

Chapter 15. Kosovo: Small Business Act profile

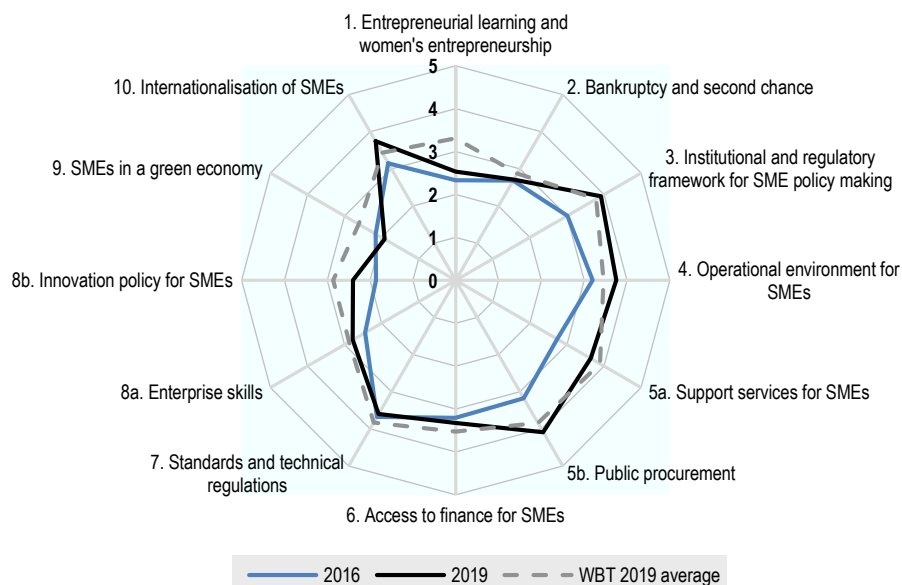
This chapter covers in depth the progress made by Kosovo in implementing the Small Business Act for Europe (SBA) over the period 2016-18. It starts with providing an overview of Kosovo's economic context, business environment and status of its EU accession process. It then provides some key facts about SMEs in the Kosovar economy, shedding light on the characteristics of the SME sector. It finally assesses progress made in the 12 thematic policy dimensions relating to the SBA during the reference period, and suggests targeted policy recommendations.

This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo's declaration of independence

The full version of this chapter is available at <https://doi.org/10.1787/g2g9fa9a-en>.

Key findings

Figure 15.1. Small Business Act scores for Kosovo (2016 and 2019)



Note: A direct comparison of the scores between the 2016 and 2019 assessments for Dimension 1 (Entrepreneurial learning and women's entrepreneurship) and Dimension 8a (Enterprise skills) should be treated with caution as the assessment methodology has changed significantly. See the Policy Framework and Assessment Process chapter and Annex A for information on the assessment methodology.

Kosovo has made good progress in implementing the Small Business Act since publication of the previous report – the *SME Policy Index: Western Balkans and Turkey 2016* (Figure 15.1). The policy frameworks and governing mechanisms, hastily established in the early 2000s, have been significantly strengthened, and a number of regulations have been brought into line with those of the EU. All of this has resulted in better regulatory conditions that come closer to levelling the playing field for SMEs and for entrepreneurship development. The main achievements that have helped Kosovo improve its performance in this assessment can be summarised as follows:

Regulatory barriers to entrepreneurship continue to decline sharply. The establishment of one-stop shops under the Kosovo Business Registration Agency was a milestone in reducing red tape and lowering barriers to entry for Kosovar entrepreneurs. Company registration time has been reduced by almost 50% within three years to 5.5 days in 2018, and the number of procedures required to start a business has been brought down to three – the lowest for the assessed economies.

The Kosovo Credit Guarantee Fund (KCGF) is boosting demand for loans among SMEs. Since its establishment in 2016, the KCGF has already developed a portfolio of around 1 550 loans, adding up to a total loan amount of EUR 59 million. By also collaborating with microfinance institutions and non-bank financial institutions – albeit currently at low levels – the fund has the potential to improve the economic sustainability of these institutions, and ultimately to facilitate micro enterprises' access to credit.

The institutional framework has become conducive to fostering innovation in enterprises. The establishment of the Ministry for Innovation and Entrepreneurship in 2017 has underpinned the institutional framework for streamlining innovation in policy making. Although its operational portfolio is still narrow, the ministry now has significant resources for rolling out new instruments to foster innovation and establishing innovation centres across the economy.

The legal framework for insolvency proceedings is stronger. The new laws on bankruptcy and business organisations, adopted in 2016 and 2018 respectively, now incorporate many features left out by the previous legislation, laying the basis for efficient insolvency procedures. Proceedings involving SME debtors are now treated as reorganisation cases which require a “monitor” to be appointed to assist SMEs in their reorganisation plans.

SMEs have easy access to the public procurement market. Thanks to a solid institutional and regulatory framework, a number of solutions have been implemented that theoretically facilitate SMEs’ access to public procurement. The documentation requirements have been streamlined further, and a cap has been put on the turnover required to participate in tender procedures. However, it remains to be seen to what extent SMEs’ share of the total value of public contracts awarded will be affected by these improvements.

Priority areas

Despite the improvements to the business environment brought about by effective regulation, there are a number of areas in which Kosovo still needs to step up its efforts. This report identifies seven priority areas for intensified activities:

- **Ensure sufficient resources are allocated to implement the Private Sector Development Strategy.** Scarce funds earmarked for the measures planned under the previous private sector development strategies meant that donor-funded initiatives usually filled the gap. Although this is not a bad thing in itself, the tacit expectation that donor funds will step in creates uncertainty around implementation, and contributes to delays. The over-involvement of various donors may also shift accountability for the strategy away from the government, diluting public priorities.
- **Improve SME uptake of business support services by redesigning the existing schemes.** Given the low number of applications from SMEs, the Kosovo Investment and Enterprise Support Agency (KIESA) should consider redesigning its application and co-financing procedures for its support services. It could start by matching its co-financing support to enterprise size. Moreover, it could reconsider the practice of only reimbursing beneficiaries after projects are completed as this might deter resource-poor micro and small companies from applying altogether.
- **Enhance SMEs’ access to finance by scaling up the KCGF and undertaking legislative reforms to broaden the range of alternative financial instruments.** Scaling up the KCGF further, and reviewing its overall performance – including its attractiveness to banks – would improve the external finance landscape for SMEs. Moreover, introducing the planned factoring law would improve the transparency and legal enforceability of factoring services, and be instrumental in improving SMEs’ cash flow management.

- **Develop the legal framework and necessary infrastructure to stimulate e-commerce.** A comprehensive legal framework to support the regulated use of e-commerce still needs to be developed. International electronic payments cannot be made effectively because of SMEs' limited access to third-party e-payment service providers linked to Kosovar banks. The logistics and transport infrastructure needed for e-commerce to flourish is also inadequate.
- **Focus on providing guidance to SMEs in adopting environmentally sound practices.** SMEs need to be nudged to adopt resource efficiency measures. To achieve this, activities need to be designed that raise SMEs' awareness of the fact that resource efficiency offers high returns for low-cost investments. A relevant public agency such as KIESA or the Kosovo Environment Protection Agency (KEPA) could provide direct advice to SMEs on saving energy, material and water costs.
- **Step up efforts to boost women's entrepreneurship.** Over 80% of Kosovar women do not participate in the labour market, and fewer than 10% of the economy's businesses are owned by women. Tailored policies and targeted measures are needed to address the challenges experienced by women entrepreneurs, in particular concerning asset ownership, access to finance, skills and entrepreneurship networks. Establishing an inter-ministerial co-ordination mechanism could be the first step towards unleashing the potential women's contributions could make to the economy.
- **Enhance SMEs' awareness of the newly adopted EU standards.** With 650 EU standards adopted in 2017 alone, SMEs in Kosovo struggle to keep up with the new standards they have to comply with. Organising workshops and preparing information materials on the new standards and their application should be a priority for the Kosovo Standardisation Agency. However, the agency's outreach first needs to be increased by allocating more human and financial resources.

Economic context and role of SMEs

Economic overview

Kosovo is a lower-middle income economy and one of only four economies in Europe to grow every year since the onset of the global financial crisis in 2008. With a population of 1.8 million, Kosovo is the second smallest economy in the Western Balkans after Montenegro.

The Kosovar economy has maintained consistent growth in recent years (Table 15.1). Real growth in gross domestic product (GDP) averaged about 3.2% per year¹ over 2013-17: a noteworthy performance compared to other economies in the region (EC, 2018^[1]). Despite recording positive growth rates, however, Kosovo was still the second poorest economy in Europe in 2017, after Moldova, with an average GDP per capita of USD 3 894.

Table 15.1. Kosovo: Main macroeconomic indicators (2013-18)

Indicator	Unit of measurement	2013	2014	2015	2016	2017	2018
GDP growth	% year-on-year	3.4	1.2	4.1	3.4	4.2	3.8**
Inflation	% average	1.8	0.4	-0.5	0.3	1.5	0.3**
Government balance	% of GDP	-3.1	-2.2	-2.0	-1.2	-0.8	..
Current account balance	% of GDP	-3.4	-6.9	-8.6	-8.3	-6.0	-6.5**
Exports of goods and services ¹	% of GDP	21.9	22.5	21.9	22.2	27.0	27.5**
Imports of goods and services	% of GDP	49.6	51.2	50.4	50.8	53.8	54.8**
Net FDI	% of GDP	5.3	2.7	5.3	3.6	4.5	3.7**
External debt	% of GDP	30.2	31.2	33.3	33.2	32.6	..
Gross international reserves	Ratio of 12 months imports of goods moving average	7.4	6.0	5.9	5.0	4.9	4.9**
Unemployment	% of total active population	30.00	35.3	32.9	27.5	30.5	27.9**
National GDP	Billion euros	5.3	5.6	5.8	6.1	6.4	..

Note: *projection; **average of 1st and 2nd quarter.

Sources: EC (2018^[2]), “EU candidate countries’ and potential candidates’ economic quarterly (CCEQ): 3rd quarter 2018”, https://ec.europa.eu/info/sites/info/files/economy-finance/tp028_en.pdf; EBRD (2018^[3]), *Transition Report 2018-2019: Work in Transition*, <https://2018.tr-ebd.com/countries/#>; Eurostat (2018^[4]), *Eurostat (database)*, <https://ec.europa.eu/eurostat/web/national-accounts/data/database>.

The non-tradable sectors dominate output and employment in Kosovo. Services are the largest sector in the economy, with a share of value added of 54% of GDP over 2009-17. Industry is small by regional standards, at 16.8% of GDP, of which manufacturing accounts for about 10%. The agricultural sector remains relatively large, at 11% of GDP (World Bank, 2016^[5]).

The economy is characterised by limited regional and global economic integration, and a high dependence on remittances from the Kosovar diaspora. Indeed, remittances are an important source of income for many households, and accounted for 12% of GDP in 2017 (EC, 2018^[6]). Yet, private consumption remains the main driver of growth (EC, 2018^[1]). However, although remittance inflows remain crucial for offsetting Kosovo’s trade deficit in goods and services (EC, 2018^[7]), they are rarely directed at investment and potentially discourage participation in the labour market (UNDP, 2016^[8]).

Despite being among the economies most open to foreign direct investment (FDI) according to the *OECD FDI Regulatory Restrictiveness Index*, the inflows of FDI remain limited, averaging 4.2% of GDP over 2013-17, and mainly originate from the large Kosovo diaspora (OECD, 2017^[9]; OECD, 2018^[10]). The sectoral distribution of FDI remains dominated by non-productive sectors, namely real estate and construction (EC, 2018^[6]; OECD, 2018^[10]), which has limited positive impact on the efficiency of Kosovar firms. Put differently, the current FDI composition does not allow for significant spillover effects.

Whereas its exports of goods and services represented only 26.5% of GDP in 2017, Kosovo relies heavily on imports, which accounted for 53.8% of GDP in 2017 (EC, 2018^[11]). These are expected to increase further due to sizeable infrastructure projects. In addition to being highly dependent on imported inputs for industrial production, Kosovo is also one of the largest per capita importers of food in Europe. Meanwhile, its export basket is among the least diverse in the region, relying overwhelmingly on low value-added goods, such as metals, minerals and other raw materials (EC, 2018^[11]). Coupled with high consumption, low exports yield a negative current account balance for the economy. With services being the fastest-growing exports sector – contributing 57.3% of gross value added in 2017 – these are helping reduce the considerable gap from trade in goods and mitigating external imbalances. For example, the current account deficit dropped from 9.1% in 2016 to 5.9% in 2017 (EC, 2018^[11]; EC, 2018^[7]). Yet the trade deficit remains high despite strong export growth, reflecting the economy's weak production base (EC, 2018^[7]). While the EU is the destination of 23% of Kosovo's exports, it accounts for about 42% of Kosovo's imports (Sanfey and Milatovic, 2018^[11]) and remains the economy's largest trade partner, representing 41% of overall trade in 2017 (EC, 2018^[7]).

Having unilaterally adopted the euro, and as a small economy markedly dependent on imports, Kosovo is highly sensitive to price developments in key trade partners. It is also vulnerable to fluctuations in global commodity prices, particularly food and energy. Indeed, mounting food and fuel prices in 2017 pushed inflation up to 1.5%, compared to 0.3% in 2016, and -0.5% in 2015. Nevertheless, Kosovo currently enjoys significant price stability thanks to the persistently low inflation in the Eurozone, the fall in global commodity prices and an exchange rate that is immovable in relation to the euro. Considering the projected acceleration of GDP growth, and higher inflation projections for EU Member States and other economies in the region, the government's expectation of subdued inflation (averaging 1.2% between 2018 and 2020) might be an underestimate (EC, 2018^[11]).

In the absence of monetary policy tools, fiscal policy remains Kosovo's principal macroeconomic policy instrument. In efforts to reduce its fiscal deficit, Kosovo has consolidated its rules-based fiscal framework and adjusted its deficit rule (2% of GDP) and the debt ceiling (40% of GDP). Despite shortcomings in the implementation of some important reforms, and challenges posed by its costly war veterans benefits scheme, strong economic growth and improved revenue collection brought about revenue growth of 9.4% in 2016 and 5.3% in 2017 (EC, 2018^[6]). In 2017, the fiscal deficit was 1.4% and the overall public debt level was 16.8% of GDP. Though relatively small, the latter has been on the rise, and is projected to reach 21% of GDP by 2020 (EC, 2018^[11]). On the other hand, shrinking the size of the informal sector and combatting corruption remain key policy priorities as they continue to cause significant fiscal losses.

Dominated by the banking sector, Kosovo's financial sector is stable, liquid and profitable: in 2017, the easing of credit standards and lower loan interest rates combined with robust demand from both households and businesses to generate credit growth of 11.5%, the strongest since 2011 (EC, 2018_[11]). However, Kosovo's 90% foreign-owned banking sector remains under-utilised, mainly due to poorly developed mortgage lending and widespread informality (Sanfey and Milatovic, 2018_[11]; EC, 2018_[11]). Notably, compared to other Western Balkan economies with persistently high levels of non-performing loans (NPLs), Kosovo has kept NPLs at the remarkably low rate of 3.1%.

Despite stable growth in recent years, Kosovo has the highest unemployment (32.9%) and the lowest labour force participation rate (37.8%), not only in the Western Balkans and Turkey (WBT) region,² but also lagging behind the EU (66.8%) and OECD averages (67%) (EC, 2018_[7]; EC, 2018_[11]). Women, youth and unskilled workers are particularly affected, but the structural problems in the labour market are pervasive for the entire Kosovar population. According to International Labour Organization data, the employment rate in 2016 was 43% for men and only 12.7% for women (ILO, 2018_[12]). Kosovo also has a very high youth unemployment rate (15-24 years). It hit an all-time high of 61% in 2014, but fell to 52.4% in 2016. The youth labour force participation rate for men is 28.8% compared to 12.7% for women. The severe youth unemployment problem and the high rate of unemployment among university degree holders reveal the misalignment between education system outcomes and labour market needs, calling for more active labour market policies (EC, 2018_[6]). Overall, the Kosovar labour market places a high demand on technical qualifications, but the vocational education and training (VET) system fails to deliver these in sufficient quantity and quality (EC, 2018_[11]). Progress is yet to be made in addressing the skills gaps in the labour market.

Improving the education system is a key policy challenge for the economy, as access to good-quality education remains problematic at all levels (UNDP, 2016_[8]). There is also a significant gender gap in education, particularly in higher education attendance (EC, 2018_[7]). In addition, Kosovo is the worst performer among WBT economies in the latest (2015) Programme for International Student Assessment (PISA) (OECD, 2017_[13]).

Business environment trends

The business environment in Kosovo has improved since the last assessment, mainly due to the simplification of business registration procedures and the improved legal framework which has strengthened the legal rights of borrowers and lenders. In addition, the new law on strategic investments – designed to simplify the investment process for investors and boost FDI – has helped in cutting red tape and increasing transparency.

Kosovo is considered to be doing better than other economies in the region when it comes to state-owned enterprises (SOEs). This is mainly because the government subjects parts of the SOE sector to specific laws, which impose additional reporting requirements. Kosovo has enacted important reforms, especially in its corporate governance code for SOEs, and has established an inter-ministerial recommendation committee to avoid the politicisation of board member nominations (OECD, 2018_[10]).

Despite these positive developments, the business environment in Kosovo continues to be hampered by a number of significant challenges including corruption, the informal economy and an unreliable supply of energy, as identified in Kosovo's Economic Reform Programme 2017-19 (Box 13.1). The fight against corruption has been among the priorities of the international community and, more recently, of the Kosovar government. The progress made towards corruption-proofing legislation remains poor. As result, in

2018, Kosovo was ranked 93th among 180 economies in the *Corruption Perceptions Index* of Transparency International – the third worst position in the WBT region (OECD, 2018_[10]; Transparency International, 2018_[14]).

Box 15.1. EU Economic Reform Programmes

Since 2015, all EU candidate countries and potential candidates are obliged to prepare Economic Reform Programmes (ERPs). ERPs prepare the enlargement countries for their future participation in the EU's economic policy co-ordination procedures. They also 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:

- public finance management
- energy and transport markets
- sectoral development
- business environment and reduction of the informal economy
- trade-related reform
- education and skills
- employment and labour markets
- social inclusion, poverty reduction and equal opportunities.

