee on Legislation of the Assembly (ACA, 2020[228]). The documents were based on contributions by various institutions, and the action plan contains a separate column of budget for each activity (however, no exact amounts were envisaged in the draft submitted for the competitiveness policy outlook assessment). In 2020, the ACA launched renewed preparation of the Anti-Corruption Strategy and Action Plan (now for 2021-2023), which was approved by the government in December 2020 but at time of writing had not been approved by the Assembly (ACA, 2021[229]). The latest drafts were not evaluated within this assessment.

There is evidence of civil society involvement in anti-corruption policy planning. To prepare the draft strategies 2019-2023 (2021-2023), the ACA set up working groups and discussed the measures envisaged with involved public institutions and civil society participants.[159] Organisations such as the Democratic Institute of Kosovo; the GAP Institute; the Kosovo Law Institute; the Organization for Democracy, Anti-corruption and Dignity (ÇOHU); and the Riinvest Institute have been monitoring various aspects of the anti-corruption policy and measures. In 2012, the President of Kosovo established the National Anti-corruption Council, but no evidence is available regarding its recent activity.

Kosovo does not have legislation governing **corruption risk assessment**, and public authorities have no legal obligation to carry out such assessments. The Anti-corruption Action Plan 2013-2017 contained a requirement to adopt integrity plans in public bodies, but its implementation did not become systematic. According to the version of the draft Anti-corruption Strategy submitted for this assessment, as of 2017, 16 municipal institutions and 6 central-level institutions had completed integrity plans. The version of the draft action plan submitted for this assessment envisaged the drafting and monitoring of integrity plans in all public institutions, as well as reviewing the competences and mandate of the ACA, as necessary for assessing corruption risks. The UNDP Kosovo and the Council of Europe have supported some corruption risk assessments, such as for the Chamber of Notaries in 2019, the extractive industries sector in 2016 (UNDP, 2020[230]), the prosecution system, the judicial system and public procurement in 2017 (Council of Europe, 2020[231]).

Kosovo does not have a legal framework for **corruption proofing of legislation**. The draft Anti-corruption Action Plan submitted for this assessment envisaged giving the ACA the right and responsibility to provide an opinion/anti-corruption assessment of laws and sub-legal acts. However, the actual participation of the ACA in the development of legal acts has been ad hoc.

### *Sub-dimension 16.2: Prevention of corruption*

The ACA is the main corruption **prevention body** in Kosovo. According to law, the agency is an independent and specialised body responsible for implementing state policies to combat and prevent corruption. The ACA has a broad scope of competencies, such as supervising and preventing conflicts of interest, supervising property of senior public officials and implementing preliminary investigations into corruption. Legal safeguards for the independence of the ACA include an open competition for selecting the director of the agency, and the competence of the ACA to prepare and propose its own annual budget. The Assembly of Kosovo establishes the ACA’s oversight committee. The ACA ensures transparency by publishing most of its decisions and opinions online. With approximately 40 officials and an annual budget of slightly above EUR 500 000, the ACA is among the smaller prevention agencies in the region, and is considered by independent experts to be severely under-resourced (SELDI, 2019[232]).

In 2018, Kosovo adopted the Law on Prevention of Conflict of Interest in Discharge of a Public Function, which replaced the previous law for the prevention of **conflicts of interest** (adopted in 2011). The new law addressed several loopholes, for example it broadened the definition of a person related to an official to include, among others, every legal or natural person who has had or has a joint pecuniary or non-pecuniary interest with the official. The scope of officials covered has been broadened to include not only senior public officials as under the previous law, but also any official person. The definition of conflict of interest covers actual, apparent and potential conflicts by referring to an interest “which influences, might influence or seems to influence the impartial and objective performance of official duties”. Action in an official matter in a situation of an unresolved conflict of interest can be criminally punished in Kosovo, but the formulations in the law and the Criminal Code are somewhat inconsistent, with the scope of related persons being narrower in the criminal-law provision. Inconsistencies in the terminology are also found in comparison with the Law on Suppression of Corruption (Barboric et al., 2019[233]). In 2020, the ACA published a guide on the prevention of conflict of interest in public institutions (ACA, 2020[234]). According to the ACA, upon its request public institutions have appointed officers responsible for handling cases of conflict of interest within their institutions.

Every year the ACA handles several cases of breaches related to conflict of interest – 167 in 2019 (ACA, 2020[228]) – however, the application of sanctions is limited and available statistical data on sanctions are fragmented. Reportedly, in 2018 the ACA submitted fewer than 5 conflict of interest cases as minor offences and 10 cases for criminal investigation (European Commission, 2019[111]). In 2019, the ACA forwarded 2 cases of conflict of interest to the prosecutor’s office and made 2 requests for dismissal/proceedings of minor offence (ACA, 2020[228]). As of October 2020, 659 senior public officials reportedly held two or more positions, in violation of the law (European Commission, 2020[39]).

The Law on Declaration, Origin and Control of Property of Senior Public Officials and on Declaration, Origin and Control of Gifts of All Public Officials governs **asset declarations**. The law was last amended in 2014. The scope of persons subject to the declaration includes practically all senior officials. The contents of the declarations have some gaps, such as the lack of requirement to declare savings in cash, which is relevant for ascertaining the full economic situation of a person. The ACA publishes the declarations on its website with all but certain personal data.

The degree of compliance with the obligation to submit declarations is uneven: 98.8% of senior officials submitted their regular annual declarations on time in 2019, while 90.7% complied with the obligation to submit declarations upon assuming office and only 81.5% complied with the obligation to submit declarations upon completion or dismissal from office. The ACA carries out preliminary and full control of the declarations, with 20% of declarations subject to full control in 2019. Based on the control findings, the ACA forwarded 62 cases to its Department for Combating Corruption, the police and the prosecutor's office (ACA, 2020[228]). Data on outcomes of the forwarded cases were not available for this assessment.

The ACA has had a positive record of revealing hidden assets in the past (Hoppe et al., 2013[235]). Verification involves comparing data held by other institutions, rather than an analytical assessment of the plausibility of officials' declared financial situation. A key limitation is a lack of access to information from banks. Closer co-operation and exchange of data are reportedly necessary among the police, the tax administration, the financial intelligence unit, the land registry and municipal authorities (European Commission, 2020[39]). According to the government, work is underway to develop an advanced database for managing declarations, in co-operation with UNDP.

The track record on whistle-blowing and **protection of whistle-blowers** has been weak. A new Law on Protection of Whistle-blowers was adopted in 2018, replacing the previous law of 2011. The law is comprehensive and extends to both the private and public sectors. A whistle-blower is any person who reports or discloses information on threat or damage to the public interest in the context of their own employment relationship (defined broadly to include associates, volunteers, interns, trainees, candidates, contractors, etc.). Whistle-blowing can be internal, external (to a competent authority) or public. However, external and public whistle-blowing are subject to conditions. The conditions for external whistleblowing (e.g. there are reasonable suspicions that detrimental acts may be taken against the whistle-blower or that the evidence may be concealed or destroyed if internal whistle-blowing is carried out) may act as a deterrent and more restrictive than the approach envisaged in the Directive 2019/1937 of the European Parliament on the protection of persons who report breaches of EU law.

The law contains multiple provisions for protecting whistle-blowers, such as an obligation to keep information related to whistle-blowing confidential, nullity and voidness of any detrimental act taken against the whistle-blower by their employer due to the whistle-blowing, compensation of damages, reinstatement of a whistle-blower at their place of work, protection of persons associated with the whistle-blower, and the right to protection due to mistaken identity of a whistle-blower. The law expressly prohibits any action or omission aimed at preventing whistle-blowing. However, it does not envisage anonymous whistle-blowing, and it is unclear whether a person who reports anonymously but subsequently encounters retaliation would qualify for protection. The whistle-blower protection law itself does not clarify whether a reporting person is entitled to possible provisional protection before decisions on the acceptance of a whistle-blower report or the adoption of protection measures are made, or if they are entitled to free legal assistance. Secondary legislation, which would define procedures for reporting, is still being developed by the Ministry of Justice.