The European Commission and the European Central Bank then assess these seven programmes. This forms the basis for a multilateral economic policy dialogue involving the enlargement countries, 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 country-specific policy guidance reflecting the most pressing economic reform needs.

The findings of the Small Business Act assessment for the Western Balkans and Turkey provide the analytical background and guidance to the seven 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: EC (2018_[15]), Economic Reform Programmes: Western Balkans and Turkey, <https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/20180417-erp-factsheet.pdf>.

Kosovo's informal economy is estimated to constitute 31% of its GDP. Widespread informality leads to unfair competition, hindering access to finance and the ability of registered businesses to grow and innovate (EC, 2018_[7]). Moreover, it reduces wages and purchasing power, shrinks the economy's tax base and ultimately the state budget.

Another constraint on Kosovo's competitiveness is the inadequate and unreliable supply of energy. Kosovar firms face the most frequent power outages in the region, and there is substantial room for energy efficiency improvement (EC, 2018_[7]). Kosovo businesses incur about EUR 296 million annually in additional costs due to irregular energy supplies

(USAID, 2015^[16]). To address this issue, the government has announced the construction of a new 500 MW power plant by 2023 aimed at strengthening growth in the medium term and supporting the business environment by minimising power cuts. However, an outdated production capacity, a non-liberalised energy market and a tariff system that does not reflect real costs remain significant issues, among others, in Kosovo's energy sector (EC, 2018^[1]).

All in all, Kosovo is among the top ten economies showing the biggest progress in the World Bank's 2018 *Doing Business Report*, having moved up 35 places since 2015, ranking it 40th out of 190 economies (World Bank, 2017^[17]). The reforms that are making it easier to conduct business are highlighted in Table 15.2.

Table 15.2. Recent business reforms in Kosovo

	Reforms making it easier to do business	Reforms making it more difficult to do business
Doing Business 2019	Dealing with construction permits has become easier by streamlining the inspection system through the use of an in-house engineer. Paying taxes has also been made easier by allowing taxpayers to claim a value-added tax (VAT) refund on the standard VAT return form, by streamlining the VAT audit process and by eliminating the requirement to report purchases over EUR 500. Exporting has been made easier by streamlining customs clearance at the border.	None
Doing Business 2018	Starting a business became easier by simplifying the process of registering employees. Access to credit was strengthened by adopting a new law that establishes clear priority rules inside bankruptcy for secured creditors and clear grounds for relief from a stay for secured creditors in reorganisation procedures. Kosovo also facilitated resolving insolvency by introducing a legal framework for corporate insolvency, making liquidation and reorganisation procedures available to debtors and creditors.	None
Doing Business 2017	Kosovo simplified paying taxes by introducing an online system for filing and paying VAT and social security contributions, as well as making paying taxes less costly by allowing more types of expenses to be deducted from the calculation of corporate incomes tax. Moreover, trading across borders was facilitated by improving the automated customs data management system, streamlining customs clearance processes and implementing the Albania-Kosovo Transit Corridor.	None

Note: Only reforms which have had either a positive or a negative impact on conducting business were considered. Source: World Bank (2018^[18]), Doing Business 2019: Training for Reform, www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

EU accession process

Kosovo has been a potential EU candidate since 2008, and the co-operation between the EU and Kosovo picked up speed following the Stabilisation and Association Agreement (SAA), which entered into force in April 2016. This provides a comprehensive framework for closer political dialogue between the EU and Kosovo, and establishes a free trade area. Subsequently, the government adopted the National Programme for Implementation of the Stabilisation and Association, which is currently the key national policy document for EU accession. This programme sets out a comprehensive mid-term framework of all the reforms required to fulfil the obligations emerging from the SAA, namely the measures and priorities required for gradual approximation of national legislation with EU *acquis* (Ministry of European Integration, 2017^[19]).

In November 2016, Kosovo also adopted the European Reform Agenda, which set out priorities until the end of 2017. The agenda’s primary objective is to prioritise specific areas under the SAA, such as good governance and the rule of law, in order to boost the implementation of activities fulfilling them.

Every year the EU and the Kosovar authorities meet to discuss a wide range of policy issues and to agree on follow-up actions. Progress reports assess Kosovo’s readiness to move closer to the EU. The findings and recommendations published in the *SME Policy Index: Western Balkans and Turkey* provide the monitoring and guidance needed to help Kosovo meet the requirements related to their potential candidate status under the section on “Enterprise and industrial policy” in the progress report.

According to the latest progress report, published in April 2018, Kosovo is moderately prepared in the area of enterprise and industrial policy (EC, 2018^[7]). It has made some progress by introducing measures to improve the business environment. There is still a need to build up administrative capacity and ensure stronger inter-ministerial co-ordination. Kosovo was recommended to:

- introduce regulatory impact assessments to reduce the administrative burden on small and medium enterprises
- continue implementing the recommendations included in the SBA assessment
- ensure the alignment of the Law on Economic Zones with the EU *acquis*.

The Kosovo Investment and Enterprise Support Agency (KIESA) acts as the SBA Co-ordinator responsible for implementing the SBA principles. In January 2017, the SBA National Coordination Group was established, comprising 12 working groups. Each of these working groups was responsible for undertaking a different policy dimension under the SBA assessment, led by the OECD. Although some of these groups were not operational at the time of writing, this development highlights the importance placed on the SBA Assessment in Kosovo at the political level.

Furthermore, the new government, appointed in September 2017, has committed itself to implementing EU-related reforms. In that context, the Kosovo Assembly ratified the border demarcation agreement with Montenegro in March 2018. This is an important achievement and fulfils one of the key criteria for Kosovo’s visa liberalisation (EC, 2018^[7]).

February 2018 saw renewed momentum for EU accession among the Western Balkans economies following a statement from the European Commission seeking “a credible enlargement perspective for an enhanced EU engagement with the Western Balkans” (EC, 2018^[20]). The EC launched its new Western Balkans accession strategy, which

details six flagship reform initiatives, including addressing key issues surrounding rule of law, security and migration, increased connectivity and neighbourly relations. They also incorporate important elements that support SME policy and Chapter 20 (Enterprise and industrial policy) preparedness in the *acquis*, namely: socio-economic development and a digital agenda.

EU financial support

The European Union – both its member countries and its institutions, notably the European Commission – has played a prominent role in Kosovo’s reconstruction and development. Kosovo has received more than EUR 2.3 billion in EU assistance since 1999, and close to EUR 1 billion in support to international presence since 1999 (European Commission, 2016^[21]). The EU is by far the single largest donor providing assistance to Kosovo and the Western Balkan region, and is at the forefront of the reconstruction effort.

In addition to the EU assistance funds, EUR 149 million has been provided to Kosovo in European Investment Bank loans since 1999, and another EUR 95.7 million in Western Balkans Investment Framework grants since 2009, leveraging investments estimated at EUR 764 million (EC, 2018^[22]).

In December 2017, an agreement was signed on Kosovo’s participation in the EU Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme. Kosovo will be able to access COSME funding once internal procedures for the approval of the agreement are complete. Kosovo should start developing measures to raise awareness among business stakeholders and ensure their active participation in the programme.

SMEs in the national economy

Kosovo’s classification of SMEs is defined by the law on foreign investment which entered into force in 2014. The only criterion is employment size, which is in line with the EU definition (Table 15.3).

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

	EU definition	Kosovo definition
Micro	< 10 employees, turnover or balance sheet total ≤ EUR 2 m	< 10 employees
Small	< 50 employees, turnover or balance sheet total ≤ EUR 10 m	< 50 employees
Medium	< 250, turnover ≤ EUR 50 m or balance sheet total ≤ EUR 43 m	< 250 employees

Note: In Kosovo the classification of SMEs is defined by Law No. 04/L-220 on Foreign Investments. The SME categorisation is based on the number of employees (Article 2, paragraph 1.21).

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

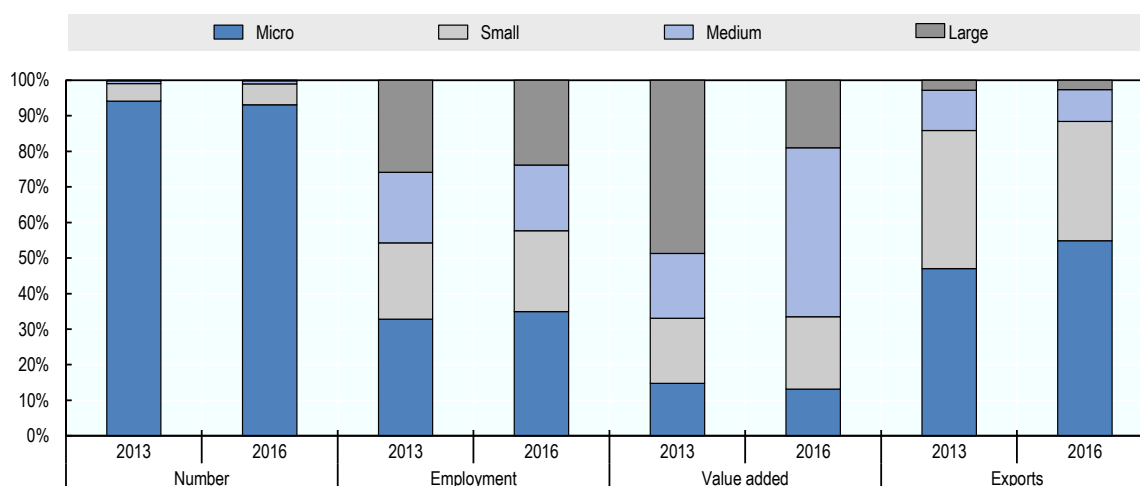
Source: Republic of Kosovo (2014^[23]), *Law No. 04/L-220 on Foreign Investment*, <https://mti.rks-gov.net/desk/inc/media/1916AE1F-48E8-451D-A328-CA350EC4D7D2.pdf>.

Kosovo’s business sector is made up almost entirely of SMEs. There are around 38 000 registered enterprises operating in Kosovo, 93.1% of which are micro enterprises,

5.9% are small and 0.9% are medium sized. Only 0.1% of the total business population are classified as large enterprises.

SMEs contribute to 76.2% of total business sector employment and account for 81% of total value added of the business sector. However, at 13.2% the added value created by micro enterprises remains very low compared to other economies in the region. The biggest value creation (47.5%) comes from medium-sized enterprises, which represent less than 1% of the business population, which employ one-fifth of the total business sector employment. By contrast, the contribution of large enterprises to value added has been declining since 2013 (Figure 15.2). According to data provided by the Statistical Agency of Kosovo, the share of SMEs owned by women in Kosovo slightly decreased from 10.54% in 2013 to 10.24% in 2016.

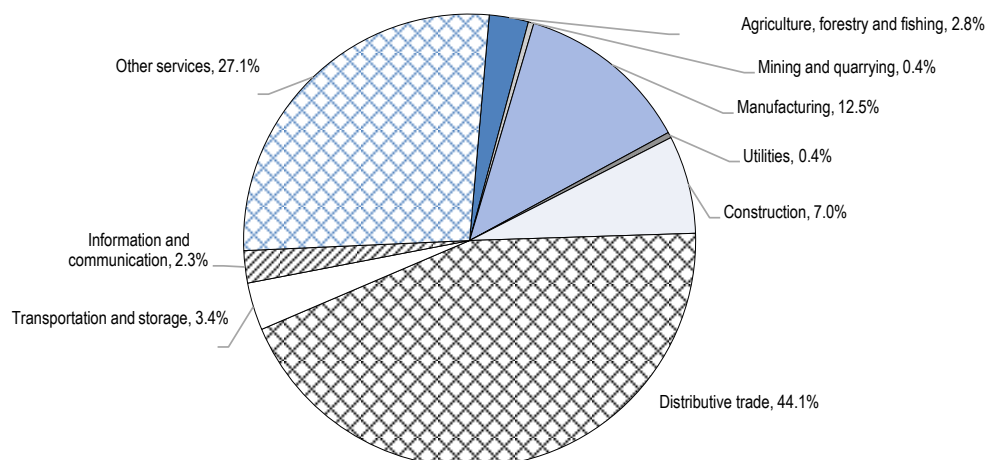
Figure 15.2. Business demography indicators in Kosovo (2013 and 2016)



Source: Statistical Agency of Kosovo, 2018.

StatLink  <http://dx.doi.org/10.1787/888933937869>

In Kosovo, SMEs mostly operate in the distributive trade sector (44.1%), while 12.5% operate in the manufacturing sector, but with a low level of integration into the global value chain (EC, 2018^[1]); 7% in the construction sector, just 2.8% in the agricultural sector, and 0.4% in the mining and quarrying sectors (Figure 15.3). Regarding the geographic distribution of enterprises, around one-third of all registered enterprises are located in the district of Pristina (Table 15.4).

Figure 15.3. Sectoral distribution of SMEs in Kosovo (2016)

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

Source: Statistical Agency of Kosovo, 2018.

Table 15.4. Number of registered companies in Kosovo by enterprise size and district

District	Year	Enterprise size, by employment				Total	Share of total number of enterprises
		0-9	10-49	50-249	250+		
Gjakova	2013	3 275	136	10	0	3 421	10.02%
	2017	3 408	162	17	2	3 589	9.40%
Gjilan	2013	3 397	150	20	0	3 567	10.45%
	2017	3 580	233	20	0	3 833	10.04%
Mitrovica	2013	2 755	96	14	3	2 868	8.40%
	2017	3 069	146	23	2	3 240	8.49%
Peja	2013	2 863	130	29	1	3 023	8.86%
	2017	3 189	185	23	2	3 399	8.90%
Prizren	2013	5 310	232	27	5	5 574	16.33%
	2017	5 625	317	34	3	5 979	15.66%
Pristina	2013	10 845	789	166	38	11 838	34.68%
	2017	12 605	1 111	216	47	13 979	36.62%
Ferizaj	2013	3 683	142	20	1	3 846	11.27%
	2017	3 898	231	28	1	4 158	10.89%
Kosovo	2013	32 128	1 675	286	48	34 137	100.00%
	2017	35 374	2 385	361	57	38 177	100.00%

Source: Statistical Agency of Kosovo, 2018.

Assessment and recommendations

Process

The Small Business Act (SBA) assessment cycle was launched in Kosovo with a kick-off meeting in Pristina on 12 October 2017. During the meeting, the new assessment framework (see Policy Framework and Assessment Process chapter and Annex A for details) was presented to line ministries and public institutions so they could contribute to the information collection process. The two documents making up the assessment framework – the questionnaire and statistical data sheet – were explained in depth to the participants, directing particular attention to the newly added questions and indicators.

Following the launch event, the Kosovo Investment and Enterprise Support Agency (KIESA) distributed the questionnaire to the appropriate counterparts in the ministries and government agencies, and sent the statistical sheet to the National Statistical Office of Kosovo. From October 2018 to January 2019, the necessary data and documentation were compiled, subsequent to which the questionnaire was completed. In so doing, a score for each policy dimension was assigned, accompanied by a justification. The completed questionnaires and statistical data sheet were sent to the OECD team on 15 January 2018.

The review of the inputs by the OECD and partner institutions revealed the need for additional information on statistical data. This was requested from KIESA, which sent back the updated statistical sheet on 27 February 2018.

Meanwhile, an independent assessment was also conducted by the OECD and its partner organisations. This was based on inputs from a team of local experts in Kosovo, who collected data and information and conducted interviews with key public and civil society stakeholders, as well as with SME representatives.

Following the completion of the government self-assessment and independent assessment, a reconciliation meeting was organised by the OECD in Pristina on 17 April 2018. The meeting aimed to fill any remaining information gaps in the questionnaire, while also serving as an opportunity to seek the views of a broad range of policy stakeholders on how SMEs are affected by current policies, and what else can be done across various policy areas to improve SMEs' performance and competitiveness in Kosovo. For the two policy dimensions (entrepreneurial learning and women's entrepreneurship, and enterprise skills) whose assessment was led by the European Training Foundation (ETF), similar meetings took place in Pristina on 24-25 January 2018.

The reconciliation meeting allowed the assessment findings to be consolidated. The OECD and its partner organisations decided on the final scores under each policy dimension presented in this report. The preliminary findings and scores were subsequently presented to SBA Co-ordinators at a meeting in Paris on 14 July 2018. The draft SME Policy Index publications and the SBA Assessment profile of Kosovo were made available to the Kosovar Government for their review and feedback during August-October 2018.

Scoring approach

Each policy dimension and its constituent parts are assigned a numerical score ranging from 1 to 5 according to the level of policy development and implementation, so that performance can be compared across economies and over time. Level 1 is the weakest

and Level 5 the strongest, indicating a level of development commensurate with OECD good practice (Table 15.5).

For further details on the SME Policy Index methodology and how the scores are calculated, as well as the changes in the last assessment cycle, please refer to Annex A.

Table 15.5. Description of score levels

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

Entrepreneurial learning and women's entrepreneurship (Dimension 1)

Kosovo has made some progress in implementing entrepreneurial learning, and is progressing well in developing policy for entrepreneurship key competences. Despite this, its overall score of 2.53 (Table 15.6) ranks Kosovo the lowest in the region for this dimension alongside the Republic of North Macedonia. A weak monitoring and evaluation framework for entrepreneurial learning and women's entrepreneurship negatively affects Kosovo's performance in this policy dimension.

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

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 1: Entrepreneurial learning and women's entrepreneurship	Sub-dimension 1.1: Entrepreneurial learning	Planning and design	3.00	3.73	
		Implementation	3.59	3.61	
		Monitoring and evaluation	1.00	2.57	
		Weighted average	2.89	3.43	
	Sub-dimension 1.2: Women's entrepreneurship	Planning and design	2.33	3.57	
		Implementation	1.86	3.16	
		Monitoring and evaluation	1.80	2.37	
		Weighted average	1.99	3.12	
	Kosovo's overall score for Dimension 1			2.53	3.31

State of play and key developments

Entrepreneurial learning

At a policy level, Kosovo's economic development is clearly linked to human capital. Kosovo's revised Strategic Development Plan for Education 2017-2021 sees education as a function of the economy's economic and social development. Through the chapter on human capital development, the strategy is aligned with the National Development Strategy 2016-2021, led by the Prime Minister's Office. The Strategic Development Plan for Education proposes concrete activities to better link education and the labour market by facilitating access to smart specialisations³ in line with the Europe 2020 strategy. However, the SME Development Strategy (2012-16), previously used to steer donors' SME support activities, has been merged with the Private Sector Development Strategy foreseen to be approved early 2019.

Co-ordination, aligning plans and priorities, and monitoring them in the education system remain challenging. No progress has been made on government approaches to collaboration across ministries on entrepreneurial learning and key competences, or to improve the involvement of municipalities, higher education institutions and the private sector, which is essential for advancing the implementation of education reform. The areas of entrepreneurial learning and entrepreneurship key competences are especially in need of a co-ordinated planning and monitoring framework as they are spread across multiple policy documents, such as the Kosovo Strategic Development Plan for Education (2017-21), the Action Plan on Increasing Youth Employment (2018-2020) and the National Development Strategy (2016-2021). There are some policy partnerships

between relevant ministries and other stakeholders to promote entrepreneurship education, however. These include the Ministry of Education, Science, and Technology, which leads the Council for Vocational Education and Training (established in 2012); and the new Ministry of Innovation and Entrepreneurship, which leads the National Council for Innovation and Entrepreneurship (set up in November 2017). Data collection on implementing entrepreneurial learning is also a problem, and affects Kosovo's ability to monitor and evaluate impact.

Kosovo has a policy commitment to the entrepreneurship education agenda, and the Ministry of Education has made good progress implementing entrepreneurial learning in primary and secondary education as part of a course on entrepreneurship and technology. Within the VET system, key competences are in the drafting phase and will focus on developing self-employment skills by teaching people how to spot self-employment opportunities and act upon them. The Action Plan for Increasing Youth Employment 2018-2020 is the main reference document, and includes activities to develop entrepreneurship as a key competence in formal education and to promote non-formal entrepreneurial learning. Its implementation is supported financially by the government.

Women's entrepreneurship

Kosovo has not made significant progress in advancing women's entrepreneurship. The Prime Minister's office has a separate agency that co-ordinates, informs and encourages women to be included in business activities. Women's entrepreneurship is mainstreamed and each sector ministry is responsible for sector policy guidance, supervision, co-ordination, implementation and monitoring within their sector of activity. The Ministry of Local Government Administration is responsible for co-ordinating and implementing activities at subnational level, as well as leading the collection and dissemination of gender disaggregated data across all sector ministries. The main policy documents that could serve as references for women's entrepreneurship are the Ministry of Trade and Industry's now expired Private Sector Development Strategy (2013-17), which refers specifically to women; and the SME Development Strategy (2012-16), also expired, as Strategic Goal 7 was dedicated to "improving the position of female entrepreneurs". The new strategy on private sector development, which is currently under public hearing, foresees the improvement and positioning of women in entrepreneurship.

Kosovo continues to suffer from lack of co-ordination in the area of women's entrepreneurship. The only formal policy platform currently used is the National Council for Economic Development. The council, chaired by the Prime Minister, organises and co-ordinates all activities of state institutions, aiming to eliminate barriers and improve the environment of business and investment in the economy. The council regulation does not specifically mention women's entrepreneurship nor is there a dedicated sub-group. The Economic Chamber of Women in Kosovo, working on a National Agenda of Women's Economic Empowerment, is the only civil society organisation working on women's entrepreneurship to take part in the council. No other structured co-ordination mechanism driven by non-governmental organisations currently exists to improve the visibility of women in entrepreneurship, and neither is there government financing available to build such capacity from the ground up.

An important success in mainstreaming gender is the imposition by the Government of Kosovo of a minimum threshold quota for women to be fulfilled in all financial support for pre-start-ups, start-ups and technology start-ups. In addition, a new law (Law No.

06/L-016 on Business Organizations 05/2018) stipulates that Joint Stock Company boards must be comprised of at least 40% women and, two years after registration, at least 50%.

The way forward for Dimension 1

Kosovo is performing below the regional average on entrepreneurial learning and women's entrepreneurship. The following steps could help advance progress on this dimension:

- **Strengthen appropriation of entrepreneurship as a cross-cutting competence.** The Ministry of Education, Science and Technology needs to further strengthen the key competence approach and move towards the horizontal adoption of entrepreneurship key competences across curricula and levels of education. Teacher training programmes that include active learning methods for entrepreneurship key competence development need to be made available for in-service training.
- **Facilitate education-business co-operation for the purposes of entrepreneurial learning.** Stronger education-business co-operation represents an untapped opportunity to help bridge the gap between the skills needed in the labour market and those offered by education and training providers. Examples of good co-operation between the public and private sector include partnerships like the one between the Pristina International Airport and the Ministry of Education, Science and Technology on the Limak Airport Services Institute, which addresses the skills gap in the aviation sector. The Kosova Education Center (KEC) under the Ministry of Education, Science and Technology, and the Institute for Research and Development in Education under the Faculty of Education could be engaged to improve the educational process through purposefully designed education-business co-operation, incorporating internships into curricula and learning outcomes.
- **Facilitate education-business co-operation through teacher training and reward mechanisms.** Education-business co-operation relies heavily on active teachers and their desire to incorporate SMEs in their teaching. Upskilling teachers by integrating education-business co-operation into their education and training provision – and establishing mechanisms for its recognition – would stimulate this collaboration. The Pedagogical Institute, together with the KEC, could be engaged to design education-business co-operation to improve teachers' practical entrepreneurship skills. Types of education-business co-operation could include: mobility of students, upskilling the existing SME workforce (fostering the commitment of companies to lifelong learning), employer-led education and training provision, and collaboration in research and development with both higher education institutions (the University of Pristina currently uses business games, for example) and VET providers.
- **Build up decentralised capacity to connect business and education and training providers.** Local authorities could play an important role in shaping the development of the territory through facilitating interaction between business and education and training provision e.g. by developing curricula and approaches to teaching and learning that meet the needs of employers. Such a role is currently played by central authorities, for instance by the Ministry of Trade and Industry that together with the Ministry of Labour and Social Welfare implemented, in

partnership with the business community, a Business Internship project which enabled students to combine their knowledge with the professional abilities required by a specific business.

- **Formalise co-ordination on women’s economic empowerment.** Empowering women in the economy is a prerequisite for Kosovo’s growth, competitiveness and overall sustainable socio-economic development. Kosovo would benefit from strong high-level political leadership in recognising that the full potential of women’s contribution to Kosovo’s economy remains untapped. By creating a formal inter-ministerial group, possibly a sub-group under the National Council for Economic Development, support to women’s entrepreneurship would be better co-ordinated and made more efficient. The sub-group could help to conclude the National Agenda of Women’s Economic Empowerment, develop an action plan for its implementation and take over the role of leading the collection and dissemination of gender-disaggregated data from the Ministry of Local Government Administration. Examples from EU and OECD countries might offer guidance when developing an action plan (Box 15.2).
- **Develop a co-ordinated framework for monitoring and evaluation in order to bring about positive change.** Monitoring and evaluation remain the weakest areas in the SBA assessment – Kosovo needs to address the skills data challenge head on. The National Council for Innovation and Entrepreneurship could establish a monitoring mechanism, in collaboration with KIESA, to conduct skills tracking as a routine process of collecting and recording information across multiple policies and sectors. This would provide up-to-date intelligence from employers and industry to ensure the relevance of education and training provision to SMEs. At present, however, the Ministry of Innovation and Entrepreneurship, under which the council sits, has been allocated no additional financial resources to cover the costs of leading the council so all costs must be absorbed by the existing budget. Without dedicated resources (financial, human and equipment) there can be no co-ordinated planning and monitoring framework that contributes to rational, evidence-based, skills policy and outcome-oriented governance of SME support.
- **Renew the National Strategy for Entrepreneurship Education and Training.** The National Council for Innovation and Entrepreneurship could take on the review of this now expired national strategy.

Box 15.2. France’s Women’s Entrepreneurship Plan

The Women’s Entrepreneurship Plan was launched in August 2013 by the ministries of women’s rights; national education; higher education and research; and the Delegate Ministry for SMEs, Innovation and the Digital Economy. It aims to increase the proportion of women in new business start-ups from 30% in 2012 to 40% in 2017.

Two of the three pillars of the action plan focus on skills development. The first pillar aims to improve communication on entrepreneurship by strengthening entrepreneurship in the education system, supporting promotional events such as the Entrepreneurship Awareness Week and the launch of a new website (www.ellesentreprennent.fr), which provides information and links to available support programmes (e.g. training, mentoring).

The second pillar boosts individual support for women entrepreneurs with the creation of 14 regional support networks that provide mentoring to women entrepreneurs. Some of these networks offer general support, while others offer tailored support for specific groups such as innovative women entrepreneurs or older women entrepreneurs. One of the main objectives of these networks is to strengthen support for women entrepreneurs in rural areas.

The third pillar improves access to finance for women entrepreneurs. The approach built a partnership with the *Caisse des Dépôts et Consignations*, two banks (BPCE and BNP Paribas) and financial networks (France Active and Initiative France), which organise breakfast meetings and networking events for entrepreneurs and financial institutions. In addition, the government facilitates loans for women entrepreneurs through the loan guarantee *Fonds de garantie à l'initiative des femmes* (FGIF). As of September 2015, the ceiling for the guarantees was EUR 45 000.

In 2013, the initiative mobilised a network of 130 women entrepreneurs, and reached 260 young women who were interested in becoming entrepreneurs. There were 400 promotional events in 2015, which was double the number in 2014. The FGIF assisted 2 075 women to start businesses in 2015 and helped create 3 095 jobs.

The key to the success of this initiative is that it is an integrated approach that touches pre-start-up, start-up and business development activities. Thus, the three pillars reinforce each other because people can move through the different stages of support as their business project develops.

Source: Government of France (2018^[24]), *L'entrepreneuriat: Redonner de la Compétitivité aux Entreprises*, www.gouvernement.fr/action/l-entrepreneuriat (in French).

Bankruptcy and second chance (Dimension 2)

Since the last assessment, Kosovo has made progress in adopting new laws that allow for effective bankruptcy proceedings. Kosovo's score in this assessment has slightly increased from 2.68 to 2.71 (see Table 15.7), reflecting this enhanced legal framework. Nevertheless, due to its low enforcement capacity and lack of second chance policies, it still performs slightly below the regional average of 2.87 (Table 15.7).

Table 15.7. Scores for Dimension 2: Bankruptcy and second chance

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 2: Bankruptcy and second chance	Sub-dimension 2.1: Preventive measures		2.29	2.39
	Sub-dimension 2.2: Bankruptcy procedures	Design and implementation	3.41	3.71
		Performance, monitoring and evaluation	2.40	2.46
		Weighted average	3.01	3.21
	Sub-dimension 2.3: Promoting second chance		1.90	1.93
Kosovo's overall score for Dimension 2			2.71	2.87

State of play and key developments

Preventive measures and bankruptcy procedures

The previous regulation on Liquidation and Reorganisation of Legal Persons in Bankruptcy was replaced with a new bankruptcy law⁴ in July 2016, leading to a number of crucial changes (Table 15.8). Most notably, the new law includes a chapter on SMEs,⁵ and Article 12 states that proceedings involving an SME debtor shall be treated as reorganisation cases, with the SME required to file a reorganisation plan within 30 days following the initiation of bankruptcy proceedings. Article 13 stipulates the appointment of a “monitor”, charged with assisting SMEs in their reorganisation plans.

In addition, in March 2018 a new Law on Business Organisations was adopted, setting out regulations governing bankruptcy and insolvency proceedings for limited liability and joint stock companies.

In terms of preventive measures, the Tax Administration of Kosovo (ATK) runs an early warning system, which operates according to the companies' tax declarations, to identify financially distressed companies. The ATK has a right to submit a petition for involuntary bankruptcy if all of the following conditions are met:

- a debt has been due for at least 60 days
- the tax debtor owes the ATK more than EUR 2 000
- the debt is not conditional or subject to a *bona fide*⁶ dispute.

Kosovo's legislation allows restructuring to take various forms, such as debt forgiveness, debt rescheduling, debt-equity conversions and the sale of the business or its parts. The recovery rate in Kosovo is steadily increasing: in 2016 it was at the level of 37.7 cents in the dollar, while in 2018 this figure had risen to 39.4 cents in the dollar (World Bank, 2018_[18]). However, insolvency proceedings remain relatively expensive, costing on average 15% of the estate, compared to the OECD average of 9.6%.

Table 15.8. Overview of the changes introduced in the new insolvency framework

	Previous framework	New framework
Can a debtor initiate liquidation or reorganisation procedures?	No liquidation or reorganisation available.*	Yes. Debtors can initiate both procedures.
Do creditors vote on the reorganisation plan?	No reorganisation available.	Yes. Creditors whose rights are affected by the proposed plan vote on it.
Can a court invalidate preferential and undervalued transactions concluded before insolvency proceedings?	No provisions.	Yes.
Can a debtor obtain credit after commencement of insolvency proceedings?	No provisions.	Yes. The debtor or the administrator may obtain new financing after the commencement of insolvency proceedings and the priorities of the new financing are clearly established.
Can creditors participate in important decisions?	No provisions.	Yes. Every creditor has the right to request information on the debtor's financial situation from the insolvency representative and may object to the decision

Note: *Previously there was a special law on reorganisation allowing state-owned companies to restructure/reorganise their debts.

Source: World Bank (2017^[17]), *Doing Business 2018: Reforming to Create Jobs*, <http://dx.doi.org/10.1596/978-1-4648-1146-3>.

Out-of-court settlement does not exist in Kosovo as an alternative way to file for bankruptcy. However, since 2008 the legal framework has allowed creditors and debtors, once the insolvency proceedings are initiated, to go into mediation to resolve disputes under the supervision of a neutral mediator.

Some measures on the timing of formal discharge procedures were also introduced into the legal framework in 2017. The debtor can be discharged of responsibility when the liquidation case is closed, or when the business registry or tax administration is notified about the closure of the case. For SMEs the law states that an SME debtor shall receive a discharge on confirmation of its plan during the reorganisation phase. However, these improvements are not necessarily reflected in the statistics during the assessment period as the average time to resolve insolvency (two years) has not changed since 2016 (World Bank, 2018^[18]).

In order to provide protection to all parties involved in a transaction, Kosovo established the Law on Payment System and Law on Prevention of Money Laundering and Terrorist Financing in November 2016. The legislation specifies that a debtor gives the creditor the right to own the property held by the debtor. This legal provision ensures that in case of bankruptcy, the property included in the secured transaction agreement fulfils the financial obligations of the debtor. In turn, the creditors are secured against loss, and are paid first in the case of business liquidation.

The Credit Registry division of the Central Bank of Kosovo monitors and oversees reporting and updating data submitted by institutions defined under the Credit Registry Regulation. However, this cannot be considered as a monitoring and evaluation mechanism of the bankruptcy law as it is limited to the publication and update of distressed companies.

Promoting second chance

Kosovo has taken no initiatives to promote second chances among entrepreneurs, with no national strategy or promotion campaign planned. In addition, Kosovo does not provide any sort of mentoring support to potential entrepreneurs who fear failure.

The way forward for Dimension 2

Despite having introduced changes into the legislative framework concerned with bankruptcy and second chance, some challenges remain. The following measures would be helpful:

- **Develop a fully-fledged “early stage” warning system:** SME owners have a tendency to underestimate their financial difficulties and to resist taking action to alleviate their hardship. In addition to the measures undertaken by tax authorities, Kosovo should consider introducing a system which would convince those entrepreneurs to initiate recovery measures. Such a system might take different forms. However, first it should devise special procedures to screen and monitor early signs to detect SMEs in financial difficulties. Second, the identified SMEs need to be approached and advised on objectively assessing their financial situation, as well as on the various options available to them concerning recovery. Once they are better informed, SMEs would be able to take the required steps at an earlier stage, hence increasing their chances of survival. Early warning mechanisms established in the EU states could offer a blueprint for Kosovo (Box 15.3).
- **Improve the legal framework and develop initiatives to reduce cultural stigma surrounding entrepreneurs’ failure.** A clear distinction has to be made between measures or regulations that apply to fraudulent bankruptcies and those that apply to honest ones – this distinction can be instrumental in changing society’s attitude towards debtors. However, amendments to the legal framework alone are not enough: they should be complemented by initiatives promoting a fresh start and a culture that is receptive to and tolerant of failure. Workshops and seminars aimed at sharing the lessons learned from previously bankrupt entrepreneurs can remove the stigma surrounding bankruptcy and failure.
- **Further reduce the average cost and duration of bankruptcy proceedings.** There is a strong correlation between the average cost and the duration of bankruptcy proceedings. Considering this, stricter rules should be enforced related to the management of bankruptcy estate, as well as the fees and awards paid to bankruptcy administrators. For instance, setting a time limit for the period during which fees are paid to bankruptcy administrators would provide additional incentives for the quick resolution of bankruptcy cases, thus decreasing the associated costs of proceedings.
- **Make the existing mediator system available before the opening of bankruptcy cases.** Kosovo does not currently have out-of-court settlements, however it does allow mediation through chambers of commerce once a bankruptcy case is filed. This system could be extended to enable mediation to take place immediately upon receiving a signal from the tax administration or a well-designed early warning system, before a court case is actually initiated. This approach offers a less expensive and faster alternative to filing for bankruptcy, and also supports the economy by reducing the number of liquidations, the size of

the administrative burden, and costs for SMEs, as well as shortening the time taken to resolve insolvency.

Box 15.3. Early Warning Europe

The international project Early Warning Europe (EWE) was developed with the objective of promoting SMEs' growth across Europe by assisting them during financially difficult periods. In 2016, Early Warning Europe applied for funding through Europe's Competitiveness of Enterprises and Small and Medium-Sized Enterprises (COSME) programme and obtained almost EUR 5 million. The first wave of the project ran for three years and focused on setting up a full-scale early warning mechanism in Poland, Italy, Greece and Spain.