The ACA has undertaken various activities to implement the law, such as sending requests to public institutions to appoint responsible whistle-blowing officials, participation in developing and implementing regulations and the organisation of a workshop. However, the actual results in the area of whistleblowing have been modest. In 2019, the ACA received three external whistle-blower reports, all of which were rejected. Only two whistle-blower reports were received by another institution (ACA, 2020[228]). According to the Kosovo Law Institute, the main reasons for the weak whistle-blowing track record are the lack of knowledge among public institutions about the law, and the neglect of implementation of obligations stemming from the law (Shala and Bajraktari, 2020[236]). Practical factors such as lack of secluded office space for responsible persons and secure storage for files in institutions also reportedly represent risks for the confidentiality of whistle-blowing (Shala, 2019[237]).

There is little recent evidence of the government carrying out general **awareness-raising** campaigns or disseminating information materials (leaflets, posters, stickers, etc.). The website of the ACA and its YouTube account only contains video from 2016. A brief video was published in November 2018 regarding the new law for prevention of conflict of interest. However, the ACA and multiple other stakeholders (civil society organisations, international partners) have organised various awareness-raising activities within annual anti-corruption weeks that take place every December. In co-operation with other institutions, the ACA continuously holds training on conflict of interest and other topics, and the training curriculum of the Academy of Justice has an anti-corruption programme (European Commission, 2020[39]). Training is expected to continue as the draft Anti-corruption Strategy contains training activities for each sector, including advanced training for investigators. The government has not allocated specific funding for anti-corruption awareness raising and education.

### *Sub-dimension 16.3: Independence of the judiciary*

The constitution and other laws provide safeguards for the **independence of the judiciary**. In 2018, Kosovo adopted the new Law on Judicial Council. The President of Kosovo appoints judges upon the proposal of the Judicial Council (JC,) and has adhered to all of its proposals (European Commission, 2019[111]). A matter of concern is the potential vulnerability of new judges who are appointed for the initial term of three years. The JC appoints presidents of courts, except the President of the Supreme Court, who is appointed by the President of Kosovo. The President of Kosovo, based on a proposal by the JC, can decide to dismiss a judge. The JC proposes the dismissal of a judge only upon their conviction of a serious criminal offence, an intentional violation of law or for serious neglect of duties.

The JC consists predominantly of judges (7 out of 13 members are judges elected by members of the judiciary; 6 members are elected by the Assembly of Kosovo, of whom at least 3 must be judges). As of September 2020, 11 members appeared to have been appointed, according to the website of the JC. The website publishes all decisions and notices of employment opportunities for positions of judges and staff in a user-friendly format to ensure transparency.[160] The JC also maintains a public searchable database of court judgements.[161] The composition of the JC, as well as appointment procedures and transparency of work, have the potential to significantly contribute to the independence and accountability of the judiciary. A risk for the independence and capacity of the JC, and the judiciary at large, reportedly stems from the regular practice by the Ministry of Finance of reducing budget requests submitted by the JC (Thaqi, 2019[238]). However, there were budget increases in 2019 and 2020 in comparison to 2018 (European Commission, 2020[39]).

In 2018, Kosovo strengthened the disciplinary liability of judicial officials by adopting the Law on the Disciplinary Liability of Judges and Prosecutors. The JC has responsibility for imposing disciplinary sanctions on judges. In 2019, the JC’s Disciplinary Commission imposed two sanctions involving a salary reduction for three and six months (Kosovo Judicial Council, 2019[239]). The disciplinary procedure includes safeguards for accused persons, such as the rights of the judge or prosecutor against whom the proceedings have been initiated to hire a defence lawyer, access all evidence and the dossier of the case, and appeal against the disciplinary decision to the Supreme Court of Kosovo. Complaints against the decision of the council have a suspension effect, and disciplinary decisions are published.[162] The Judicial Performance Evaluation Committee of the JC has the power to conduct performance evaluations of judges with permanent tenure, initial tenure and those eligible for promotion. However, in 2019, the rating of “good” or “very good” to 99% of judges with permanent mandates subject to evaluation was found to contrast with general domestic perceptions regarding judges’ professionalism (European Commission, 2020[39]).

Kosovo has made progress in introducing random case distribution in courts. However, depending on the conditions and practical possibilities, distribution still takes place both automatically and manually. In January 2020, the JC adopted criteria for the distribution of cases (Kosovo Judicial Council, 2019[239]). It has been reported that high-profile and sensitive cases are not always processed in a timely manner (European Commission, 2020[39]).

### *Sub-dimension 16.4: Business integrity and corporate liability*

Little evidence is available regarding measures for strengthening **business integrity**. Based on evidence available for the Competitiveness Outlook, it appears that company boards of directors do not have explicit statutory responsibility for overseeing the management of corruption risks. There are apparently no government incentives for companies to improve the integrity of their operations. No designated institution is specifically responsible for receiving complaints from companies about corruption-related matters, providing protection or helping businesses resolve their concerns. The Law on Business Organisations does not explicitly require information on beneficial owners of limited liability companies and joint stock companies to be submitted to the Business Registry (Evgeniev et al., 2019[240]).

The Law on Liability of Legal Persons for Criminal Offence and the Criminal Code define the criminal **liability of legal persons**. According to the Criminal Code, a legal person is liable for a criminal offence committed by a responsible person acting on behalf of the legal person and for their benefit or interest or to cause damage with that criminal offence. The legal person is liable if the criminal offence by the responsible person is a result of: 1) a power to represent the legal person, an authority to take decisions on behalf of the legal person, or an authority to exercise control within the legal person; or 2) lack of supervision or control that has made possible the commission of the criminal offence for the benefit of the legal person by a responsible person under its authority.

The liability of legal persons is general (liability possible for any criminal offence) and autonomous (the legal person shall also be liable for criminal offences when the responsible person has committed the criminal offence but was not sentenced). The liability of the legal person is based on the culpability of the responsible person. If criminal proceedings cannot be initiated or executed against the responsible person, the procedure shall only be initiated and executed against the legal person.

According to the Law on Liability of Legal Persons for Criminal Offence, fines and the termination of activity of the legal person are the main sanctions for criminal offences. The upper limit of fines is EUR 100 000, which is extremely low relative to the possible scale of large corruption transactions. Possible security measures include the prohibition of work or certain functions, confiscation of assets, confiscation of a material benefit, and publication of the judgement. Legal consequences following the conviction of a legal person may be the prohibition of work based on a licence, authorisation or concession issued by state bodies, and the prohibition to acquire such licence, authorisation or concession. The law does not allow due diligence (compliance) defence to exempt legal persons from liability or mitigate sanctions, nor does it allow the court to defer the application of sanctions on legal persons if they comply with organisational measures (as determined by the court) to prevent corruption.

The legal framework for corporate liability would benefit from guidance on anti-corruption compliance for the managerial and supervisory bodies of legal persons. The effectiveness of the corporate liability framework for combatting corruption could not be assessed due to the absence of relevant statistics.

### *Sub-dimension 16.5: Investigation and prosecution*

In 2015, the State Prosecutor established a joint team of representatives of law enforcement institutions for selection and targeting serious crimes. The State Prosecutor has created a database of “targeted cases" of organised crime and **high-level corruption**. As of October 2020, 56 indictments (including 36 concerning corruption) had been filed in targeted cases. Final rulings had been reached in 13 cases, 8 of which ended with fully or partially guilty verdicts and the conviction of 15 individuals of corruption-related offences (European Commission, 2020[39]). These limited data point towards a relatively low conviction rate of approximately 60%.

Indictments against high-profile individuals constitute a minor part of the total volume of corruption cases heard in courts. In 2019, the Kosovo Law Institute monitored court hearings of corruption cases involving 443 low-profile individuals, 357 medium-profile individuals and 54 high-profile individuals. In January to September 2019, the Special Prosecutor's Office (SPO) did not file any indictment against high-profile individuals for corruption offences, and courts gave no effective imprisonment sentences for high-profile corruption offences. There is no evidence of the practice of sequestration or confiscation of assets unlawfully obtained through corruption (Musliu and Zekaj, 2019[241]), and the amount of confiscated assets generally remains low (European Commission, 2020[39]).

One example of a case involving high-profile individuals is the "Pronto" case, which concerned illegal employment in senior public enterprise positions. Prosecutors in this case have been criticised for failing to call to account all individuals involved, and the first instance court also allegedly committed violations in handling the case. The SPO started investigating this case in 2016. Despite criticism, this is one of the few prominent corruption cases against high-level public officials in which convictions have been made. The Supreme Court convicted three defendants, including a former member of parliament, in 2020 (Bugaqku, 2020[242]; Himaj, 2020[243]).