The consortium is comprised of 15 partners in 7 countries including mentor partners Early Warning Denmark, TEAM U in Germany, Dyzo in Belgium, authority partners such as the Danish Business Authority, the regional government of Madrid and the Polish Agency for Enterprise Development, as well as EU-level associations such as the, European Small Business Alliance, Eurochambres and SME United. The Early Warning Europe project is financed by COSME and aims to provide assistance to businesses and entrepreneurs in trouble, as well as those who wish to better anticipate problems. The project builds new best practice and draws on existing experience from these 15 organisations. Currently, five new EU Member States are in the process of joining the EWE community, and several others have expressed their interest. EWE is open to all COSME countries, and the expansion in phases gives access to the early warning mechanisms foreseen in the upcoming EU Directive on preventive restructuring frameworks, second chance and measures to increase the efficiency of restructuring, insolvency and discharge procedures.

The consortium is composed of three groups of organisations: 1) mentor organisations with substantial experience in providing support to companies in distress; 2) national or regional organisations that intend to implement early warning mechanisms; and 3) organisations that are responsible for supporting the pan-European communication and dissemination activities of the project.

Through EWE, entrepreneurs can receive help from consultants to get a clear overview of the company, identify the areas which are causing problems, and propose further remedial activities. The second step of the restoration process is collaboration with a mentor. Mentors work closely with the entrepreneur providing expertise, knowledge and support to get the enterprise back on the right track. Alternatively, they can guide companies toward a quick, organised closure when this is the best option for the company. This also contributes greatly to the company owner's chances of a second start and reduces the loss for the owner, the creditors and society as a whole.

Independent evaluations show a highly positive impact on society of the Early Warning system in terms of jobs saved and savings for the public treasuries. Evaluations show a general saving of 20% for the public treasuries on company closures under the Early Warning mechanism, a high level of job preservation and significantly better first-year turnover and growth after the Early Warning intervention.

An innovative element of the project is the introduction of artificial intelligence and the processing of big data in detecting early signs of distress in companies. Early Warning Europe has developed a data model that identifies the probability of distress in companies in Poland, Italy, Greece and Spain based on publicly accessible data, allowing the network

partners to proactively assist companies that may not otherwise realise their problems before it is too late.

Currently the project has the support of more than 500 mentors. The support provided is impartial, confidential and free-of-charge. In the first wave, EWE provided support to 3 500 companies in distress in Poland, Spain, Italy and Greece. In its second wave (2017-19) the project will support the establishment of early warning mechanisms in five additional EU Member States, with the ultimate goal of establishing early warning mechanisms in all EU Member States.

Source: Early Warning Europe (2018^[25]), *Early Warning Europe website*, www.earlywarningeurope.eu.

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

Of all the assessed economies, Kosovo has progressed most in this dimension, from 3.01 in 2016 to 3.92 (see Table 15.9 and Figure 15.1), signalling an important shift from an advanced policy design to effective implementation. Kosovo has improved its performance in all the policy aspects covered under this dimension.

Table 15.9. Scores for Dimension 3: Institutional and regulatory framework for SME policy making

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 3: Institutional and regulatory framework for SME policy making	Sub-dimension 3.1: Institutional framework	Planning and design	3.71	4.06	
		Implementation	4.53	4.06	
		Monitoring and evaluation	3.67	3.92	
		Weighted average	4.11	4.03	
	Sub-dimension 3.2: Legislative simplification and regulatory impact analysis	Planning and design	4.20	4.00	
		Implementation	2.83	3.25	
		Monitoring and evaluation	3.27	3.23	
		Weighted average	3.33	3.47	
	Sub-dimension 3.3: Public-private consultations (PPCs)	Frequency and transparency of PPCs	4.38	3.86	
		Private sector involvement in PPCs	4.40	4.26	
		Monitoring and evaluation	3.67	2.73	
		Weighted average	4.25	3.79	
	Kosovo's overall score for Dimension 3			3.92	3.79

State of play and key developments

Institutional framework

Since the last assessment, Kosovo has taken important steps to further improve its institutional and regulatory framework for SMEs. The previous Private Sector Development Strategy expired in 2017 – the new Private Sector Development Strategy covering the period 2018-22 was drafted and sent for public hearing in late 2018.

The draft Private Sector Development Strategy is committed to the continuous development of the private sector. It builds on the approach adopted in previous years, with the addition of some new elements, such as greater emphasis on the integration of SMEs into global value chains, and the introduction of new services focused on improving SMEs' financial literacy. However, the draft Private Sector Development Strategy, like the previous one, fails to identify performance indicators or reporting mechanisms for the planned measures and activities.

The implementation of SME-related activities has continuously been supported by a well-functioning SME implementation agency – the Kosovo Investment and Enterprise Support Agency (KIESA). After having experienced resource cuts, KIESA was reinforced in 2018, both financially (a budget increase of 40% in 2018) and in terms of human resources (20% more staff in 2018 than in 2017). This positive trend is predicted to continue in 2019, with KIESA announcing a slight increase in its 2019 budget.

Measures to combat the informal economy are not included in the draft Private Sector Development Strategy, however. The Ministry of Finance is entrusted with the task of fighting the grey economy: as part of the National Strategy for the Prevention of and the Fight against Informal Economy, Money Laundering and Terrorist Financing (2014-2018), it has implemented a number of measures to reduce tax evasion and raise awareness of the harmful nature of the informal economy. The installation of fiscal cash registers has been completed and the inspection system reform has started – planned to be finalised in 2020.

Legislative simplification and regulatory impact analysis

Since the last assessment, Kosovo has intensified efforts to review and simplify its primary and subordinate business-related legislation through an updated Better Regulation Strategy 2.0 (2017-2021) and related Action Plan (Box 15.4). The aim of the updated strategy is to further improve the design of evidence-based policies and legislation, as well as to contribute to inclusive growth. More than 60% of the primary business-related legislation had been reviewed by the end of the first quarter of 2018.

In addition, the Better Regulation Strategy has intensified efforts to improve regulatory impact analysis (RIA) practices. In particular, the draft manual for conducting RIA has been updated, and a cost-benefit analysis of new legislation has now become a mandatory part of the RIA process. There is also a formal requirement to examine SME aspects as part of RIA, but a fully-fledged SME test has not yet been embedded in the RIA methodology. Capacity building of government officials on RIA has also been initiated, with the Kosovo Institute for Public Administration providing a 10-day training course on RIA for 161 officials in 2016 (OECD, 2017^[26]).

However, despite these initiatives, RIA is still at an early stage of development in Kosovo, i.e. it is not fully implemented in practice. Only a minority of draft laws are accompanied by the mandated background analytical document. Even when they are, the quality of analysis in these documents is variable, with important elements often missing.

Box 15.4. Better Regulation Strategy 2.0 (2017-21)

The first major regulatory reform in Kosovo took place in 2014 with the introduction of the Government of Kosovo Better Regulation Strategy (2014-2020). However, in the ensuing years, serious issues have emerged surrounding the implementation of the strategy and fulfilment of its objectives. Some of the main reasons for this lie in the lack of both human and financial resources, as well as overly ambitious assumptions about how Better Regulation policies need to be designed and carried out within an administration.

As a result, in 2016, after a comprehensive and in-depth analysis, the government decided to restructure the strategy and ensure that Kosovo's Better Regulation Agenda was based on a more realistic approach that considered the time needed to successfully develop and implement its activities. This led to the Better Regulation Strategy 2.0 (2017-2021) being developed and adopted, aiming to improve the design of policies and legislation by ensuring that they are based on evidence (relevant data and statistics), analysis and consultation with key stakeholders. Its main objectives are as follows:

- assess how the Government of Kosovo could develop an effective programme for reducing the administrative burden
- introduce impact assessments based on the current system for developing concept documents, for which policy development capacities will be significantly increased
- improve stakeholder consultation through full implementation of the Minimum Standards for consultation
- improve policy communication based on in-depth analysis of the current situation which will be presented in a concept document combined with a specific action plan
- develop a more realistic work plan that takes into account the time needed to conduct policy analysis and stakeholder consultation; based on a concept document in which the design will be outlined.

In order to ensure the effective implementation of the Better Regulation Strategy 2.0, the government has attributed this task to the Government Coordination Secretariat within the Office of the Prime Minister.

Sources: Office of the Prime Minister (2017^[27]), *Better Regulation Strategy 2.0 for Kosovo: 2017-2021*, www.kryeministri-ks.net/repository/docs/Better_Regulation_Strategy_2_0_for_Kosovo_-_ENGLISH.pdf; information collected from the government over the course of this assessment.

Public-private consultations

Public-private consultations (PPCs) are required for all business-related legislation in Kosovo. The main novelty since the last assessment has been the introduction of a centralised website in 2017, which showcases all ongoing and past consultations along with their outcomes. This has brought further discipline to line ministries in sharing draft legislative proposals for written public consultation.

In addition, PPCs take place regularly, in line with the regulation requirements. Kosovo is one of the WBT economies with the lowest share of laws adopted through an urgent procedure, i.e. without any consultations conducted. In 2016, 19% of laws were adopted while circumventing PPC. Although this percentage is not very low, only Albania and Montenegro had a lower share among the assessed economies in the same year, at 5% and 9% respectively (OECD, 2017^[26]).

When it comes to monitoring and evaluating PPCs, Kosovo is the only WBT economy to mandate a body, the Office on Good Governance of the Office of the Prime Minister, to monitor the execution and outcomes of consultations in 2017. Nevertheless, even though the office is tasked with preparing an annual report on the public consultation process, it does not consistently check the compliance of draft proposals with the public consultation requirements before the proposals are submitted to the government for decision.

In 2015, the government re-established the National Council for Economic Development of Kosovo (NCEDK), which is housed in and co-ordinated by the Ministry of Trade and Industry. It organises and co-ordinates the activities of state institutions, aiming to eliminate barriers to and address the challenges of doing business in Kosovo, ultimately helping to improving the business and investment environment. One of its key features is to act as a platform for public-private exchange, gathering representatives from the private sector and public institutions and strengthening the role of the business community in Kosovo's process of economic development. However, its effectiveness

has so far been questionable – businesses see the NCEDK as ineffective at addressing issues properly and in a timely manner (EBRD, 2018_[28]). This is in part because the secretariat of the council is housed in the Ministry of Trade and Industry, staffed by civil servants who are not necessarily professionally equipped to service the council’s needs, and who have other professional obligations in addition to supporting the NCEDK and its members (EBRD, 2018_[28]). To overcome these challenges, in 2018 the Minister of Trade and Industry of Kosovo requested EBRD support to provide a full-time, professional Secretariat to the NCEDK, given their experience in the field. With this new impetus, the NCEDK is expected to improve its performance and impact – although concrete results are yet to emerge.

The way forward for Dimension 3

As mentioned above, Kosovo has taken a number of important steps in building a solid institutional and regulatory framework for SMEs. Going forward, it should place more emphasis on the following points:

- **Improve the monitoring of the Private Sector Development strategy, and start evaluating its effectiveness on the ground.** The former Private Sector Development Strategy, which expired in 2017, has not been evaluated – hence lessons learned from its implementation could not be used when designing the new strategy. Moreover, the draft private sector strategy lacks concrete targets and performance indicators, which hampers effective monitoring. Therefore, once the Private Sector Development Strategy 2018-2022 has been adopted, the government should start tracking its implementation by establishing a monitoring system that includes indicators and targets. This should be followed by evaluating the measures implemented under the strategy – considering the relatively large public funds disbursed, this evaluation would help the government to better allocate its limited resources to the most effective and needed programmes and activities.
- **Ensure full implementation of RIA, while giving consideration to SME aspects.** Evidence indicates that there is significant variation in the quality of RIA reports received from different line ministries. RIAs often lack the required information, e.g. the analysis of alternative options to the proposed draft and/or a proper assessment of the impact on SMEs. In addition to providing RIA training to government officials and distributing clear guidelines with concrete examples on how to conduct RIAs, the government might further leverage the Office on Good Governance to ensure the quality of RIAs. This office could be given a clear mandate to return RIA documents deemed to be below par to the responsible institution for revision before the proposal goes to the government. This way, the institution proposing the legislation will be obliged to ensure a minimum quality of RIA, aligned with legal requirements.
- **Ensure effective SME participation in public-private consultation.** Very little has been done to reach out to SMEs to increase their participation in the dialogue on business-related legislation. For small economies like Kosovo, with fewer SMEs, it is easier for policy makers to have regular meetings with a larger share of SMEs. Montenegro’s Business Caravan could serve as a good example of how to reach out to SMEs and ensure their participation in the development of business-related legislation. The Business Caravan was organised during the development of the new SME strategy. It consisted of a set of meetings in

14 municipalities in Montenegro during which the government met with private sector representatives to gather their insights into the quality of the proposed measures, as well as areas for further improvement.

Operational environment for SMEs (Dimension 4)

Since the 2016 assessment, Kosovo has made significant progress in the area of operational environment for SMEs (Figure 15.1), increasing its score from 3.2 to 3.75 (Table 15.10). This score puts Kosovo in second place in the WBT region, reflecting its efforts in further reforming the regulations concerned with SMEs.

Table 15.10. Scores for Dimension 4: Operational environment for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 4: Operational environment for SMEs	Sub-dimension 4.1: Digital government services for enterprises	Planning and design	4.20	4.07	
		Implementation	3.57	3.47	
		Monitoring and evaluation	2.47	2.05	
		Weighted average	3.48	3.29	
	Sub-dimension 4.2: Company registration	Design and implementation	4.73	4.48	
		Performance	4.90	3.72	
		Monitoring and evaluation	5.00	3.59	
		Weighted average	4.87	3.97	
	Sub-dimension 4.3: Business licensing	Licence procedures	3.76	3.67	
		Monitoring and streamlining of licence system	3.13	3.18	
		Weighted average	3.44	3.43	
	Sub-dimension 4.4: Tax compliance procedures for SMEs	SME tax compliance and simplification procedures	No scores		
		Monitoring and evaluation of SME-specific tax measures	No scores		
	Kosovo's overall score for Dimension 4			3.75	3.45

Note: A new sub-dimension 4.4 on tax compliance procedures for SMEs was added at the request of the assessed economies, to better reflect the complexity of the overall picture of the operational environment for SMEs, however, as it is a pilot analysis this sub-dimension has not been included in the scoring.

State of play and key developments

Digital government services for enterprises

Kosovo's efforts to integrate digital government into public administration reforms are connected to the implementation of the Public Administration Reform Strategy 2015-2020. The overall aim of this strategy is to develop the public administration and its administrative capacities. In the context of digital services, the strategy sets two main objectives:

- the development and integration of electronic systems based on the interoperability framework
- the establishment of a one-stop shop model for delivering services to citizens and businesses, and the application of e-government methods.

Kosovo does not offer digital services for filing social security returns, and has no initiatives for raising SMEs' awareness of the use of digital services in general. However, SMEs can benefit from various e-services through several institutions. For example, services for filing tax returns and services for pension schemes are digitalised and fully operational on the tax administration website (www.atk-ks.org). Digital services related to the cadastre, such as the geographical outline and land identification number, are

offered on line (www.geoportal.rks-gov.net). In addition, enterprise statistics are also offered by the Statistics Agency of Kosovo (SAK).

No system of digital authentication or digital signature is available for SMEs yet (see Section Operational environment for SMEs (Dimension 4)). On the other hand, the system for data exchange within the public sector is operational and is planned to be developed further, with the ultimate goal of creating one single digital network. Some data exchange systems also operate among different public institutions, including Payroll and Treasury, the Kosovo Business Registration Agency (KBRA), SAK, Customs, the Civil Registry, and the Central Election Commission.

Despite not belonging to the Open Government Partnership, Kosovo has committed to open data by adopting the Open Data Charter in 2016. This key document mandated the Ministry of Public Administration to draft a national data-opening plan. Moreover, the ministry also launched the Open Data Readiness Assessment Process using the World Bank's methodology (World Bank, 2019^[29]). This assessment is a methodological tool that is used to conduct an action-oriented assessment of the readiness of a government to evaluate, design and implement an open data initiative at a later stage.

Overall, the positive developments in the area of planning and implementation are not yet reflected in monitoring and evaluation. Kosovo does not collect data on the use of digital services by SMEs – the only exception is the tax administration, which offers a general satisfaction survey for users through its e-portal.

Business registration and licensing

Since 2015, Kosovo has continued to reduce the number of procedures required to start a business to three, the lowest in the region. It should be underlined that Kosovo has been the forerunner across the region, reducing a company's registration time by almost 50% in the last three years – a development connected to the simplification of employee registration. In addition, the time needed to start business is 5.5 days, the second lowest of the WBT economies. The situation is similar for the cost of starting a business, which is 1% of income per capita.

Following the Public Administration Reform Strategy 2015-2020, in 2016 Kosovo introduced a system of one-stop shops allowing entrepreneurs to complete all the required registration steps through one of KBRA's 29 municipal one-stop shops. Online registration became operational in March 2017, and approximately 400 businesses have been registered through the system. Moreover, these one-stop shops offer 33 services, 24 of which are for changes related to business registration. Six services are for business registration and two are business liquidation services. Services for business registration include the issuance of a fiscal number and a VAT certificate. One-stop shops operate an integrated registration system, which includes a single application, facilitating the flow of information between the KBRA, Customs and the tax administration.

Kosovo is one of the WBT economies that offers information on the licensing process through a web portal (Central Registry of Permits and Licences), even though licences are granted by different public institutions. Despite the Central Registry of Permits and Licences having the responsibility for issuing permits and licences, it is the Legal Department of the Prime Minister's Office which conducts periodic legislative reviews pertaining to licences and permits so the Central Registry cannot be considered an administrative body, but merely a registry without any legal authority.

Kosovo aims to further streamline its administrative procedures for businesses by introducing the Better Regulation Strategy (2014-2020), which has been updated to the Better Regulation Strategy 2.0 (2017-2021) (Box 15.4). The strategy states that the planned SME test and the regulatory competitiveness test will pay specific attention to permits and licences; however, the document does not provide detailed information on the process or the content.

Tax compliance procedures for SMEs

In 2015, the revenue raised through tax in Kosovo was equal to almost 25% of the economy's GDP. Taxation in Kosovo is skewed towards VAT in order to reduce the informal sector, which contributed around 75% of the total share of tax revenue in 2015 (OECD, 2018^[10]).

In Kosovo all businesses are subject to corporate income tax. The cash accounting regime for corporate income tax was introduced in 2015, under which businesses with annual gross incomes up to EUR 50 000 are eligible to use it. Under cash accounting, income tax is paid on revenues only when cash is received and input costs are deducted only when expenses are paid. Many SMEs opt for this method since it simplifies book-keeping by eliminating the need to record receivables and payables; i.e. only a cash payments diary is needed that records sales and purchases. In addition, Kosovar businesses with an annual gross income of up to EUR 50 000 are eligible to pay 3% tax on gross income derived from trade, transport and agricultural activities, and 9% from service-related activities. If enterprises' annual gross income exceeds EUR 50 000, they are obliged to pay the standard corporate income tax rate fixed at 10%.

In terms of VAT simplification measures, enterprises in Kosovo can benefit from a VAT registration and collection threshold. Voluntary registration for VAT is possible if a business's turnover is below EUR 30 000 within a calendar year. In September 2015, as one of the measures under the Programme of the Government of the Republic of Kosovo 2015-2018, Kosovo introduced VAT exemptions on the import of raw materials and information technology equipment in order to attract investors and reduce the black economy in this sector.

Further simplification measures for other taxes include special schemes for travel agencies and special arrangements applicable to second-hand goods, artistic work, collector's items and antiquities. The list includes a profit mark-up scheme and special arrangements for public auction sales, a flat rate scheme for farmers, and a special scheme for investments in gold.

The way forward for Dimension 4

Despite Kosovo's improvement in business registration and licensing, the following challenges still need to be addressed:

- **Establish a digital authentication system or e-signature** to widen the range of e-services. E-signatures or digital authentications allow users to complete all processes on line and save time – currently their physical presence is required to complete services.
- **Streamline business licences and permits by integrating the authority to issue them.** Although the current one-stop shops operated by the KBRA allow for easy registration of businesses, they do not centralise the application process for various licences and permits. Consequently, the KBRA's mandate could be

extended to further simplify the licence process so that enterprises do not need to visit several local public institutions to obtain permits.

- **Kosovo should continue its efforts to improve open government data** based on the result of the Open Data Readiness Assessment that is currently in progress. Kosovo needs to expand the online reporting of enterprise statistics and implement open government data. Open government data not only increase transparency and help in reducing corruption, they also carve out new ways for citizens to get involved. The levels of use of open government data by SMEs remain low, mostly due to the lack of sophisticated analytical tools needed to analyse large datasets. Therefore, in order to increase the use of open government data by SMEs, Kosovo should enhance the number of published machine-readable datasets relevant to SMEs and continue its efforts to increase the volume of accessible and relevant data. This could be achieved by strengthening the data-driven culture in the public sector, for example by greater digitalisation of services.

Support services for SMEs (Dimension 5a)

Since the 2016 SBA assessment, Kosovo has improved its performance on support services for SMEs, with an increase of its overall dimension score from 2.74 to 3.64 – one of the largest increases of all the WBT economies (Table 15.11). Despite this progress, Kosovo scores below the WBT average score of 3.89.

Table 15.11. Scores for Dimension 5a: Support services for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 5a: Business support services for SMEs	Sub-dimension 5a.1: Business support services provided by the government	Planning and design	4.56	3.84	
		Implementation	2.79	3.68	
		Monitoring and evaluation	2.92	3.19	
		Weighted average	3.35	3.63	
	Sub-dimension 5a.2: Government initiatives to stimulate private business support services	Planning and design	5.00	4.67	
		Implementation	3.29	3.85	
		Monitoring and evaluation	4.00	4.07	
		Weighted average	3.94	4.14	
	Kosovo's overall score for Dimension 5a			3.64	3.89

State of play and key developments

Since the 2016 assessment, Kosovo's main strategy document for business support service (BSS) provision to SMEs, the Private Sector Development Strategy 2013-2017, has been phased out, with a draft being prepared covering the years 2018 to 2022. Apart from grant and credit support, the new strategy's action plan foresees the continuation of the two voucher co-financing schemes described below: one for product certification and the other for consulting services. The action plan also includes measurable targets to monitor their implementation. Both co-financing schemes have already been implemented by KIESA during the current assessment period. Information on all the BSSs offered by KIESA can be found on the institution's website, which is regularly updated.

KIESA is the public agency mandated to promote and support SMEs, and operates under the Ministry of Trade and Industry. It is the dedicated institution for providing BSSs to SMEs. In 2018 it had a staff of 25 and a budget of EUR 5.2 million to cover these activities (Republic of Kosovo, 2018^[30]). In 2017, KIESA funded a training needs analysis which surveyed 600 micro-enterprises, 150 small enterprises, and 50 medium-sized enterprises (KIESA, 2017^[31]). Although the study's findings have not been considered in the preparation of Kosovo's BSSs, it has the potential to help tailor the supply of BSSs more closely to SMEs' needs in the future.

In 2017, KIESA offered support to SMEs for participating in international trade fairs; organised promotional events (e.g. the Women in Business trade fair, and a business plan competition for young entrepreneurs); and offered the two voucher schemes mentioned above. The total amount allocated to both voucher schemes in 2017 was EUR 50 000 (EUR 25 000 for the consultancy voucher and EUR 25 000 for the production certification voucher). The consultancy voucher covers 50% of the beneficiary's costs for

receiving consultancy advice, up to a maximum amount of EUR 50 per day for up to 12 days. The beneficiary is required to cover the consulting costs in full and the costs are reimbursed after project completion. The voucher scheme for product certification co-finances the construction, metal processing, and wood and furniture processing sectors. Product certification is co-financed at a rate of 75%, with an upper limit of EUR 10 000 per beneficiary. In order to benefit from the 75% reimbursement, the SME must prove that its product has been successfully certified by an accredited conformity assessment body. Under these voucher schemes, SMEs can freely choose their private sector consultants or trainers.

KIESA also launched a new co-financing scheme in 2018, which co-finances up to 75% of SMEs' purchases of machinery for production purposes. The budget for this scheme was EUR 1.5 million in 2018 and 36 SMEs had already benefitted at the time of writing.

While KIESA offers co-financing schemes to SMEs, it does not directly provide training courses or mentoring. In addition, the uptake of KIESA's co-financing schemes has been very low. In 2017, not one SME applied for the consultancy voucher and only five applied for the product certification voucher, but only one met the criteria. It is therefore not surprising that fewer SMEs have benefitted from BSSs in Kosovo than in other WBT economies. In 2017, only 37 (0.1%) of all SMEs in Kosovo used a BSS offered by KIESA, 36 of which were supported to attend a trade fair, while only one SME benefitted from the co-financing voucher for product certification. In comparison, 18.6% of SMEs in Turkey used a publicly co-funded BSS in 2017, and 3.9% of SMEs did so in the other five Western Balkan economies on average.

KIESA uses surveys to collect feedback from SMEs on its co-financing schemes, although to date it has not used the results to adapt its BSSs. In addition, KIESA submits its annual reports to the Ministry of Trade and Industry, which feeds relevant information and data into the annual government reports.

The way forward for Dimension 5a

Despite Kosovo's improvement in providing BSSs, challenges remain. The following steps will help to improve the situation:

- **Tailor business support services more closely to SMEs' needs by using the training needs analysis results.** KIESA has not yet used the results of the training needs analysis of SMEs which it funded in 2017. Similarly, KIESA does not use SMEs' feedback on its co-financing schemes to further improve them. KIESA should make better use of these inputs to fill the gaps in BSS provision, to better target the support provided and to create more effective provision systems. Doing more to take the training needs analysis results into account would help KIESA and other relevant institutions to ensure that BSS programmes and initiatives are tailored to the characteristics and dynamics of micro and SME beneficiaries, as well as to the industry sector they belong to, and to their stage of development and actual experience in the market. Moreover, Kosovo should also consider calling in an independent institution to conduct an in-depth evaluation of its BSS provision, to shed light on the reasons for the low uptake of its services by SMEs, and assess the impact of its existing BSS programmes against key performance indicators.
- **Improve SMEs' uptake of BSSs by redesigning existing schemes.** Given the low number of applications, KIESA should consider redesigning its application

and co-financing procedures. For example, the fact that beneficiaries are only reimbursed after the project has ended might deter micro and small companies with scarce resources from applying. Instead, KIESA could stagger the reimbursement to provide a first tranche after officially accepting the SME onto the scheme, and a second tranche after successful project completion. KIESA could also consider tailoring the co-financing support according to enterprise size, thus co-financing a higher percentage of costs for micro and small companies. KIESA could also make it easier to apply, for example by waiving the need to provide official documents that it could source directly itself from the relevant public institutions, such as the business registration certificate, the fiscal number and tax certificate, and bankruptcy record. Strengthening co-operation with chambers of commerce to raise SMEs' awareness of the BSSs available would also present an additional opportunity to increase SMEs' interest in them.

- **Offer a wider range of free-of-charge BSSs.** Services provided by public institutions are an important instrument to ensure SMEs' access to crucial information, advice, training and mentoring. While KIESA offers co-financing schemes to SMEs, it does not directly provide training or mentorships. Although offering co-financed BSSs helps to stimulate BSS provision through the private sector, relying exclusively on them risks moving BSSs out of reach for micro and small enterprises, which are generally unable to afford private consultancy fees, even if co-financed. Therefore, KIESA should complement its BSS offer of co-financing schemes with training and advisory services which are directly provided by its staff and free of charge.
- **Introduce a quality assurance mechanism for private sector consultants and trainers** used by SMEs under co-financed support programmes. SMEs in Kosovo can currently freely choose the private sector consultants they use under KIESA co-financing schemes. KIESA should consider introducing an accreditation system to make sure that private sector providers have a required minimum level of experience and qualifications. It could then limit SME co-financing support for private sector consultants and trainers to accredited providers. This would guarantee the quality of services delivered, have a positive impact on SMEs' growth and encourage SMEs to be more enthusiastic about seeking the benefits of privately delivered BSSs.
- **Ensure that KIESA possesses the human resources necessary to increase quality BSS provision.** KIESA does not have a legal department and its personnel often lack the legal skills necessary to draft contracts and other legal documents in the most efficient manner. Its staff also need to be well-versed in enterprises' challenges and needs, in order to be able to develop tailored export promotion programmes for SMEs operating in a variety of sectors.

Public procurement (Dimension 5b)

Kosovo received the weighted score of 4.09 for this dimension (Table 15.12), which is the second-best score in the region. It is also an improvement on its 2016 score of 3.5 (Figure 15.1).

Table 15.12. Scores for Dimension 5b: Public procurement

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 5b: Public procurement	Sub-dimension 5b.1: Public procurement	Policy and regulatory framework	4.76	3.92
		Implementation	4.28	4.05
		Monitoring and evaluation	2.67	3.24
		Weighted average	4.09	3.86
Kosovo's overall score for Dimension 5b			4.09	3.84

State of play and key developments

The basic legal act regulating public procurement is the Public Procurement Law (PPL) of 2011. The PPL was amended twice in 2016, bringing it more in line with the EU *acquis*. In particular, Article 60A on the domestic preference system was abolished in accordance with the requirements of the Stabilisation and Association Agreement. The 2016 amendments to the PPL changed provisions on fees paid by aggrieved economic operators complaining against decisions of the contracting authorities. Fees are now equal to 1% of the value of the estimated contract value or, in some cases, of the bid, but to not less than EUR 100. The 2016 amendment increased the maximum amount of fees to EUR 5 000. Activities for developing the public procurement system are detailed in the National Public Procurement Strategy (2017-2021) and the Action Plan (2017-2019) and published on the Public Procurement Regulatory Commission's (PPRC) website. However, the strategy does not provide any actions specifically targeted at SMEs.

The public procurement system is based on the principles of transparency, equal treatment and non-discrimination of economic operators. Contracting authorities are forbidden to conduct any procurement activity in a manner that reduces or eliminates competition among economic operators or that discriminates against or in favour of one or more economic operators. Access to public procurement is open to economic operators regardless of their organisational form: natural or legal persons. Requests to participate or tenders may be also submitted by a group of economic operators. These groups may not be required to assume a specific legal form in order to submit the tender.

The PPL does not include provisions related specifically to SMEs. SMEs are, however, explicitly mentioned in the provisions supporting the implementation of the PPL, although only in the context of division of contracts into lots. Public contracts may be divided into homogenous or heterogeneous lots. Operational guidelines suggest that, in order to encourage the involvement of SMEs in public procurement, limiting the number of lots which may be applied for should be a preferred option if there are many SMEs potentially interested in a given procurement. Any selection criteria used should be limited to those which ensure that only economic operators possessing the professional, financial and technical ability necessary to fulfil the terms of the concerned contract will be considered qualified to receive a contract award or an invitation to tender. Any documentary and information requirements must be limited to those that allow the

contracting authority to verify that the concerned economic operator, first, is not subject to exclusion from the procedure and, second, if applicable, satisfies the minimum selection criteria specified in the contract notice and the tender dossier. All selection criteria and documentary and information requirements must be both directly relevant and in proportion to the subject matter of the concerned contract.

Kosovo has already implemented some initiatives beneficial for SMEs provided for in the 2014 EU Public Procurement Directives. For example, economic operators' minimum annual turnover should not exceed twice the estimated contract value. Financial requirements must be expressed in figures and should refer at most to the last three financial years. In exceptional cases when a minimum turnover is required in a specific field covered by the contract, this turnover should not exceed 1.5 times the anticipated contract value. Economic operators should, as a general rule, be permitted to satisfy such a requirement by submitting, where relevant and appropriate, one or more of the references listed in the PPL. However, if for any valid reason the economic operator is unable to provide the references requested by the contracting authority, the operator can demonstrate its economic and financial standing using any other document that the contracting authority considers appropriate.

The PPL also contains rules on subcontracting. Economic operators must indicate in their tender any part of the contract that they intend to subcontract to third parties and each proposed subcontractor. Each proposed subcontractor must meet eligibility requirements and must submit evidence that it meets the eligibility requirements. The PPL does not limit the share of subcontracting allowed, but according to the operational guidelines subcontracting cannot exceed 40% of the contract value. Contracting authorities may provide direct payments to subcontractors. The economic operator must notify the contracting authority of any changes in subcontracting plans made after the submission of the tender. The contracting authority may reject any proposed subcontractors unless it meets the conditions of eligibility.

The PPRC is the central public procurement body responsible for the development, functioning and oversight of the public procurement system in Kosovo. Its competences are outlined in the PPL and include procurement monitoring; development and dissemination of procurement manuals, guidelines and standard templates; provision of support and advice to procurement actors; raising awareness of public procurement regulations; and supervision of the functioning of the procurement system.

The Procurement Review Body (PRB) is the first-instance review body for complaints concerning public procurement. Provisions for remedies available to economic operators against decisions taken by contracting authorities largely comply with EU requirements, although some inconsistencies remain, such as those related to alternative penalties. The PRB's authority to impose a fine of EUR 5 000 on a complainant if the complaint is deemed frivolous may be considered a limitation on the complainant's access to justice. However, apparently the PRB does not use this option in practice.

The way forward for Dimension 5b

Kosovo has a solid institutional and regulatory framework in the field of public procurement which provides for a number of solutions relevant to SMEs. Going forward, it should place more emphasis on the following points:

- **Further align the national legislation with EU rules and international good practice.** In particular:

- Remove limitations concerning recourse to subcontracting, such as those regarding the maximum percentage share of the procurement contract which may be subject to subcontracting.
- Adjust review provisions to the provisions of the EU Remedies Directives.
- **Further reduce the administrative burden involved in participating in public procurements.** In particular, legal provisions should stipulate that supporting documents should only be required from bidders whose offers were evaluated as the most advantageous. Bidders should only be required to submit a declaration confirming that they satisfy the requirements imposed by the contracting authority and should be able to provide documentary evidence if the contracting authority demands it. The mandatory introduction of e-procurement, in particular for submission of tenders and requests to participate, in accordance with the requirements of 2014 EU Public Procurement Directives, would also reduce bidding costs, facilitating SMEs' access to public contracts.
- **Increase the use of non-price criteria for awarding contracts** to enable public buyers to receive the best value for money. In particular, contract awards should be based on the most economically advantageous tender. Public procurement institutions should facilitate the application of non-price criteria by supporting contracting authorities with manuals, guidelines, instructions and examples of good practice.
- **Improve the monitoring of the public procurement system, and place special focus on collecting data, evaluating SMEs' participation in public procurement and analysing the obstacles faced by SMEs** in access to public procurement markets. These include the costs of access to legal protection (e.g. to challenge decisions of contracting authorities to independent review bodies).

Access to finance for SMEs (Dimension 6)

Kosovo has made progress in certain key areas that facilitate access to finance. With an overall score of 3.33, Kosovo ranks in the lower half of the region, though virtually tied with Albania, Bosnia and Herzegovina, and Montenegro (Table 15.13). Recent reforms, most notably amendments to the bankruptcy law and the launch of the Kosovo Credit Guarantee Fund, have improved Kosovo's scores for the legal and regulatory framework and bank financing.

Table 15.13. Scores for Dimension 6: Access to finance for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 6: Access to finance for SMEs	Sub-dimension 6.1: Legal and regulatory framework	Creditor rights	3.55	4.20
		Registers	4.92	4.58
		Credit information bureaus	4.22	4.55
		Banking regulations	3.50	3.79
		Stock market	1.00	2.93
		Weighted average	3.67	4.14
	Sub-dimension 6.2: Bank financing	Banking lending practices and conditions	3.08	2.92
		Credit guarantee schemes	3.00	2.30
		Weighted average	3.05	2.67
	Sub-dimension 6.3: Non-bank financing	Microfinance institutions	4.67	3.57
		Leasing	2.54	2.84
		Factoring	1.50	2.45
		Weighted average	2.90	2.95
	Sub-dimension 6.4: Venture capital ecosystem	Legal framework	2.11	2.32
		Design and implementation of government activities	2.29	2.48
		Monitoring and evaluation	1.00	1.48
		Weighted average	1.97	2.22
	Sub-dimension 6.5: Financial literacy	Planning, design and implementation	2.89	2.44
		Monitoring and evaluation	1.00	1.19
		Weighted average	2.51	2.19
Kosovo's overall score for Dimension 6			3.33	3.53

State of play and key developments

Legal and regulatory framework

Kosovo has a well-regulated legal framework for secured creditors with recent reforms bringing these further into line with established best practices: a 2016/17 law prioritising pay-out and reforming the wider reorganisational procedures has simplified the bankruptcy process and has contributed to Kosovo's striking increase in the World Bank's Doing Business score (World Bank, 2017_[17]).