The SPO, established in 2007, qualifies as a **specialised anti-corruption prosecutorial body**. The SPO has extensive competence, which includes corruption crimes such as unjustified acceptance and giving of gifts, abuse of official position or authority, accepting and giving bribes, and misappropriation and fraud in office. As of October 2020, the SPO had 15 prosecutors out of 18 planned positions, and 4 prosecutors work in a new section specialised in high-level corruption cases (European Commission, 2020[39]). Most SPO prosecutors have received training over the past two years (in 2019 they attended 14 training courses). However, given that corruption is only one of several major areas of SPO competence, insufficient capacity remains a challenge. In February 2020, the Prosecutor's Office published a reorganisation strategy that envisages dividing prosecutors into four departments, including the Department of Corruption and Financial Crime (State Prosectutor, 2020[244]). According to information about the structure of the SPO on the website of the Prosecutor's Office, the reorganisation appears to have been completed (State Prosecutor, 2020[245]).

The Unit for Combating Corruption and Economic Crimes has been established at the Basic Prosecutor's Office in Pristina, subject to supervision by a committee established by the Prosecutorial Council (State Prosecutor, 2020[246]). Specialised anti-corruption prosecutors have also been appointed in other basic prosecutor's offices. Special departments in the Basic Court of Pristina and the Court of Appeals will handle cases brought by the SPO (European Commission, 2020[39]).

Kosovo has no independent **specialised anti-corruption investigative bodies**. Within the Kosovo Police, there is the Directorate for Investigation of Economic Crimes and Corruption within the Crime Investigation Division, as well as the Anti-corruption Task Force (Kosovo Police, 2019[247]). The anti-corruption units of the Kosovo Police do not have any safeguards of independence beyond the rules that apply to police units in general. The increased number of financial investigators working on organised crime and corruption cases is a sign of strengthening capacity (European Commission, 2020[39]).

### *The way forward for anti-corruption policy*

- **Adopt the new anti-corruption strategy and action plan** and improve public reporting on the implementation of the anti-corruption policy. The United Nations Convention against Corruption requires that states develop and implement or maintain effective, co-ordinated anti-corruption policies that promote the participation of society and reflect the principles of the rule of law, proper management of public affairs and public property, integrity, transparency, and accountability (United Nations, 2004[248]). Even though Kosovo is not a party to this convention, the substance of this provision is nevertheless relevant. Comprehensive strategies and action plans that define objectives and goals, allocate responsibilities, set deadlines, and determine necessary funds are widely recognised as the best way to frame anti-corruption policies. The absence of an approved strategy and plan, as well as regular comprehensive reporting on their implementation, has been a serious deficiency of Kosovo's anti-corruption policy for several years. Kosovo should adopt the strategy and action plan, start implementing them vigorously in 2021, and prepare and publish the first assessment of progress no later than 2022.
- **Adopt and implement legal obligations to carry out corruption risk assessments** and, at least selectively, the corruption proofing of draft and effective legislation. Corruption risk assessment allows for the detection of vulnerabilities to corruption even before corrupt acts happen. If carried out with commitment, due resources and skill, risk assessment is one of the most effective prevention tools. According to available evidence, few public institutions in Kosovo have carried out corruption risk assessments and developed related integrity plans. Kosovo should make efforts to ensure that this practice becomes universal across the public sector. Including the relevant obligation in the law, providing necessary methodological support, and centrally monitoring the quality of the assessments would be the most effective way to achieve this goal (see Box 22.16). Establishing the legal basis for systematic corruption proofing of legislation would be a key step to limit corruption risks that arise from deficiencies in the legal framework.
- **Strengthen the auditing of asset declarations of public officials** by developing methods to analytically assess the plausibility of their declared economic conditions. The Western Balkan Recommendation on Disclosure of Finances and Interests by Public Officials recommends that verification does not limit itself to comparing data, but that it aims to detect undeclared cash-flows and their possible illicit origin (ReSPA, 2014[249]). It is possible that a corrupt public official fills a declaration with data that correspond to sources verified by an oversight body, while still incurring expenses and accumulating assets that vastly exceed their legal income. Kosovo should ensure that the form of the declarations and the verification practice allow the ACA to detect illicit enrichment based on the economic plausibility of the declared information, even when it is not possible to pinpoint specific items of income or hidden assets.

### Box 22.16. Integrity assessment of public organisations in Korea

Assessments of corruption risks and integrity can be carried out in a variety of ways. An interesting example is the integrity assessment of public organisations in Korea. The model was first designed in 1999 and has been adjusted several times since then. It remains in use for annual assessments.

Objectives of the assessment are:

- Provision of basic data for improving the levels of integrity and enhancing the effectiveness of anti-corruption activities by measuring the levels of integrity in public organisations objectively and scientifically.
- Identification of priority areas and works in public service to increase the integrity levels of individual public organisations by diagnosing integrity levels in specific service units.
- Creation of an environment where each public organisation is motivated to voluntarily carry out anti-corruption activities through the disclosure of integrity assessment results to the general public.
- Creation of a consensus on the need to improve integrity not only in the public sector but also in society as a whole through the promotion of the integrity assessment and disclosure of its results.

The assessment model contains several key elements:

- External integrity: External public service users assess the extent to which government employees handle public services with transparency and accountability without committing corruption.
- Internal integrity: Employees of an organisation as internal customers assess the levels of corruption in the organisation's managerial activities, institutional practices and organisational culture.
- Policy customer evaluation: Policy experts, related personnel and people affected by policies evaluate the corruption level of a subject organisation in the processes of determining and executing the policies.
- Statistics on corrupt employees: The data on corruption cases are quantified by calculating the number of employees in a public institution who were disciplined for their corrupt practices in a given period, and the benefits derived from those practices.
- Acts lowering assessment reliability: Surveys and inspections aim to detect the acts conducted by the organisations subject to an integrity assessment to affect the assessment results in an improper way.

The Anti-Corruption and Civil Rights Commission in Korea collects basic data for the assessment (lists of target institutions and services, public service users and policy customers), manages assessment processes, and analyses and discloses assessment results.

Source: (ACRC, 2017[250]), *A practical guide to integrity assessment*, https://www.acrc.go.kr/en/file/file.do?command=downFile&encodedKey=Mjk2MzRfNg%3D%3D; (ACRC, n.d.[251]), *Integrity assessment of public organizations*, https://www.acrc.go.kr/en/file/file.do?command=downFile&encodedKey=Mjk2MzRfMQ%3D%3D.

- **Introduce a public register of beneficial owners of legal entities**. The EU Anti Money Laundering Directives envisages that beneficial ownership information is held in a central register and is accessible to competent authorities and financial intelligence units without any restriction, to obliged entities within the framework of customer due diligence, and to any member of the general public. It is also required that the information held in the central register of beneficial ownership information is adequate, accurate and current, and that states put in place mechanisms to this effect.

- **Increase the maximum fines applicable to legal persons for criminal offences to ensure that sanctions are effective, proportionate and dissuasive in large-scale corruption cases.** International standards do not define the sufficiency of the sanctions in specific terms, but the OECD Working Group on Bribery in International Business Transactions has adhered to the standard that monetary sanctions should be sufficiently severe to impact large multinational corporations. In certain economies, statutory ceilings of sanctions even up to several million euro have been found to be insufficient (OECD ACN, 2015[252]). Although such levels of fines may appear irrelevant given the limited size of most companies in Kosovo, the law should provide the possibility to apply adequate sanctions in case a large business player engages in corruption.
- **Further strengthen the capacity of the SPO to investigate high-level corruption cases and hand down indictments** by filling all vacancies of prosecutor positions, ascertaining gaps in specialised knowledge and skills, and providing appropriate training. Ensuring the sufficient capacity of anti-corruption institutions is a widely recognised necessity. The United Nations Convention against Corruption envisages that the staff of bodies specialised in combating corruption through law enforcement should have the appropriate training and resources to carry out their tasks (United Nations, 2004[253]). While the capacity of the SPO has been strengthened in Kosovo, it still appears too limited for the major task of prosecuting high-level corruption.
- **Consider how to strengthen the independence of specialised anti-corruption units within the Kosovo Police**. The United Nations Convention against Corruption sets the standard that a body or bodies or persons specialised in combating corruption through law enforcement shall be granted the necessary independence, in accordance with the fundamental principles of the legal system of the state party, to be able to carry out their functions effectively and without any undue influence (United Nations, 2004[253]). This CO assessment did not evaluate in-depth the work of the units of the Kosovo Police, and hence does not argue whether any undue influence on their activities has taken place. However, Kosovo should consider introducing additional means to safeguard the independence of these units, such as the more public and competitive selection of management, strengthened guarantees, and transparency of dedicated budget funding.