In the field of banking regulation, the implementation of Basel II is continuing. While enforcement of Basel-mandated leverage indicators is prioritised within the wider alignment, there is no evidence a dedicated timeline has been laid out. Given its use of the euro, Kosovo's SME borrowers are less exposed to foreign exchange risks.

A cadastre is available and on line – split into a graphical map and textual part indicating individual ownership, with the map accessible to the wider public and the latter limited by data protection legislation to authorised bodies such as banks. In practice, however, its use is hindered by the prevalence of informal construction and missing documents from the 1990s. The registration system for security rights over movable assets is also on line and publicly accessible, although this requires a personalised login, after which users can register pledges through the system as well. The Central Bank of Kosovo also oversees a public credit information system, and an individual's right to access their own information is enshrined in law. This system was overhauled in June 2017 and now includes live information feeding to and from relevant stakeholders, as well as larger scale data analysis for institutions. There is still no capital market in Kosovo.

Sources of external finance for SMEs (bank financing, non-bank financing and venture capital)

Bank lending to SMEs is very prevalent in Kosovo, with the sector making up 64% of total outstanding loans from commercial banks – almost twice the regional average of 34% (IMF, 2016^[32]). While the overall base may be comparatively low – Kosovo's ratio of credit to GDP is among the lowest in the region at 40% – the banking sector enjoys high liquidity (with non-performing loans below 3%) and an annual growth in total assets of 6% as of the second quarter of 2018.

In the sphere of government support schemes for SME access to finance, the Kosovo Credit Guarantee Fund (KCGF) works with banks, as well as microfinance and non-bank financial institutions, guaranteeing up to 50% of the principal of the loan. Established in 2016, the fund reported a portfolio of almost 1 550 loans for a total approved loan amount of EUR 59 million as of July 2018, compared to 350 loans and EUR 16 million in loan amounts in 2017, suggesting greater demand for this type of financial support (KCGF, 2018^[33]). However, these numbers still represent only a small fraction of the wider market and banks appear to be hesitant to use the fund due to the current flat fee of 2% that applies to each registered institution. From an SME perspective, the KCGF does not offer complementary services, such as technical assistance, advice or training programmes and lacks both independent monitoring and private sector participation. It remains largely funded by donors, who also appoint four out of the seven board members.

Kosovo has a well-developed market for microfinancing, with 17 microfinance institutions (MFIs) operating in 2017. While a doubling of profits across the sector in 2017 suggests increasing sustainability, the sector continues to face the limitations of operating as non-government organisations (NGOs), with the exception of one MFI which is registered as a limited company. Helping to transform their legal status is one of the greatest upcoming policy challenges in this sphere. The central bank's 2017 statistics show that loans to enterprises have seen remarkable year-on-year growth of above 40%, though this may also be due to an increase in the formalisation of clients registering as enterprises (Central Bank of the Republic of Kosovo, 2017^[34]). A new draft law aimed at expanding MFI activities by allowing the issuance of electronic money and international payment services, while doubling the current maximum exposure to a single client, was published for public consultation in 2017.

Leasing is a growing source of financing for SMEs in Kosovo, with July 2018 data showing total outstanding amounts of EUR 33.2 million compared to EUR 26 million the year before (Central Bank of the Republic of Kosovo, 2018^[35]). Leasing has been regulated since the passing of a dedicated law in 2009 covering all areas widely considered to be best practice, including clear definitions and rules on repossession. Leasing of equipment (rather than just vehicles) is also offered and the official statistics break down take-up by category. In the field of factoring law, the Central Bank has co-operated with the EBRD on the drafting of dedicated regulations, formally adopting them in October 2018. These regulations, aligned with international best practice, outline types of factoring, the contracts required, and the reporting and supervision of factoring activities.

Venture capital activities are regulated in principle, though no meaningful venture capital investments have yet been made in the economy and there is no evidence to suggest a structured review of venture capital activities going forward. In contrast, business angels are relatively active in Kosovo, primarily involving smaller investments but at a rate comparable to larger economies. With one active network, Kosovo saw 15 separate investments in 2017 (compared to 19 in Greece and 16 in Slovenia, for example), with a cumulative volume of EUR 600 000, compared to EUR 2.4 million in Greece and EUR 2.5 million in Slovenia (EBAN, 2018^[36]).

Financial literacy

The supporting environment for financial literacy in Kosovo is similar to most economies in the region: training courses are organised by government bodies, but without an overarching monitoring and evaluation framework. The Central Bank of Kosovo officially launched a Financial Education Programme in October 2017 and organises various training courses within this framework. These courses are aimed primarily at the wider population, including awareness raising for primary and secondary school students on the importance of financial diligence, savings and an introduction to the basics of personal finance. However, as is often the case in this field, this programme lacks a formalised monitoring or impact evaluation framework.

The way forward for Dimension 6

Kosovo has made notable improvements to support SMEs' access to finance, although additional legislative reforms could go a long way to widen the sources of finance and ensure that government support mechanisms have maximum effect. Other useful steps include:

- **Scaling up and reviewing the KCGF.** While the introduction of the fund has been an important step, it has substantial room to grow. A review of its attractiveness to banks – including its pricing model – as well as a formal assessment of its performance, would help to increase its effectiveness. Expanding the KCGF to also cover MFIs would also enlarge its reach to micro enterprises, who are the group least served by financial actors in the market. In addition, including technical and qualitative support and training schemes for borrowers may be an effective next step for increasing its reach.
- **Introducing planned factoring and reverse factoring legislation and considering a venture capital review.** In the field of non-bank financing, the introduction of the planned dedicated factoring law could introduce another source of capital for SMEs, particularly by alleviating cash-flow bottlenecks.

Similarly, a comprehensive review of existing venture capital regulations, and subsequent reform encouraging fund activities, could channel additional direct investment towards Kosovo's SMEs, particularly in light of its large diaspora population. Encouraging accelerators to prepare start-ups for venture capital investment may also increase investment opportunities in that field.

- **Formalising financial literacy support.** Introducing a codified assessment framework for the government's financial literacy efforts, including set performance indicators for the various target demographics – from primary school children to existing entrepreneurs – would allow the fine tuning and adjustment of these schemes to ensure maximum reach and effectiveness.

Standards and technical regulations (Dimension 7)

Kosovo's performance in the area of standards and technical regulations has stagnated since the last assessment. With a score of 3.60, it ranks second last among the assessed economies (Table 15.14). Although certain progress has been achieved in overall co-ordination and general measures for quality infrastructure, Kosovo is still in the early stages of preparation concerning alignment with the EU *acquis* on the free movement of goods.

Table 15.14. Scores for Dimension 7: Standards and technical regulations

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 7: Standards and technical regulations	Sub-dimension 7.1: Overall co-ordination and general measures		2.75	3.12	
		Technical regulations	4.13	3.87	
	Sub-dimension 7.2: Harmonisation with the EU <i>acquis</i>	Standardisation	3.88	3.97	
		Accreditation	4.62	4.53	
		Conformity assessment	3.60	3.65	
		Metrology	3.94	4.47	
		Market surveillance	3.80	4.43	
		Weighted average	3.99	4.15	
	Sub-dimension 7.3: SME access to standardisation	Awareness raising and information	3.50	4.24	
		SMEs' participation in developing standards	2.50	2.57	
		Financial support to SMEs	1.80	2.39	
		Weighted average	2.60	3.07	
	Kosovo's overall score for Dimension 7			3.60	3.83

State of play and key developments

Overall co-ordination and general measures

The Ministry of Trade and Industry (MTI) is in charge of co-ordinating quality infrastructure and harmonisation of technical legislation with the EU *acquis* in the area of free movement of goods. The MTI's Quality Infrastructure Division has developed a strategy for quality infrastructure in Kosovo as a part of the Private Sector Development Strategy 2018-2022, with targets linked to each "pillar" of quality infrastructure. However, many of the planned activities lack indicators to measure performance.

Kosovo lacks a designated portal to provide the relevant information to SMEs that would like to export to the EU Single Market. Currently, enterprises can find some information (export statistics, export events, etc.) on the websites of the MTI and KIESA, but the information is not tailored for SMEs and not specific to the EU Single Market. Although the Private Sector Development Strategy envisages establishing a single contact point for trade in services, no such initiatives seem to be in the pipeline for trade in products.

*Harmonisation with the EU *acquis**

The number of technical regulations transposing EU directives has increased during the reference period. In 2017, for example, EU directives on lifts and safety components for

lifts, as well as on labelling and marking of textile products, were transposed. The new law on Technical Requirements for Products and Conformity Assessment (Republic of Kosovo, 2018^[37]) was adopted in May 2018. The adoption of new technical regulations, such as on gas appliances, is also planned under the Private Sector Development Strategy 2018-2022 and the National Programme for Implementation of the SAA as well as the enforcement of regulations already adopted, including for lifts and safety components for lifts.

The new Law on Standardisation, which entered into force in February 2018, has been aligned further with the EU *acquis*. It now establishes the framework for the diversification of services offered by the Kosovo Standardisation Agency (KSA) to its stakeholders. However, the KSA is still the only standards development body in the WBT region that is not a full or an affiliate member of the European Committee for Standardization/European Committee for Electrotechnical Standardization (CEN/CENELEC). It has conducted a needs analysis for CEN/CENELEC membership, albeit with the ensuing objective of participating in the General Assembly of CEN/CENELEC by 2020, rather than of having actual membership. The KSA also signed a licensing agreement in 2017 with CEN/CENELEC for direct access to EU standards.

Kosovo does not develop its own standards but only adopts EU standards. It has made progress, adopting 650 European standards in 2017 alone. Even so, it has only adopted around half of the European standards in total. The KSA's administrative capacity remains critically low, hindering it from stepping up adoption efforts. In 2018, it had only seven permanent employees. Moreover, it neither has its own budget nor a bank account. The lack of an e-commerce function prevents the KSA from selling standards on line. Moreover, its limited revenue streams are channelled directly to the state budget, thwarting any incentives to engage in additional revenue enhancing activities.

Kosovo still lacks a systematic definition of national conformity assessment infrastructure needs (OECD, 2018^[10]). The new Law on Technical Requirements for Products and Conformity Assessment brings assessment procedures completely in line with Decision 768/2008 EC on a common framework for marketing products. The law also adopts the principles applied in European harmonised legislation, i.e. the presumption of conformity and absence of mandatory standards. Although the latest EU *acquis* has been transposed in a number of areas, conformity assessment bodies (CABs) are yet to be prepared for accreditation in order to improve their level of competence and to achieve sustainable status of designated bodies. Currently, there are only 38 accredited CABs in the economy – 30 for testing and 8 for inspection. Conformity assessment services are not available for certain sectors, such as for lift and lift parts. Therefore, SMEs operating in several sectors are forced to seek those services abroad. Accreditation of new CABs remains a major issue for the national accreditation body, the Kosovo Accreditation Directory, which currently employs only three assessors. More recently, lack of qualified staff meant that it could not sign the EA Multilateral Agreement on accreditation of testing laboratories by the European co-operation for Accreditation (EA). Kosovo remains an associate member of the EA, and is also a member of the International Accreditation Forum and an associate member of the International Laboratory Accreditation Cooperation.

The metrology system in Kosovo is in the early stages of preparing for the free movement of goods. The Metrology Agency of Kosovo is operational and employs 17 staff. However, it lacks qualified staff in the areas of calibration and verification practices, both in the field of industrial and legal metrology (EU Office in Kosovo, 2018^[38]). Moreover, metrological laboratories are not adequately supplied with relevant metrology equipment.

In 2017, new legal acts were prepared to transpose directives on non-automatic weighing instruments, pre-packaging and measuring container bottles and are awaiting approval in parliament. Currently, the metrology agency is not well integrated into European metrology systems but the Private Sector Development Strategy for the period 2018-22 sets a goal of membership of the European Association of National Metrology Institutes, International Organisation of Legal Metrology and the International Bureau of Weights and Measures by 2020.

Market surveillance is challenged by weak inter-institutional co-ordination of activities, in particular between the central and local authorities. However, co-ordination is expected to improve as local inspectors are being transferred to central market surveillance authorities under the Ministry of Trade and Industry. Moreover, the planned reform of market surveillance and general inspection activities for 2019 envisages an increase in the number of market surveillance inspectors. The number of product safety inspections decreased slightly in 2017 to 266 inspections, compared to 273 in 2015.

SMEs' access to standardisation

Kosovo has only basic measures in place to facilitate SME access to standardisation. To provide information on standards and raise awareness of their benefits, the KSA organised five promotion activities in 2017 in co-operation with the Kosovo Chamber of Commerce. A few of these activities were organised at universities. The KSA also provides practical guides on the benefits of using standards and standardisation, but they are only distributed as hard copies and no online versions are available. There is ongoing co-operation between the KSA and the Kosovo Chamber of Commerce to provide up-to-date information on standards for SMEs, albeit on an ad-hoc basis. The Kosovo Chamber of Commerce also organises regional meetings at its offices in seven regions to present new standards and advise SMEs on how to implement them. In addition, along with the Kosovo Business Association, it participates in the Professional Standardisation Council as the advisory body of the Kosovo Standardisation Agency (Box 15.5).

Box 15.5. The Professional Standardisation Council: Towards better private sector involvement in national standardisation

Kosovo established the Professional Standardisation Council (KPS) in 2018 with the objective of providing for a balanced representation and involvement of all the stakeholders in national standardisation activity. Although similar advisory bodies exist in other WBT economies, they are usually at an expert level and do not include non-government and business representatives. Administrative Instruction of the Ministry of Trade and Industry No. 08/2018 defines the rules of procedure, competences and functioning of the KPS. The council is composed of nine members, including four line ministry representatives, two NGOs, one representative of the scientific community, one from the Kosovo Chamber of Commerce and one from the Kosovo Business Associations. The KPS serves as an advisory body of the Kosovo Standardisation Agency with the following competences:

- to review standard work plans, as well as analyse and oversee activities related to their implementation
- to issue recommendations, promote standardisation, and establish and support initiatives to conduct standardisation activities
- to support AKS in meeting admission requirements for European and

international standardisation organisations.

To encourage participation in the council, all meeting expenses are covered by the Kosovo Standardisation Agency and KPS members also have a right to a 50% discount when obtaining standards.

Source: Republic of Kosovo (2018^[39]), *Administrative Instruction No. 08/2018 on the Professional Standardisation Council*, <https://mti.rks-gov.net/desk/inc/media/E6DD3362-7916-4956-B05A-E5B803776984.pdf>.

As mentioned above, the KSA does not develop national standards; for the time being it is solely adopting EU standards. Kosovo has not introduced any financial or other measures to encourage SME involvement in the technical committees that analyse priorities for adopting EU standards and lead the overall adoption process. Moreover, the travel costs of SME representatives on the committees are not covered, and there are no information and communications technology (ICT) tools to ease their participation. However, participation in the meetings of the technical committees remains free, and the KSA formally invites all SMEs to do so on its website.

Discounts of up to 50% on the purchase of standards are offered for members of the technical committees, but there are no support measures for the overall SME population to purchase standards. In terms of financial support for implementing standards, Kosovo has introduced a voucher scheme for product certification but in 2017 only one SME on the preliminary list of beneficiaries was declared eligible.

The way forward for Dimension 7

Despite Kosovo's progress in adopting a legislative framework for quality infrastructure and transposing EU technical regulations, key challenges remain to be addressed through the following measures:

- **Enhance the capacity of the Kosovo Standardisation Agency (KSA).** With around 9 500 European standards adopted by the end of 2017, Kosovo lags behind all the WBT economies in its transposition efforts. Its current adoption rate of European standards, at around 50%, needs to increase to 80% for Kosovo to achieve one of the requirements of full membership of the European organisations CEN/CENELEC. To accelerate adoption of European standards, the institutional capacity of the KSA should be strengthened. Currently, the KSA does not have its own budget or bank account and all the revenues it collects are funnelled into the national budget. Moreover, Article 12 of the Law on Standardisation, which entered into force in February 2018, states that the national budget and donor funds are the only sources of financing for the KSA. This further weakens incentives to increase revenues from membership fees, sales of standards or sales of other services. Keeping the revenues that are collected by the KSA within the institution would increase its level of financial independence and encourage diversification of services for stakeholders. Moreover, there is a need to increase its number of technical committees (which currently number 19) and to equip the KSA with the human resources required to enhance its competence and efficiency for adopting European standards.
- **Improve support to SMEs to implement standards.** SMEs often do not have the time, personnel or financial resources to engage in implementing standards. With 650 EU standards adopted by Kosovo in 2017 alone, SMEs can also

struggle to identify standards relevant for them – especially if they are not properly involved in the process. Although the draft Private Sector Development Strategy 2018-2022 foresees organising information sessions and preparing promotional materials on the role of standards in economy, there is a lack of tailored measures to better communicate the adoption of new standards to SMEs. KSA could therefore organise roadshows and prepare newsletters which are targeted at specific industry sectors and which take into account characteristics and challenges of SMEs operating in those sectors. The guidelines developed in Italy by *Confartigianato Imprese* are a good example (Box 15.6). Kosovo should also improve the provision of financial support to SMEs for implementing standards by first evaluating the current voucher scheme for product certification. Since only one SME was declared eligible to benefit from the scheme in 2017, Kosovar authorities should investigate whether the application process for the voucher scheme is too complex and burdensome for SMEs, or whether it is simply not well promoted. Moreover, the government should roll out new financial instruments to support SMEs in their implementation of standards, such as annual grants for SMEs operating in priority sectors.

Box 15.6. *Confartigianato Imprese*: SME guidelines for implementing the CE mark

Confartigianato Imprese is an Italian trade association representing the interests of Italian craftspeople, trades and SMEs. Many SMEs face problems with the implementation of New Approach directives,¹ in this case the Construction Products Directive, and related standards. These confuse many employees. To solve this problem, *Confartigianato* has established an ad-hoc Technical Work Group on CE marking, working together with experienced territorial partners who have already been applying the standards for a long time. This group has developed guidelines for three types of product that mainly interest the small craft enterprises:

- industrial, commercial and/or garage doors and gates (standard: EN 13241-1)
- shutters and blinds (EN 13659)
- windows and gates (EN 14351-1)

The publications include:

- guidelines addressing topics covering technical guidance to concrete operating instructions
- a frequently asked questions (FAQ) document in which some of the most important issues are explained so that artisan entrepreneurs can easily understand the three possible methods of CE marking
- reports containing best practice descriptions based on consulting services on CE marking offered by some territorial associations
- Standards manuals on factory production control which provide producers with tips on controlling the production process, thus allowing them to guarantee that the performance verified from the beginning of the tests (Initial Type Testing) continues to be valid and equal for all subsequent products, including innovations in the production process.

These guides can be used by *Confartigianato* colleagues in the consultation services on CE marking they offer to various enterprises.

¹ The European Union adopts legislation (EU Directives) that defines essential requirements for safety and

other aspects of public interest which should be satisfied by products and services being sold in the Single Market.

Sources: De Vries et al. (2009^[40]), *SME Access to European Standardization: Enabling Small and Medium-Sized Enterprises to Achieve Greater Benefit from Standards and from Involvement in Standardization*; Confartigianato (2018^[41]), *Confartigianato website*, www.confartigianato.it.

Enterprise skills (Dimension 8a)

Kosovo scores 2.78 for enterprise skills, which is around the regional average (Table 15.15).

Table 15.15. Scores for Dimension 8a: Enterprise skills

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average
Dimension 8a: Enterprise skills	Sub-dimension 8a.1: Enterprise skills	Planning and design	4.17	3.38
		Implementation	2.25	2.83
		Monitoring and evaluation	2.00	2.29
		Weighted average	2.78	2.87
Kosovo's overall score for Dimension 8a			2.78	2.87

State of play and key developments

Kosovo's private sector consists almost entirely of SMEs. To ensure their sustained growth, a training needs analysis has been conducted biennially (in 2012, 2015 and 2017) by the Ministry of Trade and Industry and KIESA. The aim is to understand both training and counselling needs and gaps in training provision – including for women – and to anticipate skills needs. The analysis and partnership structure lays a foundation on which to build an understanding the skills implications of smart specialisation, an approach which Kosovo began implementing in 2018.

Inter-institutional collaboration between the Ministry of Trade and Industry, KIESA and the Ministry of Innovation and Entrepreneurship has meant that the results of the training needs analysis have been used to inform decision making across ministries. KIESA sits on the board of the Innovation and Entrepreneurship Council and the results of the SME training needs analysis were used in designing the Innovation Fund, led by the Ministry of Innovation. Through the Fund for Innovation and Technology Development, Kosovo demonstrates good practice in funding training SME support institutions to improve investment readiness.

Kosovo also demonstrates good practice in using SME training needs analysis to inform its EU Economic Reform Programme (Box 15.1). Education and skills are explicitly listed as the seventh priority reform group, and the skills gap between education/training and labour market needs is highlighted as a binding constraint for growth and employment.

Kosovo has made good progress in supporting SMEs in the digital economy. The Innovation Centre Kosovo (ICK) provides a wide range of training courses to SMEs in digital skills, including online courses, the costs of which are partly covered by the Ministry of Innovation and Entrepreneurship. The importance of SMEs in the digital economy is also reflected in the Economic Reform Programme, with the fifth priority reform group addressing innovation, research and development and the digital economy. The Ministry of Economic Development is looking to implement a project to broaden access to and use of ICT. This project for enhancing the competitiveness of Kosovo's digital economy, funded by the Instrument for Pre-accession Assistance, is planned to start by the end of 2018.

No progress has been made on monitoring, which continues to be conducted at project level only, while evaluation is not conducted at all.

The way forward for Dimension 8a

Despite Kosovo's progress in building the skills of SMEs, remaining key challenges could be addressed through the following measures:

- **Ensure better skills intelligence for more meaningful monitoring and evaluation.** Kosovo has continued to progress in generating wider information on SME training needs. However, regular and reliable data on SME skills remains a challenge. This spills over to monitoring and evaluation – both of which remain weak, but especially evaluation. In order for policy makers to better match Kosovo's human capital base with its economic structure, improving skills intelligence is critical.
- **Strengthen co-ordination mechanisms.** Currently, a new ministry, the Ministry of Innovation and Entrepreneurship, collaborates with the Ministry of Trade and Industry and KIESA on training needs analysis. Strengthening this co-ordination mechanism by formalising and systematising collaboration and opening it up to a broader array of actors (such as statistical offices, employment services, chambers of commerce, and education and training providers) would help reduce information gaps on SME skills. This dedicated co-ordinating body or mechanism would also help to broaden out monitoring from donor-financed projects only, in order to translate skills intelligence into education and training and policy action that supports SMEs today and in the future.
- **Strengthen start-up training and accessibility through a searchable web platform.** Kosovo does not systematically provide government-financed training programmes specifically for start-ups. The new Fund for Innovation and Technology Development recently launched an open call to support a selected number of start-ups financially in the ICT and technology sector. Start-up training could be strengthened, for instance by featuring start-up training more prominently in conjunction with existing events such as the Techstars Startup Week Kosovo (held in March 2018). The event included mentoring sessions for start-ups led by a foreign mentor. Developing a permanent and easy-to-search online platform (as opposed to an event-specific website) where education and training providers can showcase mentoring, coaching and different types of workshops, would promote a better match between education and training and demand. It would also help connect start-ups with people and networks that can help them develop their company. Finally, making training, mentoring and coaching a precondition for receiving grants or loans could serve as an important boost to improve skills and build up networks for start-ups. Currently such non-financial support is mainly donor driven.
- **Review key policy documents that steer education and training provision to strengthen women's entrepreneurial skills and competences.** Kosovo needs to update its main policy documents, namely the Private Sector Development Strategy (2013-17) and the SME Development Strategy (2012-16), to serve as references on women's entrepreneurship. These documents are useful interfaces for steering relevant donor support to SMEs as the main drivers of innovation, economic growth and competitiveness in Kosovo. Moreover, moving forward with smart specialisation (see below) will open up an opportunity to develop a shared vision across policy areas.

- **Build SME skills into smart specialisation strategies.** In moving forward with smart specialisation, Kosovo will need to identify the skills required by the smart specialisation niches and the impact this has on demand for labour. Education and training policies and relevant public investment need to adapt in order to ensure a supply of skilled new labour and improve the skills of the existing workforce.

Innovation policy for SMEs (Dimension 8b)

With a score of 2.40, Kosovo is one of the poorest performers on innovation policy in the region (outscored only Bosnia and Herzegovina, at 1.86) (Table 15.16). However, Kosovo has also showed the greatest improvement since the 2016 assessment, starting from a low base of 1.86 (Figure 15.1). It is evident that innovation policy is gaining traction among policy makers in Kosovo and there is greater attention on the importance of innovation for overall competitiveness.

Table 15.16. Scores for Dimension 8b: Innovation policy for SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 8b: Innovation for SMEs	Sub-dimension 8b.1: Policy framework for innovation	Strategic approach	2.90	3.46	
		Co-ordination of innovation policy	2.33	2.97	
		Implementation of innovation policy	2.43	3.04	
		Weighted average	2.55	3.15	
	Sub-dimension 8b.2: Government institutional support services for innovative SMEs	Incubators and accelerators	3.00	2.99	
		Technology extension services for established SMEs	1.00	1.74	
		Weighted average	2.20	2.49	
	Sub-dimension 8b.3: Government financial support services for innovative SMEs	Direct financial support	3.40	3.76	
		Indirect financial support	1.00	1.38	
		Weighted average	2.44	2.81	
	Sub-dimension 8b.4: SME and research institution collaboration and technology transfer	Innovation voucher schemes and co-operative grants	2.00	2.52	
		Institutional infrastructure for industry-academia co-operation	2.40	2.72	
		Intellectual property rights	2.50	3.00	
		Weighted average	2.26	2.70	
	Kosovo's overall score for Dimension 8b			2.40	2.86

State of play and key developments

Policy framework for innovation

The government has improved the institutional framework for innovation policy by establishing the Ministry for Innovation and Entrepreneurship in 2017. This embarked on drafting the Strategy for Supporting Innovation and Entrepreneurship (2019-2023). However, although the strategy was drafted as of September 2018, it had yet to be adopted by the government at the time of writing. The ministry has also finalised the concept document on a Law on Innovation, but this was still pending approval.

The ministry is not designed as an independent implementing agency for innovation, but it does have a specific budget allocation for innovation. Further efforts are needed to raise its human resources capacity, since it had only six staff in 2018.

In December 2017, a National Council for Innovation and Entrepreneurship was established, which includes representatives of relevant ministries (Education and Science,

Finance, European Integration) as well as academia and business (chambers of commerce). It has only an advisory role, and it meets once a month.

Government institutional support services for innovative SMEs

Incubators exist in Kosovo and the leading institutions in this area are the Innovation Centre Kosovo (ICK) and Gjirafa Lab. Both of these institutions are donor-based initiatives with the ICK receiving support through Norwegian, Swedish and German donor programmes and EU grants, and Gjirafa Lab being a United States Agency for International Development (USAID) project. The Jakova Innovation Center was established by the Ministry of Trade and Industry (MTI) with the support of the US Embassy in Kosovo.

The 2018 budget of the Ministry of Innovation foresees an allocation of EUR 1.1 million for the establishment of regional innovation centres, and to that end, the ministry has signed agreements with the Municipality of Ferizaj and the University of Hasan Prishtina for the establishment of two “innovation and entrepreneurship” centres in Ferizaj and Pristina respectively. These centres represent a partnership between the central and local levels on the one hand, and academia and the private sector on the other. The allocated funds will be used to equip these centres with specific labs and equipment based on the needs of start-ups and SMEs.

Government financial support services for innovative SMEs

In 2018, a new fund for innovation dedicated to start-ups, SMEs and NGOs was launched in co-operation with the Gesellschaft für Internationale Zusammenarbeit (GIZ), which has allocated EUR 1.2 million to the fund, bringing the total amount to EUR 7.2 million. The fund is available to Kosovar micro, small and medium-sized enterprises in employment-relevant sectors that make use of potential international markets. The programme lists three sectors: agriculture, manufacturing and ICT. Its Opportunity Fund grant scheme targets companies, which introduce innovations in products, production processes or services that are relevant for export markets. The objective of this scheme is to attract the most innovative ideas with potential for exports and jobs. Kosovar companies that wish to obtain funding through the Opportunity Fund must meet the technical and procedural criteria, such as three years of experience or records of exports and/or potential to export.

Some tax incentives have been introduced to generally support SMEs but these do not provide direct incentives for private sector R&D expenditures. Purchases of ICT equipment have been exempted from VAT since January 2018. Although this a general measure it will also benefit innovative SMEs.

SME and research institution collaboration and technology transfer

Even though there are no collaborative grants which would finance joint business-academia research in Kosovo, the Ministry of Education, Science and Technology does offer innovation vouchers. The latest call for proposals for vouchers was launched on 1 October 2018, offering support of up to EUR 1 000 for individual companies. However, a similar MTI call in 2017 which planned to disburse EUR 25 000 in total yielded no results as companies were not interested in applying. This suggests that the programme will require significant redesign in order to achieve its purpose of forging connections between businesses and researchers. Late in 2017, the University of Pristina launched an innovation and entrepreneurship centre, supported by the Ministry of Innovation and Entrepreneurship. Although this centre does not serve the purpose of technology transfer,

it has had good success in its first year with students showing great interest in participating in its entrepreneurship training and mentoring programmes. In 2018, a joint project was initiated with the Federal Government of Germany to transform the German KFOR Military Camp in Prizren into Kosovo's first ever science and technology park (Box 15.7).

Box 15.7. Kosovar-German Innovation and Training Park in Prizren

In 2016, the German and Kosovar governments reached an agreement to explore the feasibility of transforming the Prizren KFOR military camp area into the Innovation and Training Park (ITP). The idea to create the ITP stems from the example of similar parks opened in other countries, which bring academic expertise closer to business experience, stimulating technology transfer. The ITP in Prizren is scheduled to be operational at the beginning of 2019, when the 39 hectares of military camp area will be handed over to the Kosovar government.

The park is meant to include spaces for companies, vocational training, academic institutions, government institutions, as well as NGOs. Following the recommendations of the feasibility study (GIZ Kosovo, 2018^[42]), the ITP will select companies and specialists based on their field of activity. To ensure the ITP's positive impact on jobs and economic growth in Kosovo, three priority sectors with the biggest growth potential were identified:

- ICT/technology-based firms
- agro/food processing
- creative and cultural industries.

Two cross-cutting areas for development were also recognised:

- vocational education and training
- research & development (R&D).

The mission of the ITP is to become Kosovo's central hub of innovation in the field of ICT, agro-food and creative industries. The ITP aims to provide a comprehensive array of services to the companies that join the park. It will offer co-working space, office space, and manufacturing and production sites. Moreover, the park will also help businesses develop through incubation, training, intellectual property management, technology transfer, financial support, and access to business angel networks. The ITP will also accommodate the needs of dual vocational education schools and training centres, which will be able to use its space to provide both vocational education and training tailored to the needs of the labour market, and to closely co-operate with businesses settled in the park.

In its first three to four years, before the ITP becomes financially sustainable, the Kosovar and German governments will financially co-support the project. Afterwards, the ITP will be financed through the profit generated by rent, and other fee-based services offered to clients. At the beginning of 2019, a public call for applications is planned to seek companies that want to operate in the ITP.

Sources: ITP Prizren (2018^[43]), *The Kosovar-German Innovation and Training Park*, <http://itp-prizren.com/wp-content/uploads/2018/10/Gizz-Leaflet-Trifold-ITP.pdf>; GIZ Kosovo (2018^[42]) *Feasibility Study: A Concept Proposal for the Future Use of the KFOR Camp in Prizren Kosovo*, www.alg-prizren.com/pdfs/GIZ-Feasibility-Study.pdf.

The way forward for Dimension 8b

Kosovo has shown positive momentum with its innovation policy design – this needs to be carried forward in implementing these policies. The following challenges remain:

- **Adopt an innovation strategy and carefully monitor its implementation.** Even though the national innovation strategy has been drafted, it is yet to be adopted. Once adopted, the roles of all actors, in particular the newly established Ministry of Innovation and Entrepreneurship, need to be clearly defined. The role of the National Council for Innovation and Entrepreneurship could be leveraged to monitor the strategy's implementation in a regular and transparent manner.
- **Invest more in R&D and use competitive project-based funding.** A strong research sector is extremely important for innovation. In Kosovo, R&D funding is low and allocated in a way that does not promote research excellence or relevance. Kosovo needs to invest more in R&D and introduce competitive project-based funding that would support its best researchers to work on research that is relevant to the private sector. This would in turn also help improve the economy's participation in the EU Horizon 2020 programme,⁷ in which Kosovo participates as a third party, but with little success to date.
- **Improve the design of support instruments.** The fact that no companies applied for the EUR 25 000 in grants offered by the MTI in 2017 suggests flaws in the design of this support instrument. Kosovo could benefit from donor support to design innovation instruments based on good practice examples, especially those in other economies in the region. Once introduced, instruments need to be regularly monitored and evaluated to ensure that they are achieving their initial objectives.

SMEs in a green economy (Dimension 9)

Kosovo's performance in the area of SME greening remains quite weak, and its score, 1.92, has slightly deteriorated since the last assessment (Table 15.17).

Table 15.17. Scores for Dimension 9: SMEs in a green economy

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 9: SMEs in a green economy	Sub-dimension 9.1: Framework for environmental policies targeting SMEs	Planning and design	3.67	3.81	
		Implementation	2.20	2.56	
		Monitoring and evaluation	1.50	2.12	
		Weighted average	2.50	2.85	
	Sub-dimension 9.2: Incentives and instruments for SME greening	Planning and design	1.67	2.32	
		Implementation	1.50	2.76	
		Monitoring and evaluation	1.00	1.72	
		Weighted average	1.45	2.42	
	Kosovo's overall score for Dimension 9			1.92	2.61

State of play and key developments

Framework for environmental policies targeting SMEs

None of the national strategy documents focus on SME-specific environmental policies and measures in Kosovo. The draft Private Sector Development Strategy (2018-2022) does not include any objectives or action items regarding SME greening, although it recognises increased energy efficiency and use of renewable energy as an “opportunity” for certain industries in which SMEs operate.

Elements of environmental policies that have relevance for SMEs are included in the following three strategies and related action plans: the Strategy for Environmental Protection (2013-2022), which is a central national environmental policy document; the Strategy for the Development of Energy Sector by 2030; and the Waste Management Strategy 2.0 (2017-2021). The first two strategic documents envisage energy efficiency improvements in the Kosovar private sector, but to date no significant measures have been implemented. According to the government, the limited realisation of these measures is explained by restricted budget allocations for them and significant delays in mobilising donor funds.

Incentives and instruments for SME greening

As in the last assessment, there are no financial incentives to encourage SME greening as this area is not considered a government priority. The same applies to regulatory instruments and green public procurement policies.

Prior to 2016, the Ministry of Environment and Spatial Planning and the Kosovo Environmental Protection Agency (KEPA) undertook certain actions to promote resource efficiency among SMEs, and to provide information on how to improve environmental performance through environmental management systems. During the reference period these activities were discontinued, however, and no similar support measures for SMEs were planned at the time of writing.

The way forward for Dimension 9

In order to move forward in this area and seize the opportunities arising from SME greening, the government should consider the following:

- **Introduce SME greening measures in the strategic documents and related action plans.** Although environmental policies that concern enterprises, such as increased energy efficiency and improved waste management, are sometimes partially covered in strategic documents, they contain no concrete actions and there is no co-ordinated approach to greening SMEs. The government is therefore advised to prioritise designing greening policies for SMEs and to have a clear action plan on how to support their transition to a green economy.
- **Focus on raising awareness and providing advice and guidance to SMEs on adopting environmentally sound practices.** The government is advised to help SMEs save energy, material and water costs and to demonstrate new and better ways to be resource efficient by providing them with tools and targeted information. Resource efficiency advisory services could be provided directly to SMEs by a relevant public agency, such as KIESA or KEPA. Their aim could be to convince SMEs that resource efficiency offers high returns for low-cost investments. Ireland's example of how the government can raise awareness on greening among SMEs and support them in increasing resource efficiency could be replicated in Kosovo (Box 15.8).
- **Enhance financial support for SME greening.** So far no financial incentives have been offered to SMEs to increase their environmental performance. The government is therefore recommended to roll out new financial instruments that support SMEs in undertaking small-scale energy efficiency investments. Moreover, existing mechanisms could be redesigned in a way to boost eco-innovation. For instance, Kosovo launched its first Innovation Fund in 2018. Part of these funds could be dedicated to commercialising eco-innovative ideas, and to plant the seeds of a circular economy. Moreover, the SME Instrument under Horizon 2020 could be also promoted among SMEs, as it allows for financial support to foster eco-innovation.