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## Notes

[1] Instrument for Pre-Accession Assistance (IPA) are funds provided by the European Union to help candidates align policies and strategies with EU standards.

[2] A person from Kosovo Investment and Enterprise Support Agency (KIESA) who co-ordinates the whole assessment in Kosovo.

[3] Staff from Kosovo Agency of Statistics who co-ordinate the statistical data collection.

[4] World Bank classification.

[5] Other relevant laws governing investment include: the Law on Late Payments in Commercial Transactions, the Law on Bankruptcy, the Law on Prevention of Money Laundering and Combating Terrorist Financing, and the Law on the Credit Guarantee Fund.

[6] According to the law, the strategic sectors are energy, infrastructure, mines, transport and telecommunications, tourism, manufacturing industry, agriculture and food industry, health, industrial and technological parks, wastewater and waste management.

[7] https://gzk.rks-gov.net/default.aspx?index=1.

[8] The strategy was developed in co-operation with OECD/Sigma programme.

[9] As of December 2020, the draft law to establish a Kosovo commercial court was at the public consultation stage. The draft has received wide and positive public response, according to key stakeholders.

[10] Key IPR regulations include the Law Amending/Supplementing the Law on Patents, the Law on Intellectual Property, the Law on Industrial Designs, the Law on Trademarks, and the Law on Geographical Indications.

[11] Kosovo's IPR laws were amended in 2015 to align with EU standards.

[12] As referred to in Annex VII of the EU Stabilisation and Association Agreement.

[13] The trademark registration process takes approximately 9 months, while patent approval takes about 18 months.

[14] In August 2020, a decision was taken to reorganise the NCED to become the National Council for Economy and Investments (NCEI). The NCEI should act as an active forum for economic and investment promotion, and is expected to be more active in the development and steering of KIESA. Detailed information on the new body and its mission are not yet available.

[15] ICT, food processing and packaging, mining and metal processing, energy, textile and leather processing, wood processing, and tourism.

[16] These events are organised in co-operation with the Ministry of Foreign Affairs, embassies, consulates and the Union of Kosovo Businesses in European Countries.

[17] Economic zones as defined by the law include free zones (determined by the custom and excise law), industrial parks, technological parks and business incubators.

[18] The National Committee for Trade in Services was established on 6 July 2020, with Protocol 01/3387, signed by the minister.

[19] Launched on 06 October 2020, the Contact Point on Services (CPS) platform database contains a section called Start a Business in Kosovo, which provides all the information needed. Another section covers accredited professions. Legislation is covered by two sections, horizontal legislation that regulates all services classified according to the Global Agricultural Trade System (GATS) definition of trade in services, and sectoral regulation covering primary and secondary legislation. The database provides easy links to the main sources of data on services. It provides a means of communication between interested parties and the Ministry of Trade and Industry, which is willing and ready to assist the business community in any way possible. This platform will also be used as a contact point for CEFTA. The platform can be found at https://cps.rks-gov.net/.

[20] https://konsultimet.rks-gov.net/.

[21] OECD member states and STRI key partner economies (Brazil, the People's Republic of China, Costa Rica, India, Indonesia, Kazakhstan, Malaysia, Peru, the Russian Federation, South Africa, and Thailand).

[22] The full set of OECD STRI indices and comparison tools as well as policy simulators for OECD member states and partners states that have undertaken the OECD STRI are available on the dedicated OECD website https://www.oecd.org/trade/topics/services-trade.

[23] The complete list of measures sector by sector is available on the OECD STRI website http://www.oecd.org/trade/topics/services-trade.

[24] Law No. 06/L-016 on Business Organizations, date 24.05.2018, Official Gazette of the Republic of Kosovo No. 9/ 2018, not updated since, Articles 33, 119.

[25] In order to facilitate comparison with OECD member states that have undergone the STRI exercise, the paragraphs below have been drafted in accordance with the methodology of STRI project publications. The OECD member country notes and the sector notes are available on the STRI web page: https://www.oecd.org/trade/topics/services-trade/.

[26] The Central and Eastern European Countries (CEEC) are: Bulgaria, Czech Republic, Estonia, Croatia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, Slovenia.

[27] Post and Telecommunications of Kosovo (PTK) is the public operator of Kosovo. PTK has three business units: Post of Kosovo, Telecom of Kosovo, and Vala, its mobile operator unit.

[28] Directive on electronic commerce 2000/31/EC.

[29] Directive on electronic commerce 2000/31/EC.

[30] The Draft Law on Electronic Identification and Trust Services in Electronic Transactions was approved at the 33rd meeting of the Government of Kosovo, with Decision No. 01/33, dated 28.09.2020, https://kryeministri-ks.net/wp-content/uploads/2020/09/PROJEKTLIGJI-P%C3%8BR-IDENTIFIKIMIN-ELEKTRONIK-DHE-SH%C3%8BRBIMET-E-BESUARA-N%C3%8B-TRA....pdf.

[31] As in almost all industries, a high level of concentration might lead to low levels of competition and higher interest rates.

[32] Basel III is a set of measures developed by the Basel Committee on Banking Supervision in response to the 2008/09 crisis. It has been agreed internationally and aims for a more resilient banking system. It underpins the regulatory and supervisory framework and strengthens banks' risk management.

[33] The Pillar 2 Requirement (P2R) is a bank-specific capital requirement which applies in addition to, and covers risks which are underestimated or not covered by, the minimum capital requirement (known as Pillar 1). The P2R is binding and breaches can have direct legal consequences for banks.

The P2R is determined via the Supervisory Review and Evaluation Process (SREP). The capital the ECB asks banks to keep based on the SREP also includes the Pillar 2 Guidance (P2G), which indicates to banks the adequate level of capital to be maintained to provide a sufficient buffer to withstand stressed situations.

[34] Basel II is an international business standard developed prior to the 2008/09 crisis by the Basel Committee on Banking Supervision. It requires financial institutions to maintain enough cash reserves to cover risks incurred by operations.

[35] Underground parking at the Faculty of Philology in Pristina awarded in 2019 (under construction); municipality of Peja – skiing resort awarded in 2017 (not yet implemented); municipality of Prizreni – cemetery in Landovica and Bajram Curri market awarded in 2016; Mitrovica municipality – overpass contract awarded in 2016; Gjilani municipality – school grounds and sport fields contract awarded in 2015.

[36]Depreciation rates by category are: 5% for buildings and other structures, between 20% for machinery and equipment, and 10% for other intangible assets.

[37] The amount of withholding tax is creditable against income tax levied on the total aggregate income.

[38] Instrument for Pre-Accession Assistance (IPA) are funds provided by the European Union to help candidate countries align domestic policies and strategies with EU standards.

[39] SOEs' estimated share of domestic employment is based on SOE employment figures provided by the authorities in the context of this assessment, concerning only the 17 SOEs under the remit of the POE Monitoring Unit. Estimates for the electricity system operator KOSTT are available on the United States Agency for International Development (USAID) website. Publicly available labour force statistics are from 2017.

[40] The EBRD comparison did not include Albania, but did include the other four WB economies. Kosovo had the third smallest SOE sector as measured by SOE assets as a percentage of GDP among the 20 mostly European countries included in the review. Only Moldova and Turkey had smaller reported shares. However, comparing enterprise assets to GDP has shortcomings, notably because assets are a stock variable and GDP is a flow variable. It would therefore be more pertinent to compare SOE value-added to GDP, but no such data are available. The ratio nonetheless allows for a telling cross-country comparison.

[41] Concerning alleged overstaffing in some SOEs, see for example (GAP Institute, 2015[87]).