As providing direct grants for SME greening might be burdensome for the budget, Kosovo might also consider tapping into different channels to support SMEs financially. Introducing a dedicated loan guarantee scheme or subsidising interest rates for green project loans might be feasible, since SMEs would be able to use resource efficiency savings to repay up-front borrowing.

Box 15.8. Green Business Ireland: Raising awareness of greening advantages to SMEs and enhancing resource efficiency

In 2011, the Environmental Protection Agency (EPA) of Ireland formed the Green Business Programme under its National Waste Prevention Programme. Its aim was to deliver substantive resource efficiency improvements and cost savings through waste prevention and reductions in water and energy consumption. The programme is managed by the Clean Technology Centre (CTC) at the Cork Institute of Technology. The CTC, established in 1994, has a team of experts in resource efficiency and waste prevention.

The Green Business Programme provides a range of services to help SMEs increase their

resource efficiency: site visits, guidance documents, online tools, seminars and community networking. By registering at www.greenbusiness.ie and using the online audit tools, users can start to measure their resource use and identify where savings could be made. A site visit can also be requested, during which a Green Business Advisor will visit the participant premises and identify free and low-cost measures that will lead to cost savings. The service is free of charge, and operated by the CTC on behalf of the EPA.

To date, with an annual budget of EUR 350 000, the Green Business Initiative has visited 270 enterprises from a range of sectors (food processing, banking, public sector, small retailers) and achieved an estimated EUR 10 million of identified savings for the member enterprises (EUR 6.2 million in energy, EUR 2.7 million in waste and EUR 1.2 million in water). The individual savings ranged from EUR 2 000 to EUR 200 000.

Some of the lessons learned from the experience of Green Business are that SMEs are not monitoring their utility costs and are unaware of the extent of waste. In addition, they are unaware of the opportunities to reduce waste at no cost or low cost, as well as the opportunities to increase the bottom line and enhance their image. They often also have no awareness of the assistance available for improving their environmental performance.

The example of Green Business demonstrates how an efficient and effective support mechanism could be designed: involving a co-operation between the government and academia which is cost-efficient and brings various benefits just by identifying potential savings that businesses are usually unaware of. The model underlines the importance of providing advice and guidance to SMEs to “go green”. It is also easily applicable to the context of the Western Balkans and Turkey and can be applied with the support of the existing environmental protection agencies.

Sources: Green Business Programme (2017^[44]), *GreenBusiness website*, <http://greenbusiness.ie/>; EPA (2018^[45]), *Green Business Initiative*, www.epa.ie/waste/nwpp/gbi/, EPA (2018^[46]), *National Waste Prevention Programme*, www.epa.ie/waste/nwpp/.

Internationalisation of SMEs (Dimension 10)

Since the last assessment, Kosovo has made considerable progress in promoting SME internationalisation, increasing its score from 3.15 to 3.74 (see Table 15.18 and Figure 15.1). Its strides made in the development and early implementation of programmes to support export promotion and cluster development have made the biggest contribution to this improved performance.

Table 15.18. . Scores for Dimension 10: Internationalisation of SMEs

Dimension	Sub-dimension	Thematic block	Kosovo	WBT average	
Dimension 10: Internationalisation of SMEs	Sub-dimension 10.1: Export promotion	Planning and design	5.00	4.86	
		Implementation	4.81	4.24	
		Monitoring and evaluation	3.57	3.01	
		Weighted average	4.62	4.18	
	Sub-dimension 10.2: Integration of SMEs into global value chains	Planning and design	4.00	3.58	
		Implementation	3.86	3.08	
		Monitoring and evaluation	1.00	1.76	
		Weighted average	3.33	2.97	
	Sub-dimension 10.3: Promoting the use of e-commerce	Planning and design	3.29	3.45	
		Implementation	2.00	2.26	
		Monitoring and evaluation	1.00	1.36	
		Weighted average	2.19	2.44	
	Kosovo's overall score for Dimension 10			3.74	3.43

State of play and key developments

Despite the progress made in business reforms in recent years, Kosovo remains the least integrated economy in the region. Its performance is particularly low in exports overall, with an export-to-GDP ratio in 2017 of only 26.6% compared to the regional average of 38.2% (World Bank, 2018_[47]). Meanwhile, it has the largest share of SME exports of all the WBT economies, at 97.3%, with the dominant share coming from micro enterprises (54.9%). All the same, according to data received for this assessment Kosovo, had a much lower average value of exports per enterprise (about EUR 215 000) compared to the WBT average of about EUR 662 000 in 2016.⁸

In terms of trade performance, Kosovo has reduced the time required for documentary and border compliance for exporting by improving its automated customs data management system, streamlining customs clearance processes and implementing the Albania-Kosovo Transit Corridor. This reform of its customs clearance processes presents a considerable improvement to the ease of doing business in Kosovo (World Bank, 2018_[48]). However, the cost of importing in terms of border compliance increased from USD 83 to USD 128 between 2014 and 2017, and although the cost of exporting decreased from USD 137 to USD 105 over the same period, it remains significantly above the EU average of USD 85, albeit below the OECD average of USD 164 (World Bank, 2018_[48]). It is worth noting that the majority of customs duties on imports and exports between Kosovo and the EU have been eliminated through the Stabilisation and Association Agreement, which entered into force in April 2016 (CEU, 2015_[49]).

Export promotion

Previously, export promotion was covered under the Private Sector Development Strategy 2013-2017, which included actions on export and investment promotion and support of potential export sectors. Kosovo now addresses export promotion in its renewed Private Sector Development Strategy 2018-2022 (still a draft at the time of writing) with links to its current National Development Strategy. The main priorities include the identification of strategic interventions to enhance the capacity of SMEs to achieve a higher value of exports through a sectoral approach.

Throughout the assessed period, KIESA has implemented export promotion activities for SMEs financed both by government and donors. However, its limited staff and funds continue to hinder it – it has only three employees responsible for export promotion. In 2018, EUR 351 000 of KIESA’s operational budget was allocated to export promotion activities.

KIESA’s Department for Export Promotion provides SMEs with trade policy information and commercial intelligence, economy representation at major trade fairs, export promotion and marketing, and product development and training. Additionally, KIESA maintains a database for exporting companies and helps to co-ordinate inter-institutional issues relating to company exports (KIESA, 2018^[50]). KIESA’s website contains detailed export sector reports highlighting the activity of SMEs and provides clear guidelines on exporting as well as information on developing a marketing plan.⁹ Financial support is also offered to manufacturing companies with export potential. During 2017, over 300 SMEs benefitted from financial assistance to participate in conferences, trade fairs, and consultancy services dedicated for export support; 47 export-related contracts were signed in the same year.

A number of donor-funded programmes also aim to improve export promotion and competitiveness amongst SMEs. For example, from January 2018 to December 2020, the Ministry of Economic Development, in partnership with KIESA, is implementing the EUR 3 million GIZ-funded programme, Creating Employment through Export Promotion (GIZ, 2018^[51]).

Kosovo’s Credit Guarantee Fund offers trade finance tools through local commercial banks to assist SMEs in accessing trade financing to support exports. However, there is a low demand for trade finance products amongst SMEs, as they tend to opt to pre-pay for inputs in order to obtain discounts from suppliers. Trade finance products are especially available to larger enterprises, while letter of credit volumes to SMEs represent just 0.1% of lending institutions’ credit loans, and guarantee volumes comprise 1-6% of total portfolio loans (EIB, 2016^[52]).

KIESA monitors export promotion programmes with measures to promote transparency. For example, it publishes publicly available annual reports on its activities, and since 2018 it has started to publish the signed and stamped evaluation form of each applicant on its website, thus offering full transparency on the beneficiaries and assessment scores of all applicants. This also increases the accountability of government officials who conduct evaluations and decide on the beneficiaries of support programmes. However, evaluations on the effectiveness of programmes in increasing exports have not yet been conducted.

Integration of SMEs into global value chains

Over the assessment period, Kosovo has been more proactive in defining its strategy and implementing donor-funded projects that address these deficiencies. It is setting out a

range of measures to enhance the competitiveness of SMEs and ensure their capacity to integrate and upgrade within supply chains, with an emphasis on developing cluster associations amongst SMEs and large enterprises. The draft Private Sector Development Strategy foresees continuous support to SMEs in enhancing product conformity with the technical requirements of the EU and global standards, enhancing their production capacity, and modernising SMEs' plants and equipment to facilitate their integration into global value chains.

In the same vein, Kosovo's National Development Strategy 2016-2022 highlights the objective of improving the quality of standards for productive activities; shifting towards higher value-added activities and forging connections to value chains across sectors. The National Development Strategy also aims to promote networks and cluster associations through three components to be developed under an upcoming National Competitiveness Strategy:

1. identifying seven competitive clusters and providing them with support through grants and technical assistance
2. establishing an institutional framework to support industrial cluster development that includes government, business, and clusters with larger firms in leadership positions
3. establishing a supplier network through regular meetings between government and business to strengthen ties within value chains (Office of the Prime Minister, 2016^[53]).

Kosovo does not yet have operational programmes to support these components. However, previous projects have contributed to the definition and sectoral approach of its current strategies: clusters have risen to the forefront of priorities following an exercise in mapping the existing and potential clusters in Kosovo through a United Nations Development Project (UNDP) project in 2014 (UNDP and Ministry for Foreign Affairs of Finland, 2014^[54]). The Ministry of Trade and Industry has recently published an information document called the Cluster Roadmap, which lays out the path of cluster development from defining a strategy, achieving regular joint activities, to reaching the self-sustainability phase.

Together with KIESA, the MTI has planned a support programme for clusters which includes providing incentives to SMEs for their co-operation, assistance in facilitating meetings, providing brochures on the steps needed to form clusters, and covering administrative costs, with the overall aim of achieving self-funded clusters. However, the budget relies mainly on donor contributions and the programmes remain at an early stage in implementation – impeded by limited staff and funds. Difficulties notwithstanding, one cluster in the metal industry and renewable energy sector (KIMERK) has been established to date.

Meanwhile, donor-funded programmes are filling in the gaps. The Competitiveness and Export Readiness Programme financed by the World Bank to the tune of EUR 14.3 million includes support for SMEs with export potential to increase their export readiness and competitiveness on international markets. The measures included until 2022 will help Kosovo undertake the significant effort of improving its national quality infrastructure to meet international standards and prepare SMEs to integrate into global value chains (World Bank, 2017^[55]).

SMEs are systematically informed through Small Business Days about the programmes and policy initiatives for facilitating integration into global value chains. During the year, around 10 conferences are organised in different municipalities by the MTI and KIESA, during which government objectives are presented and SMEs have the opportunity to provide feedback.

Promoting the use of e-commerce

Official data on e-commerce in Kosovo are not yet available, although the Kosovo Statistics Agency has begun to collect and develop statistics on the information society since April 2017 in line with Eurostat standards (the results are not yet forthcoming). Kosovo is preparing administrative instructions for e-commerce operators and their websites in an effort to reduce bottlenecks (OECD, 2018_[10]). In the meantime, there is no website with easily accessible information on e-commerce in Kosovo.

In terms of the regulatory environment to support e-commerce, Kosovo's Law on Information Society Services (No. 04/L-094) establishes that documentation in electronic form is legally equivalent to the traditional documentation presented in paper format. This facilitates electronic services that cover electronic banking and financial services, the provision of government services, e-procurement by enterprises, and the application of e-signatures to cover e-payments.

However, Kosovo has only partially implemented its law on e-commerce, while the electronic authentication framework is still being updated, and it still needs to work with commercial banks to replace the rigorous processes that are discouraging businesses from adopting e-commerce practices (OECD, 2018_[10]). For example, private sector actors in Kosovo report difficulty in retaining international clients in e-commerce because of the difficulty of setting up online services to accept credit card payments, which local banks often do not support. Additionally, the law on Consumer Protection (No. 04/L-121) still has some way to go to align with the EU framework on e-commerce (OECD, 2018_[10]).

The Ministry of Economic Development, together with other stakeholders, has taken the first step in transposing the European Union's eIDAS Regulation on electronic identification and trust services into Kosovo's domestic legislation. In March 2018, the government approved the Concept Document for Electronic Identification and Trust Services for Electronic Transactions, which will form the upcoming draft of the Law on Electronic Identification and Trust Services for Electronic Transactions.

The way forward for Dimension 10

Despite the progress made, large challenges remain. Significant trade barriers and poor product quality impede SME exports and their integration into global value chains, despite ongoing projects seeking to address these. Greater institutional co-ordination for enabling e-commerce has also yet to be realised. In light of these ongoing challenges, Kosovo should aim to adopt the following recommendations:

- **Focus on strong programme implementation and follow up through robust monitoring and evaluation** to ensure that Kosovo's objectives for export readiness and export promotion outlined in its Private Sector Development Strategy and National Development Strategy translate into concrete, measurable results. Only 5% of SMEs in Kosovo export, and the survival rate of exporting firms is exceptionally low. Kosovo should aim to implement support programmes that will first ensure that more SMEs are "export ready", while embarking on

export promotion programmes to support those which are already capable and increase their chance of survival. Consistent evaluation mechanisms should be an intrinsic feature of these programmes to assess their effectiveness.

- **Increase efforts to develop programmes to support clusters of chosen sectors.** While this objective is outlined in the National Development Strategy and the draft Private Sector Development Strategy, no concrete initiatives have yet been taken. Kosovo should build on its previous sporadic activities, and further extend its support to the identified clusters that are driven by the availability of raw materials and skills, and that have been assessed as having export potential in the medium-long term. Kosovo should refrain from creating new clusters from scratch, and instead extend its support to existing ones.
- **Establish an operational and legal environment that can support the use of e-commerce.** Kosovo should first develop a comprehensive legal framework that supports the regulated use of e-commerce by harmonising its legislation on e-commerce and consumer protection with the EU regulatory framework. At the time of writing, the World Bank and Kosovo's Ministry of Economic Development has been in the process of launching the Kosovo Digital Economy Programme with the aim of improving digital connectivity across the economy. This programme, if implemented without delays, may help to provide the necessary infrastructure for the development of e-commerce for SMEs and increase the presence of SMEs on the Internet through websites, social media marketing, and enabling electronic commerce for their products and services (World Bank, 2018^[56]).

Conclusions

In recent years, Kosovo has demonstrated significant progress in reducing the administrative burden for SMEs and building a conducive business environment. Most notably, the creation of one-stop shops under the Kosovo Business Registration Agency was a milestone, since it allows entrepreneurs to establish their businesses in a quick and cheap manner.

However, the improvements to the regulatory environment have not been complemented by fully embedding the “think small” principle of the SBA in policy making. Although there is still a long way to go to include an SME test in regulatory impact assessments, the impact of new regulations on SMEs should still be considered.

Finally, Kosovo is still very much in the early stages of offering tailored financial and non-financial support to SMEs to improve their competitiveness. The whole SME support landscape is currently dominated by donors, which could result in overlapping initiatives. A more strategic approach to working with donors in the framework of the new Private Sector Development Strategy would be a good first step forward.

Notes

¹ In Kosovo’s case the growth rate percentage should be analysed in the context of the low base effect. This refers to the tendency for a small change from a low initial amount to be translated into a large percentage, making it appear large.

² The WBT region refers to the six pre-accession Western Balkan economies (Albania, Bosnia and Herzegovina, North Macedonia, Kosovo, Montenegro, and Serbia) and Turkey. Unless otherwise specified, reference to the “region” in this publication implies these seven economies.

³ Smart specialisation originated in the EU as a concept for stimulating innovation driven regional growth. Smart specialisation strategies are about enabling regions to turn their assets, strengths and competitive advantages into marketable goods and services, and finally – economic growth. As human capital is a framework condition in any innovation ecosystem, smart specialisation will require the upskilling or reskilling of the workforce, underscore the importance of key competences and require businesses throughout the supply chain to adapt to technological advancements, new working practices, advanced product design etc. For more information, please see Chapter 12 on enterprise skills and Box 13.1 in Chapter 13 on innovation policy for SMEs.

⁴ Law on bankruptcy No. DL-019-2016, date 23.06.2016.

⁵ SMEs are defined as business organisations which have an annual turnover of up to EUR 1 million or up to 25 employees.

⁶ The law requires all persons to act with good will in their transactions.

⁷ Horizon 2020 is the biggest EU-funded research and innovation programme covering the period from 2014 to 2020. The overall objective of the programme is to ensure Europe produces world-class science, removes barriers to innovation and makes it easier for the public and private sectors to work together in delivering innovation. With nearly EUR 80 billion of funding it promotes research and innovation by facilitating the commercialisation of innovative ideas from the lab to the market. In particular, Horizon 2020 provides grants to research and innovation projects through open and competitive calls for proposals. Legal entities from any country are eligible to submit project proposals to these calls. Participation from outside the European Union is explicitly encouraged (European Commission, 2014_[68]).

⁸ This 2016 WBT figure of average value of exports per enterprise has been calculated as a simple average and includes Albania, the Republika Srpska, Kosovo, North Macedonia, Montenegro, Serbia, and Turkey. For Bosnia and Herzegovina, only data for the Republika Srpska were available.

⁹ Export sector reports of the Ministry and Trade and Industry were made possible through financing from the Ministry for Foreign Affairs of Finland, in the framework of the Aid for Trade project, implemented by the United Nations Development Programme (UNDP). Reports are available on the following sectors: food and beverage processing industry, wood processing industry, metal processing industry, textile processing industry, information technology, tourism, plastic and rubber processing industry, and chemical industry (KIESA, 2018^[59])

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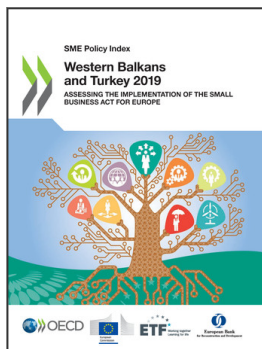
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