[42] The board dismissals referenced here concern the following SOEs: KRU Prishtina, NPH Ibër Lepenc, Kosovo Electricity Corporation (KEK) and Southern Hydro. According to stakeholders interviewed for this assessment, the government had requested that these SOE boards postpone the appointment of senior

officials to allow sufficient time for the implementation of an agreement with the UK government involving support in the senior management recruitment procedures.

43 See, for example, Prishtina Insight, “Controversy over new public enterprise boards”, 3 April 2020, https://prishtinainsight.com/controversy-over-new-public-enterprise-boards/; and Balkan Insight, “Kosovo Govt Sacks Board of Failing Telecom”, 20 February 2020, https://balkaninsight.com/2020/02/20/kosovo-govt-sacks-board-of-failing-telecom/.

44 A November 2020 review of the Ministry of Finance’s website found that the 2019 annual reports for the 17 SOEs under its remit had not yet been published online.

45 The POE Monitoring Unit’s 2016 annual aggregate report on SOEs is available online: http://www.mzhe-ks.net/npmnp/repository/docs/RaportiiPerformancesseNdermarrjevePublikepervitin2016.pdf.

46 The World Bank’s 2020 Doing Business report actually accords Kosovo a score of 0.0 on the extent of shareholder rights index, but this appears to be an error in aggregation, as a review of the sub-indicators that constitute the score concludes that all six minority shareholder rights that constitute the index are legislated in Kosovo (World Bank, 2020[384]).

47 Each employee’s ownership share of Trepča Mine is determined based on the value of assets of the business unit where the employee is employed.

48 More information on the Kosovo Telecom dispute is available online: https://www.reuters.com/article/kosovo-telecom-court/state-owned-kosovo-telecom-may-face-bankruptcy-after-court-ruling-says-ceo-idUSL5N1EG23Y.

49 The Government of Kosovo requested EBRD assistance in preparing for Kosovo Telecom’s privatisation in 2019. For more information: https://www.ebrd.com/work-with-us/projects/tcpsd/privatisation-of-kosovo-telecom-preprivatisation-commercialisation.html.

50 The spin-off method of privatisation involves the creation of a subsidiary company, where the parent company’s assets are transferred, following which the subsidiary is sold. In some cases, spin-off privatisations are referred to as “special spin-offs” in Kosovo because they involve special conditions that are to be respected by the buyer post-privatisation, for example related to continued employment in the enterprise.

51 The Law on the Kosovo Privatisation Agency is available online: http://www.pak-ks.org/desk/inc/media/EC4F2A29-9497-44C1-A5FA-A39BCC812359.pdf.

52 Kosovo participated in the 2015 and 2018 cycles of PISA.

53 According to PISA Coverage Index 3, which corresponds to the proportion of 15-year-olds represented by the PISA sample. For more information see: www.oecd.org/pisa/pisa-for-development/pisafordevelopment2018technicalreport/PISA_D_Chapter_11_SamplingOutcomes.pdf.

54 For the purpose of this profile, instruction system refers to teaching and learning processes that take place in school education. It generally consists of curriculum, standards for schools and student learning, assessment and evaluation frameworks, and other elements that support instruction.

55 The Agency for Vocational Education and Training and Adult Education (AVETAE) is responsible for ensuring the administration and leadership of Institutions of Vocational Education Training and for Adults

(IVETA) regarding the financial, human resources, construction buildings and infrastructure of the six public institutions of VET under its governing administration.

[56] The National Qualification Authority is responsible for establishing and maintaining the Kosovo Qualification Framework and its relation with the European Qualification Framework. It also regulates the award of qualifications and accreditation of VET providers to ensure the overall quality system for VET in Kosovo.

[57] Selection into higher education requires the successful completion of upper secondary education and a minimum score on the State Matura examination. Specific requirements are set by individual higher education institutions, which may also administer their own assessments.

[58] The Kosovo Labour Market Barometer includes centralised data from 12 public institutions on key population, labour market, education and business indicators. In the area of education statistics, the portal provides data on some key indicators, such as enrolment by education level, public and private institutions, and municipalities. For the tertiary sector it also includes graduation data by education level, gender and university, as well as data on accredited study programmes by public and private higher education institutions, department and education level. In the area of employment it includes data on (un-)employment by education level, gender and municipality. In the area of business statistics data are provided on vocational demand and supply by education level and municipality. See: https://sitp.rks-gov.net/.

[59] Q2, 2019. 6.1% between 2015 and 2018 (WIIW and World Bank, 2020[107]).

[60] The strongest growth rate in employment was recorded in the agricultural sector (+187%). Emplyoment growth was also significant in the construction industry, trade, transportation, information and communication, professional and scientific services and the real estate sector (with growth rates between 45 and 82%) (Kosovo Agency of Statistics, 2019[323])

[61] Information provided by Kosovo.

[62] Note that at that time employment protection legislation was also slightly less strict in Kosovo as compared to other economies in the region.

[63] The strategy on Labour Inspectorates states that there were 56 labour inspectors in 2016, including heads of divisions and regional co-ordination. This corresponds to 6 500 workers per staff, or 8 500 per inspector (assuming that 10 staff are heads of divisions).

[64] Some of the planned measures include increasing the number of inspections by 10%, hiring 10 new inspectors, supervising the work of inspectors, training measures, improving hardware and software equipment and buying cars, preparing an action plan for joint inspections, carrying out inspections according to a work plan, establishing an internet site and a call center, and awareness raising activities.

[65] Key employment indicators are: Rate of participation in labour force, Inactivity rate, Employment to population rate, Unemployment rate, Unemployment rate among young people, Percentage of young people NEET youth population, Percentage of unstable employment to total employment.

[66] Other provisions entailed in the general collective agreement concern the length of probation period, maximum length on internships, layoffs, re-location, working hours and conditions, paid and unpaid leave, continued qualification, compensation through salary and bonuses, sick leave, benefits upon retirement,

etc. Most of these provisions are the same as in the Labour Law, with minor cosmetic alterations of the wording introduced in the collective agreement.

[67] At the regional level, there are 18 trade unions registered with the appropriate authorities (Shaipi, 2017[116]).

[68] Information provided by Kosovo.

[69] And 30.4% in Q2 2019 (WIIW and World Bank, 2020[107]).

[70] When the type/field of education or skills is inappropriate for the job (ILO, 2014[377]).

[71] The average gross wage in 2018 according to the highest economic activities was in: Electricity, gas, steam and air conditioning supply (843 euro); Information and communication (717 euro); Mining and quarrying (639 euro); while the lowest wage was in Agriculture, forestry and fishing (256 euro) (Kosovo Agency of Statistics, 2019[299]).

[72] The tasks consist in: 1) registration of the unemployed; 2) employment counseling; 3) career orientation for the unemployed; 4) individual employment plan; 5) registration of vacancies; 6) contacting employers; 7) providing recruitment services and advice to employers; 8) MATP services; 9) advising and providing information on migration; 10) mediation in employment through the Information System (information provided by Kosovo).

[73] Information provided by Kosovo.

[74] In France and Germany for example, caseloads of hard-to-place jobseekers are around 70 jobseekers per employment counsellor, while caseloads may vary in these countries between 100 and 350, depending on how much individual guidance job seekers need and how autonomous they are in using self-help guidance tools. (OECD, 2015[378]; Manoudi et al., 2014[379]); (Pôle emploi, n.d.[380])

[75] Information provided by the PES.

[76] According to Law 04 / L083 on Registration and Evidence of Unemployed and Jobseekers, unemployed are all persons from age 18 to 65, who are unemployed (neither salaried nor self-employed), are actively looking for work and who are ready for work (Government of Kosovo, 2017[105]).

[77] Information provided by the PES.

[78] The long-term unemployment incidence was 89.1% in Q2 2019 (WIIW and World Bank, 2020[107]).

[79] Information provided by the PES.

[80] Information provided by Kosovo.

[81] Information provided by Kosovo.

[82] Information provided by Kosovo.

[83] According to the Law on Scientific Activity, No. 04/L-135.

[84] According to the Law on Scientific Innovation and Transfer of Knowledge and Technology.

[85] EURAXESS – Researchers in Motion is a pan-European initiative delivering information and support services to professional researchers, backed by the EU, member states and associated economies. It supports researcher mobility and career development and enhances scientific collaboration (https://euraxess.ec.europa.eu/).

[86] Horizon 2020 is the biggest EU framework programme for research and innovation. It provides funding for multi-national collaboration projects as well as for individual researchers, and supports SMEs with a special funding instrument (https://ec.europa.eu/programmes/horizon2020//en/what-horizon-2020; https://www.euneighbours.eu/en/east/stay-informed/projects/horizon-2020).

[87] European Cooperation in Science and Technology (COST) is an EU-funded, intergovernmental framework that currently gathers 38 Members and 1 Cooperating Member. It is a funding organisation for the creation of research networks (COST Actions), which offer an open space for collaboration among scientists across economies. COST funding is intended for collaboration activities and complements national research funds (https://www.cost.eu/who-we-are/about-cost/).

[88] Law No.04/L-037 on Higher Education in Kosovo.

[89] The KODE project offers grants to ISPs that cover 50% of deployment costs for building broadband infrastructure for unconnected settlements and public institutions (especially healthcare and educational institutions). The Grant Operations Manual (GOM) describes procedures and guidelines that are in line with the EU's guidelines for the application of state aid rules in relation to the rapid deployment of broadband networks (2013/C 25/01) (Broadband Guidelines), and relevant provision applications to broadband infrastructure of the Commission Regulation (EU) N°651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (General Block Exemption Regulation or GBER). The MEE received permission from the State-aid Commission of Kosovo to continue with grant applications for covering rural areas (https://kodeproject.org/en/grant-calls/).

[90] White areas are those without broadband infrastructure (access speeds higher than 30 Mbps) and where it is unlikely to be developed in the near future.

[91] The Broadband Electronic Atlas that maps fixed, and mobile infrastructure, and services in the Kosovo territory is regularly updated and used to conduct different studies and to develop plans for concrete network deployment projects. Some of the content is publicly available (https://broadband.rks-gov.net/med-atlas/).

[92] The financial independence of ARKEP is not secure as the Kosovo budget does not allow state agencies to be financed by their own generated funds. ARKEP has its own account in Kosovo's Treasury, and it is free to spend it as long as it takes into consideration legal frameworks for public finance. When drafting the Law on Electronic Communication, the MEE included sufficient provisions for full financial independence of the regulator, but the proposals were not approved by parliament.

[93] The MEE, on behalf of the Government of Kosovo, asked the EBRD to support a process of "Pre-privatisation commercialisation" of Kosovo Telecom. The government identified a need to review the structure, operations and practices of Kosovo Telecom in view of privatisation, along with recommendations for its restructuring, while still under state ownership. The objective was to achieve sustainable financial viability and to improve the financial, operational, technological, and human resource standing of the company. The project's call for expert consulting services was announced in July 2019. After this study completes, the government, in consultation with other stakeholders, will decide the future steps regarding restructuring and privatisation of Kosovo Telecom (EBRD, 2019[338]).

[94] The international Open Data Charter: https://opendatacharter.net/.

[95] The Open Data portal was created by the Ministry of Public Administration in co-operation with the Ministry of European Integration and the Information Society Agency (AIS), with support from civil society organisations (https://opendata.rks-gov.net).

[96] According to the Law on Government Bodies for the Information Society.

[97] The public consultation platform: https://konsultimet.rks-gov.net/.

[98] The transparency portal, developed in co-operation with the Project for Public Finance Reform in Kosovo, is implemented by the German Development Cooperation (GIZ): https://ptmf.rks-gov.net/.

[99] According to the Regulation on Minimum Standards for the Public Consultation Process (GRK).

[100] The IPA II project, EU Support for the Competitiveness of Kosovo's ICT Sector, aims to enhance the competitiveness of Kosovo's digital and traditional businesses by supporting the expansion of Kosovo's ICT sector leading to growth and new job creation. The project intends to bridge the digital and business skills gap, and increase the export of Kosovar ICT businesses and traditional businesses through the use of ICT. The project is focused on providing training and courses on ICT, digital skills and business management. The project duration is 42 months, starting from January 2020 until July 2023. The EU Support for the Competiveness of Kosovo's ICT Sector is an EU funded project managed by the European Union Office in Kosovo and implemented by WeGlobal, in partnership with European Projects Management Ltd and Prishtina REA (https://ictkosovo.eu/).

[101] The IPA II project, EU Support to Digitalisation of Businesses through ICT, aims to increase the efficiency and productivity of the private sector through ICT usage, create a proper e-business/e-commerce ecosystem, and improve electronic service delivery for citizens and businesses. These actions will contribute to government efforts to digitalise businesses through ICT to increase their efficiency and productivity, and will greatly increase the competitiveness and profitability of Kosovo businesses given the increased opportunities to improve how they operate securely nationally and across borders. By providing a proper e-ID system, and a good environment for e-business/e-commerce, cross-border interoperability between Kosovo and EU economies will be more productive and more efficient. The project has started being implemented and will last three years.

[102] Current internet connection speeds are below 10 Mpbs, which are insufficient to support school connectivity needs.

[103] In co-operation with the Employment Agency and with EUR 3 million in EU financial support provided under the IPA II project EU Support for the Competitiveness of Kosovo's ICT Sector.

[104] Since the adoption of the IT Strategy 2020, the MEE and other government entities have financed and implemented several projects that contribute directly to the implementation of the strategy. The main initiatives and projects are:

1. Creation of the steering committee.
2. New fiscal rules for import of ICT equipment. Customs removed completely.
3. Public eProcurement system established.
4. Kosovo Digital Economy Project.
5. Women in Online Work Project.
6. IPA 2017, Supporting Competitiveness of the ICT Sector in Kosovo.
7. IPA 2019 and eIDAS system.
8. New Innovation and Training Park in Prizren (ex- KFOR camp).
9. ICT Park in Bernica ect.

[105] The Innovation Fund is co-financed by the Ministry of Innovation and Entrepreneurship (MIE) of the Republic of Kosovo and the German Federal Ministry for Economic Cooperation and Development (BMZ) and implemented by the Innovation Centre Kosovo (ICK). The Direct Financial Support Scheme for Start-ups provided financial support to 156 start-ups with a total funding of EUR 1 163 168 in 2018, and to 74 start-ups with a total funding of EUR 631 411 in 2019 (https://ickosovo.com/innovation-fund).

[106] The Women in Online Work (WoW) pilot project was implemented by the MEE with support from the World Bank. The WoW pilot was looking to change the asymmetry in women's employment (80% of women in Kosovo are inactive in the labour market, and among those active, 37% are unemployed) by exploring the suitability of online work for young Kosovar women around the economy. The project started in 2016, when it was implemented in three municipalities of Kosovo: Lipjan, Gjakova and Pristina. The design and implementation was enriched by the insights of the ICT Association, academia, the private sector and NGOs. Through the initial pilot project, 150 women were trained to gain the skills needed to find jobs in international online platforms, acquiring digital and IT skills and soft skills to find work or develop entrepreneurship. During project implementation, 77 beneficiaries earned at least one online work contract and a cumulative EUR 25 000 in one year. The successful implementation of the first round led to the replication of the programme during 2017 in two municipalities, Gjilan and Pristina, with USAID support. A third round extending WoW in Mitrovica and Podujeva was supported by the Swiss funded Enhancing Youth Employment (EYE) Project. (http://www.mzhe-ks.net/sq/WoW; https://www.worldbank.org/en/country/kosovo/brief/kosovo-wow).

[107] KOS-CERT is engaged in project implementation for capacity building (e.g. the Virtual Threat Intelligence and Incident Response Platform project as a donation from the C3K project, Cyber Crime in Kosovo, implemented by the United Nations Development Programme [UNDP] and funded by the Norwegian Ministry of Foreign Affairs).

[108] The project Hardware Platform for Virtualisation, which is funded by the budget of the Republic of Kosovo to upgrade KOS-CERT hardware infrastructure and services through an early warning threat system.

[109] A single project pipeline (SPP) is a list of the projects developed based on the strategic tool for the project planning to avoid ad hoc approaches to planning preparation and the implementation of investment projects. The SPP helps to enable strong project prioritisation and the systematic and timely planning of resources, to provide a reliable basis for defining the proper sequencing of the priority axis and actions per sector, and to help link investment planning and programme budgeting.

[110] The Department of Road Infrastructure, Department of Road Transportation, Department of Civil Aviation and Department of Vehicles within the Ministry of Infrastructure and Environment. The railway infrastructure manager (Infrakos) and railway operator (Trainkos), and Pristina airport.

[111] An appropriate definition of “asset management” for the roads sector was proposed by the OECD in 2001: “A systematic process of maintaining, upgrading and operating assets, combining engineering principles with sound business practice and economic rationale, and providing tools to facilitate a more organised and flexible approach to making the decisions necessary to achieve the public’s expectations” (OECD, 2001[376]).

[112] The air traffic management plan defines the operational air traffic management concept, strategic airspace management, tactical airspace management, air traffic service, ait traffic flow management, flight operation, functional integration, crisis management, search and rescue, and regional air navigation plans and supplementary procedures.

[113] The State Safety Program (SSP) is an integrated set of regulations and activities that aim to improve safety (e.g. safety risk management, safety assurance).

[114] Some of the indicators for measuring the road network’s performance include average user costs, travel time satisfactory level (i.e. reliability), value of assets, market research and customer feedback, forecasted value of assets, audit programme, quality of user information, allocation of resources, long-term programmes for investment, maintenance and operations, lowering of overhead percentage, state of certain type of infrastructure (depending on the mode of transport: bridges, facilities, etc.), permanent/automatic traffic flows counts per vehicle categories for the entire state road network, road traffic accident indicators as per the Common Accident Data Set (CADAS), and tolling statistics.

[115] For more details see: (Transport Community and CEFTA, 2020[177]), (Transport Community, 2020[178]), (Government of Serbia, 2019[179]) and (Estonia Border, n.d.[180]).

[116] The objectives and goals include: Subsidies for railways (passenger and freight transportation); Subsidies for public transportation, especially in cities, and supporting the non-use of personal vehicles; Differentiation of tax charges including custom and excise rates when importing motor vehicles (personal and commercial), taking into account amortisation, fuel costs, hybrids, whether or not they are equipped with catalytic exhaust systems; Increase of taxes for the use of motor vehicles; Increase of taxes for fuels containing high sulphur and lead content; Setting taxes for obsolete vehicles and scrap tyres in accordance with EU acquis; Co- ordinated mass transport system incorporating road, rail and air transport with public amenities, public private partnership (PPP); Reduction in air pollution caused by road traffic by implementing fuel quality standards and promoting catalytic converters on vehicles; Ensuring the import of old vehicles is restricted to “fit for purpose” only; Encouraging more services delivered through non- road transportation; Improving and investing in inter- city and trans- boundary railway system, using latest technologies for environmental protection (electrification, bio- degradable construction materials, energy efficient designs); Promoting the use of natural gas and other alternative fuels, as well as hybrid vehicles; Domestic and urban road network upgraded for increased volume of traffic; Upgrading public transportation and decommission obsolete public transportation vehicles; Implementing noise and vibration protection measures for vehicular traffic in urban and inner city areas; More urban planning for pedestrian zones and special bicycle paths.

[117] Combined transport refers to the transport of goods between Member States where the lorry, trailer, semi-trailer (with or without tractor unit, swap body or container of 20 feet or more) uses the road on the initial or final leg of the journey and rail or inland waterway or maritime services on the other leg, where

this section exceeds 100 km as the crow flies (Combined Transport Directive 92/106EC, amended by the Directive 2013/22/EU).

[118] A one-stop shop is a business or office where multiple services are offered, i.e. customers can get all they need in just "one stop." The term originated in the United States in the late 1920s or early 1930s to describe a business model offering customers the convenience of having multiple needs met in one location, instead of having to "drive all over town" to attain related services at different stores. A one-stop shop is a way of facilitating trade.

[120]For lists and access to the laws and secondary acts governing energy see https://www.ero-ks.org/zrre/index.php/en/legjislacioni/ligjet, https://mzhe-ks.net/en/energy-139#.X7_axGhKhhE https://mzhe-ks.net/en/administrative-instructionenergy#.X7_ayWhKhhE and https://mzhe-ks.net/en/rregullation-energy#.X7_ay2hKhhE.

[121] This is a three-year implementation strategy for the Energy Strategy of the Republic of Kosovo 2017-2026. Implementation progress of the Energy Strategy Implementation Programme (ESIP) is contained in the progress report for 2018 of ESIP 2018-2020. At this stage there is no information on the extent of the implementation of the Energy Strategy of the Republic of Kosovo 2017-2026.

[122] Law Number 05/L-082 on Natural Gas.

[123] The Energy Strategy of the Republic of Kosovo 2017-2026 defines five strategic objectives, two of which relate specifically to the electricity supply framework: 1) security of a sustainable, high-quality, safe and reliable electricity supply with adequate capacities for stable power system operation; and 2) the enhancement of existing thermal system capacities and construction of new capacities. The energy strategy is supplemented by the Energy Strategy Implementation Program 2018-2020, which includes 27 measures and respective objectives, foreseen for the period 2018-2020. Thus, a total 97 activities/projects are planned. Activities include legislative measures, construction, studies and promotions. The cost of implementing these measures over three years is estimated at around EUR 852 million.

[124] Indicators are collected across a variety of areas covering most importantly: N-1 criteria, renewable energy integration, loss reduction, increased security and quality of supply, market integration, system average interruption duration index, system average interruption frequency index, energy not served indicator, voltage and frequency quality, and service quality. They are collected by the regulator ministry, the transmission and distribution system operator, and the Kosovo Agency of Statistics.

[125] Chapter VII Emergency measures in energy supply in the Law no. 05/L-081 on Energy adopted in 2016 – supplemented with Administrative Instruction No. 04/2017 on Rules and Measures for Restricting Energy Supply in Emergency Situations – does transpose some of the EU regulation, but it is not clear to what extent.

[126] “The term ‘prosumers’ broadly refers to energy consumers who also produce their own energy from a range of different onsite generators,” (GfK Belgium, 2017[381]) but “mainly through solar photovoltaic panels on their rooftops, citizen-led energy cooperatives or housing associations, commercial prosumers whose main business activity is not electricity production, and public institutions like schools or hospitals” (European Commission, 2016, p. 1[354]).

[127] In July 2020, The government established a working group involving a variety of institutions to draft a concept document on renewable energy sources. This concept document will recommend the best option for implementing the support scheme and determining pathways towards a competitive project assignment scheme. According to the plan, this document will be approved in early 2021. International donors such as

the EBRD and the World Bank are assisting the government in designing the new support scheme and competitive assignment scheme through the submission of recommendations.

128 Law No. 06/L-079 on Energy Efficiency (2018); Energy Strategy of the Republic of Kosovo 2017-2026; Kosovo Energy Efficiency Action Plan (KEEAP) 2010-2018.

129 Law on Electricity No. 05/L-085; Electricity Market Rules; Law on Energy No. 05/L-081; Law on the Regulatory Office No. 05/L-084; Guidelines for unbundling of DS; Transmission Connection Charging Methodology, developed by KOSTT and approved by ERO; Connection Procedures; Procedure for Review of Complaints from Third Parties regarding Access to Network and Use of Transmission Grid.

130 This topic was previously raised by the Energy Community and although the issue might have been resolved, a firm confirmation is outstanding.

131 “A Control Area is a coherent part of the UCTE Interconnected System (usually coincident with the territory of a company, a country or a geographical area, physically demarcated by the position of points for measurement of the interchanged power and energy to the remaining interconnected network), operated by a single TSO, with physical loads and controllable generation units connected within the Control Area. A Control Area may be a coherent part of a Control Block that has its own subordinate control in the hierarchy of Secondary Control.” (ENTSOE, 2004[382]).

132 A Control Block comprises one or more Control Areas, working together in the Secondary Control function, with respect to the other Control Blocks of the Synchronous Area it belongs to” (ENTSOE, 2004[382]). An alternative explanation can be found under (Emissions-EUETS, 2019[383]).

133 Although Kosovo is planning to change its approach to renewable energy project assignment and support, given the lack of clarity regarding design and timeline this aspect has been included in the recommendation for now.

134 Kosovo is not a member of United Nations Framework Convention on Climate Change (UNFCCC) (and its Paris Agreement) so there are no nationally determined contributions (NDCs) prepared.

135 The Deposit Refund System (DRS) combines a tax on product consumption with a rebate when the product or its packaging is returned for recycling, and is based on the scheme of extended responsibility of the manufacturers. For this initiative, support has been secured from German GIZ, and studies have been developed for suppliers, manufacturers, and consumers of beverage networks (packaged water, drinking liquids such as beer and wine), with the purpose of creating an overview of the amount of packages that are traded in Kosovo.

136 At the time of drafting, the European Commission was financing a project for the expansion of the municipal waste dump, the opening of a new landfill and closure of the old one in the municipality of Peja/Pec, as well as the closure of the illegal landfill site in Istok/Istog.

A feasibility study for Regional Landfills at the central level was being conducted at the time of drafting as well as a feasibility study to introduce integrated waste management to the Pristina region.

One of the main issues in Kosovo remains disposing of construction and demolition waste and local municipalities were invited to solve this problem by dedicating dumpsites and landfills for this type of waste, with the support of the government and international community.

137 According to the government, the main challenges to introducing the primary separation of waste relate to the absence of waste treatment and separation facilities, a lack of funds to scale up the system, an

inappropriate operator model for collection of recyclables, and a limited amount of recyclables to cover the operational costs for collection and re-separation.

[138] This project (conducted by the MEE, GIZ and EC) started in 2017 with 17 municipalities. The “race” they take relates to increasing the waste service coverage and waste collection rate, as well as cleaning up illegal dumpsites. The municipalities that “win” in the race can obtain funds for further improvements of the waste management system (a total of EUR 7 million is dedicated for this project – half of which is financed by donor funds and half by the budget). The objective is to have all 38 municipalities involved in this project by 2021. Only those municipalities that perform well are entitled to increase waste service fees in Kosovo.

[139] The Ibër Lepenc canal and the Gazivoda/Pridvorica Dam.

[140] Data from 2016.

[141] Two power plants (Kosovo A and Kosovo B) are among the most polluting in Europe (for air pollutants $PM_{2.5}$, $SO_2$ and NOx) (HEAL, 2016).

[142] According to the interview with Government of Kosovo representatives in October 2020.

[143] The project consists of four key components: 1) management and co-ordination – ensure collaborative management and co-ordination with key stakeholders and donors, and monitor activities following project indicators; 2) Air Quality Monitoring Network and sample analysis – include new monitoring and communication equipment for existing stations; and tools, equipment and training on maintenance, calibration and sample analysis (i.e. KHMI will be able to measure independently heavy metals in ambient particulate matter and will measure air pollution in 38 monitoring locations); 3) air quality and health advisory information management – provide a nearly real-time air quality reporting service (of monitored data), a short-term forecast service (integrating emissions data, air quality monitoring data and weather data to provide early warnings), and an open data platform for data sharing and dissemination; and 4) outreach and behaviour change – communicate air quality levels to the public, including the health impacts of air pollution, behaviours for reducing pollution and behaviours for minimising exposure to pollution.

[144] A total of 12 monitoring stations were established in 2013. However, in the following years maintenance problems occurred due to lack of budget, and some stopped working. Five stations have been rehabilitated since 2017, and the rest were in the process of rehabilitation at the time of drafting.

[145] Non-revenue water is water that has been produced and is lost before it reaches the customer.

[146] In a 2019 survey report for measuring satisfaction with water services provided by RWC Prishtina J.S.C, over 70% of respondents reported that they were very satisfied or satisfied with service provision. Among those moderately satisfied or not satisfied, none mentioned price as a factor. The same survey reported that over 93% of respondents regularly pay water bills. Less than 7% of respondents reported that due to poor social conditions they are not able to regularly pay water services (RWC, 2019[340]).

[147] Population that lives below the domestic poverty line of EUR 1.83/capita/day (in 2015) (World Bank, 2018[24]).

[148] Not for industrial waste or extractive remains, or huge amounts of industrial waste.

[149] A total of EUR 21 million will be invested as part of the project on the elimination and rehabilitation of contaminated land (hotspots). In the five-year implementation period the project components comprise: 1) identification of contaminated sites for cleaning and improvement; and 2) development of capacities for prevention and control of polluted land (development of policies and technical guidelines, training and awareness programme for the prevention and control of polluted places and green industries, development of an inventory of polluted land). Three areas have been identified: 1) ash landfill next to the thermal power plant Kosovo A; 2) polluted area around the Lepenc River; and 3) rehabilitation of the contaminated area in Artane (acidic water).

[150] As part of the NDS 2016-2021 the government envisages: 1) further development and support of land regulation projects and their subsequent integration into rural development projects; 2) implementation of structural reforms (with special focus on legal and institutional measures) to create better conditions for increased agriculture production; 3) creation of parcels of regular geometric shape that are suited to easier utilisation of agricultural machinery, and implement the Plot Identification System (LPIS); 4) establishment of field road networks that allow direct access to plots and eliminate seasonal servitude access to a property through someone else's property.

[151] The loss of agricultural land is a result of the limited environmental/nature conservation input when it comes to spatial/urban planning. The reclassification of land, land use conversion when agricultural land is reclassified for non-agricultural activity, residential, commercial, industrial.

[152] The implementation of this law and its guidelines are enabled through administrative instructions related to: 1) packaging and labelling of certified seeds; 2) tax for registration of subjects dealing with the test varieties for the production cultivation value; 3) printing labels for seeds; and 4) on-field inspections.

[153] The current document contains the following objectives: 1) enhancing farm viability and the competitiveness of all types of agricultural and primary food processing while progressively aligning with EU standards; 2) restoring, preserving and enhancing the ecosystem dependent on agriculture and forestry; 3) promoting social and economic inclusion, poverty reduction and balanced territorial development in rural areas; and 4) transfer innovation and knowledge in agriculture, forestry and rural areas and strengthen public administrative capacity in implementing rural development programmes.

[154] The investment support grants include: Measure 101 – Investments in physical assets in agricultural economies; Measure 303 – Implementation of local development strategies – Leader approach; Measure 302 – Diversification of farm and rural business development; Measure – Scheme for irrigation of agricultural lands; Measure 103 – Investments in physical assets in the processing and marketing of agricultural products.

[155] The 100% tax does not resolve trade problems with non-tariff barriers faced by Kosovo businesses exporting to Serbia. Empiric studies show that these barriers can become greater obstacles than tariff barriers, which were annulled with entry into force of CEFTA. As regards the impact on consumption prices, the tariff may have significantly increased consumption prices of food, which comprises the main expenditure in the Kosovars' consumer basket. Taking this into consideration, maintaining this tax for a longer period may increase poverty (GAP Institute, 2019[357]).

[156] The National Programme for the Implementation of the Stabilisation and Association Agreement 2020-2024, the fifth of its kind, aims to implement short- and medium-term reforms regarding political and economic criteria for adoption of EU *acquis* into domestic legislation.

[157] The Economic Reform Programme 2019-2021 (pg. 72) stated: "As several studies and assessment in the area of informal economy and tax gaps have shown the extent of informal economy in Kosovo is above 30% of GDP with substantial losses for major direct and indirect taxes." (Government of Kosovo, 2019[134]).

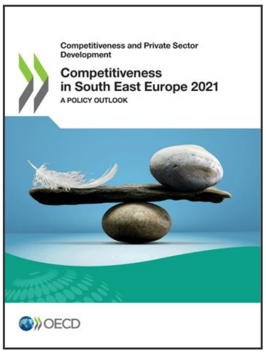
[158] More information at https://www.slovenia.info/en/business/green-scheme-of-slovenian-tourism.

[159] According to the government, examples of proposals by civil society organisations taken into consideration for the new action plan were the preliminary evaluation of internal control mechanisms, the publication of assets of officials kept in trust, and keeping minutes of recruitment and promotion interviews.

[160] Council Decisions page: https://www.gjyqesori-rks.org/vendimet-e-keshillit/; Job Opportunities page: https://www.gjyqesori-rks.org/mundesi-punesimi/?r=M&isJudge=1.

[161] Judgements page: https://www.gjyqesori-rks.org/aktgjykimet/?lang=en.

[162] Disciplinary Decisions and Statistics page: https://www.gjyqesori-rks.org/vendimet-e-komisionit-disiplinor/?r=M&tabId=1.




**From:**
# Competitiveness in South East Europe 2021
## A Policy Outlook

**Access the complete publication at:**
https://doi.org/10.1787/dcbc2ea9-en

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**Please cite this chapter as:**

OECD (2021), “Kosovo profile”, in *Competitiveness in South East Europe 2021: A Policy Outlook*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/573f3543-en



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